

In the opinion of Co-Bond Counsel, interest on the Bonds is excludable from gross income for purposes of federal income tax, assuming continuing compliance with the requirements of the federal tax laws. Interest on the Bonds is not an item of tax preference for purposes of federal alternative minimum tax imposed on individuals; however, such interest is taken into account in determining the adjusted financial statement income of applicable corporations for purposes of computing the alternative minimum tax imposed on such corporations. Co-Bond Counsel is also of the opinion that, under the laws of the Commonwealth of Pennsylvania, interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax. See “TAX MATTERS” herein.



\$595,780,000
CITY OF PHILADELPHIA, PENNSYLVANIA
Water and Wastewater Revenue Bonds,
Series 2024C

Dated: Date of Delivery

Due: As shown on the inside front cover

Defined Terms	All capitalized terms that are not otherwise defined on this cover page have the meanings provided to such terms in this Official Statement.
The Bonds	The City of Philadelphia, Pennsylvania, a corporation, body politic and city of the first class existing under the laws of the Commonwealth of Pennsylvania (the “City”) is issuing its \$595,780,000 Water and Wastewater Revenue Bonds, Series 2024C (the “Bonds”) pursuant to (i) the First Class City Revenue Bond Act (the “Act”), and (ii) the City’s Restated General Water and Wastewater Revenue Bond Ordinance of 1989 (as supplemented and amended, collectively referred to as the “General Ordinance”).
Purpose	The Bonds are being issued to provide funds to finance (i) capital improvements to the System (hereinafter defined), (ii) a deposit to the Debt Reserve Account of the Sinking Fund, (iii) the purchase and cancellation of the Purchased Bonds (hereinafter defined) set forth on SCHEDULE 1 hereto and (iv) the costs of issuance relating to the Bonds. See “PLAN OF FINANCE”, “ESTIMATED SOURCES AND USES OF FUNDS” and “SCHEDULE 1” herein. Capitalized terms used but not otherwise defined in this Official Statement have the meanings ascribed to them in APPENDIX II hereof. The Bonds will be issued only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interests in the Bonds purchased. Disbursements of principal, interest or redemption payments are the responsibility of DTC.
Payment and Security	The Bonds are special obligations of the City, equally and ratably secured, with the City’s outstanding Water and Wastewater Revenue Bonds (other than Subordinated Bonds, of which there are none outstanding on the date hereof) in the aggregate principal amount of \$3,176,031,686 (as of September 30, 2024, which does not account for the issuance of the Bonds) issued under the General Ordinance and all Water and Wastewater Revenue Bonds hereafter issued under the General Ordinance (the “Water and Wastewater Revenue Bonds”). All Water and Wastewater Revenue Bonds are secured by a pledge of and security interest in all Project Revenues (hereinafter defined) derived from the City’s Water and Wastewater Systems (collectively, the “System”) and by monies deposited in the funds and accounts (other than the Rebate Fund) established by the City under the General Ordinance (collectively, the “Water and Wastewater Funds”). Project Revenues means: (i) all rents, rates, fees and charges imposed or charged for connection to, or use or product of or services generated by the System to the ultimate users thereof, (ii) all payments under bulk contracts with municipalities, governmental instrumentalities or other bulk users, (iii) all subsidies or payments payable by federal, state or local governments or governmental agencies on account of the cost of operation of, or the payment of the principal of or interest on monies borrowed to finance costs chargeable to the System, (iv) all grants, payments and contributions made in aid or on account of the System exclusive of grants and similar payments and contributions solely in aid of construction and (v) all accounts, contract rights and general intangibles representing the foregoing (collectively referred to as, the “Project Revenues”). See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein. THE BONDS ARE PAYABLE SOLELY FROM PROJECT REVENUES AND MONIES DEPOSITED IN THE WATER AND WASTEWATER FUNDS. THE BONDS ARE SPECIAL OBLIGATIONS OF THE CITY AND DO NOT PLEDGE THE FULL FAITH, CREDIT OR TAXING POWER OF THE CITY, OR CREATE ANY DEBT OR CHARGE AGAINST THE TAX OR GENERAL REVENUES OF THE CITY, OR CREATE ANY LIEN OR CHARGE AGAINST ANY PROPERTY OF THE CITY OTHER THAN AGAINST THE PROJECT REVENUES AND AMOUNTS, IF ANY, AT ANY TIME ON DEPOSIT IN THE WATER AND WASTEWATER FUNDS.
Bond Insurance	The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY INC. See “BOND INSURANCE” herein.
Interest Payment Date	The Bonds will be dated, and will bear interest from, the date of delivery thereof. Interest on Bonds will be payable semiannually on March 1 and September 1 of each year, commencing on March 1, 2025.
Redemption	The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See “THE BONDS – Redemption Provisions” herein.
Tax Exemption	For information on certain tax matters relating to the Bonds, see the italicized language at the top of this cover page and “TAX MATTERS” herein.
Delivery Date	It is expected that the Bonds will be available for delivery to DTC on November 13, 2024.

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement, including the Appendices, which are an integral part hereof, to obtain information essential to making an informed investment decision regarding the Bonds.

The Bonds are offered when, as and if issued and delivered to and received by the Underwriters (hereinafter defined), and subject to the legal opinions of Ballard Spahr LLP and Ahmad Zaffarese LLC, both of Philadelphia, Pennsylvania, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Cozen O'Connor, of Philadelphia, Pennsylvania. Certain other legal matters respecting the Bonds will be passed upon for the City by Greenberg Traurig, LLP and Turner Law, P.C., both of Philadelphia, Pennsylvania, Co-Disclosure Counsel to the City’s Water Department. Certain legal matters will be passed upon for the City by the City Solicitor.

The date of this Official Statement is October 30, 2024.

Siebert Williams Shank & Co., LLC

Blaylock Van, LLC

FHN Financial Capital Markets

Jefferies

Janney Montgomery Scott

\$595,780,000
CITY OF PHILADELPHIA, PENNSYLVANIA
Water and Wastewater Revenue Bonds,
Series 2024C

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES, YIELDS, CUSIP[†]

Maturity Dates (September 1)	Principal Amounts	Interest Rates	Price	Yield	CUSIP [†] (717893)
2025	\$ 4,400,000	5.00%	101.509	3.07%	3A7
2026	4,625,000	5.00	103.652	2.90	3B5
2027	7,375,000	5.00	105.770	2.84	3C3
2028	8,485,000	5.00	107.649	2.86	3D1
2029	31,335,000	5.00	109.295	2.91	3E9
2030	39,085,000	5.00	110.513	3.01	3F6
2031	46,175,000	5.00	111.434	3.12	3G4
2032	24,615,000	5.00	112.260	3.21	3H2
2033	24,465,000	5.00	112.805	3.31	3J8
2034	31,730,000	5.00	113.682	3.35	3K5
2035	28,185,000	5.00	114.065	3.43	3L3
2036	15,285,000	5.00	111.996*	3.54	3M1
2037	35,810,000	5.00	111.557*	3.59	3N9
2038	39,805,000	5.00	111.120*	3.64	3P4
2039	34,605,000	5.00	110.772*	3.68	3Q2
2040	24,040,000	5.00	110.339*	3.73	3R0
2041	9,795,000	5.00	109.736*	3.80	3S8
2042	10,300,000	5.00	109.052*	3.88	3T6
2043	10,825,000	5.00	108.627*	3.93	3U3
2044	11,380,000	5.00	108.204*	3.98	3V1

\$66,715,000, 5.25% Term Bonds due September 1, 2049; Price 109.029*; Yield 4.12%; CUSIP[†] 717893 3W9

\$86,745,000, 5.25% Term Bonds due September 1, 2054; Price 108.274*; Yield 4.21% CUSIP[†] 717893 3X7

* Price to first optional redemption date of September 1, 2034.

[†] The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the City or the Underwriters, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products. Neither the City nor the Underwriters have agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above. CUSIP is a registered trademark of the American Bankers Association (“ABA”). CUSIP data is provided by CUSIP Global Services, which is managed on behalf of the ABA by FactSet Research Systems Inc.

CITY OF PHILADELPHIA, PENNSYLVANIA

MAYOR

Honorable Cherelle L. Parker

MAYOR'S CHIEF OF STAFF

Tiffany W. Thurman

MAYOR'S CABINET

Adam Thiel Managing Director
Rob Dubow Director of Finance
Renee Garcia, Esq. City Solicitor
Sincere Harris Chief Deputy Mayor of Intergovernmental Affairs, Sustainability, and Engagement
Vanessa Garrett Harley, Esq. Chief Deputy Mayor of Social Impact and Strategic Initiatives
Alba Martinez Director of Commerce
Carlton Williams Director of Clean and Green Initiatives
Rachel Branson Director of Minority Business Success
Adam Greer Chief Public Safety Director
Alexander F. DeSantis Inspector General
Kevin Bethel Police Commissioner
Dr. Debora Borges-Carrera Chief Education Officer
Valerie Gay Director of Arts and Culture
Jeffrey W. Thompson Fire Commissioner
Atif Saeed Chief Executive Officer, Department of Aviation
Jazelle Jones City Representative and Director of the Office of Special Events
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Jacqueline Dunn

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Christy Brady

PHILADELPHIA WATER DEPARTMENT

Jefferson Center

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Kevin Birriel, General Counsel to the Water Department
Marc Cammarata, Deputy Water Commissioner, Planning & Environmental Services
Susan Crosby, Deputy Revenue Commissioner
Matthew Fulmer, Capital Budget Director
Stephen J. Furtek, General Manager, Engineering and Construction
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Benjamin Jewell, Deputy Water Commissioner, Operations
Candi Blossom Jones, Deputy Water Commissioner, Human Resources and Administration
Sarah Stevenson, Deputy Water Commissioner, Compliance, Policy, Legislative & Regulatory Affairs
Lawrence Yangelay, Deputy Water Commissioner, Finance

Financial Advisors

Acacia Financial Group, Inc.

PFM Financial Advisors LLC

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriters (hereinafter defined) to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. The information set forth herein has been obtained from the City and other sources believed to be reliable and has been reviewed by the Underwriters in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction but is not guaranteed as to accuracy or completeness by the Underwriters who provided this sentence for inclusion here. This information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Philadelphia Water Department (the "Water Department") since the date hereof.

Statements contained in this Official Statement, including the Appendices hereto, which involve estimates, forecasts or other matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. If and when included in this Official Statement, the words "expects," "forecasts," "plans," "anticipates," "projects," "intends," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the operation of the Systems, and/or the amount of revenue collected by the City or the Water Department include, among others, changes in economic conditions and various other events, conditions and circumstances, many of which are beyond the control of the City and the Water Department. Readers should not place undue reliance on forward-looking statements. Such forward-looking statements speak only as of the date of this Official Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the City's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Assured Guaranty Inc. ("AG") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading "BOND INSURANCE" and APPENDIX VIII – "SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

Upon their issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, will not be listed on any stock or other securities exchange and neither the United States Securities and Exchange Commission (the "SEC") nor any other federal, state, municipal or other governmental entity, other than the City (subject to the limitations set forth herein), will have passed upon the accuracy or adequacy of this Official Statement.

This Official Statement is submitted in connection with the sale of the securities referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is being provided to prospective purchasers in electronic format from the following websites: www.munios.com and www.emma.msrb.org as well as either bound or printed format ("Original Bound Format"). This Official Statement may be relied upon only if it is in its Original Bound Format or if it is printed or saved in full directly from such websites.

The order and placement of materials in this Official Statement, including the Appendices hereto, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the Appendices, must be considered in its entirety.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY, THE WATER DEPARTMENT AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE.

This Official Statement speaks only as of the date printed on the cover page hereof. This Official Statement, and any supplement or amendment thereto, will be delivered to the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access System.

References to website addresses presented herein, including the City's Investor Relations Website or any other website containing information about the City, the Water Department, or any third party, are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for any purpose, including for purposes of Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934.

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OFFICIAL STATEMENT SUMMARY

This summary is furnished to provide limited introductory information regarding the terms of the Bonds and is qualified by the more detailed descriptions appearing in this Official Statement and the appendices hereto. The offering of the Bonds is made only by means of this entire Official Statement, and no person is authorized to make offers to sell or solicit offers to buy the Bonds unless the entire Official Statement is delivered. Certain terms used in this summary are defined elsewhere in this Official Statement.

The City	The City of Philadelphia, Pennsylvania (the “City”) is a corporation, body politic and city of the first class of the Commonwealth of Pennsylvania.
The Bonds	\$595,780,000 City of Philadelphia, Pennsylvania Water and Wastewater Revenue Bonds, Series 2024C (the “Bonds”), as shown on the inside front cover page of this Official Statement.
Use of Proceeds	The Bonds are being issued to provide funds to finance (i) capital improvements to the System, (ii) a deposit to the Debt Reserve Account of the Sinking Fund (iii) the purchase and cancellation of the Purchased Bonds set forth on SCHEDULE 1 hereto and (iv) the costs of issuance relating to the Bonds. See “PLAN OF FINANCE”, “ESTIMATED SOURCES AND USES OF FUNDS” and “SCHEDULE 1” contained herein.
Maturity	The Bonds mature on the dates in the principal amounts set forth in the inside cover page hereof.
Interest	Interest on the Bonds accrues from their date of delivery and is payable on March 1 and September 1 of each year, commencing on March 1, 2025, until maturity or earlier redemption.
Redemption	The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See “THE BONDS – Redemption Provisions” contained herein.
Ratings	Fitch Ratings, Inc. (“Fitch”), Moody’s Investors Service, Inc. (“Moody’s”) and S&P Global Ratings (“S&P”) have assigned credit ratings of “A+”, stable outlook, “A1”, stable outlook and “A+”, stable outlook, respectively, to the Bonds. The Bonds are expected to be assigned insured ratings of “A1”, stable outlook, by Moody’s and “AA”, stable outlook, by S&P based upon the Policy to be issued by AG at the time of delivery of the Bonds. See “RATINGS” contained herein.
Security for the Bonds	The Bonds, together with other Water and Wastewater Revenue Bonds currently outstanding or hereafter issued under the General Ordinance, are revenue bonds secured by and payable from (i) all rents, rates, fees and charges imposed or charged for connection to, or use or product of or services generated by the System to the ultimate users thereof, (ii) all payments under bulk contracts with municipalities, governmental instrumentalities or other bulk users, (iii) all subsidies or payments payable by federal, state or local governments or governmental agencies on account of the cost of operation of, or the payment of the principal of or interest on monies borrowed to finance costs chargeable to the System, (iv) all grants, payments and contributions made in aid or on account of the System exclusive of grants and similar payments and contributions solely in aid of construction and (v) all accounts, contract rights and general intangibles representing the foregoing (collectively referred to as, the “Project Revenues”).

The City pledges, assigns and grants to the Fiscal Agent, in trust for the security and payment of all Water and Wastewater Revenue Bonds, a lien on and security interest in all Project Revenues and all amounts on deposit in or standing to the credit of the Water and Wastewater Funds (other than the Rebate Fund), for the equal and ratable benefit of all present and future holders of Water and Wastewater Revenue Bonds (other than Subordinated Bonds) issued under the General Ordinance. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” contained herein.

Debt Reserve Account On the date of issuance of the Bonds, after the deposit of a portion of the proceeds of the Bonds to the Debt Reserve Account, the outstanding balance in the Debt Reserve Account will be sufficient to meet the Debt Reserve Requirement for the Bonds together with all Water and Wastewater Revenue Bonds outstanding after the issuance of the Bonds. If at any time and for any reason, the monies in the Debt Service Account of the Sinking Fund are insufficient to pay as and when due, the principal of (and premium, if any) or interest on any Water and Wastewater Revenue Bond, the Fiscal Agent is authorized and directed to withdraw from the Debt Reserve Account and pay over the amount of such deficiency for deposit in the Debt Service Account. There are no Water and Wastewater Revenue Bonds for which a Series Debt Reserve Requirement has been established. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Debt Reserve Account” herein.

Parity Bonds All Water and Wastewater Revenue Bonds (other than Subordinated Bonds) are equally and ratably secured under the General Ordinance. There are no Subordinated Bonds outstanding. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Parity Bonds” herein.

Rate Covenant The City has covenanted to Bondholders that it will establish rents, rates, fees and charges for the use of the System to yield Net Revenues in each Fiscal Year sufficient to meet the requirements of each of the three following coverage tests, (1) Net Revenues will equal at least 1.20 times Debt Service Requirements (excluding Debt Service Requirements in respect of Subordinated Bonds) for such Fiscal Year; (2) Net Revenues (recalculated to exclude any transfers from the Rate Stabilization Fund) will equal at least 90% of Debt Service Requirements (excluding Debt Service Requirements in respect of Subordinated Bonds) for such Fiscal Year; and (3) Net Revenues will equal at least 1.00 times the following payments and transfers to be made in such Fiscal Year: (i) the Debt Service Requirements (including Debt Service Requirements in respect of Subordinated Bonds); (ii) amounts required to be deposited into the Debt Reserve Account; (iii) debt service payable on General Obligation Bonds issued for the System; (iv) debt service due on Interim Debt; and (v) the Capital Account Deposit Amount, less any amounts transferred from the Residual Fund to the Capital Account. As of the date hereof, no General Obligation Bonds issued for the System are outstanding, no Interim Debt is outstanding and no Subordinated Bonds are outstanding. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant” contained herein.

Book-Entry Only System The Bonds are initially issuable only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to a book-entry only system. No physical delivery of the Bonds will be made to the beneficial owners of the Bonds. Principal of and interest on the Bonds will be paid to Cede & Co., which will distribute such payments to the participating members of DTC for remittance to the beneficial owners of the Bonds. See APPENDIX VII herein.

No Payment Defaults	The City has never failed to make a payment of principal of or interest on its Water and Wastewater Revenue Bonds.
Fiscal Agent/Registrar	The Fiscal Agent and registrar for the Bonds is U.S. Bank Trust Company, National Association, Philadelphia, Pennsylvania.
Tax Exemption	In the opinion of Co-Bond Counsel, interest on the Bonds is excludable from gross income for purposes of federal income tax, assuming continuing compliance with the requirements of the federal tax laws. Interest on the Bonds is not an item of tax preference for purposes of federal alternative minimum tax imposed on individuals; however, such interest is taken into account in determining the adjusted financial statement income of applicable corporations for purposes of computing the alternative minimum tax imposed on such corporations. Co-Bond Counsel is also of the opinion that, under the laws of the Commonwealth of Pennsylvania, interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax. See “TAX MATTERS” herein.
Investment Considerations	For certain investment considerations relating to the decision to purchase the Bonds, see “CERTAIN INVESTMENT CONSIDERATIONS” herein.

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OFFICIAL STATEMENT
relating to

\$595,780,000
CITY OF PHILADELPHIA, PENNSYLVANIA
Water and Wastewater Revenue Bonds,
Series 2024C

INTRODUCTORY STATEMENT

General

This Official Statement, including the cover page, inside front cover page and appendices attached hereto, sets forth certain information in connection with the issuance by the City of Philadelphia, Pennsylvania, a corporation, body politic and city of the first class existing under the laws of the Commonwealth of Pennsylvania (the “City”) of the above-captioned bonds (the “Bonds”). Capitalized terms used but not otherwise defined in this Official Statement have the meanings ascribed to them in APPENDIX II – “SUMMARIES OF CERTAIN AUTHORIZATIONS FOR THE BONDS – Certain Definitions.”

The Bonds are being issued to provide funds to finance (i) capital improvements to the System (hereinafter defined), (ii) a deposit to the Debt Reserve Account of the Sinking Fund, (iii) the purchase and cancellation of certain of the City’s outstanding Water and Wastewater Revenue Bonds validly tendered and accepted for purchase (the “Purchased Bonds”) pursuant to the City’s Invitation to Tender Bonds dated October 15, 2024 (as amended and supplemented, the “Invitation”) set forth on SCHEDULE 1 hereto and (iv) the costs of issuance relating to the Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The Bonds are being issued under (i) The First Class City Revenue Bond Act, P.L. 955, Act No. 234 of the General Assembly of the Commonwealth of Pennsylvania, approved October 18, 1972 (the “Act”) and (ii) the City’s Restated General Water and Wastewater Revenue Bond Ordinance of 1989, approved by the Mayor June 24, 1993 (the “Restated General Ordinance”), as supplemented and amended from time to time, including by the Eighteenth Supplemental Ordinance, approved by the Mayor on December 8, 2015 (the “Eighteenth Supplemental Ordinance”), the Twenty-Third Supplemental Ordinance, approved by the Mayor on June 26, 2020 (the “Twenty-Third Supplemental Ordinance”) and the Twenty-Seventh Supplemental Ordinance approved by the Mayor on March 29, 2023 (the “Twenty-Seventh Supplemental Ordinance”), which provides specific authority for the issuance of the Bonds. The Restated General Ordinance, as supplemented or amended from time to time, is referred to as the “General Ordinance.” All bonds issued under the General Ordinance (whether prior to or following the date hereof) are referred to herein as “Water and Wastewater Revenue Bonds.” U.S. Bank Trust Company, National Association, Philadelphia, Pennsylvania, is acting as Fiscal Agent (the “Fiscal Agent”) for the Water and Wastewater Revenue Bonds.

Pursuant to the Act, the City, as a city of the first class, is authorized to issue revenue bonds to finance revenue producing projects and to refund certain outstanding bonds, including revenue bonds issued under the Act, but the bonds must be payable solely from Project Revenues as defined in the General Ordinance (the “Project Revenues”).

Pursuant to the Act, the issuance of any such bonds must be authorized by a supplemental ordinance to the General Ordinance that has been validated by filing with the Court of Common Pleas of the County of Philadelphia a transcript of the proceedings of such authorization (each, a “Transcript of Proceedings”). The Transcript of Proceedings includes the applicable supplemental bond ordinance, a report of the chief fiscal officer (i.e., the City’s Director of Finance) describing the project and establishing that Project Revenues will be

sufficient to support debt service on all Water and Wastewater Revenue Bonds, and an opinion of the City Solicitor to the effect that, under the General Ordinance, holders or registered owners of the Bonds will have no claim upon the taxing power or general revenues of the City nor any lien upon any property of the City other than Project Revenues. The report of the chief fiscal officer may be based on an independent engineer's report. The City filed the Transcript of Proceedings for the Eighteenth Supplemental Ordinance, Twenty-Third Supplemental Ordinance, and Twenty-Seventh Supplemental Ordinance as required under the Act, and no challenge to the validity of any of the proceedings was filed.

In connection with the authorization for the Bonds, the Eighteenth Supplemental Ordinance is available to the public at: <https://phila.legistar.com/LegislationDetail.aspx?ID=2506571&GUID=8DA73A7A-64FF-426D-94CE-94A0876AC283&Options=ID|Text|&Search=eighteenth+supplemental+ordinance>, the Twenty-Third Supplemental Ordinance is available to the public at: <https://phila.legistar.com/LegislationDetail.aspx?ID=4432733&GUID=EDC72C29-4B15-4B15-9829-2399849F9A51&Options=ID|Text|&Search=twenty-third+supplemental+ordinance>, and the Twenty-Seventh Supplemental Ordinance, including the independent engineer's report dated December 20, 2022 (as referenced in the Twenty-Seventh Supplemental Ordinance), is available to the public at: <https://phila.legistar.com/LegislationDetail.aspx?ID=6021465&GUID=90C915C7-435E-41C7-9BD4-AEA06E317D47&Options=ID|Text|&Search=twenty-Seventh>. But see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Independent Engineer's Report Not Included or Incorporated in this Official Statement and No Reliance Thereon" herein.

The Water Department

Pursuant to the Philadelphia Home Rule Charter (the "Charter"), the City's Water Department (the "Water Department") has the power and duty to operate, maintain, repair and improve the City's water system (the "Water System") and the City's wastewater system (the "Wastewater System" and together with the Water System, the "Water and Wastewater Systems" or the "System"). The Water Department, which began water service in the 1800s, supplies water and wastewater services to customers within the City and has one wholesale water contract and ten wholesale wastewater contracts with entities outside the City. Under the General Ordinance, the Water and Wastewater Systems are treated as one combined utility for the purpose of revenue bond financing. See "THE WATER DEPARTMENT" herein.

Rate Covenant Under the General Ordinance

Under the General Ordinance, the City must set rates and charges at levels that provide sufficient revenue to meet Operating Expenses of the System, including Interfund Charges (defined herein) for services provided to the Water Department, and Debt Service Requirements on all obligations issued for the Water Department, as well as to meet other specific covenants contained in the General Ordinance. For a more detailed discussion, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant" and "RATES" contained herein.

Rate Ordinance and Ratemaking Board

An independent rate-making body known as the Philadelphia Water, Sewer, and Storm Water Rate Board (the "Rate Board") is solely responsible for fixing and regulating rates and charges for supplying water, sewer and stormwater services. The Rate Board was established pursuant to Ordinance No. 130251-A, signed by the Mayor on January 20, 2014 (the "Rate Ordinance"). For a further discussion of rate setting, the Rate Board and the Rate Ordinance, see "RATES" below.

Security and Sources of Payment for the Bonds

The Bonds, equally and ratably secured with all Water and Wastewater Revenue Bonds, other than Subordinated Bonds (of which none currently are outstanding), are payable from and secured by a pledge of all

Project Revenues and amounts on deposit in the Water and Wastewater Funds (other than the Rebate Fund). See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein and APPENDIX II – “SUMMARIES OF CERTAIN AUTHORIZATIONS FOR THE BONDS – Summary of Operative Provisions of the General Ordinance.”

The Pennvest loans, the WIFIA loans and the Commercial Paper Notes (each as hereinafter defined) are payable and secured on a parity with all other Water and Wastewater Revenue Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Parity Bonds” herein.

Under the General Ordinance, a Debt Reserve Account of the Sinking Fund has been established to secure the Water and Wastewater Revenue Bonds, other than Subordinated Bonds (of which none currently are outstanding) or any Water and Wastewater Revenue Bonds of a series for which a separate Series Debt Reserve Requirement has been established (of which none currently are outstanding). On the date of issuance of the Bonds, after the deposit of a portion of the proceeds of the Bonds to the Debt Reserve Account, the amount on deposit in the Debt Reserve Account will be sufficient to meet the Debt Reserve Requirement for all Water and Wastewater Revenue Bonds outstanding after the issuance of the Bonds, including the Bonds. For a discussion of the Debt Reserve Account, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Debt Reserve Account” herein.

Capital Improvement Program

As required by the Charter, the Water Department has adopted a six-year capital improvement program to plan and manage the capital investments necessary to fulfill the Water Department’s service missions, comply with regulatory requirements and preserve and upgrade the System (the “Water Capital Improvement Program”). The Water Department updates the Water Capital Improvement Program annually as part of its yearly budget process based on a detailed project review by engineering staff, external engineering consultants, and senior management. For a more detailed discussion of the Water Capital Improvement Program and the Water Department’s capital budgeting process, see “CAPITAL IMPROVEMENT PROGRAM” herein.

Financial Information

The operations of the Water Department are accounted for in the Water Fund, which is an enterprise fund of the City. The Water Fund is an accounting convention established pursuant to the Charter to account for the assets, liabilities, revenues, expenses of, and to measure Rate Covenant compliance for, the Water and Wastewater System.

The City is required to provide quarterly reports to the Pennsylvania Intergovernmental Cooperation Authority (“PICA”) and uses its Quarterly City Manager’s Reports to satisfy this requirement. Such reports, which contain estimated financial data for the Water Fund for the period set forth therein, are released within 45 days following the end of the applicable quarter and the most recent versions of such reports are available on the Electronic Municipal Market Access (“EMMA”) system of the Municipal Securities Rulemaking Board (“MSRB”) and the City’s Investor Website. The most recent Quarterly City Manager’s Report is the report for the period ending June 30, 2024, which was released on August 15, 2024. The next Quarterly City Manager’s Report is the report for the period ending September 30, 2024, and it is expected to be released on or about November 15, 2024. The City is also required by the Charter to issue, within 120 days after the close of each Fiscal Year, a statement as of the end of the Fiscal Year showing the balances in all funds of the City, the amounts of the City’s known liabilities, and such other information as is necessary to furnish a true picture of the City’s financial condition (the “Annual Financial Report”). The Annual Financial Report, which is released on or about October 28 of each year, is intended to meet these requirements and is unaudited. The Annual Financial Report contains financial statements for all City governmental funds and blended component units presented on the modified accrual basis. The Annual Financial Report also contains a budgetary comparison schedule for the Water Fund in the supplementary information. The City released the Annual Financial Report for Fiscal Year 2024 (the “FY 2024 AFR (Unaudited)”), on October 28, 2024 and posted it on EMMA on October 29, 2024.

The City reports its financial performance for each Fiscal Year on a consolidated basis in its audited Annual Comprehensive Financial Report (the “ACFR”) which is published not later than February 28 of each year. The City’s ACFR for Fiscal Year 2023, which includes audited financials of and other information relating to the Water Fund, was filed on the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board (“MSRB”) on February 25, 2024, and is available at <http://www.emma.msrb.org>. The City Controller has examined and expressed opinions on the basic financial statements of the City contained in the ACFR for Fiscal Year 2023. See APPENDIX III – “GOVERNMENT AND FINANCIAL INFORMATION OF THE CITY OF PHILADELPHIA – City Finances and Financial Procedures – Independent Audit and Opinion of the City Controller” attached hereto.

The financial statements of the Water Fund for the Fiscal Year ended June 30, 2023, attached hereto as APPENDIX I, are derived from the ACFR for the Fiscal Year ended June 30, 2023. The financial statements pertaining to the Water Fund are derived from the ACFR in order to present the financial condition of the Water Fund separately from the financial condition of the City and its other funds and units as a whole. The City Controller has neither examined nor expressed an opinion on the financial statements of the Water Fund contained in APPENDIX I to this Official Statement or on any other financial data contained in this Official Statement, except as noted in the preceding paragraph as to the ACFR.

The City Controller has neither participated in the preparation of this Official Statement nor in the preparation of the budget estimates and projections and cash flow statements and forecasts set forth in various tables contained in this Official Statement except as noted regarding the ACFR. The City Controller expresses no opinion with respect to any of the data contained in this Official Statement.

Miscellaneous

Brief descriptions of the Water Department, the Bonds and the security therefor, and certain information about the City are included herein. All references herein to the Act, the Charter, the General Ordinance, the Continuing Disclosure Agreement and the Invitation are qualified in all respects by reference to each such document in its entirety. The FY 2024 AFR (Unaudited), ACFR, and the financial statements of the Water Fund are available on the City’s Investor Website at <http://www.phila.gov/investor> (the “City’s Investor Website”).

The “Terms of Use” statement of the City’s Investor Website, which applies to all users of the City’s Investor Website, provides, among other things, that the information contained therein is provided for the convenience of the user, that the City is not obligated to update such information, and that the information may not provide all information that may be of interest to investors. The information contained on the City’s Investor Website does not constitute an offer to buy or sell securities, nor is it a solicitation therefor. The information contained in the City’s Investor Website is not incorporated by reference in this Official Statement and persons considering the purchase of the Bonds should rely only on information contained in this Official Statement or incorporated by reference herein.

The foregoing statement as to filing or furnishing of additional information reflects the City’s current practices but is not a contractual obligation to the holders of the City’s bonds. The foregoing information is furnished solely to provide limited introductory information with respect to the Bonds and does not purport to be comprehensive or definitive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing elsewhere in this Official Statement, inclusive of the Appendices, which should be read in its entirety, and to the complete documents referenced herein. The sale of the Bonds is made only by means of this entire Official Statement.

The financial statements of the Water Fund are attached hereto as APPENDIX I. Summaries of certain provisions of the Act, the General Ordinance, the Eighteenth Supplemental Ordinance, the Twenty-Third Supplemental Ordinance and the Twenty-Seventh Supplemental Ordinance (including definitions of certain terms), are attached hereto as APPENDIX II. A description of the Government and Financial Information of the City is attached hereto as APPENDIX III. The City of Philadelphia Socioeconomic Information is attached

hereto as APPENDIX IV. The form of approving opinion of Co-Bond Counsel to be delivered in connection with the issuance and delivery of the Bonds is attached hereto as APPENDIX V. The form of Continuing Disclosure Agreement relating to the Bonds is attached hereto as APPENDIX VI. Information relating to the Depository Trust Company is attached hereto as APPENDIX VII.

PLAN OF FINANCE

The City is issuing the Bonds to provide funds to finance (i) capital improvements to the System, (ii) a deposit to the Debt Reserve Account of the Sinking Fund, (iii) the purchase and cancellation of the Purchased Bonds set forth on SCHEDULE 1 hereto as further described below, and (iv) the costs of issuance relating to the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “CAPITAL IMPROVEMENT PROGRAM” herein.

The City, with the assistance of Jefferies LLC (“Jefferies”), as lead dealer manager, and Siebert Williams Shank & Co., LLC (“Siebert”), as co-dealer manager, released the Invitation to the beneficial owners of certain of its outstanding Water and Wastewater Revenue Bonds on the terms set forth therein. Subject to the terms and conditions of the Invitation, upon the issuance and delivery of the Bonds, the City will purchase and cancel certain outstanding Water and Wastewater Revenue Bonds validly tendered and accepted for purchase (i.e., the Purchased Bonds set forth in SCHEDULE 1). The process of the City inviting bondholders to tender their Water and Wastewater Revenue Bonds (that are subject to the Invitation) and determining which of the tendered Water and Wastewater Revenue Bonds to accept and purchase is collectively referred to herein as the “Tender Offer.”

The City expects to pay the purchase price for the Purchased Bonds on the Date of Delivery of the Bonds, together with the costs related thereto, from a portion of the proceeds of the Bonds. The Purchased Bonds will be canceled on the Date of Delivery and will no longer be deemed Outstanding. See “ESTIMATED SOURCES AND USES OF BOND PROCEEDS.” Water and Wastewater Revenue Bonds subject to the Tender Offer not so purchased pursuant to the Invitation will remain outstanding and continue to be subject to the General Ordinance.

The Invitation is available: (i) on EMMA and (ii) on the website of the Information Agent and Tender Agent at www.globic.com/phillywater.

This description is not intended to summarize the terms of the Invitation, or to solicit offers to tender. The City’s offer to purchase certain of its outstanding Water and Wastewater Revenue Bonds is made only through the Invitation and beneficial holders thereof should refer solely to the Invitation, including all Appendices, notices, amendments, and supplements thereto, if any, for information regarding the Tender Offer.

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ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth estimated sources and uses of the proceeds of the Bonds.

Sources of Funds	Total
Principal Amount of the Bonds	\$595,780,000.00
Original Issue Premium	<u>61,633,237.35</u>
Total Sources of Funds	<u>\$657,413,237.35</u>
Uses of Funds	
Deposit to Bond Proceeds Account of Construction Fund	\$308,000,000.00
Deposit to Debt Reserve Account	18,691,770.25
Purchase and cancellation of Purchased Bonds	325,569,494.74
Costs of Issuance [†]	<u>5,151,972.36</u>
Total Uses of Funds	<u>\$657,413,237.35</u>

[†] Includes Underwriters' discount; legal, printing, rating agency, consultant, Fiscal Agent and financial advisor fees; and other fees and expenses incurred in connection with the issuance and offering of the Bonds and the Tender Offer, including the cost of the municipal bond insurance policy.

THE BONDS

General

The Bonds will be issued in the aggregate principal amount, will be dated, will bear interest at the rates and will mature on the dates and in the amounts shown on the inside front cover page of this Official Statement. The Bonds will be issued in fully registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC") pursuant to DTC's Book-Entry Only System. See APPENDIX VII herein.

The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds, calculated on the basis of a 360-day year comprised of twelve 30-day months, will be payable semiannually on March 1 and September 1 of each year, commencing on March 1, 2025 (each, an "Interest Payment Date"). The Record Date for the Bonds will be each February 15 and August 15, respectively.

Redemption Provisions

Optional Redemption. The Bonds maturing prior to September 1, 2036 are not subject to optional redemption. The Bonds maturing on or after September 1, 2036 are subject to optional redemption prior to maturity on or after September 1, 2034, at the option of the City, as a whole at any time or in part from time to time in the maturities selected by the City and within a maturity and a given interest rate, if applicable, by lot as determined by the Fiscal Agent at the redemption price of 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date.

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Mandatory Sinking Fund Redemption. The Bonds maturing on September 1, 2049 and September 1, 2054 are subject to mandatory sinking fund redemption prior to maturity, as drawn by lot by the Fiscal Agent, on September 1 of the following years at a redemption price equal to 100% of the principal amounts set forth below.

Bonds Maturing September 1, 2049

Year	Principal Amount
2045	\$11,980,000
2046	12,625,000
2047	13,305,000
2048	14,025,000
2049*	14,780,000

*Stated maturity.

Bonds Maturing September 1, 2054

Year	Principal Amount
2050	\$15,575,000
2051	16,415,000
2052	17,300,000
2053	18,235,000
2054*	19,220,000

*Stated maturity.

The principal amount of the Bonds required to be redeemed on each mandatory sinking fund redemption date may be reduced by the principal amount of the Bonds theretofore redeemed (otherwise than by mandatory sinking fund redemption) or delivered to the Fiscal Agent for cancellation, and not theretofore applied as a credit against any mandatory sinking fund redemption obligation. Any such reduction will be applied as a credit against the stated maturity or the mandatory sinking fund obligation for the year or years (and in the applicable amount(s)) selected by the City.

Notice of Redemption

Notice of the call for any redemption of Bonds prior to maturity shall be given in the name of the City and shall contain the following information: "CUSIP" number; and, in the case of a partial redemption of any Bond, the certificate number and the respective principal amounts of the Bonds to be redeemed; the publication date; the redemption date; the redemption price and the name and address of the redemption agent, and shall further identify the Bonds by date of issue, interest rate and maturity date. Such notice shall be given by the Fiscal Agent by depositing a copy of the notice of redemption in the United States mail, first-class, postage prepaid, at least 20 days and not more than 60 days prior to the date fixed for redemption, to the registered owner of each such Bond to be redeemed at the address shown on the registration books kept by the Fiscal Agent, provided, however, that notice of redemption shall be given by certified mail, return receipt requested, to each owner of at least \$1,000,000 aggregate principal amount of Bonds.

Notice having been so given and provisions having been made for redemption from funds on deposit with the Fiscal Agent, all interest on Bonds called for redemption accruing after the date fixed for redemption

shall cease, and the holders or registered owners of the Bonds called for redemption shall have no security, benefit or lien under the General Ordinance or any right except to receive payment of the redemption price.

If at the time of mailing notice of redemption the City shall not have deposited with the Fiscal Agent monies sufficient to redeem the Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of the redemption monies with the Fiscal Agent not later than the redemption date, and such notice shall be of no effect unless such monies are so deposited.

Debt Service Requirements

Table 1 on the following page sets forth the aggregate Debt Service Requirements for all outstanding Water and Wastewater Revenue Bonds, including the Bonds, and reflects the purchase and cancellation of the Purchased Bonds.

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Table 1
Debt Service Requirements for Fiscal Years Ending June 30
for Water and Wastewater Revenue Bonds
As of November 13, 2024*

Fiscal Year Ending	Aggregate Debt Service on Bonds Outstanding⁽¹⁾	2024C Principal	2024C Interest	Total
2025 ⁽²⁾	\$ 224,480,666	-	\$ 9,051,795	\$ 233,532,461
2026	224,459,682	4,400,000	30,062,650	258,922,332
2027	231,899,955	4,625,000	29,837,025	266,361,980
2028	209,246,695	7,375,000	29,537,025	246,158,720
2029	203,105,572	8,485,000	29,140,525	240,731,097
2030	178,633,221	31,335,000	28,145,025	238,113,246
2031	172,570,083	39,085,000	26,384,525	238,039,608
2032	165,196,242	46,175,000	24,253,025	235,624,267
2033	168,602,263	24,615,000	22,483,275	215,700,538
2034	162,887,407	24,465,000	21,256,275	208,608,682
2035	156,479,070	31,730,000	19,851,400	208,060,470
2036	161,959,714	28,185,000	18,353,525	208,498,239
2037	175,206,200	15,285,000	17,266,775	207,757,975
2038	155,627,748	35,810,000	15,989,400	207,427,148
2039	153,096,049	39,805,000	14,099,025	207,000,074
2040	160,502,823	34,605,000	12,238,775	207,346,598
2041	172,450,765	24,040,000	10,772,650	207,263,415
2042	186,180,395	9,795,000	9,926,775	205,902,170
2043	184,312,917	10,300,000	9,424,400	204,037,317
2044	178,654,408	10,825,000	8,896,275	198,375,683
2045	167,821,834	11,380,000	8,341,150	187,542,984
2046	167,761,262	11,980,000	7,742,175	187,483,437
2047	133,372,894	12,625,000	7,096,294	153,094,188
2048	129,569,100	13,305,000	6,415,631	149,289,731
2049	129,576,319	14,025,000	5,698,219	149,299,538
2050	129,571,256	14,780,000	4,942,088	149,293,344
2051	129,574,756	15,575,000	4,145,269	149,295,025
2052	118,077,825	16,415,000	3,305,531	137,798,356
2053	89,605,375	17,300,000	2,420,513	109,325,888
2054	70,523,975	18,235,000	1,487,719	90,246,694
2055	21,883,750	19,220,000	504,525	41,608,275
Total*	\$4,912,890,222	\$595,780,000	\$439,069,258	\$5,947,739,479

* Reflects the issuance of the Bonds and the purchase and cancellation of the Purchased Bonds; totals may not add due to rounding.

⁽¹⁾ Does not reflect the Pennvest 2024A Bond or the Pennvest 2024B Bond, no portion of which is outstanding as of the date of this Official Statement, or the Commercial Paper Notes Outstanding.

⁽²⁾ Includes debt service for the full fiscal year.

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SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Parity Bonds

All outstanding Water and Wastewater Revenue Bonds (other than Subordinated Bonds) are equally and ratably secured to the extent provided under the General Ordinance by the pledge of Project Revenues derived from the System.

Currently, there are no Qualified Swaps or other Swaps Agreements, and no Subordinated Bonds outstanding under the General Ordinance.

Each of the Pennvest loans and the WIFIA loans (each as hereinafter defined) is evidenced and secured by a Water and Wastewater Revenue Bond issued from the City directly to the lender. Commercial Paper Notes constitute Water and Wastewater Revenue Bonds under the General Ordinance. See “CAPITAL IMPROVEMENT PROGRAM – Pennvest Loans,” “– Commercial Paper Program” and “– WIFIA” herein.

Pledge of Project Revenues

Pursuant to the General Ordinance, the City pledges and assigns to the Fiscal Agent, in trust, for the security and payment of all Water and Wastewater Revenue Bonds (other than Subordinated Bonds) issued under or subject to the General Ordinance, and grants to the Fiscal Agent, in trust, a lien on and security interest in all Project Revenues and amounts on deposit in or standing to the credit of the Water and Wastewater Funds (other than the Rebate Fund). The Fiscal Agent must hold and apply the security interest in and lien on Project Revenues and funds and accounts, in trust, for the equal and ratable benefit and security of all present and future holders of Water and Wastewater Revenue Bonds (other than Subordinated Bonds). The General Ordinance provides that such pledge also may be for the benefit of the provider of a Credit Facility or a Qualified Swap (as defined therein), or any other person who undertakes to provide monies for the account of the City for the payment of principal or redemption price of and interest on any series of Water and Wastewater Revenue Bonds (other than Subordinated Bonds), on an equal and ratable basis with the holders of Water and Wastewater Revenue Bonds (other than Subordinated Bonds).

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Priority and Application of Project Revenues

The priority and application of Project Revenues under the terms of the General Ordinance and other amounts deposited into the Revenue Fund are set forth in the waterfall below:

- 1 payment of Operating Expenses;
- 2 payment of the principal or redemption price of and interest on Water and Wastewater Revenue Bonds issued under the General Ordinance (except Subordinated Bonds), regularly scheduled payments under any parity Swap Agreement, payments under any parity Credit Facility to repay advances thereunder to pay any of the foregoing and payments with respect to fees and expenses in respect of any parity Credit Facility;
- 3 if the transfers in (1) and (2) are made when due, payments into the Debt Reserve Account, including each Series Debt Reserve Account thereof, if any, to the extent necessary to cure a deficiency therein;
- 4 if the transfers in (1) and (2) are made when due, and following any transfer described in (3), payments into any debt reserve account established within the Sinking Fund and not held for the equal and ratable benefit of all Water and Wastewater Revenue Bonds (other than Subordinated Bonds) to the extent necessary to cure a deficiency therein;
- 5 if the transfers in (1) and (2) are made when due, and following any transfers described in (3) and (4), payment of principal or redemption price of and interest on any Subordinated Bonds and payments due under any Swap Agreement or Credit Facility respecting Subordinated Bonds;
- 6 if the transfers in (1) and (2) are made when due, and following any transfers described in (3) through (5), all payments due under a Qualified Swap, other than regularly scheduled swap payments, including, without limitation, any payments due to a Swap Provider upon the early termination of a Swap Agreement;
- 7 if the transfers in (1) and (2) are made when due, and following any transfers described in (3) through (6), transfer to the City of the amount necessary to pay General Obligation Bonds issued for the System;
- 8 if the transfers in (1) and (2) are made when due, and following any transfers described in (3) through (7), transfer to the Rate Stabilization Fund of the amount determined by the Water Commissioner;
- 9 if the transfers in (1) and (2) are made when due, and following any transfers described in (3) through (8), transfer to the Capital Account of the Construction Fund the sum of the Capital Account Deposit Amount, the Debt Service Withdrawal and the Operating Expense Withdrawal, less any amounts transferred to the Capital Account from the Residual Fund; and
- 10 if the transfers in (1) and (2) are made when due, and following any transfers described in (3) through (9), after providing for repayment of any interfund loans, transfer to the Residual Fund of any amount remaining on deposit in the Revenue Fund.

The General Ordinance permits the application of Project Revenues to pay Interfund Charges (defined herein) and permits monies to be transferred in each Fiscal Year as part of the fiscal year-end closing process from the Residual Fund to the City's General Fund in an amount not to exceed the lesser of (A) all Net Reserve Earnings (as defined below) and (B) \$4,994,000. "Net Reserve Earnings" means the amount of interest earnings during the Fiscal Year on amounts in the Debt Reserve Account and the Subordinated Bond Fund less the amount of interest earnings during the Fiscal Year on amounts in any such reserve funds and accounts giving rise to a rebate obligation pursuant to Section 148(f) of the Internal Revenue Code of 1986, as amended (the "Code"). In Fiscal Years 2021 and 2022, the Water Department transferred \$2,586,100.00, and \$575,642.97, respectively, from the Residual Fund to the City's General Fund.

For Fiscal Year 2023, no Net Reserve Earnings were transferred from the Residual Fund (nor thereafter to the City's General Fund) as part of the Fiscal Year 2023 closing process because no excess funds were remaining on account in the Debt Reserve Account. As of June 30, 2023, the balance of cash and investments credited to the Debt Reserve Account was approximately \$4.95 million less than the Debt Reserve Requirement. The difference between the Debt Reserve Account balance and the Debt Reserve Requirement occurred as a result of draws made on Pennvest loans during Fiscal Year 2023, which increased the Debt Reserve Requirement. Under the Pennvest loan program, loan proceeds are not permitted to be used to fund any reserve, which resulted in the difference between the Debt Reserve Account balance and the Debt Reserve Requirement.

As a result of this funding limitation contained in the Pennvest loan program, the City expects to fund required reserves in connection with draws on Pennvest loans from other available funds of the Water Department. In Fiscal Year 2024 excess funds were remaining on account in the Debt Reserve Account, and the Water Department transferred \$1,687,101.51 from the Residual Fund to the City's General Fund as part of the Fiscal Year 2024 closing process. The budgeted transfer for Fiscal Year 2025 is \$4,994,000. For a brief discussion of the Residual Fund, see "– Residual Fund" below.

Water and Wastewater Funds

Funds and Accounts. The Act and the General Ordinance establish the following funds and accounts to be held by the Fiscal Agent:

- (a) Revenue Fund;
- (b) Sinking Fund and within such fund a Debt Service Account, a Charges Account and a Debt Reserve Account;
- (c) Subordinated Bond Fund;
- (d) Rate Stabilization Fund;
- (e) Construction Fund and within such fund an Existing Projects Account, a Bonds Proceeds Account and a Capital Account; and
- (f) Residual Fund and within such fund a Special Water Infrastructure Account.

The foregoing funds are referred to herein as the "Water and Wastewater Funds." The Water and Wastewater Funds are required under the General Ordinance to be held separate and apart from all other funds and accounts of the City and the Fiscal Agent, and the funds and accounts therein shall not be commingled with, loaned or transferred among themselves or to any other City funds or accounts except as expressly permitted by the General Ordinance. The General Ordinance also establishes a Rebate Fund, which is not held for the benefit of the holders of the Water and Wastewater Revenue Bonds and provides that the City can direct transfers to the Rebate Fund at the times and in the amounts necessary to pay any amounts required to be rebated pursuant to Section 148(f) of the Code.

Project Revenues. The City is required by the General Ordinance to cause all Project Revenues received by it on any date to be deposited into the Revenue Fund upon receipt thereof by the City, and the Fiscal Agent shall, upon receipt of Project Revenues, deposit such Project Revenues into the Revenue Fund. The City and the Fiscal Agent also shall cause to be deposited into the Revenue Fund such portion of the proceeds of the Bonds as are designated by Supplemental Ordinance or Bond Committee Determination and any other funds directed to be deposited into the Revenue Fund by the City. The City has covenanted in the General Ordinance that it will not direct the Fiscal Agent to transfer, loan or advance proceeds of the Bonds or Project Revenues from the Water and Wastewater Funds to any City account for application other than as permitted under the General Ordinance.

Project Revenues include, among other things, rents, rates, fees and charges from users of the products and services generated by the System (collectively, “rates and charges”). Collection and accounting of rates and charges are administered by the Water Revenue Bureau within the City’s Department of Revenue. See “THE WATER DEPARTMENT – Administration” herein. Historically, all rates and charges collected by the Water Revenue Bureau, whether by cashier, mail, or electronic payment, are recorded upon receipt, and are held temporarily by the City’s fiscal agent in a consolidated cash account of the City. The City generates a report of rates and charges collected at each day’s end and transfers, typically on the next day, all rates and charges so held to one or more accounts controlled by the Fiscal Agent for the Water and Wastewater Funds for deposit by the Fiscal Agent into the Revenue Fund. The City continues to examine the collection and accounting process with a view towards causing rates and charges to be deposited with the Fiscal Agent into the Revenue Fund as and when received.

See APPENDIX II – “SUMMARIES OF CERTAIN AUTHORIZATIONS FOR THE BONDS – Summary of Operative Provisions of the General Ordinance” for additional information concerning the priority and application of Project Revenues and further description of the funds and accounts established under the General Ordinance and their purposes.

Interfund Loans. If at any time sufficient monies are not available in the Revenue Fund to pay both Operating Expenses and to make the transfers described above under the heading “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Priority and Application of Project Revenues,” then amounts on deposit in the Construction Fund, Rate Stabilization Fund and/or Residual Fund may be loaned temporarily, at the written direction of the City, to the Revenue Fund, for the payment of such Operating Expenses until such loaned amounts are required by the Water Department for purposes of the Fund making the loan. Such interfund loans permit the Water Department then to use Project Revenues for the other transfers described above under “ – Priority and Application of Project Revenues.” If a similar deficiency exists in the Construction Fund, amounts on deposit in any of the Revenue Fund, Rate Stabilization Fund and Residual Fund may be loaned temporarily, at the written direction of the City, to the Construction Fund, to the extent of the deficiency, until required by the Water Department for purposes of the Fund making the loan.

The Water Department has from time to time made interfund loans in prior Fiscal Years from the Rate Stabilization Fund to the Revenue Fund. The Water Department did not make such loans in Fiscal Years 2022, 2023 or 2024 and does not expect to make a loan from the Rate Stabilization Fund to the Revenue Fund in Fiscal Year 2025.

Debt Reserve Account

General. The General Ordinance establishes within the Sinking Fund a Debt Reserve Account that will be funded (if required to be funded) with the proceeds of each series of Water and Wastewater Revenue Bonds; provided, however, that if the Supplemental Ordinance authorizing a series of Water and Wastewater Revenue Bonds shall so authorize, the deposit to the Debt Reserve Account in respect of such Water and Wastewater Revenue Bonds may be accumulated from Project Revenues over a period of not more than three Fiscal Years after the issuance and delivery of the related Water and Wastewater Revenue Bonds. The monies and investments in the Debt Reserve Account will be held and maintained in an amount equal at all times to the Debt

Reserve Requirement. The monies and investments in the Debt Reserve Account will be held and maintained for the equal and ratable benefit of the holders of the Bonds and all other Water and Wastewater Revenue Bonds outstanding (other than Subordinated Bonds, of which none are outstanding), subject to the provisions of the General Ordinance described in the following paragraph.

Notwithstanding any provision described in the immediately preceding paragraph to the contrary, a Supplemental Ordinance may permit the establishment of a Series Debt Reserve Requirement for each Series of Water and Wastewater Revenue Bonds issued pursuant to such Supplemental Ordinance, and a separate Series Debt Reserve Subaccount (if such Series Debt Reserve Requirement is greater than zero dollars (\$0)) within the Debt Reserve Account in respect of such Series of Water and Wastewater Revenue Bonds. The City may not, however, designate a Series Debt Reserve Requirement for a Series of Water and Wastewater Revenue Bonds unless (i) such Series of Water and Wastewater Revenue Bonds will refund Water and Wastewater Revenue Bonds, or (ii) the City first obtains written confirmation from any one Rating Agency then rating the Water and Wastewater Revenue Bonds that such action, in and of itself, will not result in a downgrade, suspension or withdrawal of the credit rating on any Water and Wastewater Revenue Bonds outstanding. The City shall deposit in the Series Debt Reserve Subaccount created pursuant to any Supplemental Ordinance, the Series Debt Reserve Requirement for such Series of Water and Wastewater Revenue Bonds. The monies and investments in each Series Debt Reserve Subaccount shall be held and maintained in an amount equal at all times to the Series Debt Reserve Requirement for such Series secured thereby, as provided in the Supplemental Ordinance authorizing such Series of Water and Wastewater Revenue Bonds. **All amounts in a Series Debt Reserve Subaccount shall be available solely to secure and pay the Debt Service Requirements of the Series of Water and Wastewater Revenue Bonds for which such subaccount was created; and the Holders of such Water and Wastewater Revenue Bonds shall otherwise have no interests in or rights to amounts in the Debt Reserve Account. Similarly, amounts in the Debt Reserve Account or in any Series Debt Reserve Subaccount do not secure and will not be available to pay Debt Service Requirements of Water and Wastewater Revenue Bonds of a series for which a Series Debt Reserve Requirement has been designated that is equal to zero dollars (\$0).** (See “SUMMARIES OF CERTAIN AUTHORIZATIONS FOR THE BONDS – Summary of Operative Provisions of the General Ordinance – Debt Reserve Account” in Appendix II of this Official Statement.)

To date, the City has not designated a Series Debt Reserve Requirement or established a separate Series Debt Reserve Subaccount for the any series of Water and Wastewater Revenue Bonds. The City will not designate a Series Debt Reserve Requirement or establish a separate Series Debt Reserve Subaccount for the Bonds.

If at any time the monies in the Debt Service Account of the Sinking Fund are insufficient to pay as and when due the principal of (and premium, if any) or interest on any series of Water and Wastewater Revenue Bonds or other obligations payable from the Debt Service Account (including obligations arising in connection with Qualified Swap Agreements and Credit Facilities), the Fiscal Agent is required to transfer from the Debt Reserve Account or, as applicable, any Series Debt Reserve Subaccount, the amount of such deficiency for deposit in the Debt Service Account.

With respect to any issue of Water and Wastewater Revenue Bonds, in lieu of the required deposit into the Debt Reserve Account or, as applicable, any Series Debt Reserve Subaccount, the City may cause to be deposited a surety bond, an insurance policy or an irrevocable letter of credit. In addition, the General Ordinance authorizes the City to apply monies on deposit in the Debt Reserve Account or, as applicable, any Series Debt Reserve Subaccount, to purchase a surety bond, an insurance policy or an irrevocable letter of credit. Under the terms of the General Ordinance, any surety bond, insurance policy or letter of credit provided by the City in lieu of required deposits within the Debt Reserve Account or, as applicable, any Series Debt Reserve Subaccount, would, at the time of issuance thereof, be required to meet the credit quality requirements of the General Ordinance as described in APPENDIX II – “SUMMARIES OF CERTAIN AUTHORIZATIONS FOR THE BONDS – Summary of Operative Provisions of the General Ordinance – Debt Reserve Account.”

Debt Reserve Requirement. As of June 30, 2024, the Debt Reserve Requirement for all outstanding Water and Wastewater Revenue Bonds based on maximum annual Debt Service Requirements (net of capitalized interest) prior to the issuance of the Bonds, was \$245,434,505.58. The balance of cash and investments credited to the Debt Reserve Account as of June 30, 2024, including Net Reserve Earnings in the amount of \$1,687,101.51 transferred to the Residual Fund as part of the Fiscal Year 2024 closing process (for further transfer to the City's General Fund; see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Priority and Application of Project Revenues"), was \$247,121,605.07.

On the date of issuance of the Bonds, after the deposit of a portion of the proceeds of the Bonds to the Debt Reserve Account of the Sinking Fund, money on deposit in the Debt Reserve Account will satisfy the Debt Reserve Requirement for all Water and Wastewater Revenue Bonds outstanding, including the Bonds.

Rate Stabilization Fund

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 by the Water Commissioner to be transferred for such Fiscal Year. For purposes of calculating Net Revenues, transfers from the Rate Stabilization Fund to the Revenue Fund are included in the calculation, whereas transfers from the Revenue Fund to the Rate Stabilization Fund are excluded from Net Revenues. As discussed above under "Water and Wastewater Funds – Interfund Loans," amounts on deposit in the Rate Stabilization Fund also may be loaned temporarily to the Revenue Fund to pay Operating Expenses under certain conditions. See also Table 9 – Philadelphia Water Department Historical Operating Results and APPENDIX II – "SUMMARIES OF CERTAIN AUTHORIZATIONS FOR THE BONDS – Summary of Operative Provisions of the General Ordinance – Rate Stabilization Fund."

Residual Fund

Amounts on deposit in the Residual Fund may be used at the written direction of the City (i) to pay Operating Expenses; (ii) to fund transfers to any fund or account established under the General Ordinance or under a Supplemental Ordinance (other than the Revenue Fund and the Rate Stabilization Fund); (iii) to make payments required under any Exchange Agreement; (iv) for the payment of principal, redemption premium, if any, and interest on any revenue bonds or notes (the proceeds of which were applied in respect of the System) issued under the Act but not under the General Ordinance; (v) for the payment of principal, redemption premium, if any, and interest on any General Obligation Bonds issued for the System; (vi) for the payment of principal, redemption premium, if any, and interest on other general obligation debt issued in respect of the System; (vii) for the payment of amounts due under capitalized leases or similar obligations relating to the System; and (viii) to fund a transfer to the City's "General Fund" in an amount not to exceed the lower of (A) all Net Reserve Earnings or (B) \$4,994,000. See APPENDIX II – "SUMMARIES OF CERTAIN AUTHORIZATIONS FOR THE BONDS – Summary of Operative Provisions of the General Ordinance – Residual Fund." In addition, as discussed above under "Water and Wastewater Funds – Interfund Loans," amounts on deposit in the Residual Fund also may be loaned temporarily to the Revenue Fund to pay Operating Expenses under certain conditions. For a discussion of certain policies that the Rate Board adopted, including for the target amount to be maintained in the Residual Fund, see "RATES – Philadelphia Water, Sewer and Stormwater Rate Board."

Additional Sources of Funds for Deficiencies in Sinking Fund

At the written direction of the City, the General Ordinance permits monies on account in the Capital Account of the Construction Fund and in the Residual Fund to be utilized to cure deficiencies in the Sinking Fund. See APPENDIX II – "SUMMARIES OF CERTAIN AUTHORIZATIONS FOR THE BONDS – Summary of Operative Provisions of the General Ordinance – Construction Fund" and "– Residual Fund."

Rate Covenant

Under the General Ordinance, the City has made certain covenants (collectively, the “Rate Covenant”) concerning the City’s imposition of rates and charges sufficient to support the System. The Rate Covenant requires, while any Water and Wastewater Revenue Bonds remain outstanding, the City to establish rents, rates, fees and charges for the use of the Water and Wastewater Systems to yield Net Revenues (defined below) in each Fiscal Year in sufficient amounts to satisfy the requirements of each of the three following coverage tests.

(1) Net Revenues will equal at least 1.20 times Debt Service Requirements, excluding Debt Service Requirements in respect of Subordinated Bonds (“Senior Debt Service”) for such Fiscal Year.

(2) Net Revenues (recalculated to exclude any transfers from the Rate Stabilization Fund) will equal at least 90% of Debt Service Requirements (excluding Debt Service Requirements in respect of Subordinated Bonds) for such Fiscal Year (“90% Test”).

(3) Net Revenues will equal at least 1.00 times the following payments and transfers to be made in such Fiscal Year (“Total Payments”): (i) the Debt Service Requirements (including Debt Service Requirements in respect of Subordinated Bonds); (ii) amounts required to be deposited into the Debt Reserve Account; (iii) debt service payable on General Obligation Bonds issued for the System; (iv) debt service due on Interim Debt; and (v) the Capital Account Deposit Amount, less any amounts transferred from the Residual Fund to the Capital Account. As of the date hereof, no Subordinated Bonds, General Obligation Bonds issued for the System or Interim Debt are outstanding.

“Net Revenues” for any period means: the Project Revenues collected during such period and deposited into the Revenue Fund plus (x) the amounts, if any, transferred from the Rate Stabilization Fund into the Revenue Fund as of the end of such period and (y) interest earnings during such period on monies in any of the funds or accounts established under the General Ordinance to the extent such interest earnings are credited to the Revenue Fund pursuant to the General Ordinance, and minus the sum of (a) Operating Expenses incurred during such period and (b) the amounts, if any, transferred from the Revenue Fund to the Rate Stabilization Fund as of the end of such period; provided, however that in determining such Net Revenues, the Initial Deposit (as defined in APPENDIX II) shall not reduce such Net Revenues. To ensure compliance with the Rate Covenant, the General Ordinance requires that the City review its rents, rates, fees and charges promptly upon any material change in the circumstances which were contemplated at the time such rents, rates, fees and charges were reviewed, but not less frequently than once each Fiscal Year. For a discussion of the Water Department’s experience in meeting the Rate Covenant, see “HISTORICAL AND PROJECTED FINANCIAL INFORMATION – Table 10” herein. Notwithstanding any future changes in the rate-making process, while any Water and Wastewater Bonds remain outstanding, the City is required to comply with the Rate Covenant.

Independent Engineer’s Report Not Included or Incorporated in this Official Statement and No Reliance Thereon

In connection with the enactment of the Eighteenth Supplemental Ordinance, Twenty-Third Supplemental Ordinance and Twenty-Seventh Supplemental Ordinance, pursuant to the requirements of the Act and the General Ordinance, the City engaged an independent engineer to prepare a report providing the basis for the required findings that (i) Project Revenues will be sufficient to meet payment or deposit requirements for the operation of the System and payment of outstanding Water and Wastewater Revenue Bonds, including the Bonds, (ii) Net Revenues are sufficient to comply with the Rate Covenant and (iii) the System is in good operating condition. See “INTRODUCTORY STATEMENT – General” herein.

Such report was filed with the City Council of the City but is not incorporated by reference herein and prospective purchasers of the Bonds should not rely upon it or any other prior engineering report in making an investment decision with respect to the purchase of the Bonds, nor should the report or any other prior engineering report be construed as a contract with any holder of the Bonds or as an invitation or inducement to

engage or otherwise participate in the proposed or any other transaction to provide financing or to make an investment.

Additional Bonds

The General Ordinance permits the issuance of additional bonds, which may be secured on a parity basis with the outstanding bonds issued thereunder. The General Ordinance imposes certain conditions precedent (which conditions have been met in connection with the issuance of the Bonds) to the issuance of additional bonds, including the delivery of an engineering report in connection with the adoption of the Eighteenth Supplemental Ordinance, Twenty-Third Supplemental Ordinance and the Twenty-Seventh Supplemental Ordinance concluding that Net Revenues were sufficient to comply with the Rate Covenant and are projected to be sufficient to comply with the Rate Covenant for each of the two Fiscal Years following the Fiscal Year in which the additional bonds are assumed to be issued. Such conditions precedent to the issuance of additional bonds are described in APPENDIX II – “SUMMARIES OF CERTAIN AUTHORIZATIONS FOR THE BONDS – Summary of Operative Provisions of the General Ordinance – Covenants of the City – Conditions of and Provisions Relating to Issuing Bonds.”

Limitations on Effectiveness of Pledge of Project Revenues and Water and Wastewater Funds

The effectiveness of the pledge of the Project Revenues and the Water and Wastewater Funds may be limited because, although the Fiscal Agent will have custody of the Water and Wastewater Funds, the City will have complete control of deposits into and expenditures from the Water and Wastewater Funds, except for amounts on deposit in the Sinking Fund, including the Debt Reserve Account. While the City has covenanted not to direct the Fiscal Agent to transfer Project Revenues other than as permitted under the General Ordinance, no requisition procedure or other similar procedure will be established for the expenditure of monies by the City from the Water and Wastewater Funds (other than the Sinking Fund, including the Debt Reserve Account), and no consent or approval of the Fiscal Agent is required to be obtained by the City as a condition of the City’s expenditure of such monies. The Fiscal Agent will not monitor deposits into or withdrawals from the Water and Wastewater Funds (other than the Sinking Fund, including the Debt Reserve Account) or the purposes for which such monies are utilized.

The General Ordinance provides that if the City fails to make a deposit of Project Revenues as required under the General Ordinance, the Fiscal Agent is authorized to and shall seek, by mandamus or other suit, action or proceeding at law or in equity, the specific enforcement or performance of the obligation of the City to cause the Project Revenues to be transferred to the Revenue Fund.

No daily, monthly or other periodic deposits are required to be made into the Sinking Fund prior to the dates on which debt service payments on the Water and Wastewater Revenue Bonds are due.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Inc. (“AG”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, Maryland, California, Connecticut or Florida insurance law.

Assured Guaranty Inc.

AG is a Maryland domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL” and together with its subsidiaries, “Assured Guaranty”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its subsidiaries, provides credit enhancement products to the U.S. and non-U.S. public finance (including infrastructure) and structured finance markets and participates in the asset management business through ownership interests in Sound Point Capital Management, LP and certain of its investment management affiliates. Only AG is obligated to pay claims under the insurance policies AG has issued, and not AGL or any of its shareholders or other affiliates.

AG’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A1” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AG should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AG in its sole discretion. In addition, the rating agencies may at any time change AG’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AG. AG only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AG on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Merger of Assured Guaranty Municipal Corp. Into Assured Guaranty Inc.

On August 1, 2024, Assured Guaranty Municipal Corp., a New York domiciled financial guaranty insurance company and an affiliate of AG (“AGM”), merged with and into AG, with AG as the surviving company (such transaction, the “Merger”). Upon the Merger, all liabilities of AGM, including insurance policies issued or assumed by AGM, became obligations of AG.

Current Financial Strength Ratings

On October 18, 2024, KBRA announced it had affirmed AG’s insurance financial strength rating of “AA+” (stable outlook).

On July 10, 2024, Moody’s, following Assured Guaranty’s announcement of the Merger, announced that it had affirmed AG’s insurance financial strength rating of “A1” (stable outlook).

On May 28, 2024, S&P announced it had affirmed AG’s financial strength rating of “AA” (stable outlook). On August 1, 2024, S&P stated that following the Merger, there is no change in AG’s financial strength rating of “AA” (stable outlook).

AG can give no assurance as to any further ratings action that S&P, Moody’s and/or KBRA may take. For more information regarding AG’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

Capitalization of AG, AGM and Pro Forma Combined AG

As of June 30, 2024
(dollars in millions)

	AG (Actual)	AGM (Actual)	AG (Pro Forma Combined)
Policyholders' surplus	\$1,649	\$2,599	\$3,960 ⁽¹⁾
Contingency reserve	\$421	\$910	\$1,331
Net unearned premium reserves and net deferred ceding commission income	\$355	\$2,078 ⁽²⁾	\$2,433 ⁽²⁾

⁽¹⁾ Net of intercompany eliminations.

⁽²⁾ Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AGM or pro forma combined AG, as applicable, and (ii) the net unearned premium reserves and net deferred ceding commissions of Assured Guaranty UK Limited ("AGUK") and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA ("AGE").

The policyholders' surplus, contingency reserves, and net unearned premium reserves and net deferred ceding commission income of AG, AGM, and the pro forma combined AG were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AG and AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (filed by AGL with the SEC on February 28, 2024);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2024 (filed by AGL with the SEC on May 8, 2024); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2024 (filed by AGL with the SEC on August 8, 2024).

All information relating to AG and AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8 K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Inc.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AG and AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Inc." or included in a document incorporated by reference herein (collectively, the "AG Information") shall be modified or superseded to the extent that any subsequently included AG Information

(either directly or through incorporation by reference) modifies or supersedes such previously included AG Information. Any AG Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AG makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading “BOND INSURANCE.”

REMEDIES OF BONDHOLDERS

Remedies under the Act and the General Ordinance available to Bondholders and to any trustee for Bondholders appointed by the holders of 25% of the outstanding principal amount of any series of Water and Wastewater Revenue Bonds in default are described in APPENDIX II – “SUMMARIES OF CERTAIN AUTHORIZATIONS FOR THE BONDS – Defaults and Remedies.” In addition to the remedies set forth in the General Ordinance, Bondholders, the Fiscal Agent, or a trustee therefor are entitled under the Pennsylvania Uniform Commercial Code to remedies as secured parties with respect to the Project Revenues and the funds on deposit in the Water and Wastewater Funds. See “CERTAIN INVESTMENT CONSIDERATIONS – Limited Recourse on Default” herein.

Enforcement of Bondholders’ rights may be limited by and is subject to the provisions of the Federal Bankruptcy Code, as now or hereafter enacted, and to other laws or legal or equitable principles which may affect the enforcement of creditors’ rights. The Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (Pa. P.L. 9, No. 6 (1991)), as amended by H.B. 1935 (2021) (the “PICA Act”), prohibits the City from filing a petition for relief under Chapter 9 of the United States Bankruptcy Code (“Chapter 9”) so long as PICA has any power or duty under the PICA Act. The PICA Act provides that PICA shall have continuing existence and succession until the later of January 2, 2047 or one year after all of PICA’s liabilities, including without limitation, its bonds, have been fully paid or discharged or after provision for such payment shall have been made as provided for in the applicable indenture. Furthermore, the PICA Act requires approval in writing by the Governor of the Commonwealth for a filing under Chapter 9 by the City. References to the Federal Bankruptcy Code should not be construed as implying that the City expects to resort to the provisions of such statute or that, if it did, any proposed restructuring would include a dilution of the sources of payment of and security for the Bonds. The Water Department is an operating department of the City and any filing by the City under Chapter 9 could occur under circumstances where the City’s general financial condition has deteriorated without regard to the results of operations or the financial position of the Water Department. No assurances can be provided that any Chapter 9 filing by the City due to circumstances unrelated to the Water Department would not still adversely affect the Water Department. See “CERTAIN INVESTMENT CONSIDERATIONS – Bankruptcy” herein.

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OUTSTANDING INDEBTEDNESS AND OTHER LONG-TERM AGREEMENTS

Outstanding Indebtedness

As set forth in the table below, \$3,176,031,686 aggregate principal amount of Water and Wastewater Revenue Bonds are outstanding as of September 30, 2024.

Table 2
Outstanding Indebtedness
as of September 30, 2024*

Series of Bonds	Original Principal Amount	Outstanding Principal Amount	Fixed/ Variable Rate	Year of Maturity
Pennvest 2009B	\$ 42,886,030	\$ 11,940,018	Fixed	2032
Pennvest 2009C	57,268,193	20,416,613	Fixed	2032
Pennvest 2009D	84,759,263	31,216,039	Fixed	2032
Pennvest 2010B	30,000,000	15,283,093	Fixed	2033
2014A	123,170,000	27,085,000	Fixed	2026
2015B	141,740,000	96,970,000	Fixed	2035
2016A	192,680,000	141,060,000	Fixed	2035
2017A	279,865,000	239,865,000	Fixed	2052
2017B	174,110,000	147,600,000	Fixed	2034
2018A	276,935,000	241,935,000	Fixed	2053
2019A	68,335,000	24,010,000	Fixed	2040
2019B	250,660,000	241,065,000	Fixed	2054
2020	127,740,000	127,740,000	Fixed	2040
2020A	201,530,000	196,120,000	Fixed	2050
2020B	95,025,000	13,885,000	Fixed	2035
Pennvest 2021A	80,821,155	35,882,960	Fixed	2044
2021B	368,720,000	355,800,000	Fixed	2045
2021C	231,930,000	227,760,000	Fixed	2051
Pennvest 2021D	5,794,470	4,973,165	Fixed	2044
Pennvest 2022A	16,301,250	10,639,886	Fixed	2045
Pennvest 2022B	35,861,985	31,031,500	Fixed	2042
2022C	294,810,000	280,935,000	Fixed	2052
Pennvest 2022D	106,929,660	44,749,742	Fixed	2042
Pennvest 2022E	8,670,000	7,016,620	Fixed	2042
Pennvest 2022F	8,221,985	5,764,923	Fixed	2042
WIFIA 2023	19,828,124	13,787,050	Fixed	2046
Pennvest 2023A	110,072,475	16,665,077	Fixed	2043
2023B	564,835,000	564,835,000	Fixed	2053
Pennvest 2024A [†]	31,125,965	-	Fixed	2044
Pennvest 2024B [†]	44,876,716	-	Fixed	2044
TOTAL	\$4,075,502,271	\$3,176,031,686		

*Excludes the issuance of the Bonds, the purchase and cancellation of the Purchased Bonds and the Commercial Paper Notes Outstanding.

[†]Proceeds of the Pennvest 2024A and the Pennvest 2024B Bond have not been drawn as of the date of this Official Statement and are not outstanding.

Other Obligations

Contract for Biosolids Treatment with Philadelphia Biosolids Services, LLC

In 2008, the City entered into a long-term contract and lease with the Philadelphia Municipal Authority (the “PMA”) for the PMA to operate the Water Department’s existing Biosolids Recycling Center (the “Biosolids Recycling Center”). The PMA and Philadelphia Biosolids Services, LLC (“Philadelphia Biosolids”) entered into a service agreement (the “Biosolids Service Contract”), pursuant to which Philadelphia Biosolids designed and built, and currently operates, a facility at the Biosolids Recycling Center to heat, dry and dispose of biosolids captured during wastewater treatment, and the PMA pays Philadelphia Biosolids for operating such Biosolids Recycling Center. Pursuant to a service agreement between the PMA and the City (the “City Service Contract”), the City assumed all of PMA’s obligations under the Biosolids Service Contract. The obligations under the City Service Contract constitute Operating Expenses of the Water Department. In Fiscal Years 2022, 2023, and 2024 the City paid to PMA, from revenues generated from the Water Department, \$22,138,315, \$23,414,229, and \$30,166,450, respectively. The Water Department’s budgeted obligation for Fiscal Year 2025 is \$29,535,000. The City Service Contract contains adjusters for the Consumer Price Index, Producer Price Index and fluctuations in fuel prices, among others; thus, expenditures under the City Service Contract may vary over time. The Biosolids Service Contract expires on February 10, 2032 and contains the possibility of a five-year renewal term at the option of the City. The Biosolids Service Contract facilitates compliance with various state and federal environmental regulations, including the Clean Air Act. See “THE SYSTEM – The Wastewater System – Environmental Compliance – Clean Air Act and – Biosolids Treatment and Utilization.” See also “THE SYSTEM – The Wastewater System – Environmental Compliance – Regulatory Compliance at Southwest Water Pollution Control Plant” herein.

Northeast Water Pollution Control Plant Cogeneration Facility

In 2011, the City entered into a long-term contract and lease with the PMA for the PMA to arrange the construction, financing, maintenance and sublease of a digester gas cogeneration facility at the Northeast Water Pollution Control Plant. The PMA entered into a lease (the “Lease”) with BAL Green Biogas I, LLC, a special purpose entity of Bank of America (the “Lessor”), which requires the PMA to make certain lease payments to the Lessor. Pursuant to a sublease dated December 23, 2011 (the “Sublease”), the City assumed all of the PMA’s obligations under the Lease. The obligations under the Sublease constitute Operating Expenses of the Water Department. In Fiscal Years 2022, 2023, and 2024, the City paid to the Lessor from revenues generated from the Water Department, \$6,108,449, \$6,648,884, and \$6,159,331, respectively. The Water Department’s budgeted obligation for Fiscal Year 2025 is approximately \$6,300,000. Expenditures, including maintenance fees, may vary during the term of the Sublease. The Lease and Sublease expire on September 25, 2029, unless renewed by PMA for an additional term of eighteen months.

Contract for Advanced Metering Infrastructure

In February 2019, the City, through PMA, entered into a contract with Sensus USA Inc. (“Sensus”) for the delivery of an advanced metering infrastructure (“AMI”) system for water meter reading, including installation, operation and maintenance of the AMI system. Since September of 2019 Sensus has assumed the meter reading services formerly provided by ITRON. The installation of the AMI system and communications network was completed on February 12, 2020. The deployment phase, during which Automatic Metering (“AMR”) equipment will be replaced with AMI units, was expected to take approximately 24 months but has been delayed significantly. The deployment phase commenced on March 15, 2021, but on May 4, 2021, Sensus notified the City of a force majeure event citing a shortage of certain product parts caused by the COVID-19 pandemic. The City provided written notice to Sensus disagreeing with their claim of force majeure under the contract but acknowledging the product shortage issues. As of June 30, 2024, 455,000 units have been installed out of 485,000. The Water Department estimates completion of the installation phase of the project will occur on or about December 31, 2024.

The costs for installation and deployment are included in the Water Capital Improvement Program. See “CAPITAL IMPROVEMENT PROGRAM.”

After the initial installation and deployment phase are complete, the AMI operations and maintenance term of the contract will be for a term of 20 years, with the option to renew for up to three additional one-year terms. Payments to Sensus constitute Operating Expenses of the Water Department. In Fiscal Year 2022, the Water Department paid \$1.7 million for meter reading services and \$17.5 million for the purchase and installation of new water meters. In Fiscal Year 2023, the Water Department paid \$11.0 million for meter reading services (including over \$9.0 million from the prior fiscal year due to a delay in price negotiations) and \$10.1 million for the purchase and installation of new water meters. In Fiscal Year 2024, the Water Department paid \$1.4 million for meter reading services and \$22.5 million for the purchase and installation of new water meters. The budgeted obligation for Fiscal Year 2025 is approximately \$4.7 million for meter reading services and \$12 million for the purchase and installation of new water meters and is intended to complete the conversion to AMI. These obligations are expected to be financed with \$12 million of capital funds and \$4.7 million of operating funds.

THE WATER DEPARTMENT

General

The City established the Water Department to operate, maintain, repair and improve the Water and Wastewater Systems. The Charter requires that rates and charges for supplying water and for wastewater treatment be fixed and regulated in accordance with standards established by City Council. Such standards must enable the City to realize from rates and charges an amount at least equal to Operating Expenses and Debt Service Requirements on any debt incurred or to be incurred for the Water and Wastewater System, including general obligations and revenue bond obligations, and proportionate charges for all services performed for the Water Department by all officers, departments, boards or commissions of the City. See “HISTORICAL AND PROJECTED FINANCIAL INFORMATION – Table 10” below. The Charter also authorizes the Water Department, with the approval of City Council, to enter into contracts for supplying water service and sewer and sewage disposal service to users outside the limits of the City.

The operations of the Water Department are accounted for in the Water Fund, which is an enterprise fund of the City. The Water Fund is an accounting convention established pursuant to the Charter for the purpose of accounting for the assets, liabilities, revenues, expenses of and Rate Covenant compliance for, the Water and Wastewater Systems. See APPENDIX I – “FINANCIAL STATEMENTS OF THE WATER FUND DERIVED FROM THE CITY’S AUDITED ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2023 AND 2022” attached hereto.

Relationship to the City

The Water Department is one of the City’s operating departments and is overseen by the Office of the Managing Director. Various City departments and agencies provide operational support to the Water Department, for which they receive a direct appropriation at the beginning of each Fiscal Year (a “Direct Appropriation”) from the Water Department’s Revenue Fund. The departments that receive Direct Appropriations from the Water Department are: the Revenue Department (Water Revenue Bureau) for meter reading, billing and collection services; the Law Department for legal services; the Department of Public Property for the rental of office space and parking; the Office of Fleet Management for vehicle acquisition, fuel, and vehicle maintenance; the Office of Innovation and Technology for communications and computer support services; the Procurement Department for services related to the acquisition of goods and services; the Office of the Director of Finance for fringe benefits, indemnities and support services; the Sinking Fund Commission for the payment of debt service; the Office of Sustainability for energy procurement services; the City Treasurer’s Office for support services; and the Office of Transportation and Infrastructure Systems. The Rate Board also receives a Direct Appropriation from the Water Department.

In addition, approximately 15 City departments and agencies, including the Revenue Department and the Department of Public Property, provide services to the Water Department for which they bill the Water Department at the close of each Fiscal Year (“Interfund Charges”). These services are distinct from the ones discussed in the previous paragraph and include, but are not limited to, cash management (City Treasurer); auditing (City Controller); debt management (City Treasurer); testing and hiring (Human Resources and Labor Relations); and other support services (Managing Director’s Office, Civil Service Commission, Department of Licenses & Inspections, and Police Department).

All Direct Appropriations and Interfund Charges are accounted for in the historical operating results in Table 9 and factored into the forecast in Table 11. See also “HISTORICAL AND PROJECTED FINANCIAL INFORMATION – The Water Department’s Budget.”

The City is the largest customer of the Water Department. The City, through the General Fund and the Aviation Fund, pays the Water Department for water and wastewater services, maintenance of the fire system (consisting of hydrants, system capacity and pumping stations), inlet cleaning and snow removal. Such payments are credited to the Water Fund for each Fiscal Year as of the last day of such Fiscal Year, and payment occurs on or before October 31 in the same calendar year. See “THE SYSTEM – Large Customers” herein and APPENDIX III – “GOVERNMENT AND FINANCIAL INFORMATION OF THE CITY OF PHILADELPHIA” attached hereto.

Administration

The Water Department is managed by a Commissioner appointed by the Managing Director of the City with the approval of the Mayor. The Commissioner then appoints deputies with the approval of the City’s Managing Director. Substantially all other employees of the Water Department are hired pursuant to the City’s Civil Service Regulations.

Under the Charter, the City’s Department of Revenue performs all functions relating to meter reading, customer accounts and collections for the Water Department through the Water Revenue Bureau. The Department of Revenue and the Water Revenue Bureau are under the direction of the Director of Finance. The Director of Finance, as the chief financial, accounting and budget officer of the City, has overall responsibility for the fiscal administration of all City departments, including the Water Department. Audits of all City departments, including the Water Department, are performed annually by the Office of the City Controller. The Law Department of the City, headed by the City Solicitor, handles all legal matters affecting the Water Department.

The following are brief biographical descriptions of the Commissioner, his deputies and the senior management of the Water Department:

Randy E. Hayman was appointed Water Commissioner on May 13, 2019. He is tasked with overseeing the Water Department. Prior to joining the Water Department, he served fifteen (15) years as the General Counsel for two major water/wastewater systems – the Metropolitan St. Louis Sewer District and the District of Columbia Water and Sewer Authority. In addition, Mr. Hayman served as an Assistant Attorney General for the state of Missouri and has practiced law in the private sector at highly respected law firms. Most recently, he was a partner at the law firm of Beveridge & Diamond, P.C., a top-tier environmental law firm. Throughout his career, Mr. Hayman has worked to solve similar water and wastewater utility challenges to those presently faced by the Water Department, including, but not limited to, successfully negotiating agreements with regulatory agencies to address wastewater system issues related to combined sewer overflows, as well as implementing large water and wastewater capital improvement plans, while managing financial performance and balancing the effects of customer rates and charges. He is a graduate of the University of Michigan and the Georgetown University Law Center.

Glen Abrams was appointed Deputy Water Commissioner of Communications and Engagement in September 2019. Most recently from 2001 to 2013, Mr. Abrams worked for the Water Department as a Policy and Strategic Planning Manager with the Water Department's Office of Watersheds. He has worked for the Pennsylvania Horticultural Society ("PHS") since 2013 and most recently served as the Senior Director of Planning and Sustainable Communities for PHS. He holds a B.A. and an M.A. in City and Regional Planning, both from Ohio State University.

Kevin Birriel was appointed Divisional Deputy City Solicitor of the City of Philadelphia Law Department's Water Division in May 2023. He has served as counsel to the Water Department since joining the City Law Department in 2014, handling complex commercial transactions, contracts, city code compliance and enforcement actions, real estate matters, regulations, and rate cases. Mr. Birriel is a graduate of Drexel University (B.S., 2010) and Drexel University School of Law (J.D., 2012). He is admitted to practice in Pennsylvania.

Marc Cammarata was appointed Deputy Water Commissioner for Planning and Environmental Services in November of 2016. His responsibilities include the integration, direction and management of numerous aspects of the Water Department's planning initiatives, including strategic environmental and sustainability programming, water quality and quantity modeling, wet weather compliance, flood mitigation, both green and traditional infrastructure planning, stream and wetland restoration, watershed and source water protection, laboratory services, and climate mitigation and adaptation efforts. He has over 25 years of experience in water resources engineering and environmental planning. He is a Professional Environmental Engineer with a B.S. in Civil and Environmental Engineering from Villanova University and a M.S. in Environmental Engineering, Water Resources from Drexel University.

Susan M. Crosby was appointed to the position of Deputy Revenue Commissioner in charge of the Water Revenue Bureau in November 2020. Prior to her appointment as Deputy Revenue Commissioner, Mrs. Crosby worked as a Divisional Deputy City Solicitor for the City's Law Department. Mrs. Crosby has a Bachelor of Science in History and Political Science from Florida State University. She received her Juris Doctorate from Stetson University College of Law and has practiced law in Florida (inactive) and Pennsylvania for twenty years.

Matthew Fulmer was promoted to Acting Manager of the Capital Budget section of the Projects Control unit in May 2023, and recently appointed full time to the position. Mr. Fulmer has a B.S. in Civil Engineering from Rutgers University and a M.S. of Water Resources and Environmental Engineering from Villanova University. Mr. Fulmer joined the Water Department in 2013 as a member of the Planning unit and since then held several supervisory positions in Design until his current role in the Projects Control unit of the Capital Budget section.

Stephen J. Furtek was appointed General Manager of Planning and Engineering (now Engineering and Construction) in March 2005. Mr. Furtek is a registered Professional Engineer and holds a B.A. in Civil and Urban Engineering from the University of Pennsylvania. He has held a number of increasingly responsible positions since joining the Water Department in 1982, including Supervisor of the Water and Sewer Design Section and Manager of the Design Branch.

Vahe G. Hovsepian was promoted to Assistant Deputy Commissioner of Engineering and Construction Division in February 2022. Mr. Hovsepian is a registered Professional Engineer and holds a M.S. and a B.S. in Mechanical Engineering from the New Jersey Institute of Technology. He has held a number of increasingly responsible positions since joining the Water Department in 1986, including Supervisor of the Mechanical Design Section and Manager of the Design unit. In his current position, he is responsible for the management of the Water Capital Improvement Program.

Benjamin Jewell was appointed Deputy Commissioner of Operations in September 2022. Mr. Jewell oversees the operation and maintenance of the Water Department's water, wastewater, and stormwater treatment and conveyance systems. Since joining the Water Department in 2007, Mr. Jewell has held a number of

increasingly responsible positions such as Director of Wastewater Operations and Manager of Collection System Operations. He has a B.S. in Environmental Engineering, with a Certificate in Cooperative Education from Northwestern University.

Candi Blossom Jones began her career with the Philadelphia Water Department as the Assistant Deputy Water Commissioner for Human Resources in 2020. She was appointed Deputy Commissioner for Human Resources and Administration in 2023 and is responsible for developing and executing human resource strategies in support of the overall strategic direction of the utility. She has a bachelor's degree in English from Johns Hopkins University, a master's degree in Public Administration from the University of Baltimore, is a Certified Compensation Professional and a Certified Senior Human Resources Professional. Ms. Jones has over 12 years of progressively responsible HR experience with the City of Philadelphia.

Sarah E. Stevenson was appointed Deputy Water Commissioner for Compliance, Policy, Legislative and Regulatory Affairs in April 2024. Prior to returning to the Water Department, Ms. Stevenson served in the Mayor's Cabinet as the City's Chief Integrity Officer from 2020 to 2024. From 2009 to 2020, Ms. Stevenson served in several roles with increasing responsibility at the Philadelphia Water Department, including Acting Commissioner in 2019. Ms. Stevenson earned her JD/MPA from Villanova University, and BA from the University of Pennsylvania. She is licensed to practice law in Pennsylvania and New York.

Lawrence Yangalay was appointed Acting Deputy Commissioner of Finance in November 2022 and fully appointed as Deputy Commissioner of Finance in May 2023. Mr. Yangalay has overall responsibility for the Water Department's financial management, including accounting operations and financial reporting; budget formulation and execution; and financial planning. Mr. Yangalay joined the Water Department in 2017 and has also worked at various City departments since 2005. He holds a Master's Degree in Management, with a concentration in Public Administration from Wilmington University, a Masters in Accounting from Ohio State University, and B.A. from the University of Liberia.

In addition to the senior management team above, the Water Department hires other assistant deputy commissioners to support various divisions within the Water Department.

Personnel Information

As of June 30, 2024, the Water Department employed approximately 2,022 full-time employees (this figure excludes seasonal workers), of whom 1,391 are represented by District Council 33 and 410 by District Council 47, both of the American Federation of State, County and Municipal Employees. The balance (221 full-time employees) represents the Water Department's upper management, supervisory and senior engineering and administrative personnel who are not eligible for union membership. The wages and salaries of approximately 200 employees in the Water Revenue Bureau are funded by the Water Department. Water Revenue Bureau employee participation in unions parallels that of the Water Department. For a discussion of the Water Department's contributions to the pension plans, see "HISTORICAL AND PROJECTED FINANCIAL INFORMATION – Pension Obligations of the Water Department." For information on the status of arbitration awards and labor contract settlements and certain retirement plan information, see APPENDIX III – "GOVERNMENT AND FINANCIAL INFORMATION OF THE CITY OF PHILADELPHIA – Expenditures of the City – Overview of Current Labor Situation." For more information respecting the current status of the City's collective bargaining agreement with District Council 33, see APPENDIX III – "GOVERNMENT AND FINANCIAL INFORMATION OF THE CITY OF PHILADELPHIA – Expenditures of the City – Overview of City Employees."

THE SYSTEM

The Water Department provides water and wastewater services (which includes stormwater services) to residents and businesses located in the City. Additionally, the Water Commissioner is authorized to enter into agreements with municipalities, townships, authorities and entities outside the limits of the City to provide for the sale of fresh water or the receipt, conveyance, treatment and disposal of wastewater. The Water Department currently has ten wholesale wastewater contracts and one wholesale water contract. The following sections describe the largest customers of the Water Department, the Water Department's wholesale contracts and the System, including certain environmental matters.

Large Customers

The ten largest customers of the Water Department for water and wastewater services, which include stormwater services, for Fiscal Year 2024 are set forth in Table 3 below. The Water Department does not charge itself or include in revenue the retail value of the water and wastewater services (including stormwater services) used by the Water Department.

The City is the largest customer of the Water Department. In addition to charges for general service customers, which are based on metered water consumption, the Water Department charges the City for water and wastewater services provided to City properties and for operation and maintenance of the fire system (consisting of hydrants and pumping stations). Previously known as Veolia Energy Philadelphia, Vicinity Energy Philadelphia ("Vicinity") was formerly one of the ten largest customers of the Water Department accounting for approximately \$5.3 million in revenues to the Water Revenue Fund in Fiscal Year 2023. Vicinity completed a water treatment facility utilizing an intake from the Schuylkill River to provide process water for their operations within the City. The new facility commenced operations in 2023, and Vicinity has experienced reduced needs for water services from the Water Department. While Vicinity remains a water, sewer and stormwater customer of the Water Department, it is no longer one of its ten largest customers, with approximately \$2.5 million in revenues to the Water Revenue Fund for Fiscal Year 2024. As compared to Fiscal Year 2023, revenues from the Water Department's ten largest customers have increased by approximately \$9.2 million in Fiscal Year 2024.

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Table 3
Top 10 Customers
Fiscal Year Ending June 30, 2024

Customer	Revenue (\$)	% Total Revenue**
1 City of Philadelphia*	\$27,455,121	3.25%
2 Philadelphia Housing Authority	15,328,884	1.82
3 University of Pennsylvania	8,071,003	0.96
4 School District of Philadelphia	6,966,737	0.83
5 AdvanSix Inc.	6,888,151	0.82
6 University of Pennsylvania Health System	5,229,877	0.62
7 Federal Government	5,126,589	0.61
8 SEPTA	5,100,680	0.60
9 Temple University	4,562,238	0.54
10 Drexel University	2,620,431	0.31
TOTALS***	<u>\$87,349,717</u>	<u>10.36%</u>

* The total above for the City of Philadelphia includes, among others, charges for water, wastewater and stormwater services as follows: (i) \$23,520,735.93 – General Fund and (ii) \$3,934,386.01 – Aviation Fund.

** The percentage of Total Revenue is calculated using the yearly revenue received by the customer divided by the total yearly revenue of the Water Revenue Fund. The total revenue of the Water Revenue Fund for Fiscal Year 2024 was \$843,534,824 (interfund revenue is not available).

*** Totals may not add due to rounding.

Wholesale Customers. The Water Department generates approximately 5.64% of total revenues from wholesale wastewater and water customers (the “Wholesale Customers”). The following Table 4 – Wholesale Water and Wastewater Customer Revenues Fiscal Year Ending June 30, 2024 presents revenues as of June 30, 2024 from Wholesale Customers and describes certain terms of the Water Department’s wholesale contracts for wastewater and water services, respectively. The last column on Table 4 sets forth each Wholesale Customer’s proportional share of the Water Department’s costs (the “COA Expenditures”) of compliance with its Consent Order and Agreement with the Pennsylvania Department of Environmental Protection (the “PADEP”). The Consent Order and Agreement requires the Water Department to implement the Long-Term Control Plan Update (“LTCPU”), also known as the Green City, Clean Waters Program, to address combined sewer overflows. For more information regarding the Water Department’s Consent Order and Agreement, the LTCPU and its associated costs, see “THE SYSTEM – The Wastewater System – Environmental Compliance – Combined Sewer Overflow Program” below. Revenues for Fiscal Years 2022, 2023, and 2024 from Wholesale Customers were approximately \$36.3 million, \$42.3 million, and \$44.1 million respectively, for wastewater services, and \$3.2 million, \$3.3 million, and \$3.3 million respectively, for water services. Budgeted revenues from Wholesale Customers for Fiscal Year 2025 are approximately \$37.8 million for wastewater services, and \$3.85 million for water services.

Some of the Wholesale Customers contribute to a portion of COA Expenditures as part of their respective contracts as demonstrated on Table 4. The allocation of costs of the LTCPU, also referred to as COA Expenditures, was updated in Fiscal Year 2023 to utilize the Water Department’s hydraulic & hydrologic (H&H) model. The H&H model takes into account the customer’s burden on and impact to the combined sewer overflow volumes more accurately than the prior allocation methodology. The COA Expenditures allocated to Wholesale Customers cover a portion of the City’s costs of compliance with the LTCPU. Compared to the previous allocation methodology, there is a reduction in the amount of COA Expenditures allocated to Wholesale Customers whose current contracts include an allocation based on the H&H model. The new allocation method resulted in a reduction of wholesale wastewater revenues of approximately \$2.50 million in Fiscal Year 2024 and is estimated to result in a reduction of wholesale wastewater revenues of approximately \$2.47 million in

Fiscal Year 2025, which is reflected in Fiscal Year 2025 budgeted revenues for wastewater services. With the implementation of the latest retail rates approved by the Rate Board, applying the updated cost allocation methodology is expected to result in a neutral overall effect, whereby Wholesale Customers and retail customers will be billed in line with their respective consumption patterns and effects on the System. See “THE SYSTEM – The Wastewater System – Wholesale Contracts” herein. See also “RATES – Current Base Rates and 2023 Rate Proceeding.” Revenues from Wholesale Customers provide a source of funding for the Water Department’s Water Capital Improvement Program in addition to the sources described under the caption “CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Program Financing Sources.”

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Table 4
Preliminary Wholesale Water and Wastewater Customer Revenues and Contract Terms
Fiscal Year Ending June 30, 2024

	<u>Total Revenue</u>	<u>% Total Revenue*</u>	<u>Contract End Date</u>	<u>COA % **</u>
<u>Wastewater</u>				
Bucks County Water & Sewer Authority (BCWSA)	\$ 9,869,734.75	1.17%	3/31/2038	N/A
BCWSA-Springfield Township ⁽¹⁾⁽²⁾	2,427,091.62	0.29	10/31/2033	0.26%
BCWSA - Bensalem ⁽¹⁾	1,607,466.88	0.19	10/31/2033	0.12
BCWSA Total	13,904,293.25	1.65		0.38
Delcora ⁽³⁾	11,803,258.23	1.40	4/1/2028	0.21
Lower Southampton Township ⁽⁴⁾	5,080,133.98	0.60	6/30/2024	0.16
Aqua Pennsylvania Wastewater, Inc. ⁽⁵⁾	3,956,500.36	0.47	6/30/2025	1.12
Upper Darby Township	3,788,891.81	0.45	10/31/2033	0.61
Lower Merion Township ⁽⁶⁾	2,598,562.96	0.31	N/A	N/A
Abington Township ⁽⁷⁾	1,955,887.16	0.23	6/30/2023	0.10
Lower Moreland Township	1,111,178.05	0.13	6/30/2025	0.06
Sub-total	\$44,198,705.80	5.24%		2.64%
<u>Water</u>				
Aqua Pennsylvania	\$ 3,380,009.37	0.40%	3/1/2026	N/A
Sub-total	\$ 3,380,009.37	0.40%		
Total Wholesale Revenues	<u>\$47,578,715.17</u>	<u>5.64%</u>		

Prior to Fiscal Year 2025, the Water Department included capital charges within operation and maintenance charges for all customers except Bensalem, Lower Merion, and Upper Darby. As of Fiscal Year 2025, the Water Department includes capital charges within operation and maintenance charges for all customers except Lower Merion.

* The percentage of Total Revenue is calculated using the yearly revenue received by the municipality or authority divided by the total yearly revenue of the Water Revenue Fund. The total revenue for Fiscal Year 2024 was \$843,534,824 (interfund revenue is not available).

** COA% or Consent Order and Agreement (COA) percentage is the Township's share of expenses for the Long-Term Control Plan to mitigate combined sewer overflows (CSOs).

- (1) Bucks County Water and Sewer Authority purchased the wastewater collection and disposal system of Springfield Township in December 2015 and purchased the wastewater collection system of Bensalem in September 1999.
- (2) The COA% reflects the total amount for Wyndmoor and Erdenheim combined.
- (3) For more information on the wholesale wastewater contract with Delcora, see "THE SYSTEM – The Wastewater System – Delaware County Regional Water Quality Control Authority" herein. Delcora allocated capital is based on assets placed in service on or after July 4, 2011.
- (4) The contract with Lower Southampton Township expired. Lower Southampton Township and the Water Department continue to operate pursuant to the terms of the existing contract while they negotiate a new or extended contract.
- (5) Cheltenham Township sold its sewer system to Aqua PA Wastewater in December 2019. The Water Department's contract with the township was transferred to Aqua PA Wastewater in connection with the sale. Aqua PA Wastewater and the Water Department continue to operate pursuant to the terms of the existing contract while they negotiate a new contract.
- (6) The contract with Lower Merion Township does not contain an end date.
- (7) The contract with Abington Township expired. Abington Township and the Water Department continue to operate pursuant to the terms of the existing contract while they negotiate a new or extended contract.

The Water System

General

The Water System's service area includes the City. The Water System has one wholesale water service contract (see Table 4 – Wholesale Water and Wastewater Customer Revenues Fiscal Year Ending June 30, 2024 above). Based on the 2023 U.S. Census Bureau estimate, the Water System served 1,550,542 individuals with retail service.

As of June 30, 2024, the Water System served approximately 505,000 active customer accounts using approximately 3,200 miles of mains and approximately 25,000 fire hydrants. Customer accounts have been stable the past several years, but consumption patterns and collections are expected to continue to show declining trends in Fiscal Years 2025 and 2026 primarily due to an overall national reduction in tap water consumption, conservation due to more efficient appliances, increase in bottled water consumption and upwards adjustments to delinquency thresholds, among other factors. See "RATES – Current Base Rates and 2023 Rate Proceeding" and "– Billing and Collections" herein.

The City obtains approximately 56.8% of its water from the Delaware River and the balance from the Schuylkill River. Under the City's water allocation permit issued by the PADEP, which expires in September 2041, the City is authorized to withdraw up to 423 million gallons per day ("MGD") from the Delaware River and up to 258 MGD from the Schuylkill River.

Water treatment is provided by the Samuel S. Baxter Water Treatment Plant ("Baxter Water Treatment Plant") on the Delaware River and by the Belmont Water Treatment Plant and Queen Lane Water Treatment Plant, both on the Schuylkill River. The Baxter Water Treatment Plant is the Water Department's largest water treatment facility in terms of raw water pumping capacity at 480 MGD, followed by the Queen Lane Water Treatment Plant (200 MGD) and the Belmont Water Treatment Plant (170 MGD). The combined rated treatment capacity of these plants is 546 MGD. The combined maximum source water withdrawal capacity from the two rivers that supply these plants is 680 MGD. The excess source water capacity enables higher than normal withdrawal from either river should conditions limit withdrawals from one. The usable storage capacity for treated and untreated water in the combined plant and distribution system totals 1,010 million gallons ("MG"). In Fiscal Year 2022, the Water System distributed 84,342 MG of water at an average daily rate of 231.07 MG. In Fiscal Year 2023, the Water System distributed 84,096 MG of water at an average daily rate of 230.40 MG. In Fiscal Year 2024, the Water System distributed 83,777 MG of water at an average daily rate of 228.9 MG.

The delivery of finished water to customers is accomplished using several key assets, including the following major reservoir storage facilities: East Park (92 MG, comprised of 3 separate tanks for added flexibility and redundancy), Oak Lane (72.8 MG) and Roxborough (27.8 MG). The Water Department maintains additional distribution storage to meet peak customer and public fire service demands as they arise. Distribution storage consists of the Fox Chase elevated storage tank (1.5 MG); two Somerton standpipes (10 MG); and two Roxborough standpipes (11 MG), which provide a total of 22.5 MG of distribution system storage, combined. The Water Revitalization Plan, discussed under the caption "MANAGEMENT INITIATIVES – Water Master Planning", takes into account the current and future needs of the storage and pumping facilities. The plan has identified hundreds of individual projects to improve existing facilities that are currently under review, design, construction or planned to be completed in the future, including the rehabilitation of the Torresdale Pump Station and Lardner's Point Pump Station to update aging, critical infrastructure, while providing enhanced redundancy. The rehabilitation of the Torresdale Pump Station is currently being financed in part with proceeds of Pennvest loans and Lardner's Point Pump Station is currently in design. See "CAPITAL IMPROVEMENT PROGRAM – Pennvest Loans" herein. See also "– Baxter Water Treatment Plant Clear Well Basin" below for a discussion of the upgrades being constructed at the Baxter Water Treatment Plant.

Bristol Township Chemical Spill

On March 25, 2023, the Water Department was notified of the discharge of chemicals into the Delaware River as a result of an incident at the Trinseo facility in Bristol Township, Bucks County. Upon being informed of the incident, the Water Department began enhanced monitoring of the Delaware River and took steps to safeguard the City's drinking water.

After robust sampling and testing, no chemicals of concern from the Bristol Township spill were detected in any of the 200-plus samples collected by the Water Department and analyzed by independent, accredited laboratories. As evidenced by the results, Philadelphia's drinking water was not materially impacted by the chemical spill and service to the Water Department's customers was not interrupted.

Baxter Water Treatment Plant Clear Well Basin

As discussed above, the Baxter Water Treatment Plant is the Water Department's largest water treatment facility in terms of raw water pumping capacity. In February 2017, the Water Department commenced construction to replace the original clear well basin that contained 50MG of water supplying the Lardner's Point Pump Station (the "CWB") with four 5MG basins. The original CWB was taken out of service on March 15, 2023 and has been decommissioned. The first phase of construction is complete, and two 5MG replacement basins are currently in service. A notice to proceed on the second phase to construct the remaining two basins was issued on April 25, 2023. The second phase is currently underway and is expected to be completed in three years for an estimated cost of \$110 million.

Wholesale Contracts

The Water Department has a wholesale contract for water services with Aqua Pennsylvania, Inc. ("AP") under which the Water Department has agreed to provide wholesale water service through March 1, 2026. For wholesale water customer revenues for Fiscal Year 2024, see Table 4 – Wholesale Water and Wastewater Customer Revenues Fiscal Year Ending June 30, 2024.

Environmental Compliance

General

The Water System is subject to various environmental laws and regulations. From time to time, the Water Department receives notices of violations and has experienced increased compliance and monitoring requirements and incurred minor fines as a result of such violations. See "THE SYSTEM – The Wastewater System – Environmental Compliance – Regulatory Compliance at Southwest Water Pollution Control Plant" herein for a discussion of current regulatory issues at the Southwest Water Pollution Control Plant.

Drinking Water Regulatory Matters

The water provided by the Water System meets all physical, chemical, radiological and bacteriological water quality standards established by the United States Environmental Protection Agency (the "EPA") under the federal Safe Drinking Water Act and by the PADEP under the Pennsylvania Safe Drinking Water Act. The EPA required a second round of source water sampling for the Long Term 2 ("LT2") Enhanced Surface Water Treatment Rule beginning in April 2015 to measure the concentration of *Cryptosporidium* present at the intakes of the three water treatment plants. *Cryptosporidium* is a parasite that may cause gastrointestinal illness. Observed *Cryptosporidium* concentrations categorize each intake into one of four "BINS." Public water systems placed in "BIN 1" indicate the lowest concentrations of *Cryptosporidium* and require no additional treatment. Public water systems placed in "BIN 2," "BIN 3" and "BIN 4" require increasing levels of treatment, with "BIN 4" requiring the most treatment. All three of the Water Department's drinking water treatment plants participated in Round 2 LT2 monitoring for *Cryptosporidium* from April 2015 to March 2017. This round of sampling resulted in the Queen Lane Water Treatment Plant and the Baxter Water Treatment Plant being classified in the "BIN 2" category and in the Belmont Water Treatment Plant being classified in the "BIN 1" category. The Water Department had a Watershed Control Program Plan in place since 2011 for the Schuylkill River Watershed to better manage sources of *Cryptosporidium* upstream of the Queen Lane Water Treatment Plant. A similar plan was developed for the Delaware River Watershed to support compliance at the Baxter Water Treatment Plant. The Watershed Control Program Plan for Baxter was updated in 2021 and targets the same priority sources: agricultural operations, animal vectors, and wastewater treatment plant effluent through a combination of on-the-ground projects, research, and education and outreach initiatives. The Water Department currently operates under this plan. From time to time, given water sampling and monitoring or operational issues that may arise, the City has issued water boiling notices

or other notices to safeguard the health of its customers, which practices continue to be in place. In addition, the Water Department submits annual status reports to the PADEP regarding source water quality at both the Queen Lane and Baxter intakes.

On June 25, 2024, routine water quality tests showed that average levels of the disinfection byproduct Trichloroacetic acid (TCAA) at one location in the City exceeded an EPA Lifetime Health Advisory Level. The PADEP requires public notification if the annual average level exceeds the guideline of 0.02 mg/L; and the affected area showed an average value of 0.0252 mg/L. TCAA may cause health effects when there has been long-term exposure (over 70 years) at high values, but an average value of 0.0252 mg/L has no immediate health effect. The Water Department complied with the PADEP's Tier 2 30-day public notice obligation by notifying approximately 40,000 customers estimated to live within the affected area. Drinking water remained safe for consumption, and no further action was required by the Water Department or its customers.

The Water Department continues to prepare for possible future regulations regarding the distribution system using a variety of tools that allow the Water Department to track water through the Water System. The Water Department also is actively involved in monitoring, commenting on, and implementing practices to respond to rules and regulations for water systems enacted by the PADEP and the EPA. The Water Department submitted its Risk and Resilience Assessment certification in March 2020 and its Emergency Response Plan certification in September 2020, as required under America's Water Infrastructure Act of 2018. See "MANAGEMENT INITIATIVES – Security of Water Department Facilities and Water Supply and AWIA" herein.

Lead and Copper Rule

While the Water Department's water main pipes do not contain lead, the Water Department continues to detect and replace residential lead service lines, which are owned entirely by the property owner, on an ongoing basis. Pursuant to the federal Safe Drinking Water Act, the Water Department conducts Lead and Copper Rule ("LCR") monitoring as required by the EPA and PADEP. In February 2016, the EPA re-issued guidance for public water systems regarding LCR tap sampling procedures, and in May 2016, the PADEP endorsed the EPA's guidance. The Water Department follows such guidance.

The Water Department is on a reduced monitoring schedule due to consistent results below regulatory action levels for lead and copper. Monitoring is conducted every three years. The most recent round of LCR sampling was completed in 2022. The Water Department continues its robust communication efforts with residential customers regarding lead service lines. During calendar year 2022, the Water Department used information from previous sampling efforts and records collected from the AMI program to identify and contact residential customers in need of service line replacements. 2,632 customers were contacted, including new and past participants. The Water Department's efforts resulted in 391 responses, and 104 customers completed testing in 2022. Regulatory action levels were 15 parts-per-billion ("ppb") for lead and 1.3 ppm for copper. Results for ninety percent (90%) of the homes tested were less than or equal to 2 ppb for lead and less than or equal to 0.219 ppm for copper, which are below the action levels set by the regulation.

On October 13, 2019, the EPA released proposed revisions to the LCR (the "LCRR") and the final LCRR was published in the Federal Register on January 15, 2021. Since then, the EPA has shifted the original compliance date from January 16, 2024 to October 16, 2024. The LCRR will have a significant effect on the Water Department's operations by requiring substantial new efforts in public education regarding lead; notification; sampling and testing; and development and maintenance of an inventory of residential lead service lines. On October 8, 2024, the EPA issued a final rule ("LCRI") requiring drinking water systems across the country to identify and replace lead pipes within 10 years. It also lowered the action level for lead in drinking water from 15 ppb to 10 ppb. The Water Department is prepared to meet the LCRR requirements that will not be delayed by the LCRI, including the development of a residential lead service line inventory for internal uses that is based on historical records and inspections of service line material being conducted by AMI installation contractors, updating communications materials, and enhancing communications efforts with customers. The Water Department is also preparing for compliance with the LCRI, including the development and implementation of a residential lead service line replacement plan, updating and implementing new sampling requirements, and launching a

school and childcare water lead testing program. The Water Department continues to remove residential lead service lines when encountered during capital projects, resulting in replacements on average of approximately 300 to 350 residential lead service lines per year.

PFAS

Per- and polyfluoroalkyl substances (“PFAS”) are a family of synthetic compounds that are water soluble and persistent in the environment in air, water, and soil. PFAS are used in a variety of manufacturing processes and are used in the production of a wide range of industrial and household applications. The EPA has stated that, based on peer-reviewed studies on laboratory animals and epidemiological evidence in human populations, exposure to certain levels of Perfluorooctanoic acid (“PFOA”) and Perfluorooctanesulfonic acid (“PFOS”), two types of PFAS compounds, may result in adverse health effects.

In January 2023, the PADEP published a rule to set maximum contaminant levels (MCLs) in drinking water for PFOA and PFOS. The rule sets an MCL of 14 parts per trillion (ppt) for PFOA and an MCL of 18 ppt for PFOS. In March 2023, the EPA proposed new National Primary Drinking Water Regulations (NPDWRs) for six PFAS compounds. The proposed federal MCL for PFOA and PFOS are 4 ppt each. Four additional PFAS compounds are proposed to be regulated as a mixture using a hazard index. The four compounds included in the hazard index are perfluorononanoic acid (PFNA), hexafluoropropylene oxide dimer acid (HFPO-DA, commonly known as GenX Chemicals), perfluorohexane sulfonic acid (PFHxS), and perfluorobutane sulfonic acid (PFBS). On April 10, 2024, the EPA announced the final National Primary Drinking Water Regulation (NPDWR) for six PFAS. For PFOA and PFOS the MCLs are 4 PPT each.

The Water Department has been monitoring and continues to monitor and sample to detect PFAS levels in drinking water. Given the more stringent MCLs recently adopted by the EPA, the Water Department is evaluating the new standards and how to best address them. The Water Department expects to incur increased capital expenditures and maintenance costs in order to comply with EPA regulations. See also “LITIGATION AND CLAIMS” herein for a discussion of the ongoing multidistrict litigation regarding PFAS contamination.

EPA Proposed Aquatic Life Use Regulation for the Urban Delaware River

On December 21, 2023, the EPA proposed a rulemaking (Water Quality Standards to Protect Aquatic Life in the Delaware River), which was revised on January 8, 2024, that would require a significant reduction in the amount of ammonia that the three Philadelphia wastewater treatment plants discharge into the Delaware River. The intent of this rulemaking is to improve reproduction of native fish species, specifically the endangered Atlantic sturgeon. Enforcement of this rule, as currently proposed, is expected to result in capital costs to the Water System given that three wastewater treatment plants currently cannot achieve the proposed ammonia removal reductions because these plants were not originally designed to remove ammonia. The Water Department delivered formal comments to the EPA on or about February 20, 2024. Currently, the rule is not final nor promulgated, and neighboring municipalities and utilities that would be affected by the regulation have also provided comments to the EPA. At this time, no assurance can be given as to whether the rulemaking will be adopted, the requirements it will impose, the potential timing of compliance therewith or the financial or other effects on the Water System.

The Wastewater System

General

The Wastewater System’s service area includes the City. The Water Department has ten wholesale wastewater service contracts (see Table 4 – Wholesale Water and Wastewater Customer Revenues Fiscal Year Ending June 30, 2024). Based on the 2023 U.S. Census Bureau estimate, the Wastewater System served 1,550,542 individuals with retail service that live in the City as well as customers under ten wholesale contracts.

As of June 30, 2024, the Wastewater System served approximately 542,000 accounts, including approximately 45,531 stormwater-only accounts (see “THE SYSTEM – The Wastewater System – Stormwater Management Services”

below), and ten wholesale contracts with neighboring municipalities and authorities and one corporation. Customer wastewater accounts have been stable the past several years and are expected to remain stable in Fiscal Years 2025 and 2026.

The Wastewater System consists of three water pollution control plants, the Northeast, Southwest and Southeast water pollution control plants (the “WPCPs”), 29 pumping stations, approximately 3,700 miles of sewers, a privately managed centralized biosolids handling facility and a gas cogeneration facility. See “OUTSTANDING INDEBTEDNESS AND OTHER LONG-TERM AGREEMENTS – Other Obligations – Contract for Biosolids Treatment with Philadelphia Biosolids Services, LLC” and “– Northeast Water Pollution Control Plant Cogeneration Facility” above. The Wastewater System includes approximately 1,850 miles of combined sewers, 770 miles of sanitary sewers, 750 miles of stormwater sewers, 16 miles of force mains (sanitary and storm) and approximately 330 miles of appurtenant piping. The three WPCPs have a 522 MGD combined annual average capacity, a 783 MGD combined daily average capacity and a 1,059 MGD combined peak capacity. In Fiscal Years 2022, 2023 and 2024, the three WPCPs processed a combined average of 448 MGD, 434 MGD and 452 MGD of wastewater, respectively.

Under their regulatory permits, the WPCPs are allowed to treat flows in excess of their respective treatment capacities within regulated parameters on effluent quality. Treatment in excess of the minimum flows required is desirable from an environmental standpoint in order to reduce the discharge of untreated combined sewer overflows. From time to time, the WPCPs experience a surge of wet weather flows during which time one or more plants may be required to treat combined sewage in excess of their respective required treatment capacities to avoid the discharge of additional permitted (from a regulatory standpoint) but untreated combined sewer overflows into waterways. This surge may last for a matter of minutes or hours and rarely occurs more than a few times in one year, although it is subject to change given the effects of climate change. See “CERTAIN INVESTMENT CONSIDERATIONS – Climate Change” herein.

Ultimately, the goal of the Water Department in managing and operating the WPCPs is to create additional plant redundancies and increase reliability of operations while maximizing the treatment of wastewater within NPDES permit requirements. The Water Department employs industry standard best practices in terms of operations and maintenance and other capital planning measures at the WPCPs to achieve these goals. In line with the City’s COA requirements, and in furtherance of improving effluent quality and reducing environmental effects more generally, the Water Department studies and pursues numerous capital projects at each of the WPCPs to expand capacity for treatment and replace, renew and maintain assets. For instance, in order to better position itself for the milestones required under the City’s COA (hereinafter defined), the Water Department completed construction of the high flow management system at the Northeast WPCP in calendar year 2018, increasing the Northeast WPCP’s capacity for primary treatment from 435 MGD to 650 MGD when routing through the secondary bypass conduit. Likewise, in planning for future compliance with the COA, the Water Department seeks to increase peak capacity at the Southeast WPCP by 50 MGD through a combination of process and hydraulic improvements. Similarly, the Water Department also plans to increase peak capacity at the Southwest WPCP by 60 MGD, an expansion currently planned for 2031. See also “THE SYSTEM – Wastewater System – Environmental Compliance” herein.

Stormwater Management Services

The Water Department delivers many of the City’s stormwater management services, including maintenance of the City’s approximately 750 miles of separate storm sewers, 1,850 miles of combined sewers and 71,500 stormwater inlets. The Water Department generates approximately 24% of total revenue from stormwater services. See also “LITIGATION AND CLAIMS” herein for a discussion of a recent case addressing whether stormwater fees charged to West Chester University, a tax-exempt university, constitute a tax or a service fee.

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Wastewater and Stormwater Regulations, Permits and Awards

Wastewater

The Clean Water Act requires a National Pollutant Discharge Elimination System (“NPDES”) permit for any point source discharge of pollutants into navigable waters in the United States. The EPA has delegated the NPDES program for the Commonwealth to the PADEP. In addition to the Clean Water Act, the City and its WPCPs are subject to regulation by the PADEP, which exercises regulatory authority over municipal sewage treatment operations, and by the Delaware River Basin Commission, which exercises regulatory authority over withdrawals from and discharges into the Delaware and Schuylkill Rivers. The NPDES permits prescribe requirements for an industrial pretreatment program, polychlorinated biphenyls minimization plan, effluent limits for the City’s three wastewater treatment plants and require implementation of combined sewer overflow control measures including minimum controls and the City’s Long-Term Control Plan Update discussed herein. These control measures manage and treat the excess stormwater and wastewater mix that discharges directly into local waterways during certain precipitation events. See – “Environmental Compliance – Combined Sewer Overflow Program” below.

The City has three NPDES permits for its wastewater system, one each for the Northeast, Southeast and Southwest WPCPs. All three of these permits expired on August 31, 2012. The facilities are operating under an administrative extension of the expired permits, as dictated by PADEP policy. The expired NPDES permits will remain in place until new permits are issued. The City submitted applications for renewals to the PADEP in February of 2012, in advance of the expiration date, and has commented on draft forms of the permits received from the PADEP. In connection with resuming discussions regarding the NPDES permits, the PADEP recently requested that the Water Department complete one round of specialized influent sampling and three rounds of specialized effluent sampling at the three WPCPs, and further required that the Water Department submit new permit renewal application forms. Sampling occurred from April 2023 through June 2023, and the Water Department submitted the WPCPs’ NPDES permit renewal applications in the fourth quarter of calendar year 2023. See “– Environmental Compliance – Combined Sewer Overflow Program” below for a discussion respecting the interplay between the NPDES permits and the Water Department’s obligations under its Consent Order and Agreement to mitigate combined sewer overflows. The Water Department continues to analyze the sampling results to prepare for discussions with regulators regarding new NPDES permits and plan for potential changes to future permit requirements.

The three WPCPs have had a long history of being recognized by the National Association of Clean Water Agencies (“NACWA”) for their compliance records. During calendar year 2021, all three WPCPs received awards from NACWA for perfect compliance, with the Northeast WPCP and the Southwest WPCP each receiving a gold award and the Southeast WPCP receiving a platinum award, which recognized 22 consecutive years of perfect compliance. In August of 2023, the Northeast WPCP was awarded a peak performance gold award from NACWA for perfect permit compliance during calendar year 2022. Both the Southeast and Southwest WPCPs experienced permit effluent violations during calendar year 2024. See “THE SYSTEM – The Wastewater System – Environmental Compliance – Regulatory Compliance at Southwest Water Pollution Control Plant” herein for a discussion of current regulatory issues at the Southwest WPCP.

Stormwater

The Clean Water Act requires cities, like Philadelphia, whose separate storm sewer systems serve a population of over 100,000 to obtain an NPDES permit for their municipal stormwater discharges, known as a Municipal Separate Sewer Systems (MS4) permit. The City’s NPDES permits require reduction of pollution from commercial and residential areas, illicit connections, industrial facilities and construction sites. The City’s current MS4 permit was issued in 2005 and expired in 2010. The City submitted an application for renewal to the PADEP in 2010 and continues operating under the administratively extended 2005 permit, as dictated by the policies of the PADEP. The 2005 permit will remain in place until a new permit is issued. The City has engaged in discussions with the PADEP regarding draft permit requirements over the years. In the meantime, the City continues to implement planning, analysis and coordination processes to prepare for potential future permit requirements. Significant analysis and planning are being undertaken to prepare for a potential

new requirement for pollutant reduction plans to reduce stormwater and pollutant loads to the waterways in the MS4 areas of the City and potential new permit requirements around pollutant reducing practices on City facilities.

Wholesale Contracts

Contracts for wastewater treatment service with neighboring municipalities, authorities and Aqua PA Wastewater provide for charges based on operating costs attributable to the volume and strength of the wastewater received from each of these customers. The contracts of Wholesale Customers have different expiration dates and contract terms. As these contracts have been extended or amended, management fees have increased from 10% to 12% of wastewater treatment charges. The way Wholesale Customers are billed for capital costs has changed from paying a proportionate share of facility investments to paying depreciation and return on investment on a monthly basis. As of Fiscal Year 2025, the Water Department includes depreciation and return within the monthly charges for all Wholesale Customers except Lower Merion, who continues to pay a proportionate share of facility investments. In the context of contract extensions and amendments, Wholesale Customers have also been assigned a share of COA Expenditures or LTCPU costs. See Table 4 – Wholesale Water and Wastewater Customer Revenues Fiscal Year Ending June 30, 2024, for Fiscal Year 2024 revenues, contract end dates, and which customers are currently paying their proportionate share of COA Expenditures. Revenues from Wholesale Customers for wastewater services for Fiscal Years 2022, 2023 and 2024 were \$36.3 million, \$42.3 million, and \$44.1 million, respectively, and budgeted revenues for Fiscal Year 2025 are approximately \$37.8 million.

As discussed above under “THE SYSTEM – Large Customers,” the updated allocations for LTCPU costs based on the H&H model commenced being utilized in Fiscal Year 2024. Using this evaluation methodology, Wholesale Customers currently paying a portion of COA Expenditures are allocated a reduced portion of COA Expenditures, which is currently estimated to result in a reduction of wholesale wastewater revenues of approximately \$2.47 million in Fiscal Year 2025. The allocations based on the H&H model provide a better representation of the wastewater collection system capacity, the complexities of the system and each Wholesale Customer’s effect on system performance as well as their impacts on combined sewer overflow volumes. The allocation of COA Expenditures to Wholesale Customers is generally lower under the updated methodology when compared to the previous allocation methodology. Retail customers’ annual cost of service is determined by taking the annual system cost of service net of the expenditures allocated to Wholesale Customers. The updated cost allocations are expected to result in a lower allocation of COA Expenditures to Wholesale Customers and an increase to retail customers based on their respective consumption patterns and effects on the System, anticipated to produce a neutral overall effect.

Delaware County Regional Water Quality Control Authority

Aqua PA Wastewater, Inc., an Essential Utilities Company (“Aqua PA Wastewater”), signed an asset purchase agreement to acquire the wastewater assets of the Delaware County Regional Water Quality Control Authority (“DELCORA”). The pending transaction is subject to approval by the Pennsylvania Public Utility Commission (“PUC”). If approved by PUC, Aqua PA Wastewater and DELCORA have informed the Water Department that they may build infrastructure to divert wastewater flows from the Water Department. Wholesale wastewater revenues from DELCORA for Fiscal Years 2022, 2023 and 2024 as a percentage of total revenues were 1.29%, 1.37%, and 1.46%, respectively. See Table 4 – Wholesale Water and Wastewater Customer Revenues Fiscal Year Ending June 30, 2024, herein.

During PUC’s review, the Delaware County Council (as the sole municipal incorporator of the DELCORA) sought to dissolve DELCORA and take over its assets. On May 14, 2020, the Delaware County Council filed a suit with the trial court to block the sale by DELCORA to Aqua PA Wastewater (“County Litigation”). The case made its way to the Commonwealth Court, which held that Delaware County can dissolve DELCORA. *County of Delaware v. Delaware County Regional Water Quality Control Authority*, 272 A.3d 567 (Pa. Cmwlth. 2022 (“DELCORA I”). The Commonwealth Court’s order in DELCORA I was not appealed, and the Commonwealth Court remitted the record to the trial court for remand on May 3, 2022. On September 13, 2022, the trial court entered a Remand Order, and Delaware County appealed the Remand Order to the Commonwealth Court. In June 2024, the Commonwealth Court vacated certain orders in the Remand Order and affirmed others. *County of Delaware v. Delaware County Regional Water Quality Control Authority Commonwealth Court of Pennsylvania*, 1347 CD 2022, Unpublished Opinion entered June 4, 2024, 2024 WL

2830097, 2024 Pa. Commw. Unpub. LEXIS 278 (“DELCORA II”). No further proceedings before the trial court have been held as of September 24, 2024.

Other proceedings ensued, including bankruptcy proceedings. In November of 2022, the receiver for the City of Chester filed for Bankruptcy under Chapter 9. Under the terms of a 1973 agreement, the assets revert back to the City of Chester in the event that DELCORA ceases to operate the system. The City of Chester filed a Plan of Adjustment on August 26, 2024. The Bankruptcy Court barred the PUC, DELCORA and Aqua PA Wastewater from pursuing, taking or continuing any further action in the PUC proceeding. Aqua PA Wastewater filed a Notice of Appeal to the United States District Court for the Eastern District of Pennsylvania, which is currently before the court for disposition. On January 18, 2023, DELCORA filed a Complaint for Declaratory Judgment with the Delaware County Court of Common Pleas (the “2023 DELCORA Complaint”) naming both Delaware County and Aqua PA Wastewater as Defendants. The Delaware County Court of Common Pleas held the 2023 DELCORA Complaint in abeyance (or suspension) pending resolution of issues raised in Delaware County’s appeal in DELCORA II. No further proceedings before the trial court on DELCORA II have been held as of the date of this Official Statement. In June 2023, Aqua PA Wastewater filed a complaint (in the Delaware County Court of Common Pleas) against DELCORA (the “2023 Aqua Complaint”) alleging that DELCORA’s efforts to negotiate an extension of its current wastewater service agreement with the Water Department constituted a breach of the asset purchase agreement. The prehearing conference for the 2023 Aqua Complaint is scheduled for November 4, 2024, and litigation is ongoing.

Bucks County Water and Sewer Authority

Aqua PA Wastewater had made an offer to purchase the wastewater assets of the Bucks County Water and Sewer Authority (“BCWSA”). On July 13, 2022, BCWSA voted in favor of granting Aqua PA Wastewater an exclusive right to negotiate for one year with BCWSA regarding the sale of its wastewater assets. BCWSA ended negotiations and called off the potential sale in September of 2022. Wholesale wastewater revenues from BCWSA for Fiscal Years 2022, 2023, and 2024 as a percentage of total revenues were 1.46%, 1.75%, and 1.65% respectively. See Table 4 – Wholesale Water and Wastewater Customer Revenues Fiscal Year Ending June 30, 2024, herein.

Environmental Compliance

General

The Wastewater System is subject to various environmental laws and regulations. From time to time, the Water Department receives notices of violations and has experienced increased compliance and monitoring requirements and incurred minor fines as a result of such violations. See “THE SYSTEM – The Wastewater System – Environmental Compliance – Regulatory Compliance at Southwest Water Pollution Control Plant” herein for a discussion of current regulatory issues at the Southwest WPCP.

Combined Sewer Overflow Program

In certain sections of the City, both wastewater and stormwater are collected and conveyed in a single pipe (or combined sewer) to the sewage treatment plant. These combined sewers were designed to discharge combined or mixed flows of stormwater and wastewater that exceed the capacity of the treatment plant into local waterways during heavy rainstorms or precipitation events to protect the plant, as well as surrounding homes and businesses, from flooding. Combined flows in excess of the treatment plant’s capacity are known as combined sewer overflows (“CSOs”). The City is required to manage CSOs in accordance with its NDPES permits and its COA (as defined and discussed below).

Like many other cities and utilities, the City entered into a Consent Order and Agreement (the “COA”) with the PADEP in June 2011 and an Administrative Order for Compliance on Consent with the EPA in September 2012 to address the management of CSOs. The COA requires the Water Department to implement the LTCPU, also known as the Green City, Clean Waters (“GCCW”) program, and to provide annual reporting on progress. Under the GCCW program, the City has been investing in green and traditional infrastructure, including wastewater treatment facility enhancements,

interceptor pipe lining and collection system improvements, to manage stormwater, mitigate CSOs and enhance the quality of local waterways, thereby improving water quality in the City's CSO receiving streams and rivers.

As required under the COA, by calendar year 2036 (year 25 of the COA), the City's GCCW program seeks to eliminate and remove the mass of pollutants that otherwise would be removed by the capture of 85% of CSOs by volume from the combined sewer system. The COA further requires that the City continue to operate the combined sewer system to maintain this standard of water quality for at least an additional twenty years. Post-construction monitoring will be required at the conclusion of the 25-year program in order to evaluate the program's effectiveness. The COA requires interim performance standards at the end of the fifth, tenth, fifteenth and twentieth years in four categories: (1) Total Greened Acres; (2) Overflow Reduction Volume; (3) Miles of Interceptor Lined; and (4) Wastewater Treatment Plant Upgrades in design and construction. The COA also includes significant penalties for non-compliance with the milestones. Penalties start at \$25,000 per month for each violation (for the first 6 months) and increase up to \$100,000 monthly for uncured violations of 13 months or more. As of the date of this Official Statement, the Water Department has not incurred any such penalties. The COA also requires the submittal of an Evaluation and Adaptation Plan ("EAP") at least once every five years. The EAP requires a progress assessment, description of program elements for the upcoming 5-year period, and adaptive strategies for any performance standards that have not been met. The Year 5 EAP was submitted on October 30, 2016, and the Year 10 EAP was submitted on May 26, 2022 in accordance with the extension granted to the Water Department by the PADEP as discussed below.

Current NPDES permits require the Water Department to achieve the elimination of the mass of the pollutants that otherwise would be removed by the capture of 85% by volume of the combined sewage collected in the combined sewer system based on a City-wide average. On November 9, 2016, the City received a revised request from EPA directing the City to analyze the controls necessary to achieve 85% capture in each of the City's three WPCP drainage districts. Currently, this metric is not a requirement of the City's approved COA or of its existing NPDES permits. The EPA subsequently stayed the obligation to respond to the information request, and the request remained stayed until the EPA contacted the City to continue discussions regarding options for 85% mass capture in each WPCP drainage district in the Spring of 2024. In light of preliminary conversations with the EPA, the Water Department anticipates that the EPA will modify its COA targets in connection with NPDES permits negotiations. The Water Department expects to be able to utilize adaptation measures to plan for long-term compliance with the COA in light of anticipated permit modifications. See "– Wastewater and Stormwater Regulations, Permits and Awards" above. The Water Department continues to assess implementation progress planning for future performance standards, while assessing the implications of a potential modification of program requirements from a system-wide average to a "per WPCP drainage district" requirement.

The Water Department anticipates that over the next 12 years, compliance with the COA will significantly increase capital and operating expenditures related to its GCCW program. Moreover, any resulting changes to the COA as a result of the EPA's information request could further increase the costs of compliance. Looking ahead to the Year 15 Performance Standard, the City continues to review program cost and delivery in an effort to optimize the program while satisfying the necessary regulatory requirements. As of the most recent projections, the total cost of the 25-year program is approximately \$4.5 billion, of which approximately \$3.5 billion are capital related costs and \$1 billion are operation and maintenance costs.

The City allocated \$195 million for COA Expenditures in Fiscal Year 2025. The COA budget for Fiscal Year 2025 is exclusive of any carryforward of unused budget authorization in prior Fiscal Years. See Table 5 – Fiscal Years 2025-2030 6-year Water Capital Improvement Program and COA Budget. From July 1, 2011 through and including June 30, 2024, the Water Department spent approximately \$436 million of its capital budget on COA Expenditures. During the same period, the Water Department spent \$534 million from its operating budget for COA Expenditures, which excludes stormwater credits. For a discussion of stormwater credits, see Table 12 – Stormwater Incentives and Assistance Program.

The City completed the requirements of the fifth-year performance standards comprised of 744 greened acres and a reduction of annual CSO volume by 660 million gallons in 2016. As reported in the Year 10 EAP, the City completed the tenth-year performance standards comprised of 2,148 greened acres and a reduction of annual CSO volume by 2,044 million gallons on May 26, 2022, after an extension granted by the PADEP for project delivery disruptions resulting from

COVID-19 restrictions. The fifteenth-year performance standards require the City to complete 3,812 greened acres and reduce annual CSO volume by 3,619 million gallons by June 2026. As of the date of this Official Statement, the City estimates that the current infrastructure projects underway will be sufficient to meet the next fifteenth-year milestone in a timely manner.

The Water Department's Stormwater Management Incentives Program ("SMIP") and Green Acre Retrofit Program ("GARP") typically provide 100% funding for the private sector to build, own, operate and maintain green stormwater infrastructure on private property. Once a project is complete, the recipient receives a reduction of up to 80% on stormwater charges. Since the program's inception, the Water Department has achieved 951 acres as of June 30, 2022, 999 acres as of June 30, 2023 and 1,006* acres as of June 30, 2024. These acres are part of the Water Department's totaled greened acres discussed above. See Table 12 – Stormwater Incentives and Assistance Program.

Delays in completing greened acres and reducing CSOs can occur at any time and no assurance can be given that any performance standard under the COA will be met timely.

Regulatory Compliance at Southwest Water Pollution Control Plant

Accreditation Status of Southwest WPCP Laboratory

On July 24, 2023, the Water Department's Bureau of Laboratory Services ("BLS") Quality Assurance Unit determined that proper laboratory procedures were not being followed at the Southwest WPCP laboratory in connection with reporting certain data. This data is primarily utilized by the Water Department to certify compliance with its wastewater NPDES permit for the Southwest WPCP. Upon discovering the incident, BLS management promptly began an investigation and reported the noncompliance to the PADEP. In addition, BLS made personnel changes at the Southwest WPCP and shifted testing of regulatory compliance samples collected at the Southwest WPCP to an accredited outside laboratory and the Southeast WPCP laboratory. BLS also temporarily withdrew laboratory accreditation at the Southwest WPCP laboratory as required by the PADEP.

BLS expanded its internal investigation to include all three WPCP laboratories (Southwest, Southeast and Northeast) and submitted a final report to the PADEP Laboratory Accreditation Program on February 20, 2024. The report contained the findings of the BLS investigation and proposed corrective actions. Proposed corrective actions include pertinent staff receiving additional training, modifications being made to existing procedural and ethics trainings, and the implementation of an electronic data audit trail. On February 22 and February 23, 2024, the PADEP visited all three WPCP laboratories for their standard triennial assessments. On February 26, 2024, the PADEP communicated to BLS its determination that the issues at the Southwest WPCP laboratory were adequately addressed and approved the aforementioned corrective measures. Following the PADEP's written assessment reports and the Water Department's responses, the assessments were satisfactorily closed on June 7, 2024. Accreditation at the Southwest laboratory was re-established on July 2, 2024.

NPDES Effluent Permit Exceedances

During late 2023, the Southwest WPCP began experiencing significant treatment process degradation due to a variety of factors, including a high volume of inert solids returned to the plant from the Biosolids Recycling Center (the "BRC"), which is a facility that dewater and dries biosolids received from the Southwest and Northeast WPCPs, plant-internal recycle flows and complications resulting from delays in maintenance and renewal of capital plant assets. These issues resulted in multiple effluent limit exceedances of the Southwest WPCP's NPDES permit from September 2023 through May 2024. All effluent exceedances were promptly reported to the PADEP in accordance with permit

* This reflects an estimate of greened acres and should not be considered compliance certified. Certification will not occur until submittal of the Water Department's annual report to the PADEP. Greened acres are subject to change as projects move through construction closeout, compliance review and accounting processes. One greened acre leads to approximately 27,000 gallons of managed stormwater (or one acre of drainage area) during a 1" storm.

requirements. In response, the Water Department implemented various measures to evaluate plant processes and restore regulatory permit compliance, including utilizing outside consultants and instituting operational changes. Additionally, the Water Department deployed a temporary dewatering facility at the Northeast WPCP to treat a portion of Northeast WPCP biosolids locally. This temporary facility has increased capacity for Southwest biosolids treatment at the BRC, while also improving treatment processes at the Northeast WPCP. Given these measures, effluent quality continues to improve at the Southwest WPCP. As of the date of this Official Statement, the Southwest WPCP is compliant with its NPDES permit.

Wastewater Treatment Noncompliance for Biosolids Land Application

During the evaluation of effluent permit compliance at the Southwest WPCP, the Water Department assessed the wastewater treatment process at the Southwest WPCP. In March of 2024, the Water Department determined that the treatment process for biosolids at the Southwest WPCP had not met prescribed standards under the Water Department's general permit for land application of Class B biosolids (Permit No. PAG-08-0004). The Water Department began an investigation and notified Synagro, its third-party vendor and the operator of the BRC, and upon such notification, Synagro immediately ceased land application of Class B biosolids and commenced storage in permitted facilities and disposal in landfills. Thereafter, the Water Department and Synagro notified the PADEP, and the parties engaged in a dialogue to assess the extent and consequences of the deficient treatment processes. As described above, during the Water Department's investigation, the Water Department determined that monthly regulatory reports required to be reported to the Southwest region of the PADEP for calendar years 2022 and 2023 (the period that Class B land application occurred) contained incorrect information with respect to compliance with biosolids treatment requirements. Although the investigation is not complete, the noncompliance potentially dates back prior to calendar year 2022.

The Water Department has since engaged several outside consultants to evaluate the infrastructure needs of the Southwest WPCP, including the anaerobic digester system, and to optimize plant performance. A series of design and operational improvements were recommended and have been implemented since April 2024 and are expected to continue to be implemented over time.

Data Reporting Deficiencies and Personnel Changes

As described above, in connection with the evaluation of wastewater treatment processes at the Southwest WPCP, the Water Department determined that certain personnel had been misreporting compliance data to the PADEP. Internal investigations have concluded. Personnel changes have occurred at the Southwest WPCP and additional personnel changes may occur in accordance with required collective bargaining processes or other City procedures. In response to these personnel changes, the Water Department has instituted various measures to support and augment compliance, including centralization of operating and reporting data to increase transparency and quality control, reevaluation and enhancement of written standard operating procedures and multiple trainings for plant personnel, including whistleblower and ethics trainings. No assurance can be given that personnel changes, particularly in specialized areas, will not adversely affect operations.

PADEP Notices of Violations and EPA Pre-Settlement Notice

As of the date of this Official Statement, the Water Department has received notices of violations from the PADEP regarding (i) NPDES Effluent Permit Exceedances and (ii) Wastewater Treatment Noncompliance for Biosolids Land Application, each as previously described above. In addition, the EPA provided the Water Department with a pre-settlement notice regarding noncompliant biosolids under the CWA. As required under the notices, the Water Department continues to investigate the above instances of noncompliance, has submitted the written reports required by the PADEP and remains engaged in discussions with the PADEP. The EPA has issued a draft Consent Agreement and Final Order to the Water Department, and settlement negotiations with the EPA are ongoing.

Related City Management Initiatives

The Managing Director's Office is expected to commence a comprehensive review of the Water Department's operations in Fiscal Year 2025. Broadly, such review is expected to focus on identifying and implementing additional best practices and operational tactics with the goal of improving the overall performance of the Water Department by optimizing operations and management and creating proactive customer service strategies to respond to future needs and challenges. No assurance can be given as to the timing or scope of review or the findings or implementation of any recommendations as a result thereof.

Clean Streams Law

The Wastewater and Stormwater Systems are subject to various environmental laws and regulations. From time to time, the Water Department receives notices of violations of such environmental laws and regulations, and as a result of such violations, has incurred minor fines.

Clean Air Act

The federal Clean Air Act sets forth requirements for the regulation of certain air emissions. The PADEP, pursuant to the Clean Air Act's mandates, issued regulations for the control of Volatile Organic Compounds ("VOC") and Nitrogen Oxide ("NOx") emissions from major stationary sources. The Northeast and Southwest WPCPs and the Biosolids Recycling Center were found to be major sources of VOC and NOx emissions, while the Southeast WPCP is a minor source. From time to time, the Water Department has incurred minor fines for violations of the Clean Air Act.

Polychlorinated Biphenyls (PCBs)

Pursuant to Section 303(d) of the Clean Water Act, on December 15, 2003, zones 2, 3, 4, and 5 of the Delaware River estuary were declared impaired because of the levels found in the water of an organic chemical known as polychlorinated biphenyls ("PCBs"). As a result, the Delaware River Basin Commission ("DRBC") developed, and EPA approved, Total Maximum Daily Load ("TMDL") analyses in 2003 (DRBC zones 2-5) and 2006 (DRBC zone 6) defining the levels of PCBs that can be discharged from all sources while meeting water quality standards. The TMDLs set forth a plan to reduce loadings of PCBs into the river. The current understanding is that the river exceeds its allowable loadings by 1,000 times its allowance. Loadings come from virtually every source, e.g., sediments, air, runoff from land, contaminated sites and the PCBs that are contained in the influent of the Water Department's three WPCPs. The Water Department's NPDES permits require implementation of a pollutant minimization plan, which involves tracking down sources of PCBs and referring them to the appropriate agency for remediation. This involves additional staff to track the sources of PCBs and to devise programs to reduce the loadings. The level and extent of clean up that will be required by each source category in the future is currently being evaluated by the DRBC, the EPA and the states comprising the DRBC.

Biosolids Treatment and Utilization

The City is required by federal and state law administered by the EPA and the PADEP to treat and dispose of biosolids captured during wastewater treatment at the City's WPCPs. Under the Biosolids Service Contract, Philadelphia Biosolids treats biosolids from the City's three WPCPs and produces and disposes of Class A pellets to be used as fertilizer and potentially fuel. For more information on the Biosolids Service Contract, see "OUTSTANDING INDEBTEDNESS AND OTHER LONG-TERM AGREEMENTS – Other Obligations – Contract for Biosolids Treatment with Philadelphia Biosolids Services, LLC" herein. See also "THE SYSTEM – The Wastewater System – Environmental Compliance – Regulatory Compliance at Southwest Water Pollution Control Plant" herein.

PFAS

Due to the omnipresence of PFAS in the environment, wastewater systems can be pathways for PFAS. There is a growing concern that PFAS in wastewater systems could potentially be discharged in the effluent or the groundwater thereby threatening water quality. Currently, state and federal regulatory agencies have not promulgated regulations

establishing maximum effluent limits for PFAS in municipal wastewater systems. However, in 2021 the PADEP announced that it had included discharge limits for two PFAS compounds in the NPDES permits issued to a federal facility located in Horsham, Pennsylvania. No assurance can be provided that future regulatory or permit actions will not be taken with respect to the permits applicable to the City's wastewater system. Compliance with any such future regulations or permit requirements could result in an increase in capital expenditures and maintenance costs. See also "LITIGATION AND CLAIMS" herein for a discussion of the ongoing multidistrict litigation regarding PFAS contamination.

CAPITAL IMPROVEMENT PROGRAM

The Charter requires City Council to adopt annually, on or prior to May 31, a one-year capital budget for the ensuing Fiscal Year and a six-year budget showing the capital expenditures planned for that year and each of the five ensuing Fiscal Years known as the "City Capital Improvement Program." The Water Capital Improvement Program is included in the City Capital Improvement Program. The City Capital Improvement Program is prepared annually by the City Planning Commission to present the capital expenditures planned for each of the five ensuing Fiscal Years, including the estimated total cost of each project and the estimated sources of funding (local, state, federal, and private) for each project. The City Capital Improvement Program is reviewed by the Mayor and transmitted to City Council for adoption with her recommendation. The capital budget ordinance, authorizing in detail the capital expenditures to be made or incurred in the ensuing Fiscal Year from City Council appropriated funds, is adopted by City Council concurrently with the City Capital Improvement Program. The one-year capital budget must be in full conformity with the City Capital Improvement Program applicable to the Fiscal Year that it covers. City Council approved the City Capital Improvement Program for Fiscal Years 2025 through 2030 on June 13, 2024. The Water Department updates the Water Capital Improvement Program annually as part of its yearly budget process based on a detailed project review by engineering staff, external engineering consultants and senior management. The Water Capital Improvement Program for Fiscal Year 2025 to Fiscal Year 2030 (the "FY25 CIP") is approximately \$4.795 billion, excluding carryforward of \$484 million of unused budget authorization for prior Fiscal Years. In Fiscal Years 2022, 2023, and 2024, the Water Department's actual capital expenditures totaled \$250 million, \$241 million and \$372 million, respectively. The FY25 CIP reflects increased costs associated with complying with the City's COA and other regulations, implementation of the Water Revitalization Plan, increases in water main and sewer system replacement, inflationary pressure, supply chain issues and lingering effects of the COVID-19 pandemic, among others. All of the foregoing factors have contributed to increases in the budget for the Water Capital Improvement Program compared to prior years. In cross over years (Fiscal Year 2025-2029), the FY25 CIP budget exceeds the budget for the Water Capital Improvement Program for Fiscal Years 2024-2029 (the "FY24 CIP") by approximately \$294 million.

The emphasis of the Water Capital Improvement Program is on: (i) renewal and replacement of the water conveyance and sewage collection systems, (ii) improvements to water and wastewater treatment plants and (iii) CSO mitigation projects consistent with the City's COA.

Table 5 summarizes the 6-year Water Capital Improvement Program and COA Budget for Fiscal Years 2025 through 2030. A list of the Water Department's top ten active and bid capital projects in terms of estimated cost are presented in Tables 6. The Water Department may change the elements of the Water Capital Improvement Program at any time, including the priority of proposed projects, financing sources and schedules associated therewith.

See "CAPITAL IMPROVEMENT PROGRAM – Table 6 – Top Ten Active Capital Projects by Estimated Cost" and "– Water Main Replacement" and "– Sewer Replacement and Renewal Program" herein.

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Table 5
Fiscal Years 2025-2030
6-year Water Capital Improvement Program and COA Budget*

Capital Budget Summary	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	Total FY 2025-2030
Collector System/Flood Relief	\$ 96,000,000	\$101,000,000	\$106,000,000	\$111,000,000	\$116,000,000	\$121,000,000	\$ 651,000,000
Collector System (CSO COA)	185,000,000	210,000,000	210,000,000	210,000,000	205,000,000	200,000,000	1,220,000,000
Conveyance System	155,100,000	156,100,000	253,100,000	125,100,000	175,100,000	125,100,000	989,600,000
Engineering Administration & Material Support	22,100,000	52,100,000	52,100,000	52,100,000	22,100,000	22,100,000	222,600,000
Water Facilities	161,000,000	95,000,000	60,000,000	153,000,000	292,000,000	170,000,000	931,000,000
Wastewater Facilities	130,000,000	241,000,000	145,000,000	50,000,000	50,000,000	50,000,000	666,000,000
Wastewater Treatment Facilities (CSO COA)	10,000,000	35,000,000	40,000,000	10,000,000	10,000,000	10,000,000	115,000,000
Total	\$759,200,000	\$890,200,000	\$866,200,000	\$711,200,000	\$870,200,000	\$698,200,000	\$4,795,200,000
Subtotal Non-CSO COA	\$564,200,000	\$645,200,000	\$616,200,000	\$491,200,000	\$655,200,000	\$488,200,000	\$3,460,200,000
Subtotal CSO COA **	195,000,000	245,000,000	250,000,000	220,000,000	215,000,000	210,000,000	1,335,000,000
Total	\$759,200,000	\$890,200,000	\$866,200,000	\$711,200,000	\$870,200,000	\$698,200,000	\$4,795,200,000

* Excludes carryforward of unused budget authorization for prior Fiscal Years in the amount of \$484 million.

** COA Expenditures represent 27.8% of the Water Capital Improvement Program budget for Fiscal Years 2025 through 2030.

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The following table presents the Water Department's Top Ten active and bid capital projects in terms of estimated cost. Such projects are included in the Water Capital Improvement Program and are constructed and paid over a number of Fiscal Years.

Table 6
Philadelphia Water Department
Top Ten Active Capital Projects by Estimated Cost
As of June 30, 2024

No.	Project Title	Status	Estimated Cost	Commencement
1	Clear Well Basin at Baxter Water Treatment Plant	Construction Started	\$245,800,000	FY 2017
2	Water Main Replacements*	Ongoing	120,100,000	Annual
3	Pretreatment Facility at Northeast Water Pollution Control Plant	Construction Started	111,000,000	FY 2022
4	Advanced Metering Infrastructure (AMI)	Ongoing	90,000,000	FY 2019
5	Torresdale Pumping Station Betterment	Construction Started	85,900,000	FY 2021
6	Sewer Main Replacements*	Ongoing Replacement	71,000,000	Annual
7	Frankford Creek Crossing**	Construction Started	48,000,000	FY 2021
8	Dissolved Air Floatation System at Southwest Water Pollution Control Plant	Construction Started	23,100,000	FY 2018
9	Replacement of Filter Drains and Influent Valves at Baxter WTP	Construction Started	22,700,000	FY 2024
10	Filter Air Scour System at Queen Lane Water Treatment Plant	Construction Started	20,800,000	FY 2023
TOTAL			<u>\$838,400,000</u>	

*Reflects budget for Fiscal Year 2025.

**Increased \$17.9 million from Fiscal Year 2023.

Capital Improvement Program Financing Sources

The Water Department expects to finance the Water Capital Improvement Program using a combination of revenue bonds, pay-as-you-go financing and alternative sources of funding, including loans or grants. If compared fiscal year to fiscal year, Table 5, which summarizes the budget for the Water Capital Improvement Program, does not directly align with the anticipated funding sources set forth in Table 7 below given the timing of appropriations and carryover, assumed inflation and the elimination of contingencies for certain projects. Further, Table 7 below is based upon, among other assumptions, the 2023 Rate Proceeding and the FY24 CIP for Fiscal Years 2024-2029 and does not consider the increased size of the FY25 CIP for the overlapping Fiscal Years. See "CAPITAL IMPROVEMENT PROGRAM" herein. Actual funding sources may differ materially from those projected on Table 7, as influenced by borrowing costs and other subsequent conditions or circumstances that are beyond the control of the Water Department.

Table 7
Anticipated Future Funding Sources for Water Capital Improvement Program

Funding Source	FY 2025	FY 2026	FY 2027	FY 2028
Revenue Bonds	\$503,000,000*	\$599,530,000	\$533,697,000	\$752,246,000
WIFIA Proceeds	20,772,000	47,939,000	58,563,000	59,127,000
Pennvest Loan Proceeds	78,438,000	75,465,000	51,373,000	30,493,000
Pay-Go-financing	59,642,000	84,376,000	100,049,000	114,412,000
Interest Income	12,149,000	8,257,000	8,352,000	8,651,000

Sources: 2023 Rate Proceeding filings and Water Department.

* The revenue bond proceeds projected for Fiscal Year 2025 set forth above are higher than the \$308 million revenue bond proceeds to be issued and applied to finance capital projects in Fiscal Year 2025 as reflected in this Official Statement. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

See also “– Pennvest Loans”, “– Commercial Paper Program” and “– WIFIA” herein. The Rate Board set a target of twenty percent (20%) pay-as-you-go financing to fund the Water Capital Improvement Program. Pay-Go financing is projected taking into potential rate increases and is subject to change with each rate proceeding. The majority of the remaining portion of the costs of the Water Capital Improvement Program is expected to be financed with revenue bonds, WIFIA proceeds and Pennvest Loan proceeds as set forth above and discussed below. The City expects most of such debt to be in the form of revenue bonds issued in several transactions, as necessary.

City Council has preauthorized by supplemental ordinance a portion of the debt that will finance a majority of the projects contained in the Water Capital Improvement Program. The Water Department may change the financing elements of the Water Capital Improvement Program, including the financing sources utilized and the timing thereof, at any time and from time to time.

The Water Department also considers alternative sources of financing from time to time, in addition to the anticipated borrowings described above.

Pennvest Loans

The Board of Directors of the Pennsylvania Infrastructure Investment Authority (“Pennvest”) has approved several draw-down loans to the City totaling approximately \$595 million for various capital projects. The interest rates on the loans range from 1% to 1.74% for terms of approximately 20 years. See also Table 2 – Outstanding Indebtedness as of September 30, 2024. The Water Department drew approximately \$65 million of Pennvest funds in Fiscal Year 2024 and currently expects to draw approximately \$78 million in Fiscal Year 2025 to finance capital projects.

Commercial Paper Program

The City has authorized its Water and Wastewater Revenue Commercial Paper Notes in an amount not to exceed \$400,000,000 (the “Commercial Paper Notes”). The City will use the proceeds of the Commercial Paper Notes to: (i) finance capital expenditures for the System, including as short term financing for projects to be ultimately funded by Pennvest loans and/or WIFIA loans; (ii) make deposits to the Sinking Fund to provide for payments of accrued interest or to establish a debt service reserve or reserves for the Commercial Paper Notes; (iii) pay obligations to the banks that issued letters of credit supporting the Commercial Paper Notes, resulting from draws on such letters of credit; (iv) pay or defease outstanding Commercial Paper Notes; and (v)

pay the costs of issuance of the Commercial Paper Notes. The letters of credit that support the Commercial Paper Notes expire on July 28, 2026 (for the Series A Notes in an amount not to exceed \$125,000,000), July 28, 2027 (for the Series B Notes in an amount not to exceed \$125,000,000) and July 28, 2027 (for the Series C Notes in an amount not to exceed \$150,000,000). As of September 30, 2024, \$38.4 million aggregate principal amount of Commercial Paper Notes are outstanding. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Parity Bonds” herein.

WIFIA

On January 18, 2023, the City entered into a Master Agreement with the EPA for eligible water and wastewater infrastructure projects promulgated under the Water Infrastructure Finance and Innovation Act (“WIFIA”). The award, totaling up to \$341 million, is available to fund capital projects in the Water Department’s Water Revitalization Plan. See “MANAGEMENT INITIATIVES – Water Master Planning” herein. \$19 million of the award provided funding for the replacement of water mains and residential lead service lines. The Water Department drew approximately \$13 million of WIFIA funds in Fiscal Year 2024 and currently expects to draw approximately \$6 million in Fiscal Year 2025 to finance the replacement of water mains and lead service lines.

Capital Planning Initiatives

The Water Department’s Operations, Planning and Environmental Services, and Engineering and Construction Divisions develop capital programs to better anticipate future needs for infrastructure maintenance and upgrades and to manage long-term capital expenditures. Included in these efforts are a sewer assessment program, a geographic information-based system records viewer, a capital facilities assessment program, and a standardized planning process for all large capital projects.

The Water Department has enhanced its planning process for capital projects that have an initial estimated design and construction cost of \$2 million or more. As part of such initiative, the Water Department will focus on and document the following three project planning steps: Project Need Identification, Project Alternatives Identification, and Project Alternatives Evaluation. A prioritization system is utilized to capture the primary driving factors associated with a wide range of project types. The desired timing of capital projects also is documented through this process. The improved planning process helps inform the Water Department’s future critical strategic planning efforts, in addition to improving communication and coordination among units within the Water Department. Below is a discussion of a few of the Water Department’s current capital planning initiatives. See also “MANAGEMENT INITIATIVES – Water Master Planning” for information on the Water Department’s 25-year Master Planning process.

Linear Asset Planning Program

The Linear Asset Planning Program (“LAPP”) evaluates the Water Department’s water distribution system and sewer collector system assets. LAPP leverages several information systems, existing programs and statistical tools to evaluate non-capital options for extending an asset’s useful life, the estimated costs of asset replacement, ancillary damages and operations and maintenance history. LAPP also evaluates the risk of pipeline failure for the water distribution system. With this information, long-term plans for water pipeline and sewer asset renewal are developed on an ongoing basis. Under LAPP, the Water Department has commenced replacement of additional miles of failure-prone leadite joint piping, a cohort that has the highest statistical likelihood of failure. The Water Departments uses LAPP to inform its water main and sewer replacement and renewal programs.

Water Main Replacement

The Water Department's five-year average breaks per 100 miles is 24.1 per year. The Water Department assesses its water main break rate against the optimal level of 15 breaks per 100 miles/year as defined by the Distribution System Optimization Program under the American Water Works Association (the "AWWA") Partnership for Safe Water. The Water Department closely monitors water main conditions to determine that adequate capital investment is made, to predict long-term water main replacement needs and refine the criteria for replacement selection. Over the last 30 years, the Water Department has replaced an average of 19.2 miles of water mains per year. In Fiscal Years 2022, 2023, and 2024, the Water Department budgeted \$30.7 million, \$115 million and \$120 million, respectively, for water main replacement in order to advance its program. In Fiscal Year 2024, the Water Department encumbered projects yielding 26.3 miles of water main replacement and bid an additional 7.79 miles of water main that did not complete the contract conformance process in Fiscal Year 2024 and were not encumbered. The unencumbered funds were carried forward into Fiscal Year 2025. These projects are expected to complete contract conformance in calendar year 2024 and will be counted as Fiscal Year 2025 mileage replacements. In Fiscal Year 2024, the Water Department increased the budget from \$115 million to \$120 million in order to accelerate replacements, with a goal of replacing a total of 42 miles of water mains in Fiscal Year 2025.

Sewer Replacement and Renewal Program

Over the last 30 years, the Water Department has reconstructed and/or rehabilitated, on average, approximately 8 miles of sewer annually. The Capital Improvement Program currently includes reconstructing or relining of 13 miles of sewers in Fiscal Year 2025 based upon results of the Sewer Infrastructure Assessment Program and other reports, including data from LAPP. Some sewers are scheduled for reconstruction as a result of programmed water main replacement. As infrastructure is studied further, it is likely that annual sewer renewal will increase. The budget for Fiscal Years 2022, 2023, and 2024, respectively, was \$44.7 million, \$62.3 million, and \$69.5 million. For Fiscal Year 2025 and Fiscal Year 2026, the Water Department's budget for sewer reconstruction is \$70.5 million and \$75.5 million, respectively, which is expected to yield sewer reconstruction or rehabilitation of 13 miles in Fiscal Year 2025. In Fiscal Year 2024, the Water Department encumbered projects yielding 13 miles of sewer reconstruction and bid an additional 4 miles of sewer reconstruction that did not complete the contract conformance process in Fiscal Year 2024 and were not encumbered. The unencumbered funds were carried forward into Fiscal Year 2025. These projects are expected to complete contract conformance in calendar year 2024 and will be counted as Fiscal Year 2025 mileage of sewer reconstruction. The sewer reconstruction goal will increase by one mile per year until it reaches 20 miles per year. The annual budget for sewer reconstruction is expected to increase annually to accommodate the mileage increase.

Sewer Infrastructure Assessment Program

The Water Department has incorporated a sewer assessment program to evaluate the condition of its sewer system. Data collected from the program is used to determine necessary repairs and capital and operating costs of such repairs. The program has helped to identify sewers in immediate need of repair, and it is anticipated that over time it will result in a reduction of costly and disruptive emergency sewer repairs. The sewer assessment program also is used to schedule repairs for sewers that have reached the end of their useful life. Such sewers will be reconstructed as part of the Water Capital Improvement Program.

HISTORICAL AND PROJECTED FINANCIAL INFORMATION

Historical Comparative Statement of Net Position

The Water Department's financial statements are prepared in accordance with accounting principles promulgated by the Governmental Accounting Standards Board ("GASB"). The statement of net position presents the financial position of the Water Department. It presents information on the Water Department's

assets, deferred outflows of resources, and liabilities with the difference between the three reported as net position. A three-year condensed summary of the Water Department's net position as of June 30 for Fiscal Years 2021 through 2023, as presented in the audited financial statements for such years, is presented below.

Table 8
Condensed Statement of Net Position as of June 30, 2023
(Thousands of Dollars)

	FY 2021	FY 2022	FY 2023
Assets:			
Current Assets	\$ 340,427	\$ 357,729	\$ 373,512
Capital Assets	2,917,035	3,009,352	3,170,873
Restricted Assets	778,914	883,209	1,080,216
Total Assets	4,036,376	4,250,290	4,624,601
Deferred Outflows of Resources	80,267	106,058	92,249
Total Assets and Deferred Outflows	4,116,643	4,356,348	4,716,850
Liabilities:			
Current Liabilities	216,629	226,147	278,127
Bonds Payable	2,411,861	2,599,780	2,889,759
Lease Payable		15,955	14,265
Other Non-Current Liabilities	540,140	600,234	530,096
Total Liabilities	3,168,630	3,442,116	3,712,247
Deferred Inflows of Resources	72,875	23,225	45,813
Total Liabilities and Deferred Inflows	3,241,505	3,465,341	3,758,061
Net Position:			
Net Investment in Capital Assets	643,531	621,404	644,628
Restricted	527,697	554,109	584,883
Unrestricted	(296,090)	(284,508)	(270,720)
Total Net Position, as Restated	\$ 875,138	\$ 891,005	\$ 958,790

The following is a discussion of the more significant changes in assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position in Fiscal Year 2023 as compared to Fiscal Year 2022. See also the financial statements of the Water Fund for the Fiscal Years ended June 30, 2023 and 2022 attached hereto as APPENDIX I.

- Total Capital Assets, net of Accumulated Depreciation and Amortization increased by \$161.5 million to \$3.2 billion, or 5.4%, due mainly to increases in Construction in Progress of \$148.0 million to \$801.8 million, or 22.6%. CIP increased in FY23 as more construction projects, particularly PennVest funded projects, began in FY23 which led to an increase in capital expenditures and accounts payable.
- Restricted assets increased by \$197.0 million to \$1.1 billion, or 22.3% in FY23. The increase was mainly due to an increase in the Water Capital Fund of \$171.3 million, an increase in the Sinking Fund of \$14.9 million and an increase in the Sinking Fund Reserve of \$10.7 million. The increase in the Water Capital Fund was due to proceeds from the 2021A Series (PennVest), 2022C Series and Commercial Paper proceeds, as well as transfers from current revenues. The increase in the Sinking Fund is due to proceeds from Series 2021D, 2022A, 2022B, 2022D, 2022E, and 2022F (all PennVest). The increase in the Sinking Fund Reserve was mainly due to a deposit of \$8.5 million from Series 2022C.
- Total Deferred Outflows of Resources decreased by \$13.8 million, or 13.0%. This was mainly due to a decrease in Deferred Outflows from Net Pension Liability because of changes in assumptions and the net difference between projected and actual earnings on pension plan investments.

- Total Current Liabilities increased by \$52.0 million to \$278.1 million, or 23.0%. Most of the increase was due to increases in Commercial Paper and Construction Contracts Payable. Commercial Paper increased by \$33.3 million to \$36.3 million. Commercial Paper is used to pay invoices for many PennVest projects. Many of these projects began construction in FY23. Construction Contracts Payable increased by \$12.6 million to \$54.4 million as more construction projects began in FY23.
- Total Other Noncurrent Liabilities decreased by \$70.1 million to \$530.1 million, or 11.7%, primarily due to decreases in Net Pension Liability of \$46.9 million to \$340.5 million, or 12.1% and Net OPEB Liability of \$29.9 million to \$132.9 million, or 18.4%. Net Pension Liability and Net OPEB Liability decreased because of net differences between projected and actual earnings on plan investments. Also contributing to the overall decrease was an increase in Noncurrent Liabilities related to Indemnities of \$4.1 million and an increase of \$2.6 million for Arbitrage due for Series 2022C (\$2.4 million) and Series 2020A (\$0.2 million).
- Total Deferred Inflows of Resources increased by \$22.6 million to \$45.8 million, or 97.3%, primarily due to an increase in Deferred Inflows of Resources – Net OPEB Liability, which increased by \$27.0 million to \$35.0 million due to changes in methods and assumptions. This was offset by a decrease in Deferred Inflows of Resources – Net Pension Liability of \$4.1 million to \$6.7 million.
- The Water Fund’s net position increased by \$67.8 million to \$958.8 million, or 7.6% because of FY23 operations.

Historical Operating Results (Legally Enacted Basis)

For purposes of rate setting, calculating compliance with the Rate Covenant and debt service coverage and budgeting, the Water Fund accounts are maintained on the modified accrual basis of accounting, also referred to as the “Legally Enacted Basis.” Under this basis, revenues are recorded on a receipts basis, except revenues from other governments and interest, which are accrued as earned. A 100% reserve is provided for all doubtful non-governmental receivables. With respect to governmental receivables, a 100% reserve is provided when the City has reason to believe that no appropriation has been made by other governments to finance these receivables. The Water Department does not account for payments for water and sewer service from its governmental contract customers as “revenues from other governments.”

Expenditures are recognized and recorded as expenses at the time they are paid or encumbered, except expenditures for debt service, which are recorded when paid. A reserve is maintained for encumbrances at the close of the Fiscal Year intended to pay expenses incurred in such Fiscal Year.

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Table 9
Philadelphia Water Department Historical Operating Results
(Thousands of Dollars)

	FY 2021	FY 2022	FY 2023
1. Operating Revenues:			
2. Sales to General Customers	\$632,207	\$660,731	\$705,967
3. Wholesale Wastewater Revenues	39,102	36,339	42,280
4. Services to General and Aviation Fund	29,990	30,306	32,279
5. Private Fire Connections	3,937	3,661	3,818
6. Industrial Sewer Surcharge	5,024	6,043	5,136
7. Other Operating Revenue	8,673	7,855	8,569
8. Operating Grants	<u>669</u>	<u>464</u>	<u>792</u>
9. Total Operating Revenues	\$719,602	\$745,399	\$798,841
10. Non-Operating Revenues:			
11. Interest Earnings on Investments ⁽¹⁾	\$ (82)	\$ (832)	\$ 1,888
12. Other Non-Operating Revenues	<u>10,931</u>	<u>9,013</u>	<u>8,396</u>
13. Total Non-Operating Revenues	<u>10,849</u>	<u>\$8,181</u>	<u>10,284</u>
14. Total Revenues ⁽²⁾	<u>\$730,451</u>	<u>\$753,580</u>	<u>\$809,125</u>
15. Operating Expenses ⁽³⁾	\$545,089	\$547,229	\$603,817
16. Less: Liquidated Encumbrances (commitments cancelled, which reduce Operating Expenses) ⁽⁴⁾	<u>23,993</u>	<u>36,805</u>	<u>29,236</u>
17. Net Operating Expenses	<u>\$521,096</u>	<u>\$510,424</u>	<u>\$574,581</u>
18. Adjustment: Debt Service and Net Operating Expenses due to timing differences	--	--	--
19. Excess of Operating Revenues over Net Operating Expenses (Ln 9 - Ln 17)	\$198,506	\$234,975	\$224,260
20. Excess of Total Revenues over Net Operating Expenses (Ln 14 - Ln 17)	<u>\$209,355</u>	<u>\$243,156</u>	<u>\$234,544</u>
21. Interest Expenses:			
22. Revenue Bonds	<u>\$98,341</u>	<u>\$87,951</u>	<u>\$111,930</u>
23. Total Interest Expenses	<u>\$98,341</u>	<u>\$87,951</u>	<u>\$111,930</u>
24. Excess of Total Revenues over Net Operating Expenses and Interest Expense (Ln 20 - Ln 23)	<u>\$111,014</u>	<u>\$155,205</u>	<u>\$122,614</u>
25. Add: Debt Service Payments to Sinking Fund, Revenue Bond Payments, LOC expenses and Net Operating Expenses due to timing differences	(134)	1	(474)
26. Deduct: Principal Paid on Bonded Indebtedness During Fiscal Year	87,837	89,042	87,363
27. Deduct: Transfer to Escrow Account to Redeem Bonds	<u>--</u>	<u>--</u>	<u>--</u>
28. Net Unapplied Revenues (Ln 24 + Ln 25 - Ln 26 - Ln 27)	<u>\$23,043</u>	<u>\$66,164</u>	<u>\$34,777</u>
29. Deduct: Funds Transferred to Residual Fund (Further Transfer to Capital Acct)	\$22,210	\$21,994	\$12,433
30. Deduct: Funds Transferred to Capital Account (Required Transfer of 1% NPPE)	<u>27,833</u>	<u>29,170</u>	<u>30,094</u>
31. Transfer (TO)/FROM the Rate Stabilization Fund	\$27,000	\$(15,000)	\$7,750
Coverage Ratios:			
32. Senior Debt Service Coverage: Net Revenues ⁽⁵⁾ /Senior Debt Service (Ln 14 - Ln 17 + Ln 31)/ (Ln 23 + Ln 26)	1.27	1.29	1.22
33. 90% Test coverage: Net Revenues ⁽⁵⁾ less Rate Stabilization Fund transfers in/ Senior Debt Service (Ln 14 - Ln 17)/ (Ln 23 + Ln 26)	1.12	1.37	1.18
34. Total Payments Coverage: Net Revenues ⁽⁵⁾ /Total Payments (Ln 14 - Ln 17 + Ln 31)/ (Ln 23 + Ln 26 + Ln 30)	1.10	1.11	1.06

⁽¹⁾ Only includes interest earnings credited to the Revenue Fund pursuant to the General Ordinance.

⁽²⁾ Calculated to include Project Revenues, as defined in the General Ordinance, plus interest earnings from line 11.

⁽³⁾ Operating Expenses excludes, pursuant to the General Ordinance, depreciation, amortization, interest and sinking fund charges.

⁽⁴⁾ Commitments cancelled represent the liquidation of encumbrances and offset Operating Expenses. An encumbrance is an expense that is anticipated to be charged to the Water Fund.

⁽⁵⁾ As defined in the General Ordinance.

As discussed above, the Water Department is required to comply with the Rate Covenant under the General Ordinance. For a discussion of the Rate Covenant, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant” herein. All Water Fund expenditures are included in the Rate Covenant calculation under the General Ordinance. See “HISTORICAL AND PROJECTED FINANCIAL INFORMATION – Historical Operating Results (Legally Enacted Basis)” above. Historically, the Water Department has used the Rate Stabilization Fund to manage compliance with the Rate Covenant each year. See Note 1 to the financial statement of the Water Fund contained in APPENDIX I. See also Table 11 – Projected Revenue and Revenue Requirements Base and TAP-R Surcharge Rates contained herein.

In Fiscal Year 2021, the Water Department complied with the Rate Covenant, with a Senior Debt Service coverage ratio of 1.27, a 90% Test coverage ratio of 1.12, and a Total Payments coverage ratio of 1.10, after accounting for a withdrawal from the Rate Stabilization Fund of \$27,000,000. In Fiscal Year 2022, the Water Department complied with the Rate Covenant, with a Senior Debt Service coverage ratio of 1.29, a 90% Test coverage ratio of 1.37, and a Total Payments coverage ratio of 1.11, after accounting for a deposit to the Rate Stabilization Fund of \$15,000,000. In Fiscal Year 2023, the Water Department complied with the Rate Covenant, with a Senior Debt Service coverage ratio of 1.22, a 90% Test coverage ratio of 1.18, and a Total Payments coverage ratio of 1.06, after accounting for a withdrawal from the Rate Stabilization Fund of \$7,750,000. In Fiscal Years 2024 and 2025, the Water Department is projecting Senior Debt Service Coverage ratios of 1.22 and 1.25, respectively. No assurance can be given that the Water Department will meet these coverage projections. From Fiscal Year 2026 through Fiscal Year 2028, the Water Department projects a Senior Debt Service coverage ratio of 1.30. See “RATES – Certain Rate Setting Standards – Rate Stabilization Fund, Residual Fund and Senior Debt Service Coverage Targets” herein, Table 10 – Philadelphia Water Department Rate Covenant Compliance and Table 11 – Projected Revenue and Revenue Requirements Base and TAP-R Surcharge Rates. See also “HISTORICAL AND PROJECTED FINANCIAL INFORMATION – The Water Department’s Budget” herein for a discussion of the anticipated uses of the Rate Stabilization Fund and “RATES – Certain Rate Setting Standards” herein.

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Table 10
Philadelphia Water Department
Rate Covenant Compliance
(Thousands of Dollars)

	FY 2021	FY 2022	FY 2023
Senior Debt Service coverage ratio:			
Net Revenues	\$236,355	\$228,157	\$242,294
/Revenue Bonds Debt Service	186,178	176,993	199,293
= Coverage 1 ⁽¹⁾	1.27x	1.29x	1.22x
90% Test coverage ratio:			
Net Revenues less Transfer From Rate Stabilization Fund	\$209,355	\$243,157	\$234,544
/Revenue Bonds Debt Service	186,178	176,993	199,293
= Coverage 2 ⁽²⁾	1.12x	1.37x	1.18x
Total Payments coverage ratio:			
Net Revenues	\$236,355	\$228,157	\$242,295
/Total Payments	214,011	206,163	229,387
= Coverage 3 ⁽³⁾	1.10x	1.11x	1.06x

The rate covenant contained in the General Ordinance requires the City to establish rates and charges for the use of the Water and Wastewater Systems to yield Net Revenues, as defined therein, in each fiscal year sufficient to meet the three coverage tests:

- (1) **Senior Debt Service coverage:** Net Revenues must equal at least 120% of the Debt Service Requirements payable in such fiscal year (excluding debt service due on any Subordinated Bonds).
- (2) **90% Test coverage:** Net Revenues (excluding amounts transferred from the Rate Stabilization Fund into the Revenue Fund during, or as of the end of, such fiscal year) must equal at least 90% of the Debt Service Requirements (excluding debt service on any Subordinated Bonds) payable in such fiscal year.
- (3) **Total Payments coverage:** Net Revenues must equal at least 100% of: (i) the Debt Service Requirements (including Debt Service Requirements in respect of Subordinated Bonds) payable in such fiscal year; (ii) amounts required to be deposited into the Debt Reserve Account during such fiscal year; (iii) debt service on all General Obligations Bonds issued for the Water and Wastewater Systems payable in such fiscal year; (iv) debt service on Interim Debt payable in such fiscal year; and (v) the Capital Account Deposit Amount for such fiscal year, less amounts transferred from the Residual Fund to the Capital Account during such fiscal year.

To ensure compliance with the rate covenant, the General Ordinance requires that the City review its rates, rents, fees, and charges at least annually.

The Water Department's Budget

At least 90 days before the end of the Fiscal Year, the operating budget for the next Fiscal Year is prepared by the Mayor and submitted to City Council for adoption. The budget, as adopted, must be balanced and provide for discharging any estimated deficit from the current Fiscal Year and make appropriations for all items to be funded with City revenues. At least 30 days before the end of the Fiscal Year, City Council must adopt by ordinance an operating budget.

The City submitted the Fiscal Year 2025 operating budget to City Council on or about March 14, 2024, and it was approved on June 13, 2024. The adopted budget for the Water Fund for Fiscal Year 2025 is \$1,039,941,893, inclusive of the budgeted transfer from the Rate Stabilization Fund in the amount of approximately \$4.8 million. When analyzing the operating budget and transfer from the Rate Stabilization Fund, the financial tables in this Official Statement take into account past spending practices and assume that the City's expenditures may be less than budgeted during the forecast period. However, as required by the Charter, the

City calculates its operating budget and transfer from the Rate Stabilization Fund to attain a balanced budget. For more information on the City's budget procedure, see APPENDIX III – "GOVERNMENT AND FINANCIAL INFORMATION OF THE CITY OF PHILADELPHIA – Discussion of Financial Operations – Budget Procedure."

Pension Obligations of the Water Department

As of the date of this Official Statement, the Water Fund has made all of its scheduled payments for the Municipal Pension Fund (defined herein) and its allocable share of the City's Pension Bonds (as defined in APPENDIX III) for Fiscal Year 2024. The City maintains a single employer defined-benefit pension program (the "Municipal Pension Fund"), which provides benefits to police officers, firefighters, non-uniformed employees, and non-represented appointed and elected officials, including employees of the Water Department. Contributions are made by the City to the Municipal Pension Fund from (i) the City's General Fund, (ii) funds that are received by the City from the Commonwealth for deposit into the Municipal Pension Fund, and (iii) various City inter-fund transfers, representing amounts contributed, or reimbursed, to the City's General Fund for pension payments for employees of the Water Fund, Aviation Fund, and certain other City funds or agencies. An additional source of expected funding is that portion of the 1% sales tax rate increase that is required under Pennsylvania law to be deposited to the Municipal Pension Fund. See APPENDIX III – "GOVERNMENT AND FINANCIAL INFORMATION OF THE CITY OF PHILADELPHIA – Revenues of the City – Sales and Use Tax" and APPENDIX III – "GOVERNMENT AND FINANCIAL INFORMATION OF THE CITY OF PHILADELPHIA – Pension System."

Payments from the Water Fund to the City's General Fund for the Municipal Pension Fund for Fiscal Years 2021, 2022, and 2023 were approximately \$81.2 million, \$59.0 million, and \$57.8 million, respectively. The budgeted payment for each of Fiscal Year 2024 and Fiscal Year 2025 is \$60.5 million.

During Fiscal Year 2021, the Office of the Director of Finance performed an analysis of pension cost allocations among the City's various funds. As a result of such analysis, the Water Fund's contribution to the Municipal Pension Fund (i) was reduced by approximately \$20 million in Fiscal Year 2022 and (ii) is expected to change in future years based on pension performance, discount rates, and other factors. The changes in the way pension costs are allocated to the various City funds are not expected to impact the total amount contributed to the Municipal Pension Fund because the contribution from the City's General Fund is expected to increase in an amount equal to the reduction in contributions from the other City funds. However, no assurance can be given that the Water Fund will not be affected if revenues from the City's General Fund were to decrease or the pension costs of other City departments (besides the Water Department) were to increase.

See APPENDIX III – "GOVERNMENT AND FINANCIAL INFORMATION OF THE CITY OF PHILADELPHIA – Pension System – Annual Contributions – Table 29."

In Fiscal Years 2021, 2022, and 2023, contributions from the Water Fund to the City's General Fund for the Municipal Pension Fund were, respectively, approximately 11.39%, 8.11%, and 7.96%, respectively, of total payments to the Municipal Pension Fund, exclusive of the Water Fund's allocable share of Pension Bonds. Due to the revised pension cost allocations discussed above and restructuring of Pension Bond obligations, the Water Department expects payments due to the City's General Fund for the Municipal Pension Fund in Fiscal Years 2024 and 2025 will be approximately 7.96% of total payments to the Municipal Pension Fund, exclusive of the Water Fund's allocable share of Pension Bonds.

Payments from the Water Fund to the City's General Fund for the Water Fund's allocable share of principal and interest payments on the City's Pension Bonds for Fiscal Years 2021, 2022, and 2023 were approximately \$4.5 million, \$8.5 million, \$10.8 million, respectively, based on allocable share of 7.85% of total payments. The Water Department estimates total payments of \$12.4 million in Fiscal Years 2024 and 2025, respectively, assuming an allocable share of 7.85%. See APPENDIX III – "GOVERNMENT AND

Projected Revenues, Expenses and Debt Service

Table 11 – Projected Revenue and Revenue Requirements Base and TAP-R Surcharge Rates (“Table 11”) was prepared during Fiscal Year 2023 and presents a statement of projected revenues and revenue requirements for the Water and Wastewater Systems for Fiscal Years Ending June 30, 2023 through June 30, 2028 (the “Study Period”), consistent with the requirements of the General Ordinance. Table 11 was prepared based on the record in the 2023 Rate Proceeding (hereinafter defined). Thus, the inputs and assumptions used to generate Table 11 in Fiscal Year 2023, as discussed below, reflect the information available as of the 2023 Rate Proceeding. The materials respecting the 2023 Rate Proceeding, including testimony and cost of service reports and analyses of the Water Department’s engineering consultants can be found at: <https://www.phila.gov/departments/water-sewer-storm-water-rate-board/rate-proceedings/2023-rate-proceeding/>. The rate determination delivered by the Rate Board on June 21, 2023 can be found at: <https://www.phila.gov/media/20230623151204/2023-General-Rate-Proceeding-Rate-Determination-2023-06-22.pdf>. As discussed further below, the Rate Board caused the City to modify certain assumptions and inputs from those submitted by the City in connection with the 2023 Rate Proceeding, and these modifications are reflected on Table 11. The website addresses provided herein are included for convenience only; the website addresses are not incorporated herein by reference. See “RATES – Current Base Rates and 2023 Rate Proceeding” and “ – Annual Rate Adjustment – TAP Rate Reconciliation” herein and Table 13 – Typical Residential Monthly Water and Sewer and Stormwater Rate Charges for a discussion of the current rates in effect as of the date of this Official Statement.

Actual results may differ materially from those projected in Table 11, as influenced by the conditions, events and circumstances that actually and subsequently occurred and were unknown at the time that Table 11 was prepared and/or which are beyond the control of Water Department. See also the financial statements of the Water Fund for the Fiscal Years ended June 30, 2023 and 2022 attached hereto as APPENDIX I and “CERTAIN INVESTMENT CONSIDERATIONS – System Revenues, Expenditures, Financing and Capital Assets” herein.

The revenues under existing rates, as summarized on Line 3 of Table 11, reflect assumed account growth, changes in customer water usage and sewer and stormwater service billings for the Study Period based upon the Water Department’s experience from Fiscal Year 2020 to Fiscal Year 2022. The revenue projections contained in Table 11 also takes into account changes to existing wholesale wastewater contracts, reductions in usage from Vicinity and the Water Department’s experience with customer collections from Fiscal Year 2020 to Fiscal Year 2022 as known and reflected in the rate determination for the 2023 Rate Proceeding. See also Table 3 – Top 10 Customers herein.

The revenue adjustments, presented on Lines 4 and 5 of Table 11, incorporate the Rate Board’s determinations in both the 2023 Rate Proceeding and the 2023 Annual TAP-R Adjustment Proceeding (hereinafter defined) for Fiscal Year 2024 and Fiscal Year 2025 (the “Approved Rate Years”) Base Rates and Fiscal Year 2024 TAP-R Surcharge Rates. See “RATES – Current Base Rates and 2023 Rate Proceeding” and “ – General Rates, Special Rates and the TAP Program.” But see also “ – Annual Rate Adjustment – TAP Rate Reconciliation” herein for a discussion of the 2024 Annual TAP-R Adjustment Proceeding (hereinafter defined) that occurred in Fiscal Year 2024 after the preparation of Table 11. Greater customer participation in the Tiered Assistance Program (“TAP”) in Fiscal Year 2024 resulted in TAP-R revenue increases for Fiscal Year 2025 that are not reflected on Table 11.

Projected revenue adjustments contained in Table 11 account for the changes in the allocation of COA Expenditures to wholesale wastewater customers using the H&H methodology discussed under “THE SYSTEM – Large Customers – *Wholesale Customers*” herein. Beyond the Approved Rate Years, additional revenue adjustments presented on Lines 6 to 8 are projected to be needed to meet the Water Department’s overall revenue requirements and meet both required and targeted financial metrics but are subject to change as noted above.

Other operating revenues accounted for miscellaneous revenues received by the Water Department and incorporated discounts provided to customers under TAP. Greater customer participation in TAP in Fiscal Year 2024 resulted in increased discounts provided to customers under TAP for Fiscal Year 2024 and Fiscal Year 2025 that are not reflected on Table 11. Interest income on both the Revenue Fund and Rate Stabilization Fund were also projected to estimate the overall Total Operating Revenues presented on Line 15.

Total Operating Expenses presented on Line 16 reflects the total projected operating expenses of the Water Fund, inclusive of services provided to the Water Department by other City Departments, such as the Water Revenue Bureau (“WRB”). These projections consider both anticipated budgetary increases and reflected recent inflation experience through Fiscal Year 2023 in key cost areas including power costs (gas and electric), chemicals, materials, supplies, services and equipment. The operating expenses incorporated planned increases at the time Table 11 was generated in accordance with recent labor agreements with local labor unions, as further discussed herein. Labor costs as well as assumed future increases in pension obligations and post-employment benefits costs are in line with the City’s current projected cost increases.

Since the delivery of Table 11 in September of 2023, operating expenses have remained stable and are currently estimated to escalate more slowly than shown in Table 11 during the remaining years of the Study Period on account of reduced chemical costs in Fiscal Year 2025 and lower inflation rates anticipated in the ensuing years. In addition, total revenues have remained relatively consistent with minor variation associated with the results of the 2024 Annual TAP-R Adjustment Proceeding, combined with controlled expenses, such that net revenues after operations are estimated to continue in line with Table 11 projections for the remaining years reflected in the Study Period.

Projected debt service presented on Lines 19 to 27 reflects projected debt service on anticipated future revenue bond issuances, which are subject to change as needed to support the Water Department’s projected Water Capital Improvement Program expenses. Debt service projections also include existing debt service on outstanding revenue bond issuances, as well as the assumed debt service related to the Water Department’s WIFIA loan, Pennvest loans, and Commercial Paper Program. Table 11 assumes the capital borrowing of new revenue bonds for Fiscal Year 2025 will be in the amount of \$503 million. However, as shown in this Official Statement, Bonds in an amount sufficient to produce \$308 million of new money bond proceeds will be issued to fund capital improvements to the System for Fiscal Year 2025. The resulting reduction in debt service for Fiscal Year 2025 on account of the reduced principal amount of Bonds expected to be issued is not reflected on Table 11. Moreover, as previously discussed above, the FY25 CIP exceeds the FY24 CIP for Fiscal Years 2025-2029 utilized in preparing Table 11. Increased debt service on account of the increased budget for the FY25 CIP also is not reflected on Table 11.

The Water Department utilizes the Rate Stabilization Fund and necessary revenue increases to manage its debt service coverage on its senior lien bonds to meet the required 1.20 times debt service coverage each year. Consistent with Line 25 of Table 11, Senior Debt Service Coverage is projected to be 1.25 in Fiscal Year 2025 and 1.30 for the remainder of the Study Period. However, Senior Debt Service Coverage is estimated to be 1.22 for Fiscal Year Ended June 30, 2024 after a transfer from the Rate Stabilization Fund to the Revenue Fund of approximately \$8.2 million, which is approximately \$4 million more than the projected transfer in Table 11. This reflects a reduction from the Water Department’s previous estimate of 1.25 for Fiscal Year ended June 30, 2024. No assurance can be given that the Water Department will meet these coverage projections or estimates. As discussed in “RATES – Certain Rate Setting Standards – *Rate Stabilization Fund, Residual Fund and Senior Debt Service Coverage Targets*”, the Rate Board has concluded that a 1.30 times Senior Debt Service Coverage Ratio is a reasonable target for the future, and the Water Department intends to target 1.30 Senior Debt Service Coverage Ratio in Fiscal Year 2026. Lines 32 through 39 of Table 11 present the flow of funds in the Residual Fund for the Study Period. The projected annual transfers of available Residual Fund balances to the Construction Fund are indicated on Line 36 of Table 11; however, based on the FY 2024 AFR (Unaudited), the Water Department currently estimates there will be no transfer from the Residual Fund to the Construction Fund for Fiscal Year 2024. No assurance can be given that the Water Department will make transfers in the amounts or at the times set forth herein. The projected annual transfers of available Residual Fund balances to the

Construction Fund are indicated on Line 36 of Table 11. Currently, the Water Department expects that results will be generally consistent with the projections contained in Table 11 respecting Senior Debt Service coverage and Residual Fund end-of-year-fund balances for the remaining years contained in the Study Period.

Lines 40 through 42 of Table 11 present the flow of funds of the Rate Stabilization Fund for the Study Period. Based on the FY 2024 AFR (Unaudited), the Water Department currently estimates Fiscal Year 2024 end-of-year fund balances to be approximately \$30.8 million in the Residual Fund and approximately \$132.4 million in the Rate Stabilization Fund, which result in combined fund balances in excess of the \$150 million target for Fiscal Year 2024. No assurance can be given that the Water Department will meet the targets recommended by the Rate Board. The Water Department intends to increase this target over time as reserve levels will need to be adjusted commensurate with increases in operating expenses to provide a source of funding in the event of an emergency. See “RATES – Certain Rate Setting Standards – *Rate Stabilization Fund, Residual Fund and Senior Debt Service Coverage Targets*” herein for a discussion of the targets approved by the Rate Board and the timing for their implementation.

Given the timing of the preparation and delivery of Table 11 included in this Official Statement, prospective investors in the Bonds should review actual financial data and estimates for Fiscal Year 2023 and Fiscal Year 2024, respectively, as presented in this Official Statement, including the Financial Statements of the Water Fund for the Fiscal Year ended June 30, 2023 and 2022 attached hereto as APPENDIX I and estimated financial data for the Water Fund as of June 30, 2024 contained in the most recent Quarterly City Manager’s Report available on EMMA.

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Table 11
Projected Revenue and Revenue Requirements Base and TAP-R Surcharge Rates
Fiscal Years Ending June 30 (Thousands of Dollars)

Line No.	Description	Fiscal Year Ending June 30,					
		2023	2024	2025	2026	2027	2028
OPERATING REVENUE							
1	Water Service - Existing Rates	302,182	301,922	304,763	307,599	307,208	306,449
2	Wastewater Service - Existing Rates	482,399	487,901	490,571	492,510	491,817	481,904
3	Total Service Revenue - Existing Rates	784,581	789,823	795,335	800,109	799,025	788,353
Additional Service Revenue Required							
	Year	Percent Increase	Months Effective				
4	FY 2024	7.85%	10	52,335	63,139	62,983	61,854
5	FY 2025	8.14%	10	57,015	70,271	70,176	69,224
6	FY 2026	13.95%	10		106,298	130,064	128,300
7	FY 2027	7.85%	10			68,032	82,225
8	FY 2028	9.10%	10				83,958
9	Total Additional Service Revenue Required	-	52,335	120,154	239,552	331,116	425,562
10	Total Water & Wastewater Service Revenue	784,581	842,158	915,489	1,039,661	1,130,140	1,213,915
Other Income (a)							
11	Other Operating Revenue	20,247	24,642	32,513	27,644	27,619	27,594
12	Debt Reserve Account Interest Income	-	-	-	-	-	-
13	Revenue Fund Interest Income	1,907	3,067	3,225	2,187	2,265	2,325
14	Rate Stabilization Interest Income	1,365	2,076	2,133	1,360	1,423	1,497
15	Total Revenues	808,100	871,942	953,361	1,070,852	1,161,448	1,245,332
OPERATING EXPENSES							
16	Total Operating Expenses	(564,671)	(603,166)	(638,189)	(673,058)	(702,201)	(734,215)
NET REVENUES							
17	Transfer From/(To) Rate Stabilization Fund	1,080	4,209	24	(5,526)	(7,368)	(7,562)
18	NET REVENUES AFTER OPERATIONS	244,509	272,986	315,196	392,268	451,879	503,554
DEBT SERVICE							
Senior Debt Service							
Revenue Bonds							
19	Outstanding Bonds	(187,747)	(185,847)	(183,090)	(183,088)	(183,091)	(166,318)
20	Pennvest Loans	(10,935)	(12,031)	(16,329)	(23,721)	(29,283)	(32,313)
21	Projected Future Bonds	-	(19,167)	(50,741)	(91,978)	(130,608)	(181,758)
22	Commercial Paper	(900)	(900)	(900)	(900)	(900)	(900)
23	WIFIA	-	(17)	(347)	(2,058)	(3,717)	(6,060)
24	Total Senior Debt Service	(199,582)	(217,961)	(251,406)	(301,744)	(347,599)	(387,350)
25	TOTAL SENIOR DEBT SERVICE COVERAGE (L18/L24)	1.22x	1.25x	1.25x	1.30x	1.30x	1.30x
26	Subordinate Debt Service	-	-	-	-	-	-

Fiscal Year Ending June 30,

<u>Line No.</u>	<u>Description</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>
27	Transfer to Escrow	-	-	-	-	-	-
28	Total Debt Service on Bonds	(199,582)	(217,961)	(251,406)	(301,744)	(347,599)	(387,350)
29	CAPITAL ACCOUNT DEPOSIT	(23,383)	(24,295)	(25,242)	(26,226)	(27,249)	(28,312)
30	TOTAL COVERAGE (L18/(L24+L26+L29))	1.09x	1.12x	1.13x	1.19x	1.20x	1.21x
31	End of Year Revenue Fund Balance	21,544	30,730	38,547	64,297	77,030	87,893
RESIDUAL FUND							
32	Beginning of Year Balance	16,102	20,122	20,266	20,438	19,391	18,246
33	Interest Income	180	311	322	198	187	176
	Plus:						
34	End of Year Revenue Fund Balance	21,544	30,730	38,547	64,297	77,030	87,893
35	Deposit for Transfer to City General Fund (b)	1,945	2,179	2,385	2,444	2,509	2,552
	Less:						
36	Transfer to Construction Fund	(16,600)	(29,800)	(34,400)	(58,150)	(72,800)	(86,100)
37	Transfer to City General Fund	(1,945)	(2,179)	(2,385)	(2,444)	(2,509)	(2,552)
38	Transfer to Debt Reserve Account	(1,105)	(1,096)	(4,298)	(7,392)	(5,562)	(3,030)
39	End of Year Balance	20,122	20,266	20,438	19,391	18,246	17,185
RATE STABILIZATION FUND							
40	Beginning of Year Balance (c)	138,989	137,909	133,700	133,676	139,202	146,570
41	Deposit From/(To) Revenue Fund	(1,080)	(4,209)	(24)	5,526	7,368	7,562
42	End of Year Balance	137,909	133,700	133,676	139,202	146,570	154,133

- (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) Transfer of interest earnings from the Debt Reserve Account to the Residual Fund as shown in Line 35 to satisfy the requirements for the transfer to the City General Fund shown on Line 37.
- (c) Fiscal Year 2023 beginning balance is estimated based on preliminary Fiscal Year 2022 results.

In connection with the projections set forth on Table 11 above for the Fiscal Year ending June 30, 2023, see also the financial statements of the Water Fund for the Fiscal Year ended June 30, 2023 and 2022 attached hereto as APPENDIX I for actual Fiscal Year 2023 results. In connection with the projections set forth above for the Fiscal Year ending June 30, 2024, see also the financial tables contained in this Official Statement, "CAPITAL IMPROVEMENT PROGRAM" and "RATES – Annual Rate Adjustment – TAP Rate Reconciliation" herein.

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RATES

Philadelphia Water, Sewer and Storm Water Rate Board

The Rate Board initially was formed following the Rate Ordinance's effective date of January 20, 2014. The Rate Board promulgated regulations governing the rate review process in December 2015 and completed its first rate proceeding in June 2016. The Rate Board is solely responsible for fixing and regulating rates, pursuant to the Rate Ordinance.

The Rate Board consists of five members serving staggered terms. The members are appointed by the Mayor and confirmed by City Council; but the Mayor has sole discretion to remove members for cause, including conflicts of interest and neglect of duty. The Rate Ordinance requires that Board members be City residents with a minimum of five years professional experience in one or more of the following fields: (1) public or business administration, (2) finance, (3) utilities, (4) engineering or (5) water resources management. At least one member must have experience as a consumer advocate in utility rate cases, and one member must be a commercial and/or industrial ratepayer with knowledge and experience related to stormwater management and rates. Brief biographical descriptions of the members of the Rate Board can be found at <https://www.phila.gov/departments/water-sewer-storm-water-rate-board/about/>. Such website and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for any purpose, including for purposes of Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934.

Members who resign or are removed may be replaced by a mayoral appointee confirmed by City Council, and such successor may serve for the remaining term of the replaced member. Members are not compensated for their services but are entitled to reasonable expenses consistent with their duties. The Rate Board receives an appropriation sufficient to allow it to carry out its responsibilities.

Certain Rate Setting Standards

Charter. The Charter mandates that the standards pursuant to which rates and charges are fixed shall be such as to yield to the City at least an amount equal to Operating Expenses and interest and sinking fund charges on any debt incurred or about to be incurred for water supply, sewage and sewage disposal purposes. In computing Operating Expenses, proportionate charges for all services performed for the Water Department by all officers, departments, boards or commissions of the City also are included.

Rate Ordinance. While any Water and Wastewater Bonds are outstanding, the Rate Board also will be required to set rates and charges in amounts sufficient for the City to comply with the provisions of the General Ordinance. The Rate Ordinance subjects the Rate Board to certain standards when making a rate determination in addition to those set forth in the General Ordinance. The Rate Ordinance also requires the Water Department to develop a comprehensive plan, pursuant to which the Water Department forecasts capital and operating costs and expenses and corresponding revenue requirements.

Rate Stabilization Fund, Residual Fund and Senior Debt Service Coverage Targets. Under its rate determination dated as of July 12, 2018 (the "2018 Rate Determination"), the Rate Board adopted a target of \$150 million in the Rate Stabilization Fund and the Residual Fund combined, 20% Pay-Go funding targets and concluded that a 1.30 times Senior Debt Service Coverage Ratio is a reasonable target for the Water Department to strive for in the future. In the 2022 Special Rate Proceeding that concluded May 30, 2022 and the 2023 Rate Proceeding discussed below, the Rate Board maintained the financial metric recommendations set forth above. See "RATES – Current Base Rates and 2023 Rate Proceeding" hereinbelow. As set forth in Table 11 – Projected Revenue and Revenue Requirements Base and TAP-R Surcharge Rates and discussed above, the Water Department intends to target a 1.30 times Senior Debt Service Coverage Ratio commencing in Fiscal Year 2026. There is no requirement in the General Ordinance or the Act to maintain such amount and no assurance can be given that it will be met or maintained.

General Rates, Special Rates and the TAP Program

Water rates for general service customers of the Water Department consist of a service charge related to the size of the meter, plus a schedule of quantity charges for water use. Sewer rates for general service customers are similar. To more fairly reflect the burden on the System, stormwater charges are calculated based on a customer's property size and its relative imperviousness. A uniform stormwater charge based on the average size and imperviousness of residential properties is billed to residential customers. Charges to non-residential and condominium customers are based on each property's specific size and impervious area.

Special rates with partial discounts are established pursuant to the Water Department's Rates and Charges for the following customers: (1) public and private schools which provide instruction up to or below the twelfth grade; (2) institutions of "purely public charity;" (3) places used for religious worship; (4) residences of eligible senior citizens; (5) universities and colleges; and (6) public housing properties of the Philadelphia Housing Authority. In addition, the Rate Board approved discounts of 100% on stormwater rates for eligible community gardens in 2016 and an exemption from water, sewer and stormwater rates for unoccupied properties of the Philadelphia Land Bank in 2018. Some real estate also is exempt from stormwater charges, including, cemeteries, residential sideyards, City-owned or City-controlled vacant lots or improvements, portions of Fairmount Park, streets, medians, sidewalks, and rights-of-way. Water and sewer charges, including stormwater charges, terminate when any vacant or unoccupied premises are acquired by the City and when property is acquired by the Philadelphia Housing Development Corporation or the Philadelphia Redevelopment Authority under provisions of the Philadelphia Code pertaining to vacant properties.

In addition to the special rates referenced above, the Water Department offers additional assistance and incentive programs to customers, which constitute either an Operating Expense of the Water Department or contra-revenue in the form of credits or reductions to customers' bills. See also "RATES – Billings and Collections" herein.

TAP was launched on July 1, 2017 and assists low-income households at or below 150% of the federal poverty level ("FPL") and those experiencing a special hardship, as discussed below. Under TAP, bills are tied to household income and do not fluctuate based on actual consumption. Residential customers enrolled in TAP or in the TAP application process are exempt from shut offs or disconnections. Under TAP, monthly bills for water, sewer, and stormwater usage and service charges are as follows:

Income	Fixed Charge %*	
50% of FPL or lower	at 2% of the household income	\$12.00 minimum bill
Above 50% and at or below 100% FPL	At 2.5% of the household income	
Above 100% and at or below 150% FPL	3% of the household income	
Above 150% FPL, with proof of hardship	4% of the household income	A special hardship can be increase in household size, loss of a job lasting more than 4 months, serious illness lasting more than 9 months, death of primary wage earner, domestic violence or other circumstances that threaten household's access to necessities of life

* Any actual charges above the fixed amount are forgiven.

The lost revenue associated with providing discounted bills to TAP customers is recovered by the TAP Rate Rider Surcharge (“TAP-R”), which adds an incremental surcharge to water and sewer rates. See “RATES – Annual Rate Adjustment – TAP Rate Reconciliation.”

Certain financial information regarding some of the programs discussed above is set forth in Table 12 – Stormwater Incentives and Assistance Program below.

Table 12
Stormwater Incentives and Assistance Program
Fiscal Year Ending June 30

Program	Program Type	FY 2021	FY 2022	FY 2023
SMIP ⁽¹⁾ and GARP ⁽²⁾⁽³⁾	Operating Expense	\$17,322,111	\$27,294,173	\$28,856,978
Phase in Program (CAP) ⁽⁴⁾	Bill Reduction ⁽⁶⁾	1,081,778	943,040	565,155
Stormwater Credits ⁽⁴⁾	Bill Reduction ⁽⁶⁾	20,596,053	21,672,545	22,948,279
Community Gardens	Bill Reduction ⁽⁶⁾	211	1,309	95
Tiered Assistance Program (TAP) ⁽⁵⁾	Bill Reduction ⁽⁶⁾	8,525,312	9,174,780	18,803,906
Charity Discount & School Discount	Bill Reduction ⁽⁶⁾	7,071,055	7,235,825	6,977,289
Senior Citizen Discount	Bill Reduction ⁽⁶⁾	4,215,019	4,519,762	4,283,200
Total		\$58,811,539	\$70,841,434	\$82,434,902

⁽¹⁾ Stormwater Management Incentives Program.

⁽²⁾ Grant and Greened Acres Retrofit Program.

⁽³⁾ SMIP and GARP were partially funded with grants.

⁽⁴⁾ Amounts are credits against certain customers’ bills.

⁽⁵⁾ TAP is a low-income assistance program commenced in July of 2017. It will reduce customers’ bills and result in a reduction in revenue for the Water Department. Foregone revenues on account of enrollment in TAP are expected to be recovered under the annual TAP-R and true-up reconciliation process. See “RATES – Annual Rate Adjustment – TAP Rate Reconciliation” below.

⁽⁶⁾ Bill reduction program type reduces customers’ bills and result in a reduction in revenue for the Water Department.

Annual Rate Adjustment – TAP Rate Reconciliation

The Rate Board’s 2018 Rate Determination approved the TAP-R, which is charged to customers not enrolled in TAP, intended to recover the revenue losses associated with the program. The TAP-R tracks revenue losses resulting from TAP discounts and permits annual true-up reconciliation of such costs to prevent either over or under-recovery of TAP revenue losses through the TAP-R. The Water Department reviews and proposes adjustments to the TAP-R annually to account for changes in actual and projected TAP costs and the extent to which those costs were over or under-collected during the prior period. Annual TAP-R adjustment proceedings have been convened since 2019. The period from the filing of the formal notice of proposed adjustments to rates and charges in a TAP-R proceeding to the approval of new rates is approximately 90 days.

The Water Department commenced its 2024 annual rate adjustment proceeding (the “2024 Annual TAP-R Adjustment Proceeding”) by filing an Advance Notice of the proposed adjustments to rates and charges and a Preliminary Proposed Reconciliation Statement with the Rate Board and City Council on February 28, 2024. The Water Department submitted its formal notice of the proposed adjustments to rates and charges and Final Preliminary Proposed Reconciliation Statement to the Department of Records and the Rate Board on or about April 1, 2024. Discovery, public input and technical hearings ensued during the period from March to May of 2024. A Joint Petition for Settlement (the “Joint Petition”) was entered into by the Water Department and Public Advocate on May 20, 2024, memorializing a compromise that was reached as to the main issue in controversy: the increasing average number of TAP participants and TAP discounts projected for the period beginning September 1, 2024 due to facilitated enrollments related to data sharing between the Water Department and other City agencies. The Hearing Officer recommended the approval of the Joint Petition on May 29, 2024. The Rate Board delivered its decision on June 26, 2024, finding the rates and charges proposed in the Joint Petition to be just and reasonable and authorized TAP-R revenue requirement of approximately \$38.8 million for the TAP-R rate period from September 1, 2024 to August 31, 2025. Taking into account the Rate Board’s decision in the 2023 Rate Proceeding and the 2024 Annual TAP-R Adjustment Proceeding, the estimated overall approved revenue increases amount to \$83.4 million for Fiscal Year 2025 or an increase of approximately 11.9% in Fiscal Year 2025. See the following tables under the heading “ – The History of Rate Adjustments” and Table 13 – Typical Residential Monthly Water and Sewer and Stormwater Rate Charges. Considering both the Rate Board’s decision in the 2023 Rate Proceeding and the 2024 Annual TAP-R Adjustment Proceeding, a typical residential customer’s bill is estimated to increase approximately 12.3%, 8.1% is associated with the previously approved base rates for Fiscal Year 2025 under the 2023 Rate Proceeding and 4.3% is associated with the proposed TAP-R rates in the 2024 Annual TAP-R Adjustment Proceeding.

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History of Rate Adjustments

Except as noted below in connection with the Water Department’s withdrawn request in 2020 during the COVID-19 pandemic, since the establishment of the Rate Board, the Water Department has filed for and the Rate Board has approved base rate revenue increases pursuant to the rate determination process. Since 2018, when the Rate Board approved the TAP rate rider mechanism, the Water Department has applied for and received recoveries of lost revenue associated with TAP pursuant to annual TAP-R reconciliation proceedings. The base rate revenue increases approved by the Rate Board have resulted in the following increases:

Base Rate Proceeding	Fiscal Year	Percentage Increase ⁽¹⁾
1/2016	2017	4.52%
	2018	4.52
1/2018	2019	1.33 ⁽²⁾
	2020	1.20 ⁽²⁾
1/2020 ⁽³⁾	2021	N/A
1/2021	2022	1.85
1/2022	2023	5.37
1/2023	2024	9.64 ⁽⁴⁾
	2025	8.16 ⁽⁴⁾⁽⁵⁾

Sources: Rate proceeding filings and Rate Board decisions; City of Philadelphia and Philadelphia Water Department.

- (1) Based on approved base rate revenue increases as presented in the respective rate determinations for each proceeding.
- (2) Includes TAP-R Surcharge Rates.
- (3) Due to COVID-19, the Water Department withdrew its base rate revenue increase request in 2020 after the original filing in January.
- (4) Differs from Lines 4 and 5 of Table 11 contained herein because Table 11 includes TAP-R Surcharge Rates.
- (5) Differs from Line 5 of Table 11 contained herein because Table 11 does not reflect the rate increase that became effective on September 1, 2024 on account of the 2024 Annual TAP-R Adjustment Proceeding.

Current Base Rates and 2023 Rate Proceeding

The Water Department has been operating under the rates established in the 2023 Rate Proceeding (defined below) that were implemented on September 1, 2023 and September 1, 2024, respectively.

2023 Rate Proceeding. The Water Department initiated a general rate increase proceeding (the “2023 Rate Proceeding”) for Fiscal Years 2024 and 2025 by filing, on January 24, 2023, its advance notice of proposed changes in water, sewer, and stormwater rates and related charges. On February 23, 2023, the Water Department filed its formal notice of proposed changes in rates and charges. Standard prehearing conferences and orders were issued, and discovery requests and responses were submitted consistent with the prehearing order from the period of March through April 2023. Four public input hearings were conducted. Pursuant to the schedule, direct testimony was filed by interveners in the proceeding on April 12, 2023. Rebuttal testimony was filed by the Water Department on April 26, 2023. Hearings were held on May 2 through May 5, 2023 and briefs were filed on May 16, 2023. The Hearing Officer’s report was delivered on May 30, 2023. Exceptions to the Hearing Officer’s Report were filed on June 5, 2023. The Rate Board rendered its rate determination on June 21, 2023. The Rate Board authorized an increase in base rate revenues of \$61.022 million in Fiscal Year 2024 and an additional increase of \$57.015 million in Fiscal Year 2025. Taking into account the Rate Board’s 2023 Annual TAP-R Adjustment Proceeding, the overall approved increases amount to \$172.5 million over Fiscal Years 2024 and 2025. See Table 11 – Projected Revenue and Revenue Requirements Base and TAP-R Surcharge Rates and “RATES – Annual Rate Adjustment – TAP Rate Reconciliation” above. In addition, the Rate Board maintained

the financial metric targets of 1.30 times Senior Debt Service Coverage Ratio, \$150 million Residual Fund and Rate Stabilization Fund combined balances, and 20% Pay-Go funding.

As of the date of this Official Statement, considering both the Rate Board’s decision in the 2023 Rate Proceeding and the 2024 Annual TAP-R Adjustment Proceeding, the overall approved revenue increases amount to \$83.4 million for Fiscal Year 2025 or an increase of approximately 11.9% in Fiscal Year 2025. See “RATES – Annual Rate Adjustment – TAP Rate Reconciliation” herein. Increased rates for Fiscal Year 2025 became effective on September 1, 2024. See also below Table 13 – Typical Residential Monthly Water and Sewer and Stormwater Rate Charges.

The Water Department expects to initiate the next general rate increase proceeding in January or February of 2025, which advance notice is expected to request rate increases for each of Fiscal Year 2026 and Fiscal Year 2027. No assurance can be provided regarding the Rate Board’s future decision or the level of increase approved, if any. As of the date of this Official Statement, base rates remain affordable compared to the affordability thresholds established by the EPA.

Residential Monthly Water and Sewer Rate Charges

Table 13 below shows monthly water and sewer rate charges effective from September 1, 2022, through September 1, 2024, and is based, in each case, on a typical residential customer with a 5/8-inch meter using 450 cubic feet per month. Please note the decline in consumption for a typical residential customer (previously 500 cubic feet monthly). This reduction in water usage by residential customers continues longer-term trends observed by the Water Department and as seen across the water industry.

Table 13
Typical Residential
Monthly Water and Sewer and Stormwater Rate Charges

	Effective Date	Water	Sewer	Stormwater	Service Charge	Total	Percentage Change
5/8” Meter Residential 450 Cu. Ft. Monthly	9/1/2022	\$22.50	\$16.29	\$18.05	\$12.47	\$69.31	6.4%
	9/1/2023	26.76	17.18	18.50	12.37	74.81	7.9
	9/1/2024	30.33	20.48	20.41	12.81	84.03	12.3

Billing and Collections

Under the Charter, the Water Revenue Bureau is directly responsible for the billing, metering and collection of revenues for the Water Fund. Since February 2003, oversight of the Water Revenue Bureau has been under the City’s Revenue Commissioner, who reports directly to the Finance Director. The Water Revenue Bureau uses outside collection agencies to collect delinquent accounts.

As discussed above, the Water Department provides several assistance programs to residential customers and exempts TAP customers and enrollees from shut offs and disconnections. In addition, it maintains a policy of refraining from shutting off or disconnecting delinquent residential accounts during the winter months of the year (which are treated as December 1 of one calendar year through March 31 of the following calendar year). The City has recently reevaluated its policy and has determined, with the input of stakeholders, that the delinquency threshold to be eligible for residential account shut offs will increase from \$150 to \$1,000. The new threshold is expected to result in a significant reduction in the number of residential accounts eligible for shut off.

Revenues under existing rate levels reflect an adjustment to the projections of gross billings to anticipated cash receipts based on an analysis of historical annual billings and receipts on a system-wide basis. The Water Department's cumulative collections of annual billings for Fiscal Years 2022, 2023, and 2024, were each, respectively, approximately 96.7%, 96.8%, and 95.5%. Adjustments for collections as reflected on Table 11 are based upon historical payment patterns from Fiscal Year 2019 to Fiscal Year 2022. With the facilitated enrollment of additional TAP participants, between January and June of 2024, the Water Department achieved an increase in TAP enrollment. If customers timely pay their bills under TAP, outstanding bills predating TAP enrollment will be forgiven to a certain extent. Conclusive data on the overall influence of increased enrollment in TAP and the impact of the potential arrearage forgiveness on overall system-wide collections is not currently available; therefore, modifications to the assumptions utilized in the projection of revenues as presented on Line 3 of Table 11 cannot be made at this time.

The City continues to pursue a multifaceted strategy for improving collections while decreasing delinquencies, key compliance strategies of which include revocation of commercial licenses and sequestration of property due to unpaid debts. Although these efforts have concentrated primarily on general fund revenues, certain improvements in processes and equipment may affect Water Fund revenues. The financial projections provided herein do not include any additional revenue or acceleration of revenue as a result of these initiatives. See also "OUTSTANDING INDEBTEDNESS AND OTHER LONG-TERM AGREEMENTS – Other Obligations – Contract for Advanced Meter Reading Infrastructure."

MANAGEMENT INITIATIVES

The Water Department has implemented several initiatives designed to increase the efficiency of its operations and reduce costs.

Water Accountability

The Water Department has been successful in developing and implementing programs to recover uncaptured revenue through reduction in the loss of finished water from the distribution system. The Water Department's non-revenue water was 98.6 MGD for Fiscal Year 2022 and 103.2 MGD for Fiscal Year 2023. The Water Department accounts for all finished water as either consumption or losses. Losses are accounted for in two ways: (i) apparent losses are calculated losses, due to customer meter inaccuracies, billing errors or unauthorized consumption that cause water utilities to lose a portion of consumption-based revenue, and (ii) real losses are physical losses, largely leakage, that cause excess production costs for water utilities.

The Water Department operates a Customer Meter Management Program and a Revenue Protection Program, which have increased billings by approximately \$2.1 million in Fiscal Year 2022 and \$2.5 million for Fiscal Year 2023. See also "OUTSTANDING INDEBTEDNESS AND OTHER LONG TERM AGREEMENTS – Other Obligations – Contract for Advanced Meter Reading Infrastructure" for more information on the program.

The Water Department conducts a variety of activities to proactively contain leakage losses, including (i) the Leak Detection Program, (ii) the district metered area and (iii) the hydrant tracking program. The Water Department was one of the first water utilities in the United States to employ such techniques to mitigate leakage and lessen the occurrence of water main breaks. Through the Leak Detection Program, the Water Department also contracts for in-line leak detection in active large-diameter transmission water piping. This service has added another highly effective tool to minimize lost water. The Water Department continues to evaluate a variety of leak detection technologies to identify effective and cost-effective solutions to locate system leaks and direct maintenance personnel for repairs. The hydrant tracking program has resulted in hydrant availability remaining significantly above 99% through initiatives such as routine inspection, repair and painting.

Wastewater Master Planning

The Water Department is developing an update to its Wastewater Master Plan that outlines a comprehensive, integrated, and actionable 25-year Capital Improvement Program for the Water Department's three water pollution control plants. The update intends to inform all aspects of long-term planning for the Water Department's wastewater facilities, including aging infrastructure, regulatory requirements (such as those contained within the COA as well as nutrient management), energy use and greenhouse gas emissions reduction and climate change. The update is anticipated to be completed in the fourth quarter of calendar year 2024, with an implementation program to follow.

Water Master Planning

The Water Department, through its Water Facilities Planning Program developed a 25-year Water Revitalization Plan that outlines a program to upgrade the City's drinking water treatment and supply facilities. The improvements identified in the plan are required to address aging infrastructure to increase the reliability of the Water System and ensure sustainable delivery of safe, clean and affordable drinking water. The Water Revitalization Plan focuses on six key categories: water quality, operability, capital availability, water quantity, service pressure and public perception. The plan was completed in early calendar year 2019 and projected the capital improvement needs of water treatment, pumping and storage facilities over a 25-year period, but is a living plan that continues to be periodically revisited and updated over time. The Water Revitalization Plan assists the Water Department in developing the Water Capital Improvement Program and prioritizing capital projects. The Water Revitalization Plan has identified approximately 400 projects to rehabilitate existing facilities and construct several new facilities. The costs for these projects were estimated to be \$2.5 billion when the plan was adopted in early calendar year 2019, of which approximately \$1.2 billion are included in the current Water Capital Improvement Program. See Table 5 – Fiscal Years 2025-2030 6-year Water Capital Improvement Program and COA Budget and “– Security of Water Department Facilities and Water Supply and AWIA” below.

Security of Water Department Facilities and Water Supply and AWIA

The Water Department draws and conducts nearly one thousand tests on water samples from various locations each day. Online water quality monitors provide continuous testing during all stages of the treatment process. The City also has implemented a surveillance and response system, a source water protection program and the Delaware Valley Early Warning System for the Schuylkill and Delaware Rivers and surrounding areas. To further ensure the safety of the City's drinking water, the Water Department utilizes the surveillance and response system to monitor water quality using online instrumentation that allows real-time tracking of water conditions at strategic locations throughout the City's water distribution system. Additional upgrades are planned to enhance security at the three water treatment plants and the pumping stations.

The Water Department has performed a vulnerability analysis of its entire potable water system and has extensive water quality monitoring, protection and security plans in place. America's Water Infrastructure Act of 2018 (“AWIA”) requires the Water Department to certify completion of a Risk and Resilience Assessment and to review or update, as applicable, its Emergency Response Plan. The Risk and Resilience Assessment has been completed, and its major findings were presented to the Water Department's senior management at the end of February 2020. Overarching themes from the Risk and Resilience Assessment include that the Water Department should (i) proceed with the Water Revitalization Plan, (ii) continue to strengthen efforts around cybersecurity, and (iii) remain an active partner in river basin planning efforts with respect to water supply and drought mitigation. The Water Department submitted its Emergency Response Plan certification in September 2020. Currently, the Risk and Resilience Assessment is due March 31, 2025, and the Emergency Response Plan is due September 30, 2025.

Watershed Protection

The Water Department's multi-faceted approach to watershed protection includes leveraging regional and national partnerships, applying the latest science and advanced technologies, and developing watershed

management strategies that guide watershed protection efforts and infrastructure investment planning. To gain an understanding of emerging risks to Philadelphia's water supply, the Water Department has implemented a Source Water Protection program to identify contaminants of emerging concern, track the state of the science in the water industry, and assess the risk to Philadelphia's drinking water supply. The Water Department may collaborate with peer utilities and/or design and implement special water quality monitoring and modeling programs to gather additional information to inform planning initiatives. To mitigate potential impacts to Philadelphia's drinking water from accidental or intentional contamination events in the water supply, the Water Department operates a private web-based communication system that is capable of quickly notifying downstream users of water quality events by phone and email. See also "THE SYSTEM – Environmental Compliance" for a discussion of the System's environmental compliance.

Information Technology Systems and Continuity Planning

The Water Department is increasingly dependent on the continuous and reliable operation of information technology systems and relies on such systems with respect to customer service, billing and accounting and, in some cases, the monitoring and operation of treatment, storage and pumping facilities. In addition, the Water Department relies on these systems to track utility assets and to manage maintenance and construction projects, materials and supplies.

The Water Department continues evaluating various technology systems, installing firewalls, creating cybersecurity policies and developing a cybersecurity program. The Water Department also is developing continuity plans for other emergency situations, including outages caused by breached computer systems. To mitigate against such emergencies, operators stationed at treatment facilities monitor the control systems 24 hours a day, 7 days a week. In the event of any failure of, or tampering with, the computer systems or other cybersecurity breach, the impact to treatment plant control systems could be recognized and remediated quickly by onsite personnel, including by using standalone backup control panels and field panels to control processes at the treatment plants. See "MANAGEMENT INITIATIVES – Security of Water Department Facilities and Water Supply and AWIA"; see also "CERTAIN INVESTMENT CONSIDERATIONS – Cybersecurity" below and APPENDIX III – "GOVERNMENT AND FINANCIAL INFORMATION OF THE CITY OF PHILADELPHIA – THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Cybersecurity."

Climate Change Initiatives and CCAP

Climate change poses significant challenges to water, wastewater and stormwater utilities across the nation. The impacts of climate change in Philadelphia include, but are not limited to, sea level rise and storm surge, increasing precipitation, higher air temperatures, increasing severity of storms, and potentially more frequent and/or severe drought. In infrastructure planning, design and operations, the Water Department considers that impacts from climate change are evidently happening and will only continue to grow in magnitude in the coming century, including during the term of the Bonds.

While there is uncertainty regarding the specific magnitude, timing and long-term effects of climate change, as well as the nature of future climate change-based regulations, recent extreme storm events have highlighted the need to prioritize climate resiliency planning efforts. The Water Department already has many systems and programs in place to monitor, understand and respond to the effects of climate change. In 2014, the Water Department formed its Climate Change Adaptation Program ("CCAP"), which seeks to characterize and reduce the risks and associated expenses that the Water Department will face from the impacts of climate change by identifying and implementing effective and feasible adaptation strategies across the Water Department's drinking water, wastewater and stormwater systems. CCAP stays informed on the latest science, regularly engages with climate experts and carries out in-depth assessments to support the development of cost-effective adaptation strategies that leverage existing programs and processes.

A primary goal of CCAP is to ensure that climate change information is embedded within all levels of infrastructure planning, design and operations, which led CCAP to develop Climate-Resilient Planning and

Design Guidance (“Guidance”) to inform individual projects and long-term planning initiatives. The Guidance includes resilient design flood elevations and actionable information and tools to evaluate the risks associated with sea level rise, storm surge, increasing precipitation and higher air temperatures on the Water Department’s infrastructure systems. In 2022, the Water Department adopted a Department-wide policy requiring use of the Guidance in the planning, design and construction of all Water Department projects to the extent feasible, including the renewal and replacement of existing assets and the construction of new assets. To the extent relevant, the Guidance must also be applied to the operation and maintenance of the Water Department infrastructure systems and facilities, including drinking water treatment plants and water pollution control plants. Mainstreaming the use of climate information in the Water Department’s planning and design processes will help ensure that the Water Department’s long-lived investments remain operationally and economically viable, despite the impacts of climate change.

In addition to mainstreaming the use of climate science and risk information at the Water Department, CCAP’s other initiatives include: analyzing the evolving, best available climate science and projections and updating the Guidance as needed; performing quantitative, cost-based flood risk and resiliency assessments at treatment facilities and developing adaptation strategies to protect vulnerable infrastructure; characterizing risks to critical systems and resources, including Philadelphia’s drinking source waters and receiving waters, to inform future investment needs; regularly coordinating with programs and Units throughout the Water Department, including the Water and Wastewater Master Planning Programs, to ensure that climate projections are being considered; and, regularly working with other City agencies, local and regional stakeholders, peer utilities and industry experts to address climate-related risks and further enhance adaptation planning efforts. As of this calendar year, a Water Department Manager for Climate Adaptation and Watershed Protection is also serving a 2-year term as Vice Chair of the national Water Utility Climate Alliance (“WUCA”), a group of twelve of the nation’s largest water providers that are working to advance climate change adaptation, planning, and decision-making to ensure that water utilities, and the communities they serve, can thrive in the face of emerging climate-related challenges.

CCAP aims to help address the System’s climate-related risks to enable the Water Department to maintain current levels of service under changing climatic conditions. However, despite the Water Department’s planning efforts, the precise effects of climate change continue to be indeterminate due to multiple sources of uncertainty, including future global emissions and the resulting magnitude and timing of specific climate change impacts in the Philadelphia region. See “CERTAIN INVESTMENT CONSIDERATIONS – Climate Change” below.

For further discussion of climate change and its potential effects on the City, see APPENDIX III – “GOVERNMENT AND FINANCIAL INFORMATION OF THE CITY OF PHILADELPHIA – The Government of the City of Philadelphia – Climate Change.”

CERTAIN INVESTMENT CONSIDERATIONS

Introduction

The purchase of the Bonds involves numerous investment risks, some of which are referred to in this Official Statement. No representation is made that the risks described or referred to in this Official Statement constitute all of the risks associated with investing in the Bonds. Accordingly, prior to making a decision to invest in the Bonds, each prospective purchaser thereof should make an independent evaluation of all of the information presented in this Official Statement, including the Appendices, and should review other pertinent information.

System Revenues, Expenditures, Financing and Capital Assets

Actual operation, maintenance and repair expenses of the System may be greater or less than currently projected. Factors such as damages to facilities and infrastructure, changes in technology, regulatory standards,

and increased costs of treatment chemicals, other material, energy, labor and administration can substantially affect the expenses of the Water Department. Although the City has covenanted to set rates and charges in amounts sufficient to pay debt service on all Water and Wastewater Revenue Bonds, including the Bonds, in accordance with the provisions of the General Ordinance, there can be no assurance that amounts will be so sufficient or that sufficient amounts will be collected. Furthermore, increases in rates and charges could result in a decrease in demand for usage and result in a decrease in revenues.

Operation of the System requires significant capital expenditures that are partially dependent on the City's ability to secure appropriate financing. Disruptions in the capital and credit markets may limit the City's access to capital. Without sufficient capital, or if the cost of borrowing increases, it may materially and adversely affect the business, financial condition, and results of operations of the Water Department or its ability to timely undertake its capital improvement program.

Water and wastewater operations entail specific risks and may impose significant costs. Wastewater collection and treatment and septage pumping and sludge hauling involve various unique risks. If collection or treatment systems fail or do not operate properly, or if there is a spill, untreated or partially treated wastewater could discharge onto property or into nearby streams and rivers, causing various damages and injuries, including environmental damage. These risks are most acute during periods of substantial rainfall or flooding, which are the main causes of CSO and system failure. Any failure of water and wastewater treatment plants, networks of water and wastewater pipes, or water reservoirs could result in losses and damages that may adversely affect the business, financial condition, and results of operations of the Water Department.

General Economic Conditions

General economic conditions, including inflationary pressure and sustained economic distress within certain parts of the City, may affect the Water Department's financial condition and results of operations. A general economic downturn may lead to a reduction in discretionary and recreational water use. General economic turmoil also may lead to an investment market downturn, which may result in asset market values (including pension plan assets) suffering a decline and significant volatility. For instance, a decline in the City's pension plans' asset market values could increase required cash contributions to these plans from the Water Fund and increased pension expenses in subsequent years.

Environmental Regulations

The City is subject to state and federal environmental laws and regulations applicable to the System. These laws and regulations are subject to change, and the City may be required to expend substantial funds to meet the requirements of such changing laws and regulations in the future. Failure to comply with these laws and regulations may result in the imposition of administrative, civil and criminal penalties, or the imposition of an injunction requiring the City to take or refrain from taking certain actions. In addition, the City may be required to remediate contamination on properties owned or operated by the City or on properties owned by others but contaminated as a result of City operations.

Water and wastewater services are governed by various federal and state environmental protection and health and safety laws and regulations, including the federal Safe Drinking Water Act, the Clean Water Act and similar state laws, and federal and state regulations issued under these laws by the EPA and PADEP. These laws and regulations establish, among other things, criteria and standards for drinking water and for discharges into the waters of the United States and nearby states. Pursuant to these laws, the Water Department is required to obtain various environmental permits for operations. Violations or noncompliance could result in fines or other sanctions by regulators and/or such violations or noncompliance could result in civil suits. Environmental laws and regulations are complex and change frequently. These laws, and the enforcement thereof, have tended to become more stringent over time. While the Water Department has budgeted for future capital and operating expenditures to comply with these laws and permitting requirements, it is possible that new or stricter standards could be imposed that will require additional capital expenditures or raise operating costs. For a discussion of

environmental regulations and the System's environmental compliance, see also "THE SYSTEM – Environmental Compliance."

Weather and Seasonal Fluctuations

The Water Department's operations are affected by weather conditions and are subject to seasonal fluctuations, which could adversely affect demand for services and revenues and earnings.

The Water Department depends on an adequate water supply to meet the present and future demands of customers. Drought conditions could interfere with sources of water supply and could reduce demand due to the implementation of the Water Department's drought emergency restrictions, which could adversely affect the Water Department's ability to supply water in sufficient quantities to existing and future customers. An interruption in water supply could have a material adverse effect on the operations and financial condition of the Water Department.

Climate Change

Despite the Water Department's planning efforts, due to uncertainty in the specific timing, magnitude and long-term effects of climate change, the full extent of future climate change impacts on the System and its operations are indeterminate. No assurance can be given that the System will not encounter negative environmental and infrastructural consequences as a result of climate change and that such events will not have a material adverse effect on the operations or financial condition of the Water Department. See "MANAGEMENT INITIATIVES – Climate Change Initiatives and CCAP" herein for a discussion of the measures currently undertaken by the Water Department to address climate change.

Security of the System

Damage to the System resulting from information technology breaches, vandalism, sabotage, or terrorist activities may adversely affect the operations and financial condition of the System. There can be no assurance that the City's security, emergency preparedness and response plans will be adequate to prevent or mitigate such damage, or that the costs of maintaining such security measures will not be greater than currently anticipated. See "MANAGEMENT INITIATIVES – Security of Water Department Facilities and Water Supply and AWIA" and also "– Information Technology Systems and Continuity Planning" for efforts the Water Department has taken to secure the System.

Cybersecurity

Information technology systems are vulnerable to a range of cybersecurity-related risks. These risks include, without limitation, data breaches and system compromises resulting from, ransomware attacks, attacks from hackers, email phishing campaigns, computer viruses, physical or electronic break-ins, insider threats, system misconfigurations, and other methods of compromise that have become increasingly sophisticated. Such events or issues could lead to the disclosure of personally identifiable information or other confidential or proprietary information, could have an adverse effect on the ability of the Water Department to operate, and could result in significant exposure and substantial costs to the Water Department. The City carries cybersecurity insurance consistent with market practice for similarly sized municipalities. The City's Office of Innovation and Technology follows industry best practices, develops City-wide security policies, provides regular security training to all City employee users, and uses security tools to mitigate, prevent, deter, and respond to incidents if and when they occur. See APPENDIX III – "GOVERNMENT AND FINANCIAL INFORMATION OF THE CITY OF PHILADELPHIA – THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Cybersecurity" for more information regarding the City's cyber-security tools and practices.

No assurance can be given that the Water Department will not be exposed to cyber threats or attacks or that such incidents will not have a material adverse effect on the operations and financial condition of the Water Department.

Limited Recourse on Default

The rights of Bondholders are limited in the event the City defaults on its obligation to pay debt service on the Bonds. The ultimate enforcement of Bondholders' rights upon any default by the City in the performance of its obligations under the Act, the General Ordinance and the Bonds will depend upon the application of remedies provided in the Act, the General Ordinance and other applicable laws. Litigation may be necessary to obtain relief in accordance with these remedies. Such litigation may be protracted and costly. Remedies such as mandamus, specific performance or injunctive relief are equitable remedies, which are subject to the discretion of the court. See "REMEDIES OF BONDHOLDERS" and APPENDIX II – "SUMMARIES OF CERTAIN AUTHORIZATIONS FOR THE BONDS – Summary of Operative Provisions of the General Ordinance – Remedies to be Enforced Only Against Project Revenues" herein.

Bankruptcy

The rights of the owners of the Bonds are subject to the limitations on legal remedies against the City, including applicable bankruptcy, moratorium, insolvency or other laws affecting creditor's rights or remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the Commonwealth of Pennsylvania. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights or the modification of City covenants affecting the System or Project Revenues.

The PICA Act prohibits the City from filing a petition for relief under Chapter 9 of the United States Bankruptcy Code so long as PICA has any power or duty under the PICA Act. The PICA Act provides that PICA shall have continuing existence and succession until the later of January 2, 2047 or one year after all of PICA's liabilities, including without limitation, its bonds, have been fully paid or discharged or after provision for such payment shall have been made as provided for in the applicable indenture. For more information, see APPENDIX III – "GOVERNMENT AND FINANCIAL INFORMATION OF THE CITY OF PHILADELPHIA – The Government of the City of Philadelphia – Local Government Agencies – Non-Mayoral-Appointed or Nominated Agencies – PICA" and see "DEBT OF THE CITY – PICA Bonds."

The filing of a petition under Chapter 9 operates as an automatic stay of the commencement or continuation of any judicial or other proceeding against the debtor or its property. However, a petition filed under Chapter 9 does not operate as a stay of the application of pledged special revenues to the payment of indebtedness secured by such revenues. Special revenues include receipts derived from the ownership or operation of systems that are primarily used or intended to be used primarily to provide transportation, utility or other services, including the proceeds of borrowings to finance such systems. The Federal Bankruptcy Code further provides that special revenues acquired by the debtor after the commencement of a Chapter 9 case shall remain subject to any lien resulting from any security agreement entered into by the debtor before the commencement of the case. However, the lien on special revenues derived from a system will be subject to the payment of the necessary Operating Expenses of that system. Therefore, Project Revenues acquired by the City after the filing of a Chapter 9 petition would remain subject to the lien created by the General Ordinance in favor of the Bondholders but would be subject to the payment of Operating Expenses of the System, which are priority payments. A bankruptcy court's interpretation of 'necessary Operating Expenses' under the Federal Bankruptcy Code could differ from the definition of Operating Expenses of the System under the General Ordinance. The Federal Bankruptcy Code also provides that a pre-bankruptcy transfer of property of a debtor to or for the benefit of a bondholder, on account of such bond, may not be avoided as a preferential transfer. Although Project Revenues appear to satisfy this definition, no assurance can be given that a court would hold that Project Revenues are special revenues. If Project Revenues were determined not to be "special revenues," then there is a risk that Project Revenues collected after the commencement of the bankruptcy case would not be subject to the lien of the General Ordinance, such that the recovery by holders of the Bonds could be negatively affected.

Unless the debtor consents or the plan proposed under Chapter 9 so provides, the bankruptcy court may not interfere with any of the property or revenues of a Chapter 9 debtor or with such debtor's use or enjoyment of any income-producing property. Accordingly, the City may be able to defer the application of Bond proceeds, Project Revenues or the pledged Water and Wastewater Funds to payment of the Bondholders during the pendency of the bankruptcy case, but the lien on such funds and revenues would remain, and would continue to encumber such funds and revenues (subject again to payment of 'necessary Operating Expenses' and Operating Expenses of the System, to the extent these differ from 'necessary Operating Expenses' as determined by a bankruptcy court under the Federal Bankruptcy Code). Even if a bankruptcy court had the power to compel immediate payment, the court, in the exercise of its equitable powers, could decline to require the City to use Bond proceeds, Project Revenues and the Water and Wastewater Funds to pay Bondholders during the pendency of the case.

The debtor may file a plan for the adjustment of its debts that may include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by the court, binds all creditors that have had notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly. Thus, under the above described "cram-down" provisions of the Federal Bankruptcy Code, a plan of adjustment could be imposed on the Bondholders that would give them less than their anticipated rate of interest on the Bonds or possibly even less than a full return of their principal under certain circumstances, and/or extend the time for payment of principal of or interest on the Bonds.

The foregoing references to the Federal Bankruptcy Code should not be construed as implying that the City expects to resort to the provisions of such statute or that, if it did, any proposed restructuring would include a dilution of the sources of payment of and security for the Bonds.

Water Conservation

Decreased customer water consumption as a result of water conservation efforts may adversely affect demand for water services and may reduce revenues and earnings. There may be declines in water usage per customer as a result of an increase in conservation awareness, and the structural impact of an increased use of more efficient plumbing fixtures and appliances. Difficulty obtaining future rate increases to offset decreased customer water consumption to cover investments and expenses, may adversely affect the business, financial condition, and results of operations of the Water Department.

Limitations on Effectiveness of Pledge of Project Revenues and Water and Wastewater Funds

The effectiveness of the pledge of the Project Revenues and the Water and Wastewater Funds may be limited because, although the Fiscal Agent will have custody of the Water and Wastewater Funds, the City will have complete control of deposits into and expenditures from the Water and Wastewater Funds, except for amounts on deposit in the Sinking Fund, including the Debt Reserve Account. While the City has covenanted not to direct the Fiscal Agent to transfer Project Revenues other than as permitted under the General Ordinance, no requisition procedure or other similar procedure will be established for the expenditure of monies by the City from the Water and Wastewater Funds (other than the Sinking Fund, including the Debt Reserve Account), and no consent or approval of the Fiscal Agent is required to be obtained by the City as a condition of the City's expenditure of such monies. For more information on the limitations of the pledge, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Limitations on Effectiveness of Pledge of Project Revenues and Water and Wastewater Funds."

Debt Covenants

The City is obligated to comply with the Rate Covenant and other debt covenants under certain agreements, including its insurance contracts. Failure to comply with such covenants, which if not cured or waived, could result in the City's being required to repay or finance the related borrowings before their due date, limit future borrowings, cause cross default issues, and increase borrowing costs. If forced to repay or refinance (on less favorable terms) these borrowings, the Water Department's business, financial condition, and results of operations could be adversely affected by increased costs and rates.

LITIGATION AND CLAIMS

Claims against the City relating to the Water Department are paid out of the Water and Wastewater Funds and only secondarily out of the City's General Fund, in the event cash balances in the Water and Wastewater Funds are insufficient at the time of payment of the claim. The General Fund is then reimbursed by the Water and Wastewater Funds for any such advance. The following discussion concerning litigation and claims, which has been prepared based on information supplied by the Law Department of the City and has been reviewed by the Law Department of the City, relates to litigation and claims against the City chargeable to the Water Fund. A discussion of other litigation affecting the City is set forth under the caption in APPENDIX III – "GOVERNMENT AND FINANCIAL INFORMATION OF THE CITY OF PHILADELPHIA – Litigation."

Various other claims have been asserted against the City respecting the Water Department, and in some cases, lawsuits have been initiated. The City may be liable if these claims are reduced to judgment or otherwise settled in a manner requiring payment by the City.

The Water Department paid \$6.4 million and \$6.7 million in claims in Fiscal Year 2022 and Fiscal Year 2023, respectively. The Fiscal Year 2024 budget was \$6.5 million, and as of June 30, 2024, the Water Department paid \$6.5 million in claims. The Fiscal Year 2025 adopted budget is \$7.0 million.

The legal question of whether stormwater charges are a tax or a service fee is before the Pennsylvania Supreme Court. West Chester University declined to pay a stormwater charge levied by the Borough of West Chester on the ground that the university is exempt from tax. The Borough filed a petition for declaratory judgment with the Commonwealth Court. On January 3, 2023, the Commonwealth Court decided that the Borough's stormwater charge was a tax. On February 1, 2023, the Borough appealed the Commonwealth Court's decision to the Pennsylvania Supreme Court. The appeal has been briefed. The City joined with other individual municipal entities and associations to argue that stormwater charges are service fees. Oral argument occurred on September 11, 2024. The decision by the Pennsylvania Supreme Court may either reinforce or create difficulties for the Water Department's ability to collect fees for stormwater services. As of the date of this Official Statement, the Water Department cannot predict the potential outcome or effects of the litigation.

On November 4, 2022, the City of Philadelphia filed suit in the Philadelphia Court of Common Pleas against 3M, DuPont, Chemguard, Tyco Fire Products, Kidde-Fenwal, and a number of other manufacturers of per- and poly-fluoroalkyl substances ("PFAS"). The City sued for damages and injunctive relief to address PFAS contamination of City properties and natural resources and brought six claims: strict liability for design defect, strict liability for failure to warn, public nuisance, private nuisance, trespass, and negligence. The City later amended its complaint to add claims that DuPont and other defendants engaged in a series of fraudulent transfers to obstruct potential creditors, like the City, from accessing assets sufficient to satisfy legal liabilities arising from the manufacture, sale, and promotion of PFAS products. Over the City's opposition, the suit was transferred from state court to a federal multidistrict litigation ("MDL") proceeding pending in the District of South Carolina, *In re Aqueous Film-Forming Foams (AFFF) Products Liability Litigation*. The City's motion to remand its case back to state court remains pending.

Just before a bellwether trial was set to start, 3M announced a proposed nationwide class action settlement of \$10.3 billion to \$12.5 billion. The City initially opted out of the 3M settlement. After further

challenges and negotiations, 3M revised certain terms of its proposed settlement, including indemnification provisions. The City subsequently elected to participate in the 3M settlement, which was approved by the Court, and has submitted its claim. The allocation ultimately received by the City will be paid over time, with the last payment expected to be made in 2036. The City currently expects the first (and largest) settlement payment to be made during calendar year 2024. Proceeds of the settlement may be deposited in either the Water Fund or the General Fund. The City is not relying on any settlement payment from 3M to meet any covenant or financial metric with respect to obligations paid from the Water Fund.

Separately, DuPont also filed for approval of its own proposed settlement, which was approved by the Court and is in the claims administration phase. The City opted out of the DuPont settlement. Kidde-Fenwal, Inc. has filed for bankruptcy, and several related entity defendants have been swept into that bankruptcy. Proceedings are ongoing, and the parties are in mediation discussions with Kidde-Fenwal. Tyco and Chemguard filed for preliminary approval of a proposed settlement, which was recently approved by the Court. The City is determining whether it will participate in this settlement. Finally, co-lead plaintiffs in the MDL recently filed for preliminary approval of a very small settlement with BASF Corporation, which is another PFAS manufacturer and defendant in the City's lawsuit. The settlement is not yet fully briefed. Litigation is ongoing.

TAX MATTERS

Federal Tax Matters

In the opinion of Ballard Spahr LLP and Ahmad Zaffarese LLC, Co-Bond Counsel, interest on the Bonds is excludable from gross income for purposes of federal income tax, under existing laws as enacted and construed on the date of initial delivery of the Bonds, assuming the accuracy of the certifications of the City and continuing compliance by the City with the requirements of the Code. Interest on the Bonds is not an item of tax preference for purposes of federal alternative minimum tax imposed on individuals; however, such interest is taken into account in determining the "adjusted financial statement income" (as defined in Section 56A of the Code) of "applicable corporations" (as defined in Section 59 of the Code) for purposes of computing the alternative minimum tax imposed on such corporations.

The Code contains a number of restrictions and requirements that apply to the Bonds including, without limitation, (i) investment restrictions, (ii) requirements for periodic payments of arbitrage profits to the United States, and (iii) rules regarding the proper use of the proceeds of the Bonds and the facilities financed or refinanced with proceeds. The City has covenanted to comply with all of the restrictions and requirements of the Code that must be satisfied in order for the interest on the Bonds to be and remain excludable from the gross income of the owners thereof for federal income tax purposes (the "Tax Covenants"). Failure to comply with certain of the Tax Covenants could result in the inclusion of interest on the Bonds in the gross income of the owners for federal income tax purposes, retroactive to the date of issuance of the Bonds.

Original Issue Premium. The Bonds were offered at a premium ("original issue premium") over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a Bond through reductions in the bondholder's tax basis for the Bond for determining taxable gain or loss upon sale or redemption prior to maturity. Amortization of premium does not create a deductible expense or loss. Bondholders should consult their tax advisers for an explanation of the amortization rules.

No Other Opinions. Co-Bond Counsel expresses no opinion regarding other federal tax consequences relating to ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

State Tax Matters

In the opinion of Co-Bond Counsel, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date of initial delivery of the Bonds, interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax. The Bonds and the interest thereon may be subject to state

or local taxes in jurisdictions other than the Commonwealth under applicable state or local tax laws. Co-Bond Counsel will express no other opinion regarding other tax consequences with respect to the Bonds, including whether or not interest on the Bonds is subject to taxation under the laws of any jurisdiction other than the Commonwealth of Pennsylvania.

General

The opinions expressed by Co-Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of the initial issuance and delivery of the Bonds, and Co-Bond Counsel will not express any opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete; holders of the Bonds should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

The proposed form of the opinion of Co-Bond Counsel is attached hereto as APPENDIX V.

NEGOTIABLE INSTRUMENTS

The Act provides that bonds issued thereunder shall have all the qualities and incidents of securities under the Uniform Commercial Code of the Commonwealth of Pennsylvania and shall be negotiable instruments.

UNDERWRITING

The Bonds are being purchased by the underwriters listed on the front cover page of the Official Statement (collectively, the “Underwriters”) pursuant to a Bond Purchase Agreement between the City and Siebert Williams Shank & Co., LLC, on behalf of itself and as representative of the other Underwriters, at a purchase price of \$654,856,449.76, which equals the principal amount of the Bonds of \$595,780,000.00, plus original issue premium of \$61,633,237.35, less an aggregate Underwriters’ discount of \$2,556,787.59. The Underwriters will purchase all of the Bonds if any such Bonds are purchased. The obligation of the Underwriters to purchase the Bonds is subject to certain terms and conditions as set forth in the Bond Purchase Agreement.

The initial public offering prices of the Bonds set forth on the inside front cover page hereof may be changed without notice by the Underwriters. The Underwriters may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts, certain of which may be sponsored or managed by one or more of the Underwriters) and others at prices lower than the offering prices set forth on the inside front cover page hereof.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the City and to persons and entities with relationships with the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the City. The Underwriters and their respective

affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Blaylock Van, LLC (“Blaylock Van”), one of the Underwriters of the Bonds, has entered into a municipal securities distribution agreement (the “Distribution Agreement”) with Crews & Associates, Inc. (“C&A”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement, C&A may purchase Bonds from Blaylock Van at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Jefferies and Siebert, Underwriters of the Bonds, are serving as lead dealer manager and co-dealer manager, respectively (collectively, the “Dealer Managers”). The City’s purchase of the Purchased Bonds will be funded with a portion of the net proceeds of the Bonds. In their capacity as Dealer Managers relating to the Tender Offer, the Dealer Managers are acting as dealer managers and not as Underwriters of the Bonds. The Dealer Managers will be separately paid customary fees for their services as dealer managers relating to the Tender Offer and will be reimbursed for reasonable expenses incurred as dealer managers, from a portion of the proceeds of the Bonds.

RATINGS

Fitch, Moody’s and S&P have assigned to the Bonds municipal bond ratings “A+”, “A1” and “A+”, respectively, each with a stable outlook. The Bonds are expected to be assigned insured ratings of “A1”, stable outlook, by Moody’s and “AA”, stable outlook, by S&P based upon the Policy to be issued by AG at the time of delivery of the Bonds. Certain information was supplied by the City and the Water Department to the rating agencies to be considered in evaluating the Bonds. Such ratings express only the views of the respective rating agencies and are not a recommendation to buy, sell or hold the Bonds.

Any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch, One State Street Plaza, New York, New York 10004; Moody’s, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; and S&P, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

The Underwriters have not assumed responsibility to advise the owners of the Bonds of any change in any rating on the Bonds and neither the City nor the Underwriters have undertaken any responsibility to maintain any particular rating on the Bonds. The City has agreed, in the Continuing Disclosure Agreement, to report actual rating changes on the Bonds. See “CONTINUING DISCLOSURE” herein and APPENDIX VI. Any downward change in or withdrawal of a credit rating may have an adverse effect on the marketability or market price of the Bonds.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds will be passed upon by Ballard Spahr LLP and Ahmad Zaffarese LLC, both of Philadelphia, Pennsylvania, Co-Bond Counsel. The proposed form of such legal opinion is included herein as APPENDIX V. Certain legal matters will be passed upon for the City by Greenberg Traurig, LLP and Turner Law, P.C., both of Philadelphia, Pennsylvania, Co-Disclosure Counsel. Certain legal matters relating to the information contained in APPENDIX III and APPENDIX IV will be passed upon for the City by Hawkins Delafield & Wood LLP. Certain legal matters will

be passed upon for the Underwriters by Cozen O'Connor, of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the City Solicitor.

FINANCIAL ADVISORS

PFM Financial Advisors LLC, of Philadelphia, Pennsylvania and Acacia Financial Group, Inc., of Mount Laurel, New Jersey, have been retained by the City as Co-Financial Advisors in connection with the issuance of the Bonds and, in such capacity, have assisted the City in the preparation of Bond-related documents. The Co-Financial Advisors' fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Although the Co-Financial Advisors have read and participated in the preparation of this Official Statement, they have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City's records and from other sources that are believed to be reliable, including financial records of the City, reports of consultants and other entities that may be subject to interpretation. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

NO LITIGATION OPINION

Upon the delivery of the Bonds, the City Solicitor will furnish an opinion, in form satisfactory to Co-Bond Counsel and the Underwriters, to the effect that, among other things, and except as disclosed in this Official Statement, there is no litigation or other legal proceeding pending, or, to the best of her knowledge after customary inquiry, threatened in writing against the City, to restrain or enjoin the issuance or delivery of the Bonds or challenging the validity of the proceedings of the City taken in connection therewith or the pledge or application of any monies provided for the payment of the Bonds, or contesting the powers of the City with respect to any of the foregoing.

CERTAIN REFERENCES

All summaries of the provisions of the Bonds and the security therefor, the Act and the General Ordinance set forth herein and in APPENDIX II and all summaries and references to other materials not purported to be quoted in full, are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is made hereby to the complete documents relating to such matters for the complete terms and provisions thereof or for the information contained therein. All estimates, assumptions and statistical information contained herein, while taken from sources considered reliable, are not guaranteed. So far as any statements are made in this Official Statement involving matters of opinion, or projections or estimates, whether or not expressly so stated, they are made merely as such and not as representations of fact.

The attached Appendices are integral parts of this Official Statement and should be read in their entireties together with all foregoing statements in this Official Statement.

The agreement between the City and holders of Bonds is fully set forth in the Bonds and the General Ordinance. Neither this Official Statement nor any advertisement for the Bonds is to be construed as constituting an agreement with purchasers of the Bonds.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"), the City (i) will enter into a Continuing Disclosure Agreement with Digital Assurance Certification, L.L.C., as dissemination agent, for the benefit of the holders of the Bonds, to be dated the date of original delivery and

payment for the Bonds, the form of which is annexed hereto as APPENDIX VI, and (ii) has provided the disclosure in the following paragraph.

To assist the City in complying with its continuing disclosure undertakings, the City reviews and updates its disclosure policies and procedures as necessary on an ongoing basis.

CERTAIN RELATIONSHIPS

Ballard Spahr LLP and Ahmad Zaffarese LLC, Co-Bond Counsel, and Turner Law, P.C. and Greenberg Traurig, LLP, Co-Disclosure Counsel, represent some of the Underwriters and Dealer Managers from time to time in matters unrelated to the issuance of the Bonds or the Tender Offer. Cozen O'Connor, counsel to the Underwriters and the Dealer Managers, represents the City from time to time in matters unrelated to the issuance of the Bonds or the Tender Offer.

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This Official Statement has been duly executed and delivered by the following officer on behalf of the City of Philadelphia, Pennsylvania.

THE CITY OF PHILADELPHIA, PENNSYLVANIA

By: /s/ Rob Dubow
Rob Dubow, Director of Finance

SCHEDULE 1 PURCHASED BONDS

The tables below and on the following pages list the principal amount of the Purchased Bonds of each maturity and corresponding CUSIP that were validly tendered and accepted for purchase by the City.

The City of Philadelphia, Pennsylvania Water and Wastewater Revenue Refunding Bonds, Series 2015B

CUSIP ⁽¹⁾ (Base No. 717893)	Maturity Date (July 1)	Interest Rate (%)	Outstanding Principal Amount (\$)	Principal Amount Accepted for Purchase (\$)	Offer Purchase Price
ZH7	2028	5.000	10,190,000	3,755,000	101.465
ZJ3	2029	5.000	10,695,000	4,590,000	101.465
ZK0	2030	5.000	11,230,000	5,375,000	101.465
ZL8	2031	5.000	11,790,000	5,705,000	101.465
ZM6	2032	5.000	12,380,000	2,955,000	101.465
ZN4	2033	5.000	12,995,000	3,040,000	101.465
ZP9	2034	4.000	13,580,000	9,250,000	100.813
ZQ7	2035	4.000	14,110,000	12,110,000	100.813
Total			96,970,000	46,780,000	

The City of Philadelphia, Pennsylvania Water and Wastewater Revenue Refunding Bonds, Series 2016

CUSIP ⁽¹⁾ (Base No. 717893)	Maturity Date (October 1)	Interest Rate (%)	Outstanding Principal Amount (\$)	Principal Amount Accepted for Purchase (\$)	Offer Purchase Price
A50	2029	5.000	6,670,000	3,495,000	105.061
A68	2030	5.000	7,010,000	3,290,000	105.061
A76	2031	4.000	7,330,000	5,240,000	103.054
A84	2032	4.000	7,630,000	5,565,000	103.054
A92	2033	4.000	7,940,000	3,455,000	103.054
B67	2034	4.000	3,195,000	285,000	103.054
Total			39,775,000	21,330,000	

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP numbers herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc., solely for the convenience of the Bondowners of the Purchased Bonds and the City is not responsible for the selection or correctness of the CUSIP numbers printed herein and does not make any representation with respect to such numbers or undertake any responsibility for their accuracy.

The City of Philadelphia, Pennsylvania
Water and Wastewater Revenue Bonds, Series 2017A

CUSIP ⁽¹⁾ (Base No. 717893)	Maturity Date (October 1)	Interest Rate (%)	Outstanding Principal Amount (\$)	Principal Amount Accepted for Purchase (\$)	Offer Purchase Price
C25	2032	5.000	7,145,000	3,580,000	107.836
C33	2033	5.000	7,515,000	4,450,000	107.836
C41	2034	5.000	7,900,000	6,650,000	107.836
C58	2035	5.000	8,305,000	7,980,000	107.807
C66	2036	5.000	8,730,000	5,365,000	107.778
C74	2037	5.000	9,175,000	4,700,000	107.750
Total			48,770,000	32,725,000	

The City of Philadelphia, Pennsylvania
Water and Wastewater Revenue Refunding Bonds, Series 2017B

CUSIP ⁽¹⁾ (Base No. 717893)	Maturity Date (November 1)	Interest Rate (%)	Outstanding Principal Amount (\$)	Principal Amount Accepted for Purchase (\$)	Offer Purchase Price
E72	2029	5.000	31,750,000	18,695,000	108.014
E80	2030	5.000	32,495,000	25,625,000	108.014
E98	2031	5.000	34,425,000	30,170,000	108.014
F22	2032	5.000	3,390,000	2,430,000	108.014
F30	2033	5.000	3,615,000	3,055,000	108.014
F48	2034	5.000	3,850,000	2,435,000	108.014
Total			109,525,000	82,410,000	

The City of Philadelphia, Pennsylvania
Water and Wastewater Revenue Bonds, Series 2018A

CUSIP ⁽¹⁾ (Base No. 717893)	Maturity Date (October 1)	Interest Rate (%)	Outstanding Principal Amount (\$)	Principal Amount Accepted for Purchase (\$)	Offer Purchase Price
G96	2032	5.000	6,190,000	4,630,000	110.153
H20	2033	5.000	6,505,000	4,225,000	110.153
H38	2034	5.000	6,840,000	6,420,000	110.153
Total			19,535,000	15,275,000	

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP numbers herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc., solely for the convenience of the Bondowners of the Purchased Bonds and the City is not responsible for the selection or correctness of the CUSIP numbers printed herein and does not make any representation with respect to such numbers or undertake any responsibility for their accuracy.

The City of Philadelphia, Pennsylvania
Water and Wastewater Revenue Refunding Bonds (Federally Taxable), Series 2019A

CUSIP ⁽¹⁾ (Base No. 717893)	Maturity Date (October 1)	Interest Rate (%)	Outstanding Principal Amount (\$)	Principal Amount Accepted for Purchase (\$)	Offer Purchase Price
L33	2040	4.289	24,010,000	8,060,000	93.585
Total			24,010,000	8,060,000	

The City of Philadelphia, Pennsylvania
Water and Wastewater Revenue Refunding Bonds (Federally Taxable), Series 2020B

CUSIP ⁽¹⁾ (Base No. 717893)	Maturity Date (November 1)	Interest Rate (%)	Outstanding Principal Amount (\$)	Principal Amount Accepted for Purchase (\$)	Offer Purchase Price
S28	2033	2.234	4,875,000	1,050,000	84.761
S36	2034	2.334	5,455,000	825,000	83.545
S44	2035	2.434	3,555,000	1,335,000	82.193
Total			13,885,000	3,210,000	

The City of Philadelphia, Pennsylvania
Water and Wastewater Revenue Refunding Bonds (Federally Taxable), Series 2021B

CUSIP ⁽¹⁾ (Base No. 717893)	Maturity Date (July 1)	Interest Rate (%)	Outstanding Principal Amount (\$)	Principal Amount Accepted for Purchase (\$)	Offer Purchase Price
T35	2027	1.486	10,825,000	5,920,000	93.733
T43	2028	1.686	715,000	435,000	92.088
T68	2030	1.939	740,000	540,000	89.169
T76	2031	2.039	755,000	115,000	87.748
T84	2032	2.189	3,725,000	3,725,000	86.860
T92	2033	2.289	3,810,000	3,060,000	85.752
U25	2036	2.539	33,545,000	14,120,000	82.408
U33	2045	2.926	300,170,000	100,085,000	78.045
Total			354,285,000	128,000,000	

- ⁽¹⁾ CUSIP is a registered trademark of American Bankers Association. CUSIP numbers herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc., solely for the convenience of the Bondowners of the Purchased Bonds and the City is not responsible for the selection or correctness of the CUSIP numbers printed herein and does not make any representation with respect to such numbers or undertake any responsibility for their accuracy.

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APPENDIX I

**FINANCIAL STATEMENTS OF THE WATER FUND
DERIVED FROM THE CITY'S AUDITED ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2023 AND 2022**

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City of Philadelphia
Philadelphia Water Department
Financial Statements
Fiscal Years Ended June 30, 2023, and 2022

CITY OF PHILADELPHIA WATER DEPARTMENT
YEAR ENDED JUNE 30, 2023, AND 2022

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City of Philadelphia Water Department Management Discussion and Analysis

The Philadelphia Water Department is one of the City's ten operating departments and its activities are accounted for under a dedicated Water Fund established pursuant to the Philadelphia Home Rule Charter. Pursuant to the Charter, the Water Department has the power and duty to operate, maintain, repair, and improve the City's water system (the "Water System"), the City's wastewater system (the "Wastewater System") and, together, the "Water and Wastewater Systems" (or the "Combined System").

The Water Department's primary mission is to plan for, operate, and maintain both the infrastructure and the organization necessary to purvey high-quality drinking water, to provide an adequate and reliable water supply for all household, commercial, and community needs, and to sustain and enhance the region's watersheds and quality of life by managing wastewater effectively.

The Water Department serves the City of Philadelphia and also provides wastewater services to ten bulk customers and water services to one bulk water customer. The Water Department operates three drinking water plants which have the capacity to treat and deliver about 546 million gallons per day of top quality drinking water that meets or exceeds all federal, state, and local regulations. Additionally, it operates three water pollution control plants that have the capacity to treat over one billion gallons of wastewater per day at a level that meets or exceeds federal and state standards.

The operations and activities of the Water Department are accounted for with a separate set of balancing accounts that comprise the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. The activity of the Water Department is grouped in the financial statements into the broad category referred to as an enterprise fund (the "Water Fund"). The Water Fund is comprised of the funds and accounts established by the City under its Restated General Water and Wastewater Revenue Bond Ordinance of 1989, as amended (the "General Ordinance").

2023 Financial Highlights

The Water Fund met its required coverage ratios for the year with a Senior Coverage ratio of 1.22, 90% Test Coverage ratio of 1.18, and a Total Payments Coverage ratio of 1.06^{1,2}. At the end of the current fiscal year, the Water Fund's net position totaled \$959 million resulting from an excess of its assets and deferred outflows of resources over its liabilities and deferred inflows of resources; its unrestricted net position showed a deficit of \$271 million. This deficiency will have to be funded from resources generated in future years.

¹ Senior Coverage : Net Revenues must equal at least 120% of the Debt Service Requirements payable in such fiscal year (excluding debt service due on any Subordinated Bonds).

90% Test Coverage: Net Revenues (excluding amounts transferred from the Rate Stabilization Fund into the Revenue Fund during, or as of the end of, such fiscal year) must equal at least equal to 90% of the Debt Service Requirements (excluding debt service on any Subordinated Bonds) payable in such fiscal year.

²Total Payments Coverage: Net Revenues must equal at least 100% of: (i) the Debt Service Requirements (including Debt Service Requirements in respect of Subordinated Bonds) payable in such fiscal year; (ii) amounts required to be deposited into the Debt Reserve Account during such fiscal year; (iii) debt service on all General Obligations Bonds issued for the Water and Wastewater Systems payable in such fiscal year; (iv) debt service on Interim Debt payable in such fiscal year; and (v) the Capital Account Deposit Amount for such fiscal year, less amounts transferred from the Residual Fund to the Capital Account during such fiscal year. To ensure compliance with the rate covenant, the General Ordinance requires that the City review its rates, rents, fees, and charges at least annually.

City of Philadelphia Water Department Management Discussion and Analysis

The Water Fund's net position showed a \$68 million increase during the current fiscal year compared with the prior fiscal year increase of \$16 million.

Overview of the Financial Statements

This section serves as an introduction to the Basic Financial Statements. It represents management's examination and analysis of the Water Fund's financial condition and performance.

The Financial Statements report information about the Water Fund using the Full Accrual Accounting method as used by similar business activities in the private sector. The Water Fund's basic financial statements include the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, Statements of Cash Flows, and Notes to the Financial Statements.

The financial statements are prepared in accordance with accounting principles promulgated by the Governmental Accounting Standards Board ("GASB").

Statement of Net Position: The statement of net position presents the financial position of the Water Fund. It presents information on the assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Water Fund is improving or deteriorating.

Statement of Revenues, Expenses, and Changes in Net Position: The statement of revenues, expenses, and changes in net position presents information showing how the net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., salaries and wages payable).

Statement of Cash Flows: The statement of cash flows presents information on the effects changes in assets, liabilities, and operations have on cash during the course of the fiscal year.

The Water Fund's financial statements can be found following the Management Discussion and Analysis. The notes provide additional information that is essential to a full understanding of the data provided in the Water Fund financial statements. In addition to the basic financial statements and accompanying notes, government accounting standards require presentation of required supplementary information ("RSI"). Following the RSI, the Fund has presented other supplementary information ("OSI").

Please see the Annual Comprehensive Financial Report of the City of Philadelphia for complete financial information for the City and its component units, which can be found at <https://emma.msrb.org/>.

City of Philadelphia Water Department Management Discussion and Analysis

Financial Analysis

Net Position

A three year condensed summary of the Water Fund's net position as of June 30 of each year follows:

Condensed Statements of Net Position (Thousands of Dollars) June 30

	2023	2022	2021
Assets:			
Current Assets	\$ 373,512	\$ 357,729	\$ 340,427
Capital Assets	3,170,873	3,009,352	2,917,035
Restricted Assets	1,080,216	883,209	778,914
Total Assets	4,624,601	4,250,290	4,036,376
Deferred Outflows of Resources	92,249	106,058	80,267
Total Assets and Deferred Outflows	4,716,850	4,356,348	4,116,643
Liabilities:			
Current Liabilities	278,127	226,147	216,629
Bonds Payable Net	2,889,759	2,599,780	2,411,861
Lease Payable	14,265	15,955	-
Other Noncurrent Liabilities	530,096	600,234	540,140
Total Liabilities	3,712,247	3,442,116	3,168,630
Deferred Inflows of Resources	45,813	23,225	72,875
Total Liabilities and Deferred Inflows	3,758,061	3,465,341	3,241,505
Net Position:			
Net Investment in Capital Assets	644,628	621,404	643,531
Restricted	584,883	554,109	527,697
Unrestricted (Deficit)	(270,720)	(284,508)	(296,090)
Total Net Position, as Restated	\$ 958,790	\$ 891,005	\$ 875,138

The Water Fund's net position at June 30, 2023 was approximately \$958.8 million, a \$67.8 million or 7.6% increase from June 30, 2022. Total assets and deferred outflows of resources increased by \$360.5 million, or 8.3% to \$4.7 billion, and total liabilities and deferred inflows of resources increased \$292.7 million, or 8.4%, to \$3.8 billion.

The following is a discussion of the more significant changes in assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position in fiscal year 2023:

- Total Capital Assets, net of Accumulated Depreciation and Amortization increased by \$161.5 million to \$3.2 billion, or 5.4%, due mainly to increases in Construction in Progress of \$148.0 million to \$801.8 million, or 22.6%. CIP increased in FY23 as more construction

City of Philadelphia Water Department Management Discussion and Analysis

projects, particularly PennVest funded projects, began in FY23 which led to an increase in capital expenditures and accounts payable.

- Restricted assets increased by \$197.0 million to \$1.1 billion, or 22.3% in FY23. The increase was mainly due to an increase in the Water Capital Fund of \$171.3 million, an increase in the Sinking Fund of \$14.9 million and an increase in the Sinking Fund Reserve of \$10.7 million. The increase in the Water Capital Fund was due to proceeds from the 2021A Series (PennVest), 2022C Series and Commercial Paper proceeds, as well as transfers from current revenues. The increase in the Sinking Fund is due to proceeds from Series 2021D, 2022A, 2022B, 2022D, 2022E, and 2022F (all PennVest). The increase in the Sinking Fund Reserve was mainly due to a deposit of \$8.5 million from Series 2022C.
- Total Deferred Outflows of Resources decreased by \$13.8 million, or 13.0%. This was mainly due to a decrease in Deferred Outflows from Net Pension Liability because of changes in assumptions and the net difference between projected and actual earnings on pension plan investments.
- Total Current Liabilities increased by \$52.0 million to \$278.1 million, or 23.0%. Most of the increase was due to increases in Commercial Paper and Construction Contracts Payable. Commercial Paper increased by \$33.3 million to \$36.3 million. Commercial Paper is used to pay invoices for many PennVest projects. Many of these projects began construction in FY23. Construction Contracts Payable increased by \$12.6 million to \$54.4 million as more construction projects began in FY23.
- Total Other Noncurrent Liabilities decreased by \$70.1 million to \$530.1 million, or 11.7%, primarily due to decreases in Net Pension Liability of \$46.9 million to \$340.5 million, or 12.1% and Net OPEB Liability of \$29.9 million to \$132.9 million, or 18.4%. Net Pension Liability and Net OPEB Liability decreased because of net differences between projected and actual earnings on plan investments. Also contributing to the overall decrease was an increase in Noncurrent Liabilities related to Indemnities of \$4.1 million and an increase of \$2.6 million for Arbitrage due for Series 2022C (\$2.4 million) and Series 2020A (\$0.2 million).
- Total Deferred Inflows of Resources increased by \$22.6 million to \$45.8 million, or 97.3%, primarily due to an increase in Deferred Inflows of Resources – Net OPEB Liability, which increased by \$27.0 million to \$35.0 million due to changes in methods and assumptions. This was offset by a decrease in Deferred Inflows of Resources – Net Pension Liability of \$4.1 million to \$6.7 million.
- The Water Fund's net position increased by \$67.8 million to \$958.8 million, or 7.6% because of FY23 operations.

**City of Philadelphia Water Department
Management Discussion and Analysis**

Changes in Net Position

A condensed summary of the Water Fund's Statement of Revenues, Expenses, and Changes in Net Position for the years ended June 30 is presented as follows:

Condensed Statements of Revenues, Expenses, and Changes in Net Position
(Thousands of Dollars)
Year Ended June 30

	2023	2022	2021
Operating Revenues:			
Charges for Goods and Services	\$ 803,020	\$ 752,982	\$ 703,048
Miscellaneous Operating Revenues	13,284	12,921	12,776
Operating Grants	792	464	2,748
Total Operating Revenues	817,096	766,367	718,572
Operating Expenses:			
Operating Expenses excluding Depreciation and Amortization	479,279	458,450	411,065
Depreciation and Amortization	148,296	146,603	134,748
Total Operating Expenses	627,575	605,053	545,813
Operating Income	189,521	161,314	172,759
Nonoperating Revenues (Expenses):			
Federal, State, & Local Grants	589	-	-
Interest Income	34,913	(6,555)	1,095
Debt Service – Interest	(100,338)	(93,019)	(70,560)
Other Expenses	1,337	1,132	(20,071)
Total Nonoperating Expenses	(66,173)	(98,442)	(89,536)
Increase in Net Position before Transfers and Contributions	123,348	62,872	83,223
Transfers Out	(57,440)	(48,378)	(37,160)
Capital Contributions	1,877	1,373	8,236
Change in Net Position	67,785	15,867	54,299
Net Position – Beginning of Period, Before Restatement	891,005	875,138	826,763
Reclassification of Expense	-	-	(5,924)
Net Position – Beginning of Period, as Restated	891,005	875,138	820,839
Net Position – End of Period	\$ 958,790	\$ 891,005	\$ 875,138

City of Philadelphia Water Department Management Discussion and Analysis

- Total Operating Revenues increased by \$50.7 million to \$817.1 million, or 6.6%, mainly due to a rate increase that went into effect in FY23.
- Total Operating Expenses increased by \$22.5 million to \$627.6 million, or 3.7% in FY23 mainly due to increases in Personal Services, Purchase of Services, Materials & Supplies, and Depreciation. Further details are noted below.
 1. Personal Services increased by \$4.1 million due to wage increases negotiated by the City and its Labor Unions.
 2. Purchases of Services increased by \$15.8 million mainly due to increased energy costs and increased professional service costs.
 3. Materials and Supplies increased by \$14.1 million mainly due to increases in chemical costs and plumbing materials.
 4. Indemnities and Taxes increased by \$5.5 million due to an increase in indemnity expenses.
 5. Depreciation and Amortization Expense stayed relatively flat in FY23, increasing by \$1.7 million.
 6. Employee Benefits decreased by \$18.6 million due to changes in pension expenses.
- The change in Total Nonoperating Revenue (Expenses) was mainly due to an increase in Interest Income as the Department's investments benefited from the higher interest rates in FY23 and an increase in Debt Service Interest payments in FY23 compared to FY22.
- Transfers Out increased by \$9.1 million, or 18.7%. This was mainly due to the increase of \$12.3 million of PMA operating expenditures reclassified as transfers out. This was offset by a \$2.7 million decrease in PMA capital expenditures reclassified as transfers out and a decrease of \$0.5 million for the Scoop payment to the General Fund (no Scoop payment in FY23).
- Capital Contributions stayed flat in FY23, increasing by \$0.5 million.

Capital Assets and Debt Administration

Capital Assets

Investment in capital assets, net of accumulated depreciation, amounted to \$3.2 billion as of June 30, 2023. This represented an increase of \$161.5 million, or 5.4% over the previous year's total of \$3.0 billion. Capital assets consist primarily of land, infrastructure, construction in progress, buildings, and equipment. Infrastructure consists of water and wastewater transmission and distribution lines. In FY22, Capital Assets also began include Right to Use Lease Assets due to the adoption of GASB No. 87, *Leases*. Please refer to the Notes for more information on the adoption of GASB 87.

**City of Philadelphia Water Department
Management Discussion and Analysis**

The following is a summary of capital assets as of June 30:

Capital Assets

(Thousands of Dollars)

June 30

	2023	2022	2021
Land	\$ 5,969	\$ 5,969	\$ 5,969
Construction in Progress	801,783	653,757	620,765
Infrastructure	3,030,562	2,941,381	2,823,414
Buildings and Equipment	2,197,628	2,142,821	2,096,465
Right to Use Lease Assets - Equipment	127	187	-
Right to Use Lease Assets - Buildings	19,005	19,005	-
Accumulated Depreciation and Amortization	(2,884,201)	(2,753,768)	(2,629,579)
Total Capital Assets, net	<u>\$ 3,170,873</u>	<u>\$ 3,009,352</u>	<u>\$ 2,917,034</u>

The capital assets of 2021 were restated for reclassifications.

Long-Term Debt

As of June 30, 2023, the Water Fund had \$3.4 billion of noncurrent liabilities outstanding. This was an increase of \$218.2 million from the prior fiscal year. The following is a summary of the noncurrent liabilities outstanding as of June 30:

Noncurrent Liabilities

(Thousands of Dollars)

June 30

	2023	2022	2021
Revenue Bonds – Net	\$ 2,889,759	\$ 2,599,780	\$ 2,411,861
Other Noncurrent Liabilities	56,661	49,990	49,872
Net OPEB Liability	132,912	162,826	157,204
Net Pension Obligation	340,523	387,418	333,064
Lease Payable	14,265	15,955	-
Total Noncurrent Liabilities	<u>\$ 3,434,120</u>	<u>\$ 3,215,969</u>	<u>\$ 2,952,001</u>

**City of Philadelphia Water Department
Management Discussion and Analysis**

The following details bonds payable as of June 30, 2023, and 2022:

Bonds Payable (Thousands of Dollars) June 30			
	2023		2022
Long Term Bonds Outstanding	\$ 2,700,577	\$	2,435,116
Current Portion	(84,783)		(84,343)
Noncurrent Portion	2,616,794		2,350,773
Unamortized Bond Premium	272,965		249,007
Bonds Payable, Net of Current Portion	\$ 2,889,759	\$	2,599,780

More detailed information concerning long-term debt activity and capital asset activity is disclosed in Note III. 6. and Note III. 5., respectively, of the financial statements.

Budgetary Highlights

Please see the supplementary Budgetary Comparison Schedule located in the Required Supplementary Information section.

Requests for Information

This financial report is designed to provide a general overview of the City of Philadelphia Water Department's finances for all interested parties. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Philadelphia Water Department, Finance Division, Attention Deputy Commissioner of Finance, 5th Floor, 1101 Market Street, Jefferson Center, Philadelphia, Pennsylvania 19107.

CITY OF PHILADELPHIA WATER DEPARTMENT
STATEMENTS OF FUND NET POSITION
JUNE 30, 2023 AND 2022

(Thousands of Dollars)

	2023	2022
<u>ASSETS</u>		
Current Assets:		
Cash on Deposit and on Hand	\$ 30	\$ 30
Equity in Treasurer's Account	175,235	171,415
Due from Other Governments	554	-
Accounts Receivable	194,725	183,333
Allowance for Doubtful Accounts	(20,314)	(20,476)
Inventories	22,605	22,198
Other Assets	677	1,227
Total Current Assets	373,512	357,727
Noncurrent Assets:		
Restricted Assets:		
Equity in Treasurer's Account	859,794	687,434
Sinking Funds and Reserves	217,807	194,544
Receivables	2,615	1,231
Total Restricted Assets	1,080,216	883,209
Capital Assets:		
Land	5,969	5,969
Infrastructure	3,030,562	2,941,381
Construction in Progress	801,783	653,757
Buildings and Equipment	2,197,628	2,142,821
Right to Use Lease Assets - Equipment	127	187
Right to Use Lease Assets - Buildings	19,005	19,005
Less: Accumulated Depreciation and Amortization	(2,884,201)	(2,753,768)
Total Capital Assets, Net	3,170,873	3,009,352
Total Noncurrent Assets	4,251,089	3,892,561
Total Assets	4,624,601	4,250,288
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>		
Deferred Outflow - Net Pension Liability	32,127	38,525
Deferred Outflow - Net OPEB Liability	16,801	20,086
Deferred Outflow - Unamortized Loss - Refunded Debt	43,321	47,447
Total Deferred Outflows	92,249	106,058
<u>LIABILITIES</u>		
Current Liabilities:		
Vouchers Payable	5,207	11,158
Accounts Payable	24,040	22,211
Due to Other Funds	16,296	8,091
Salaries and Wages Payable	6,227	5,928
Construction Contracts Payable	54,358	41,778
Due to Other Components Units	719	1,205
Payable to Other Government Units	1,185	-
Accrued Expenses	27,669	27,697
Funds Held in Escrow	1,637	1,637
Lease Payable - Current	1,690	1,641
Unearned Revenue	16,529	15,025
Commercial Paper	36,340	3,000
Bonds Payable - Current	83,783	84,343
Other Current Liabilities	2,447	2,433
Total Current Liabilities	278,127	226,147
Net OPEB Liability	132,912	162,826
Net Pension Liability	340,523	387,418
Noncurrent Liabilities:		
Bonds Payable	2,616,794	2,350,773
Unamortized Premium/(Discount)	272,965	249,007
Lease Payable	14,265	15,955
Other Noncurrent Liabilities	56,661	49,990
Total Noncurrent Liabilities	2,960,685	2,665,725
Total Liabilities	3,712,247	3,442,116
<u>DEFERRED INFLOWS OF RESOURCES:</u>		
Deferred Inflows - Net Pension Liability	6,744	10,834
Deferred Inflows - Net OPEB Liability	34,971	7,971
Deferred Inflows - Gain on Refunding	4,098	4,420
Total Deferred Inflows	45,813	23,225
<u>NET POSITION</u>		
Net Investment in Capital Assets	644,628	621,404
Restricted For:		
Capital Projects	232,267	219,605
Debt Service	218,631	194,835
Rate Stabilization	133,985	139,669
Unrestricted Deficit	(270,721)	(284,508)
Total Net Position	\$ 958,790	\$ 891,005

The notes to the financial statements are an integral part of these statements.

CITY OF PHILADELPHIA WATER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR FISCAL YEARS ENDED JUNE 30, 2023 AND 2022

(Thousands of Dollars)

	2023	2022
Operating Revenues:		
Charges for Goods and Services	\$ 803,020	\$ 752,982
Operating Grants	792	464
Miscellaneous Operating Revenues	13,284	12,921
Total Operating Revenues	<u>817,096</u>	<u>766,367</u>
Operating Expenses:		
Personal Services	166,016	161,893
Purchase of Services	152,875	137,116
Materials and Supplies	58,233	44,178
Employee Benefits	90,598	109,227
Indemnities and Taxes	11,557	6,036
Depreciation and Amortization	148,296	146,603
Total Operating Expenses	<u>627,575</u>	<u>605,053</u>
Operating Income (Loss)	<u>189,521</u>	<u>161,314</u>
Non-Operating Revenues (Expenses):		
Federal, State & Local Grants	589	-
Investment Earnings	34,913	(6,555)
Debt Service - Interest	(100,338)	(93,019)
Other Revenue (Expenses)	(1,337)	1,132
Total Non-Operating Revenue (Expenses)	<u>(66,173)</u>	<u>(98,442)</u>
Income Before Contributions & Transfers	123,348	62,872
Transfers In/(Out)	(57,440)	(48,378)
Capital Contributions	1,877	1,373
Change in Net Position	<u>67,785</u>	<u>15,867</u>
Net Position - July 1	<u>891,005</u>	<u>875,138</u>
Net Position - June 30	<u>\$ 958,790</u>	<u>\$ 891,005</u>

The notes to the financial statements are an integral part of these statements.

**CITY OF PHILADELPHIA WATER DEPARTMENT
STATEMENT OF CASH FLOWS
FOR FISCAL YEARS ENDED JUNE 30, 2023 AND 2022**

(Thousands of Dollars)

	2023	2022
Cash Flows from Operating Activities		
Receipts from Customers	\$ 805,700	\$ 753,439
Payments to Suppliers	(215,016)	(172,731)
Payments to Employees	(293,793)	(293,119)
Claims Paid	(11,557)	(6,036)
Net Cash Provided (Used)	285,334	281,553
Cash Flows from Non-Capital Financing Activities		
Operating Grants Received	1,380	464
Operating Subsidies and Transfers to Other Funds	(65,940)	(47,803)
Net Cash Provided (Used)	(64,560)	(47,339)
Cash Flows from Capital & Related Financing Activities		
Proceeds from Debt Issuance	413,027	289,699
Acquisition and Construction of Capital Assets	(289,112)	(226,221)
Interest Paid on Debt Instruments	(111,930)	(87,951)
Principal Paid on Debt Instruments	(87,363)	(89,042)
Other Receipts (Payments)	923	279
Net Cash Provided (Used)	(74,455)	(113,236)
Cash Flows from Investing Activities		
Interest and Dividends on Investments	29,861	(4,966)
Net Cash Provided (Used)	29,861	(4,966)
 Net Increase (Decrease) in Cash & Cash Equivalents	 176,180	 116,012
Cash and Cash Equivalents, July 1	858,879	742,867
Cash and Cash Equivalents, June 30	\$ 1,035,059	\$ 858,879
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	189,521	161,315
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	148,296	146,603
Change in Assets and Liabilities:		
Receivables, Net	(12,899)	(14,426)
Inventories	(407)	(2,112)
Accounts and Other Payables	(3,150)	11,866
Accrued Expenses	(37,531)	(23,191)
Unearned Revenue	1,504	1,498
Net Cash Provided by operating activities	\$ 285,334	\$ 281,553

The notes to the financial statements are an integral part of these statements.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Philadelphia Water Department have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Water Department’s accounting policies are described below.

1. REPORTING ENTITY

The City of Philadelphia was founded in 1682 and was merged with the county in 1854. Since 1951, the City has been governed largely under the Philadelphia Home Rule Charter. However, in some matters, including the issuance of short-term and long-term debt, the City is governed by the laws of the Commonwealth of Pennsylvania.

The operations and activities of the Water Department are accounted for with a separate set of balancing accounts that comprise the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. The activity of the Water Department is grouped in the financial statements into the broad category referred to as an enterprise fund (the “Water Fund”). The Water Fund is comprised of the funds and accounts established by the City under its Restated General Water and Wastewater Revenue Bond Ordinance of 1989, as amended (the “General Ordinance”).

2. FINANCIAL STATEMENTS

The Water Fund’s financial statements (i.e., the Statement of Fund Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows) report information of all activities related to the operation of the City’s water delivery and sewage systems.

The Statement of Revenues, Expenses and Changes in Net Position demonstrates the degree to which expenses are offset by revenues of the Water Fund.

3. BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENTS

The Water Fund, reported by the City as a major proprietary fund, accounts for the activities related to the operation of the City’s water delivery and sewage systems. The Water Fund’s financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Operating revenues and expenses are distinguished from nonoperating items in the Statement of Revenues, Expenses and Changes in Net Position. The principal operating revenues are charges

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
3. BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENTS (continued)

for water and sewer service. When calculating user fees charged to customers, the Water Fund includes a component for the repayment of principal on the Water Fund's outstanding debt.

The Water Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Fund's ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The Water Fund's activities are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises – where the intent of the government body is that costs (expenses, including depreciation) of providing goods and services to the general public on a continuous basis be recovered primarily through user charges or (2) where the government body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management's control of accountability, and other purposes.

The activities of the Water Fund are segregated as follows:

- The Revenue Fund is used to account for the operations of the water and wastewater systems.
- The Revenue Bond Sinking Fund is used to account for the payment of interest of the outstanding revenue bonds.
- The Debt Reserve Fund account of the Sinking Fund is funded from the proceeds of each series of Water and Wastewater Revenue Bonds; provided, however, that if the Supplemental Ordinance authorizing a series of Water and Wastewater Revenue Bonds shall so authorize, the deposit to the Debt Reserve Account with respect of such Water and Wastewater Revenue Bonds may be accumulated from project revenues over a period of not more than three fiscal years after the issuance and delivery of such Water and Wastewater Revenue

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
3. BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENTS (continued)

Bonds. The moneys and investments in the Debt Reserve Account are held and maintained in an amount equal at all times to the Debt Reserve Requirement. If at any time the moneys in the Debt Reserve Account of the Sinking Fund shall be insufficient to pay as and when due the principal of (and premium, if any) or interest on any Water and Wastewater Revenue Bonds or other obligations payable from the Debt Service Account (including obligations arising in connection with Qualified Swap Agreements and Credit Facilities), the fiscal agent is required to pay over from the Debt Reserve Account the amount of such deficiency for deposit into the Debt Service Account. With respect to any issue of Water and Wastewater Revenue Bonds, in lieu of the required deposit into the Debt Reserve Account, the City may cause to be deposited into the Debt Reserve Account a surety bond, an insurance policy or an irrevocable letter of credit meeting the requirements of the General Ordinance and the Bond Committee Determination relating to such issue.

The Debt Reserve Account Amendment authorizes (i) the Director of Finance to apply moneys currently on deposit in the Debt Reserve Account to purchase a surety bond or insurance policy complying with the terms of the General Ordinance (described below), (ii) the transfer of the resulting excess moneys in the Debt Reserve Fund to the Revenue Fund and from there, upon compliance with the provisions of the General Ordinance to a new account in the Residual Fund called the Special Water Infrastructure Account and (iii) the application of the moneys deposited in the Special Water Infrastructure Account to the cost of certain renewals, replacements and improvements to the water and wastewater systems described in the Debt Reserve Account Amendment.

- The Rate Stabilization Fund was created with the sale of the Series 1993 Revenue Bonds on August 20, 1993. The purpose of the Fund is to maintain assets to be drawn down to offset future deficits (and corresponding rate increase requirements) in the Water Fund.

During Fiscal 2023, the Fund had the following activity:

Balance at July 1, 2022	\$ 139,668,517
Transfer to Revenue Fund	(7,750,000)
Interest Earnings	2,066,266
Balance at June 30, 2023	<u>\$ 133,984,783</u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
3. BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENTS (continued)

During Fiscal 2022, the Fund had the following activity:

Balance at July 1, 2021	\$ 125,116,542
Transfer from Revenue Fund	15,000,000
Interest Earnings	(448,025)
Balance at June 30, 2022	<u>\$ 139,668,517</u>

- The Residual Fund was created with the sale of the Series 1993 Revenue Bonds on August 20, 1993. The Residual Fund is the last Fund into which Project Revenues are transferred from the Revenue Fund. Money in the Residual Fund may be used to pay Operating Expenses or debt service, or other purpose to support the System. In addition, money in the Residual Fund is used to transfer the annual payment to the City's General Fund an amount equal to the lesser of (i) the interest earnings for the Fiscal Year on the Debt Reserve Account and Subordinated Bond Fund (less amounts subject to rebate) and (ii) \$4.994 million.

During Fiscal 2023, the Fund had the following activity:

Balance at July 1, 2022	\$ 16,107,920
Investment Earnings	416,059
Balance at June 30, 2023	<u>\$ 16,523,979</u>

During Fiscal 2022, the Fund had the following activity:

Balance at July 1, 2021	\$ 16,320,663
Transfer from Debt Service Reserve	575,643
Transfer to General Fund	(575,643)
Transfer from Revenue Fund	21,993,793
Transfer to Capital Fund	(21,993,793)
Investment Earnings	(212,743)
Balance at June 30, 2022	<u>\$ 16,107,920</u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. DEPOSITS AND INVESTMENTS

The Water Fund's deposits and investments are held in segregated operating and capital accounts due to either legal requirements or operational needs. Sinking funds and reserves are maintained in segregated investment accounts to comply with reserve and other requirements of the bond covenants.

All highly liquid investments (except for Repurchase Agreements) with a maturity of three months or less when purchased are considered to be cash equivalents.

The Water Fund reports investments at fair value. Short-term investments are reported at cost which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price. The fair value of real estate investments is based on independent appraisals. Investments which do not have an established market are reported at estimated fair value.

Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies, and instruments of the United States, repurchase agreements, collateralized certificates of deposit, bank acceptance or mortgage obligations, certain corporate bonds, and money market funds. The Pension Trust Fund is also authorized to invest in corporate bonds, common stocks, private markets, hedge funds, and real estate.

5. INVENTORIES

The materials and supplies inventories are valued at moving average cost.

6. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets, are defined by the City as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of three years. Capital assets are recorded at cost. Costs recorded do not include interest incurred as a result of financing asset acquisition or construction. Assets acquired by gift or bequest are recorded at their acquisition price at the date of the gift. Upon sale or retirement, the cost of the assets and the related accumulated depreciation, if any, are removed from the accounts. Maintenance and repair costs are charged to operations.

The Water Fund uses "substantially complete" as the determining basis for transferring Construction in Process to one or more of the major asset classes.

The Water Fund's cost of construction includes all direct contract costs plus overhead costs. Overhead costs include direct and indirect engineering costs and interest incurred during the construction period for projects financed with bond proceeds. After adoption of GASB No. 89, interest cost incurred before the end of a construction period is recognized as an expense in the period in which the cost is incurred. As a result, interest

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. CAPITAL ASSETS (continued)

cost incurred before the end of a construction period will not be included in the historical cost of a capital asset.

Depreciation on the capital assets is provided on the straight-line method over their estimated useful lives: buildings and improvements - 20 to 50 years; equipment and storage facilities - 3 to 25 years; and transmission and distribution lines - 50 years. Leased and software subscription (SBITAs) assets are amortized over the shorter of the lease or subscription term or the useful life of the underlying asset.

7. BONDS AND RELATED PREMIUMS, DISCOUNTS, AND ISSUANCE COSTS

Bond premiums and discounts are deferred and amortized over the lives of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as an expense and reported in the period incurred.

8. INSURANCE

The City, except for the Airport and certain other properties, is self-insured for most fire and casualty losses to its structures and equipment and provides statutory workers' compensation and unemployment benefits to its employees. The City is self-insured for medical benefits provided to employees in the City administered health plan.

9. RECEIVABLES AND PAYABLES

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds.

Accounts receivable included in current assets consists of billed and unbilled fees, which have been earned but not collected as of June 30, 2023 and 2022. Credit balance receivables have been included in unearned revenue in the Statement of Fund Net Position. The allowance for doubtful accounts is management's estimate of the amount of accounts receivable which will be deemed to be uncollectible and is based upon specific identification. Unpaid accounts are referred to the City's Law Department if deemed uncollectible. Accounts are written off when recommended by the Law Department.

As of June 30, 2023 and 2022, the allowance for doubtful accounts was \$20,314,132 and \$20,476,432, respectively.

10. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Water Fund reports

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
10. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION
(continued)

deferred outflows of resources in the Statement of Fund Net Position in a separate section following Assets. Similarly, the Water Fund reports deferred inflows of resources in the Statement of Fund Net Position in a separate section following Liabilities.

Deferred outflows of resources represents consumption of net position that applies to a future period(s) and will not be recognized as an expense until that time. Deferred inflows of resources represents an acquisition of net position that applies to future periods and will not be recognized as revenue until that time.

On the full accrual basis of accounting, the components of the deferred outflows of resources and deferred inflows of resources are as follows:

- Deferred refunding results from the difference in the refunding of debt and its reacquisition price.
- Deferred pension and OPEB transactions are recognized as expenses or revenues in a future period. Deferred outflows and inflows of resources related to pensions are discussed in Note IV. 1. and OPEB is discussed in Note IV.3.

The following items have been reported as deferred outflows or deferred inflows of resources on the Water Fund's Statement of Fund Net Position as of June 30, 2023 and 2022:

	(Thousands of Dollars)	
	2023	2022
Deferred Outflows of Resources		
Related to Net Pension Liability	\$ 32,127	\$ 38,525
Related to Net OPEB Liability	16,801	20,086
Deferred Loss on Refunding	43,321	47,447
	\$ 92,249	\$ 106,058
Deferred Inflows of Resources		
Related to Net Pension Liability	\$ 6,744	\$ 10,834
Related to Net OPEB Liability	34,971	7,971
Related to Gain on Refunding	4,098	4,420
	\$ 45,813	\$ 23,225

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

11. COMPENSATED ABSENCES

It is the City's policy to allow employees to accumulate earned but unused vacation and sick leave benefits. Vacation is accrued when earned in the financial statements. Sick leave is accrued in the financial statements based on an estimate of future payouts. The Water Fund's employees' total vacation time accrued under Other Current Liabilities in Fiscal Years 2023 and 2022 was \$1.7 million each year. The long-term portion reported in Other Noncurrent Liabilities on the Statement of Fund Net Position was \$15.5 and \$15.4 million for fiscal years 2023 and 2022, respectively.

The Water Fund's employees' total sick leave time accrued under Other Current Liabilities in Fiscal Years 2023 and 2022 was \$723,000 and \$717,000, respectively. The long-term portion reported in Other Noncurrent Liabilities on the Statement of Fund Net Position was \$6.5 million for fiscal years 2023 and 2022.

12. CLAIMS AND JUDGMENTS

Pending claims and judgments are recorded as expenses in the financial statements when the City solicitor has deemed that a probable loss to the Water Fund has occurred. Claims and judgments are recorded as expenses when paid or when judgments have been rendered against the City's Water Fund.

13. UNEARNED REVENUE

GASB Statement No. 65 prohibits the usage of the term "deferred" on any line items other than deferred inflows or outflows of resources. Therefore, the term "Deferred Revenue" has been replaced by "Unearned Revenue." Unearned revenues in the Water Fund's financial statements represents revenue received in advance of being earned. Unearned revenues relate principally to overpaid water and sewer bills.

14. LEASES AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

The Water Fund is a lessee for various leases of buildings and equipment. The Water Fund recognizes a lease liability and an intangible right-to-use lease asset in the financial statements. The City has noncancellable subscription arrangements (similar to a lease) for the right to use various information technology hardware and software (SBITAs). As a lessee or subscriber, the City recognizes a lease liability or subscription liability and an intangible right-to-use asset in the financial statements.

At the commencement of a lease or SBITA, the Water Fund initially measures the lease liability or subscription at the present value of payments expected to be made during the lease or subscription term. Subsequently, the lease liability or subscription liability is reduced by the principal portion of lease payments made. The lease asset or subscription asset is initially measured as the initial amount of the lease liability or subscription liability, adjusted for lease payments made at or before the lease

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

14. LEASES (continued)

commencement date, plus certain initial direct costs. For SBITAs, subscription assets also include qualified software implementation costs. Subsequently, the lease asset or subscription asset is amortized on a straight-line basis over the shorter of the lease or subscription term or the useful life of the underlying asset.

The Water Fund determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Water Fund uses the interest rate stated in the agreement as the discount rate. When the interest rate charged by the lessor is not provided, the Water Fund generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease or subscription term includes the noncancellable period of the lease or subscription. Lease or subscription payments included in the measurement of the lease or subscription liability are composed of fixed payments and purchase option price that the Water Fund is reasonably certain to exercise.

The Water Fund monitors changes in circumstances that would require a remeasurement of its lease or SBITA and will remeasure the lease asset or subscription asset and the liability if certain changes occur that are expected to significantly affect the amount of the lease liability or subscription liability.

Lease or subscription assets are reported with other capital assets and lease or subscription liabilities are reported with long-term debt on the statement of fund net position.

15. NEW ACCOUNTING PRONOUNCEMENTS

NEW ACCOUNTING PRONOUNCEMENTS – ADOPTED:

In May 2019, GASB issued **Statement No. 91, *Conduit Debt Obligations***. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The adoption of this Statement had no effect on previously reported amounts.

In March 2020, GASB issued **Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements***. The primary objective of this Statement is to address and improve financial reporting issues related to public-private and public-public partnership arrangements (PPPs). The adoption of this Statement had

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
15. NEW ACCOUNTING PRONOUNCEMENTS (continued)

NEW ACCOUNTING PRONOUNCEMENTS – ADOPTED: (continued)

no effect on previously reported amounts.

In May 2020, GASB issued **Statement No. 96, Subscription-Based Information Technology Arrangements**. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The adoption of this Statement had no material impact on the Water Fund's financial statements.

In April 2022, GASB issued **Statement No. 99, Omnibus 2022**. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The Statement has been partially adopted for requirements effective for the reporting period. All the applicable changes have been made to the financial statements.

NEW ACCOUNTING STANDARDS - TO BE ADOPTED:

In April 2022, GASB issued **Statement No. 99, Omnibus 2022**. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

In June 2022, GASB issued **Statement No. 100, Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62**. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

In June 2022, GASB issued **Statement No. 101, Compensated Absences**. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

In December 2023, GASB issued **Statement No. 102, Certain Risk Disclosures**. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

16. NEW ACCOUNTING PRONOUNCEMENTS (continued)

The new standards must be adopted as follows:

- GASB Statement No. 99 – Requirements in paragraphs 4-10 are effective July 1, 2023 for financial statements for the fiscal year ending June 30, 2024
- GASB Statement No. 100 - Effective July 1, 2023 for financial statements for fiscal year ending June 30, 2024.
- GASB Statement No. 101 - Effective July 1, 2024 for financial statements for fiscal year ending June 30, 2025.
- GASB Statement No. 102 – Effective July 1, 2024 for financial statements for the fiscal year ending June 30, 2025.

The effect of these Statements has not yet been determined.

17. RESTRICTED ASSETS

Restricted assets represent revenues set aside for liquidation of specific obligations as described in Note IV. 11.

18. RECLASSIFICATIONS

Certain items from 2022 have been reclassified to conform to the 2023 presentation.

19. PAYMENT TO THE CITY

In accordance with an agreement between the Finance Director and the Water Department, the Finance Director may transfer to the City's General Fund up to a limit of \$4,994,000 in any fiscal year in "excess interest earnings" as defined under the General Ordinance. In Fiscal Years 2023 and 2022, excess interest earnings of \$0 and \$575,643, respectively, were transferred from the Residual Fund to the General Fund of the City.

20. TRANSFERS FOR LONG TERM CONTRACTS

In addition to the transfer of funds to the General Fund of the City, the Water Fund had operating expenses of \$42,549,251 and \$30,231,249 and capital expenses of \$14,890,859 and \$17,571,425 in Fiscal Years 2023 and 2022, respectively, payable to the Philadelphia Municipal Authority ("PMA") under the long-term contracts described in Note IV. 10. A, B, and C.

21. ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

II. LEGAL COMPLIANCE

1. BUDGETARY INFORMATION

The City's budgetary process accounts for certain transactions on a basis other than U.S. generally accepted accounting principles (GAAP). In accordance with the Philadelphia Home Rule Charter, the City has formally established budgetary accounting control for its operating and capital improvement funds.

One of the City's operating funds is the Water Fund which is subject to an annual operating budget adopted by the City Council. Included in the Water Fund is the Water Residual Fund. These budgets appropriate funds for all City departments, boards, and commissions by major class of expenditure within each department. Major classes are defined as: personal services; purchase of services; materials and supplies; equipment; contributions, indemnities and taxes; debt service; payments to other funds; and advances and other miscellaneous payments. The appropriation amounts for each fund are supported by revenue estimates and take into account the elimination of accumulated deficits and the re-appropriation of accumulated surpluses to the extent necessary. All transfers between major classes (except for materials and supplies and equipment, which are appropriated together) must have council approval. Appropriations that are not expended or encumbered at year end are lapsed. Comparisons of budget to actual activity at the legal level of compliance are located in the Water Fund's *Budgetary Comparison Schedule (Legally Enacted Basis) – Water Operating Fund*, in the Required Supplementary Information section.

During the year, classification adjustments and supplementary appropriations were necessary for City funds. Therefore, budgeted appropriation amounts presented are as originally passed and as amended by the City Council. As part of the amendment process, budget estimates of City related revenues are adjusted and submitted to City Council for review. Changes in revenue estimates are submitted in support of testimony with regard to the appropriation adjustments and do not need City Council approval. Revenue estimates are presented as originally passed and as amended.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS

1. DEPOSITS AND INVESTMENTS

Deposits

State statutes require banks to collateralize City deposits at amounts equal to or in excess of the City's balance. Such collateral is to be held by the Federal Reserve Bank or the trust department of a commercial bank other than the pledging bank. At year end, the Water Fund's total bank balances were \$336.4 million and \$244.5 million for 2023 and 2022, respectively.

Investments

The City has established a comprehensive investment policy that covers the Water Fund. All City investments must be in compliance with applicable provisions of the City Code and City bond resolutions, as well as the City's Investment Policy. The City's Investment Policy is meant to supplement the applicable provisions of the City Code and City bond resolutions and is reviewed and adopted by the City's Investment Committee. The City's Investment Committee consists of the Director of Finance, the City Treasurer, and a representative from the Water Department, Aviation Division, and the Philadelphia Gas Works.

As of June 30, 2023, the fair values of the Water Fund's investments consist of the following:

	(Thousands of Dollars)	
Classifications	Fair Value	Percent of Total
U.S. Government Securities	\$ 547,449	45.46%
U.S. Government Agency Securities	427,820	35.53%
Corporate Bonds	49,185	4.08%
Other Bonds and Investments	179,688	14.92%
	<u>\$ 1,204,142</u>	<u>100.00%</u>

As of June 30, 2022, the fair values of the Water Fund's investments consist of the following:

	(Thousands of Dollars)	
Classifications	Fair Value	Percent of Total
U.S. Government Securities	\$ 566,609	73.00%
U.S. Government Agency Securities	149,131	19.21%
Corporate Bonds	45,341	5.84%
Other Bonds and Investments	15,136	1.95%
	<u>\$ 776,217</u>	<u>100.00%</u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)
1. DEPOSITS AND INVESTMENTS (continued)

Water Fund Investments - Credit Risk

The City's policy to limit credit risks is to limit the types of allowable investment, as well as the maximum percent of the portfolio for each type of investment.

The Water Fund's investment in U.S. Government Securities (45.6%) or U.S. Government Agency obligations (35.5%) are allowable investments up to 100% of the portfolio. The U.S. Government Agency obligations must be rated AAA by Standard & Poor's Corp. (S&P) or Aaa by Moody's Investor Services. All U.S. Government Securities meet the criteria.

The Water Fund's investment in commercial paper (2.1%) is limited to 25% of the portfolio and must be rated A1 by S&P or P1 by Moody's Investor's Services, Inc. (Moody's) and the senior long-term debt of the issuer must not be rated lower than A by S&P or A2 by Moody's. All commercial paper investments meet the criteria.

The Water Fund's investment in corporate bonds (4.1%) is limited to 25% of the portfolio, and had an S&P rating of AAA to AA or Moody's rating of Aa2 or better. All corporate investments meet the criteria.

Short Term Investment Pools are rated AAA by S&P and Aaa by Moody's Investor Services. The Short Term Investment Pools' amortized cost-based net asset value per share/unit is the same as the value of the pool shares. Cash accounts are swept nightly and idle cash invested in money market funds (short term investment pools).

The City limits its foreign currency risk by investing in certificates of deposit and banker's acceptances issued or endorsed by non-domestic banks that are denominated in U.S. dollars, providing that the banking institution has assets of not less than \$100 million and has a Thompson's Bank Watch Service "Peer Group Rating" not lower than II. At the end of the fiscal year, the City did not have any investments of that nature.

To minimize custodial credit risk, the City's policy is to select custodian banks that are members of the Federal Reserve System to hold its investments. Delivery of the applicable investment documents to the City's custodian is required for all investments.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)
1. DEPOSITS AND INVESTMENTS (continued)

As of June 30, 2023, the fixed income investments of the Water Fund had the following ratings by Moody's or S&P:

Classifications	Credit Quality Rating	Percent of Investment Type
U.S. Government Securities	Aaa	100%
U.S. Government Agency Securities	Aaa	100%
Corporate Bonds	Aaa	8%
Corporate Bonds	Aa3	17%
Corporate Bonds	Aa2	9%
Corporate Bonds	Aa1	3%
Corporate Bonds	A1	63%
Other Bonds and Investments	Aaa	1%
Other Bonds and Investments	Aa3	17%
Other Bonds and Investments	Aa2	33%
Other Bonds and Investments	Aa1	8%
Other Bonds and Investments	A2	4%
Other Bonds and Investments	A1	38%

As of June 30, 2022, the fixed income investments of the Water Fund had the following ratings by Moody's or S&P:

Classifications	Credit Quality Rating	Percent of Investment Type
U.S. Government Securities	Aaa	100%
U.S. Government Agency Securities	Aaa	100%
Corporate Bonds	Aaa	28%
Corporate Bonds	Aa3	6%
Corporate Bonds	Aa2	52%
Corporate Bonds	Aa1	4%
Corporate Bonds	A1	10%
Other Bonds and Investments	Aaa	13%
Other Bonds and Investments	Aa2	87%

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)

1. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

The City's investment portfolio is managed to accomplish preservation of principal, maintenance of liquidity, and maximize the return on investments. To limit its exposure to fair value losses from rising interest rates, the City's investment policy limits fixed income investments to maturities of no longer than two years, except in Sinking Fund Reserve portfolios.

As of June 30, 2023, the maturities of the Water Fund's fixed income investments were as follows:

	(Thousands of Dollars)	
	Less Than 1 Year	Between 1-2 Years
U.S. Government Securities	\$ 414,560	\$ 132,889
U.S. Government Agency Securities	361,151	66,669
Corporate Bonds	49,185	-
Foreign Investments	174,130	5,558
Total	<u>\$ 999,026</u>	<u>\$ 205,116</u>

As of June 30, 2022, the maturities of the Water Fund's fixed income investments were as follows:

	(Thousands of Dollars)	
	Less Than 1 Year	Between 1-2 Years
U.S. Government Securities	\$ 149,605	\$ 417,004
U.S. Government Agency Securities	132,129	17,002
Corporate Bonds	36,779	8,562
Other Bonds and Investments	10,658	4,478
Total	<u>\$ 329,171</u>	<u>\$ 447,046</u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)

1. DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurement

The City measures and records its investments using fair value measurement guidelines established by U.S. generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability.
- Level 3: Unobservable inputs for assets or liabilities.

The Water Fund has the following recurring fair value measurements as of June 30, 2023:

- U.S. Government Securities of \$547.4 million are valued using quoted prices for identical securities traded in active markets (Level 1).
- U.S. Agency Securities of \$427.8 million are valued using quoted prices from identical securities that are traded in active markets when sufficient activity exists (Level 2).
- U.S. Corporate Bonds of \$49.2 million and foreign investments of \$179.7 million are valued using quoted prices for similar securities in active markets and via matrix pricing models (Level 2).

Municipal Pension Fund

See Footnote IV. 1. E. PENSION PLANS Cash Deposits, Investments and Securities Lending

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)

2. SECURITIES LENDING

A. GOVERNMENTAL FUNDS

The City Treasurer is prohibited from lending or selling City-owned securities with an agreement to buy them back after a stated period of time (City of Philadelphia – Investment Policy Section VI. Investment Restrictions).

B. PENSION TRUST FUNDS

The Board of Directors of the Municipal Pension Fund has authorized management of the Fund to participate in securities lending transactions.

See Footnote IV. 1. E. PENSION PLANS Cash Deposits, Investments and Securities Lending.

3. AMOUNTS HELD BY FISCAL AGENT

Under Section 4.02 of the General Bond Ordinance, which authorizes the issuance of Water and Wastewater Revenue Bonds, the City pledges and assigns to the Fiscal Agent, for the security and payment of all Water and Wastewater Revenue Bonds issued under the General Ordinance, a lien on and security interest in all Project Revenues and amounts on deposit in or standing to the credit of the: 1) Revenue Fund; 2) Sinking Fund et.al.; 3) Subordinated Bond Fund; 4) Rate Stabilization Fund; 5) Residual Fund; and 6) Construction Fund and all of the accounts established therein. The Fiscal Agent shall hold and apply the security interest so granted in trust for the holders of Water and Wastewater Revenue Bonds, excluding Subordinate Bonds, without preference, priority, or distinction; provided however, that the pledge of General Bond Ordinance may also be for the benefit of a credit facility and qualified swap, or any other person who undertakes to provide moneys for the account of the City for the payment of principal or redemption price and interest on any series of Water and Wastewater Revenue Bonds (other than subordinated bonds), on an equal and ratable basis with Water and Wastewater Revenue Bonds, to the extent provided by any Supplemental Ordinance or Determination. The purpose for the debt secured by the pledge can be found in Note III. 6. to the financial statements.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)
3. AMOUNTS HELD BY FISCAL AGENT (continued)

The following chart displays information related to the pledge as of June 30, 2023:

	<u>Water and Wastewater Revenue Bonds</u>
Pledged Revenue Required for Principal and Interest Payments	\$4,956.00
Term of Pledge	2055
Percentage of Revenue Pledged	100%
Current Year Pledged Revenue	\$809 million
Current Year Principal and Interest Paid	\$232.6 million
Current Year Transfers to Escrow	\$0

The following chart displays information related to the pledge as of June 30, 2022:

	<u>Water and Wastewater Revenue Bonds</u>
Pledged Revenue Required for Principal and Interest Payments	\$4,692.00
Term of Pledge	2055
Percentage of Revenue Pledged	100%
Current Year Pledged Revenue	\$753 million
Current Year Principal and Interest Paid	\$186.6 million
Current Year Transfers to Escrow	\$0

4. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances among Water and City Funds at year-end are the result of the time lag between the dates that interfund goods and services are provided, the date the transactions are recorded in the accounting system, and the date payments between funds are made. All balances are expected to be settled during the subsequent year.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)
4. INTERFUND RECEIVABLES AND PAYABLES (continued)

Interfund receivable and payable balances at June 30, 2023 are as follows:

(Amounts in Thousands)					
Interfund Receivables Due To:					
Nonmajor Governmental					
	<u>General</u>	<u>Special Revenue</u>	<u>Pension Fund</u>	<u>Other Funds</u>	<u>Total</u>
Interfund Payables Due From:					
General	\$ -	\$ 3,124	\$210,732	\$ 699	\$214,555
Water and Sewer Fund	-	16,296	-	-	16,296
Nonmajor Special Revenue Funds	<u>39,833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,833</u>
Total	<u>\$ 39,833</u>	<u>\$19,420</u>	<u>\$210,732</u>	<u>\$ 699</u>	<u>\$270,684</u>

Interfund receivable and payable balances at June 30, 2022 are as follows:

(Amounts in Thousands)					
Interfund Receivables Due To:					
	<u>General</u>	<u>Special Revenue</u>	<u>Pension Fund</u>	<u>Other Funds</u>	<u>Total</u>
Interfund Payables Due From:					
General	\$ -	\$ 1,106	\$ 95,129	\$ 699	\$ 96,934
Water and Sewer Fund	-	8,091	-	-	8,091
Nonmajor Special Revenue Funds	<u>17,247</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,247</u>
Total	<u>\$17,247</u>	<u>\$ 9,197</u>	<u>\$ 95,129</u>	<u>\$ 699</u>	<u>\$122,272</u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)
5. CAPITAL ASSET ACTIVITY

Capital asset activity for the years ended June 30, 2023 and 2022 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	(Amounts in thousands) <u>Ending Balance</u>
Fiscal Year Ended June 30, 2023				
<u>Capital Assets Not Being Depreciated</u>				
Land	\$ 5,969	\$ -	\$ -	\$ 5,969
Construction in Progress	653,757	290,843	(142,817)	801,783
Total Capital Assets Not Being Depreciated	<u>\$ 659,726</u>	<u>\$ 290,843</u>	<u>\$ (142,817)</u>	<u>\$ 807,752</u>
<u>Capital Assets Being Depreciated</u>				
Buildings and related improvements	2,025,859	63,720	(10,525)	2,079,054
Intangible Assets	28,462	1,140		29,602
Equipment	116,962	9,951	(8,339)	118,574
Infrastructure	2,912,919	88,062	(22)	3,000,959
Right to Use Lease Assets - Equipment	186		(59)	127
Right to Use Lease Assets - Buildings	19,004		-	19,004
Total Capital Assets Being Depreciated	<u>\$ 5,103,392</u>	<u>\$ 162,873</u>	<u>\$ (18,945)</u>	<u>\$ 5,247,320</u>
<u>Less Accumulated Depreciation For:</u>				
Buildings and related improvements	(1,143,297)	(69,206)	8,485	(1,204,018)
Intangible Assets	(18,518)	(1,825)		(20,343)
Equipment	(91,766)	(10,377)	7,810	(94,333)
Infrastructure	(1,498,322)	(65,030)	1,508	(1,561,844)
Right to Use Lease Assets - Equipment	(70)	(62)	59	(73)
Right to Use Lease Assets - Buildings	(1,795)	(1,795)		(3,590)
Total Accumulated Depreciation	<u>(2,753,768)</u>	<u>(148,295)</u>	<u>17,862</u>	<u>(2,884,201)</u>
Total Capital Assets, Being Depreciated, Net	<u>2,349,624</u>	<u>14,578</u>	<u>(1,083)</u>	<u>2,363,119</u>
Total Capital Assets	<u>\$ 3,009,350</u>	<u>\$ 305,421</u>	<u>\$ (143,900)</u>	<u>\$ 3,170,871</u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)
5. CAPITAL ASSET ACTIVITY (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u> (Amounts in thousands)
Fiscal Year Ended June 30, 2022				
<u>Capital Assets Not Being Depreciated</u>				
Land	\$ 5,969	\$ -	\$ -	\$ 5,969
Construction in Progress	620,765	218,313	(185,321)	653,757
Total Capital Assets Not Being Depreciated	<u>\$ 626,734</u>	<u>\$ 218,313</u>	<u>\$ (185,321)</u>	<u>\$ 659,726</u>
<u>Capital Assets Being Depreciated</u>				
Buildings and related improvements	1,980,161	68,567	(22,869)	2,025,859
Intangible Assets	26,587	1,875		28,462
Equipment	116,304	5,164	(4,506)	116,962
Infrastructure	2,796,827	118,181	(2,089)	2,912,919
Right to Use Lease Assets - Equipment	-	187	-	187
Right to Use Lease Assets - Buildings	-	19,005	-	19,005
Total Capital Assets Being Depreciated	<u>\$ 4,919,879</u>	<u>\$ 212,979</u>	<u>\$ (29,464)</u>	<u>\$ 5,103,394</u>
<u>Less Accumulated Depreciation For:</u>				
Buildings and related improvements	(1,093,100)	(68,200)	16,208	(1,145,092)
Intangible Assets	(16,832)	(1,686)	-	(18,518)
Equipment	(84,064)	(10,705)	2,933	(91,836)
Infrastructure	(1,435,583)	(64,440)	1,701	(1,498,322)
Total Accumulated Depreciation	<u>(2,629,579)</u>	<u>(145,031)</u>	<u>20,842</u>	<u>(2,753,768)</u>
Total Capital Assets, Being Depreciated, Net	<u>2,290,300</u>	<u>67,948</u>	<u>(8,622)</u>	<u>2,349,626</u>
Total Capital Assets	<u><u>\$ 2,917,034</u></u>	<u><u>\$ 286,261</u></u>	<u><u>\$ (193,943)</u></u>	<u><u>\$ 3,009,352</u></u>

Impaired Assets

Government Accounting Standards Board (GASB) Statement 42 requires the disclosure of the impairment of any major capital assets. Over the years, there have been a number of the Water Fund's assets that were either damaged or destroyed, were abandoned, or became functionally obsolete.

No asset impairments occurred during fiscal years 2023 and 2022.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)

6. DEBT PAYABLE

(1) Governmental Debt Payable

The Water Fund established a commercial paper (CP) program, which closed on July 28, 2021, in the amount of \$250 million, and expanded to \$400 million on July 28, 2022 to provide funding for capital projects. CP is a short-term financing tool with a maximum maturity of 270 days. The Philadelphia Water Department's CP Program will primarily be used to provide up-front cash to take advantage of below market rate federal and state loan programs that work on a reimbursement basis. The CP Program will also enable projects to be financed on an as-needed basis; lower the Department's cost of borrowing, as amounts drawn can be closely matched to capital cash flow requirements; and limit negative arbitrage during the construction period for projects. CP Notes will be "rolled over" until loan reimbursements are received from the federal and state programs to pay off the outstanding commercial paper, or long-term bonds are issued to refund the outstanding commercial paper. The Water fund drew down \$188.3 million during fiscal year 2023 and repaid \$155.0 million. There were \$36.3 million and \$3.0 million notes outstanding at June 30, 2023 and 2022.

A summary of changes in long-term debt obligations as of June 30, 2023 follows:

	Beginning			(Thousands of Dollars)	Amounts Due Within One Year
	Balance	Additions	Reductions	Ending Balance	
Water and Sewer Revenue Bonds	\$ 2,435,116	\$ 352,824	\$ (87,363)	\$ 2,700,577	\$ 83,783
Unamortized Bond Premium	249,007	43,655	(16,831)	275,831	-
Commercial Paper	3,000	188,340	(155,000)	36,340	36,340
Lease Payable	17,596	-	(1,595)	16,001	1,641
Net Pension Liability	387,418	4,090	-	391,508	-
Net OPEB Liability	162,826	-	-	162,826	-
Other Liabilities:					
Accrued Worker's Compensation	24,053	76	-	24,129	-
Accrued Legal Claims	4,042	4,052	-	8,094	-
Arbitrage	-	2,410	-	2,410	-
Compensated Absences	24,328	2,581	(2,433)	24,476	2,433
Total	<u>\$ 3,307,386</u>	<u>\$ 598,028</u>	<u>\$ (263,222)</u>	<u>\$ 3,642,192</u>	<u>\$ 124,197</u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)
6. DEBT PAYABLE (continued)

A summary of changes in long-term debt obligations as of June 30, 2022 follows:

	(Thousands of Dollars)				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Water and Sewer Revenue Bonds	\$ 2,279,749	\$ 244,409	\$ (89,042)	\$ 2,435,116	\$ 84,343
Unamortized Bond Premium	221,155	44,683	(16,831)	249,007	-
Commercial Paper	-	4,000	(1,000)	3,000	3,000
Lease Payable *	-	19,191	(1,595)	17,596	1,641
Net Pension Liability	333,064	54,354	-	387,418	-
Net OPEB Liability	157,204	5,622	-	162,826	-
Other Liabilities:					
Accrued Worker's Compensation	23,761	292	-	24,053	-
Accrued Legal Claims	4,375	-	(331)	4,044	-
Compensated Absences	24,152	2,591	(2,415)	24,328	2,433
Total	<u>\$ 3,043,460</u>	<u>\$ 375,142</u>	<u>\$ (111,214)</u>	<u>\$ 3,307,388</u>	<u>\$ 91,417</u>

*With the implementation of GASB No. 87 in fiscal year 2022, it was required to restate the beginning of year balance as of July 1, 2021 for the lease liability. The restatement was for \$198.2 million.

An analysis of debt service requirements to maturity on the long-term obligations follows:

	(Millions of Dollars)		
Year Ending June 30:	Principal Requirements	Interest Requirements	Total Debt Service Requirements
2024	\$ 83.8	\$ 115.2	199.0
2025	88.4	111.5	199.9
2026	98.9	107.6	206.5
2027	104.6	103.6	208.2
2028	89.0	99.8	188.8
2029 - 2033	411.6	452.8	864.4
2034 - 2038	416.2	365.6	781.8
2039 - 2043	503.9	261.7	765.6
2044 - 2048	461.9	159.9	621.8
2049 - 2053	383.0	60.8	443.8
2054 - 2058	59.3	2.5	61.8
	<u>\$ 2,700.6</u>	<u>\$ 1,841.0</u>	<u>\$ 4,541.6</u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)
6. DEBT PAYABLE (continued)

The Water Fund has issued debt payable from the revenues of the Fund. The total Revenue Bonds outstanding as of June 30, 2023 is \$2.702 billion bearing interest per annum from 1.000% to 5.000% and maturing in fiscal years 2023 to 2058.

Pertinent information regarding long-term debt obligations outstanding is presented below:

Date of	Amount of Original Issue	Purpose	Balance Outstanding at:	
			June 30, 2023	June 30, 2022
2009	31,216,779	Pennsylvania Infrastructure Investment Authority Loan of 2009 (B), issued for various capital projects at rates of 1.193% - 2.107%.	\$ 13,251,400	\$ 14,535,463
2009	49,157,776	Pennsylvania Infrastructure Investment Authority Loan of 2009 (C), issued for various capital projects at rates of 1.193% - 2.107%.	22,735,326	25,005,737
2009	75,744,096	Pennsylvania Infrastructure Investment Authority Loan of 2009 (D), issued for various capital projects at rates of 1.193% - 2.107%.	34,972,923	38,651,545
2010	28,500,000	Pennsylvania Infrastructure Investment Authority Loan of 2010 (B), issued for various capital projects at rates of 1.193% - 2.107%.	16,764,028	18,214,112
2013	170,000,000	Water and Wastewater Revenue Bonds, Series of 2013A, issued to finance capital improvements, finance a deposit to the Debt Reserve Account, and to pay the cost of issuance related to the Bonds issue at rates of 3.000% to 5.125%.	-	24,075,000
2014	123,170,000	Water and Wastewater Revenue Bonds, Series of 2014A, issued to advance refund a portion of the Series of 2005A Bonds, to finance capital improvements, finance a deposit to the Debt Reserve Account, and to pay the cost of issuance related to the bond issue at rates of 3.000% to 5.000%.	35,285,000	43,125,000
2015	417,560,000	Water and Wastewater Revenue Bonds, Series of 2015A and 2015B, issued to finance capital improvements, finance a deposit to the Debt Reserve Account, current refund a portion of the Series of 2005 A Bonds, advance refund a portion of the Series of 2007A Bonds, and pay the cost of issuance related to the Bonds issue at rates of 3.450% to 5.000%.	96,970,000	109,015,000
2016	192,680,000	Water and Wastewater Revenue Refunding Bonds, Series 2016 issued to finance (i) the advance refunding of portions of the City's outstanding (a) Water and Wastewater Revenue Refunding Bonds, Series 2007A, (b) Water and Wastewater Revenue Bonds, Series 2009A, and (c) Water and Wastewater Revenue Bonds, Series 2010C, and (ii) the costs of issuance relating to the Bonds. The Bonds bear rates of 3.00% to 5.00%.	161,865,000	169,830,000
2017	279,865,000	Water and Wastewater Revenue Bonds, Series 2017A issued to finance (i) capital improvements to the City's Water and Wastewater Systems, (ii) a deposit to the Debt Reserve Account of the Sinking Fund, and (iii) the costs of issuance relating to the Bonds. The Bonds bear interest rates of 5.00% to 5.25%.	239,865,000	239,865,000
2017	174,110,000	Water and Wastewater Revenue Refunding Bonds, Series 2017B issued to finance (i) the refunding of portions of the City's outstanding (a) Water and Wastewater Revenue Refunding Bonds, Series 2007b, (b) portions of Water and Wastewater Revenue Bonds, Series 2010c, and (c) portions of Water and Wastewater Revenue Bonds, Series 2012, and (ii) the costs of issuance relating to the Bonds. The Bonds bear rates of 2.000% to 5.000%.	155,495,000	162,085,000

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)

6. DEBT PAYABLE (continued)

Date of	Amount of Original Issue	Purpose	Balance Outstanding at:	
			June 30, 2023	June 30, 2022
2018	\$ 276,935,000	Water and Wastewater Revenue Bonds, Series 2018A issued to provide funds which, together with other available funds of the City, will be used to finance (i) capital improvements to the City's Water and Wastewater Systems and (ii) the costs of issuance relating to the Bonds. The Bonds bear an interest rate of 5.000%.	241,935,000	246,935,000
2019	68,335,000	Waste and Wastewater Revenue Refunding Bonds, Series 2019A issued to finance (i) the refunding of all or a portion of the City's outstanding Water and Wastewater Revenue Bonds, Series 2010C and portions of Water and Wastewater Revenue Refunding Bonds, Series 2011B and Series 2012 and (ii) for the costs of issuance relating to the bonds. The Bonds bear	67,280,000	67,645,000
2019	250,660,000	Water and Wastewater Revenue Bonds, Series 2019B issued to provide funds which, together with other available funds of the City, will be used to finance (i) capital improvements to the City's Water and Wastewater Systems, (ii) a deposit to the Debt Reserve Account of the Sinking Fund, and (iii) the costs of issuance relating to the Bonds. The Bonds bear an interest rate of 5.000%.	250,660,000	250,660,000
2020	127,740,000	Water and Wastewater Revenue Bonds, Series 2020 (Forward Delivery) issued for the purpose of providing funds that will be used to (i) refund all or a portion of the City's outstanding Water and Wastewater Revenue Bonds, Series 2011A, and (ii) pay or reimburse the City for issuance costs of the Bonds. The Bonds bear interest at rates ranging from 4.500% to 5.000% through January 1, 2041.	127,740,000	127,740,000
2020	201,530,000 Series A + 95,025,000 Series B	Water and Wastewater Revenue Refunding Bonds Tax-Exempt, Series 2020A and Water and Wastewater Revenue Refunding Bonds, Series 2020B (Federally Taxable) issued to finance (i) capital improvements to the City's Water and Wastewater Systems, including capitalized interest, (ii) the current refunding of the City's outstanding Water and Wastewater Revenue Bonds Variable Rate Series 1997B and Series 2010C, (iii) the advance refunding of all or a portion of the City's outstanding Water and Wastewater Revenue Refunding Bonds, Series 2011B, Series 2012, and Series 2013A, (iv) the cost of issuance relating to the Tax-Exempt Bonds, and (v) the cost of issuance related to the Taxable Bonds.	285,485,000	293,415,000
2021	80,821,155	Water and Wastewater Revenue Bonds, Series 2021A (PENNVEST Loan) issued to fund rehabilitation of the Torresdale Filtered Water Pump Station - the largest drinking water station in the City of Philadelphia. The bonds bear an interest rate of 1.000% for years 1 through 5, and 1.727% for years 6 through maturity.	24,700,701	11,173,671
2021	368,720,000	Water and Wastewater Revenue Refunding Bonds (Federally Taxable), Series 2021B issued finance (i) the advance refunding of the City's outstanding Water and Wastewater Revenue Bonds, Series 2014A and 2015A, and (ii) the cost of issuance relating to the Bonds. The Bonds bear an interest rates of 5.000% through 2046.	356,060,000	359,910,000
2022	231,930,000	Water and Wastewater Revenue Bonds, Series 2021C issued to provide funds which, together with other available funds of the City, will be used to finance (i) capital improvements to the City's Water and Wastewater Systems, (ii) a deposit to the Debt Reserve Account of the Sinking Fund, and (iii) the costs of issuance relating to the Bonds. The Bonds bear interest rates ranging from 4.000% to 5.000%.	231,930,000	231,930,000
2022	5,794,470	Water and Wastewater Revenue Bonds, Series 2021D (PENNVEST Loan) issued to fund the installation of Green Stormwater Infrastructure in the City's Lawncrest section. The bonds bear an interest rate of 1.000% for years 1 through 5, and 1.727% for years 6 through maturity.	4,281,920	1,305,609

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)
6. DEBT PAYABLE (continued)

Date of	Amount of Original Issue	Purpose	Balance Outstanding at:	
			June 30, 2023	June 30, 2022
2022	294,810,000	Water and Wastewater Revenue Bonds, Series 2022C issued to provide funds to finance (i) capital improvements to the System, (ii) a deposit to the Debt Reserve Account of the Sinking Fund, and (iii) the costs of issuance relating to the Bonds. The bonds bear interest of 5.000% per annum.	291,790,000	-
2022	7,133,220	Water and Wastewater Revenue Bonds, Series 2022A (PENNVEST Loan) issued to fund improvements at the Flat Rock Dam, which will improve the water quality that flows to the Queen Lane Water Treatment Plant. The bonds bear an interest rate of 1.000% for years 1 through 5 and 1.743% for year 6 through maturity.	7,133,220	-
2022	15,750,708	Water and Wastewater Revenue Bonds, Series 2022B (PENNVEST Loan) issued to fund drinking water line replacements. The bonds bear interest of 1.000% for years 1 through 5, and 1.743% for year 6 through maturity.	15,750,708	-
2022	13,839,667	Water and Wastewater Revenue Bonds, Series 2022D (PENNVEST Loan) issued to fund the construction of a Pretreatment Facility at the Northeast Water Pollution Control Plant. The bonds bear interest of 1.000% for years 1 through 5, and 1.727% for year 6 through maturity.	13,839,667	-
2022	3,978,371	Water and Wastewater Revenue Bonds, Series 2022E (PENNVEST Loan) issued to fund Green Stormwater Infrastructure projects. The bonds bear interest of 1.000% for years 1 through 5, and 1.743% for year 6 through maturity.	3,978,371	-
2022	808,307	Water and Wastewater Revenue Bonds, Series 2022F (PENNVEST Loan) issued to fund Green Stormwater Infrastructure projects. The bonds bear interest of 1.000% for years 1 through 5, and 1.743% for year 6 through maturity.	808,307	-
			<u>\$ 2,700,576,571</u>	<u>\$ 2,435,116,137</u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)

6. DEBT PAYABLE (continued)

(2) Pennvest Loans

In July 2010, the Water Department received approval from the Pennsylvania Infrastructure Investment Authority (“PENNVEST”) for the Green Infrastructure Project (Series 2010B) bringing the total financing from PENNVEST to \$214.9 million. The loan is in final amortization as such no further drawdowns will occur.

During fiscal 2019, PENNVEST drawdowns totaled \$1,500,000 which represented an increase in bond issuances. The funding is through low interest loans evidenced by and payables secured on a parity basis with water and wastewater revenue bonds which bear interest of 1.193% during the construction period and for the first five years of amortization (interest only payments are due during the construction period up to three years) and 2.107% for the remaining fifteen years.

In November 2021, the City of Philadelphia - Water Department received approval from the Pennsylvania State Infrastructure Financing Authority (“PENNVEST”) for the Lawncrest Southwest - Stormwater Project (Series 2021D); bringing the total financing from PENNVEST to \$301.5 million. During fiscal year 2022, PENNVEST draw-downs totaled \$12.5 million. The funding is through low interest loans of 1.000% to 1.193% during the construction period and for the first five years of amortization (interest only payment is due during the construction period up to three years) and 1.727% to 2.107% for the remaining years.

In April 2022, the Water Department received approval from PENNVEST for issuance of Water and Wastewater Revenue Bonds, Series 2022A to provide funds to finance improvements at the Flat Rock Dam, which will improve the water quality that flows to the Queen Lane Water Treatment Plant. The bonds bear an interest rate of 1.000% for years 1 through 5 and 1.743% for year 6 through maturity.

In August 2022, the Water Department received approval from PENNVEST for issuance of Water and Wastewater Revenue Bonds, Series 2022B to provide funds to finance the costs of drinking water line replacements. The bonds bear interest of 1.000% for years 1 through 5, and 1.743% for year 6 through maturity.

In November 2022, the Water Department received approval from PENNVEST for issuance of Water and Wastewater Revenue Bonds, Series 2022D (PENNVEST Loan) to provide funds to finance the construction of a Pretreatment Facility at the Northeast Water Pollution Control Plant. The bonds bear interest of 1.000% for years 1 through 5, and 1.727% for year 6 through maturity.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)

6. DEBT PAYABLE (continued)

In December 2022, the Water Department received approval from PENNVEST for issuance of Water and Wastewater Revenue Bonds, Series 2022E to provide funds to finance the costs of improvements at GSI Packer Park and Series 2022F to provide funds to finance the costs of GSI Saunders Park. Both Bond Series bear interest of 1.000% for years 1 through 5, and 1.743% for year 6 through maturity.

Individual loan information, by series of bonds, as of June 30, 2023 and 2022 follows:

Date	Series	Maximum Loan Amount	Amount Received Through 6/30/23	Current Balance		Purpose
				Outstanding 6/30/23		
Oct 2009	2009B	\$ 42,886,030	\$ 31,216,779	\$ 13,251,400		Water Plant Improvements
Oct 2009	2009C	57,268,193	49,157,776	22,735,326		Water Main Replacements
Mar 2010	2009D	84,759,263	75,744,096	34,972,923		Sewer Projects
Jul 2010	2010B	30,000,000	30,000,000	16,764,028		Green Infrastructure Project
Apr 2021	2021A	80,821,155	24,700,701	24,700,701		Torresdale Pump Station
Nov 2021	2021D	5,794,470	4,281,920	4,281,920		Lawncrest S.W. - Stormwater
Apr 2022	2022A	16,301,250	7,133,220	7,133,220		Flat Rock Dam
Aug 2022	2022B	35,861,985	15,750,708	15,750,708		Linear Assets
Nov 2022	2022D	106,929,660	13,839,667	13,839,667		PTB
Dec 2022	2022E	8,221,985	3,978,371	3,978,371		Packer Park
Dec 2022	2022F	7,545,605	808,307	808,307		GSI Saunders Park
	Totals	\$ 476,389,596	\$ 256,611,545	\$ 158,216,571		

Date	Series	Maximum Loan Amount	Amount Received Through 6/30/22	Current Balance		Purpose
				Outstanding 6/30/22		
Oct 2009	2009B	\$ 42,886,030	\$ 31,216,779	\$ 14,535,463		Water Plant Improvements
Oct 2009	2009C	57,268,193	49,157,776	25,005,737		Water Main Replacements
Mar 2010	2009D	84,759,263	75,744,096	38,651,545		Sewer Projects
Jul 2010	2010B	30,000,000	30,000,000	18,214,113		Green Infrastructure Project
Apr 2021	2021A	80,821,155	11,173,671	11,173,671		Torresdale Pump Station
Nov 2021	2021D	5,794,470	1,305,609	1,305,609		Lawncrest S.W. - Stormwater
	Totals	\$ 301,529,111	\$ 198,597,931	\$ 108,886,138		

(3) Defeased Debt

As of the current fiscal year-end, the Water Fund defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)

6. DEBT PAYABLE (continued)

the defeased bonds are not included in the Water Fund's financial statements. As of June 30, 2023 and 2022, \$315.8 million and \$380.8 million, respectively, of bonds outstanding are considered defeased.

(4) Arbitrage Liability

The City has Water and Wastewater Revenue Bonds subject to federal arbitrage requirements. Federal tax legislation requires that the accumulated net excess of interest income on the proceeds of these issues over interest expense paid on the bonds be paid to the federal government at the end of a five-year period. At June 30, 2023 and 2022 the Water Fund had a \$2,410,336 and \$0 liability, respectively.

7. PENSION SERVICE AGREEMENT

In Fiscal 1999, the Philadelphia Authority for Industrial Development (PAID) issued \$1.3 billion in Pension Funding Bonds. These bonds were issued pursuant to the provisions of the Pennsylvania Economic Development Financing Law and the Municipal Pension Plan Funding Standard and Recovery Act (Act 205). The bonds are special and limited obligations of PAID. The City entered into a Service Agreement with PAID agreeing to make yearly payments equal to the debt service on the bonds. PAID assigned its interest in the service agreement to the parties providing the financing and in accordance with GASB No. 91, PAID treats this as conduit debt and does not include conduit debt transactions in its financial statements. The fiscal year 2022 Pension Funding Bonds liability of \$566.7 million is reflected in the City's financial statements as another Long-Term Obligation.

8. LEASE COMMITMENTS AND LEASED ASSETS

The Water Fund enters into various operating leases to finance the purchase of photocopier and computer equipment and for certain facilities. Leases are defined by the Financial Accounting Standard Board in Statement 87, *Leases*. The assets acquired through the leases are shown as equipment and building within the Capital Asset Note (See Note III. 5.).

A lease is defined as a contractual agreement that conveys control of the right to use another entity's nonfinancial asset, for a minimum contractual period of greater than one year, in an exchange or exchange-like transaction. The Water Fund leases nonfinancial assets such as buildings and equipment. The related obligations are presented in the amounts equal to the present value of lease payments, payable during the remaining lease term. As the lessee, a lease liability and associated lease asset are recognized on the Statement of Fund Net Position.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)

8. LEASE COMMITMENTS AND LEASED ASSETS (continued)

As of June 30, 2023, the Water Fund had minimum principal and interest payment requirements for its leasing activities, with a remaining term more than one year, as follows (in thousands):

Fiscal Year Ending June 30	Principal	Interest	Total
2024	\$ 1,690	\$ 323	\$ 2,013
2025	1,645	288	1,933
2026	1,541	253	1,794
2027	1,578	221	1,799
2028	1,661	186	1,847
2029-2033	7,840	217	8,057
	<u>\$ 15,955</u>	<u>\$ 1,488</u>	<u>\$ 17,443</u>

9. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. As required by the Code and Pennsylvania laws in effect at June 30, 2014, the assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended by GASB Statement No. 84 and GASB Statement No. 97, the City does not include the assets or activity of the plan in its financial statements.

10. NET POSITION POLICIES

GASB requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings, net of unspent bond proceeds that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)

10. NET POSITION POLICIES (continued)

Restricted – This component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. The restrictions would be imposed by external parties including creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

To the extent that both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as needed.

11. INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds. These transactions are recorded as transfers and are reported as transfers in the Water Fund. Some of the more significant transfers are the PICA administrative fund collection of a portion of the wage tax paid by City residents and transfer funds that are not needed for debt service and administrative costs to the general fund. Additionally, the general fund and the PICA administrative fund make transfers to the debt service funds for principal and interest payments.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNTS (continued)
11. INTERFUND TRANSACTIONS (continued)

Transfers between fund types during the fiscal year 2023 were:

(Thousands of Dollars)

Transfers From:	Transfers To:				Total
	General	Special Revenue	Debt Service	Capital Improvement	
General Fund	\$ -	\$ 56,653	\$198,667	\$ 208,402	\$ 463,722
Grants Revenue	369,608	1,307	3,395	-	374,310
Nonmajor Special Revenue Funds	664,660	-	9,021	5,457	679,138
Permanent Funds	-	131	-	-	131
Capital Improvements	9,077	-	-	-	9,077
Water Fund	-	57,440	-	-	57,440
Total	\$1,043,345	\$ 115,531	\$211,083	\$ 213,859	\$1,583,818

Transfers between fund types during the fiscal year 2022 were:

(Thousands of Dollars)

Transfers From:	Transfers To:				Total
	General	Special Revenue	Debt Service	Capital Improvement	
General Fund	\$ -	\$ 24,991	\$196,562	\$ 5,796	\$ 227,349
Grants Revenue Fund	284,504	1,288	3,397	-	289,189
Nonmajor Special Revenue Funds	555,077	-	23,382	4,500	582,959
Permanent Funds	-	123	-	-	123
Capital Improvements	-	12,000	-	-	12,000
Water Fund	576	47,802	-	-	48,378
Total	\$ 840,157	\$ 86,204	\$223,341	\$ 10,296	\$1,159,998

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION

1. CITY PENSION PLANS

A. PENSION FUND DESCRIPTION

The City maintains two single employer defined benefit plans for its employees and several of its component units. The two plans maintained by the City are the City Plan and the Philadelphia Gas Works (the “PGW”) Plan. In addition to the City, the three other quasi-governmental agencies that participate in the City Plan are the Philadelphia Parking Authority (the “PPA”), the Philadelphia Municipal Authority (the “PMA”), and the Philadelphia Housing Development Corporation (the “PHDC”).

Effective with Fiscal Year 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. This statement revised existing standards for measuring and reporting pension liabilities for pension plans. GASB Statement No. 68 defines a single employer as the primary government and its component units. All three quasi-governmental agencies that participate in the City Plan were determined to be component units of the City. Therefore, the City Plan meets the definition of a single employer plan.

The note disclosures and Required Supplementary Information required by GASB Statement No. 68 are presented in separately issued audited financial statements of the City Plan and PGW plan. Copies of these financial statements may be obtained by contacting the Director of Finance of the City of Philadelphia. The Water Fund’s portion of the Plan information is disclosed in the notes to the financial statements.

Plan Administration. The Philadelphia Board of Pensions (the “Pension Board”) administers the City of Philadelphia Municipal Pension Fund (the “Fund”), a single employer defined benefit pension plan with a small but increasing defined contribution component, which provides pensions for all officers and employees of the City, as well as those of three quasi-governmental agencies (per applicable enabling legislation and contractual agreements). The Board was established by section 2-308 of the 1952 Philadelphia Home Rule Charter. Its actions in administering the Retirement System are governed by Title 22 of the Philadelphia Code.

The Board consists of nine voting members – four elected by the active members within the civil service, and the City’s Controller, Solicitor, Managing Director, Personnel Director, and Director of Finance, who serves as the Chair.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

A. PENSION FUND DESCRIPTION (continued)

Plan Membership. At July 1, 2022, the date of the most recent actuarial valuation, pension plan membership consisted of the following:

Actives	26,723
Terminated Vested	832
Disabled	3,757
Retirees	22,392
Beneficiaries	8,523
DROP	1,921
Total City Members	<u>64,148</u>

Annual Salaries	\$ 1,921,141,531
Average Salary per Active Member	\$ 71,891

Annual Retirement Allowances	\$ 828,187,638
Average Retirement Allowance	\$ 23,886

Contributions

Per Title 22 of the Philadelphia Code, members contribute to the Fund at various rates based on bargaining unit, uniform/non-uniform/elected/exempt status, and entry date into the Fund. Beginning July 1, 2022, members contributed at one of the following rates:

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)
1. CITY PENSION PLANS (continued)
A. PENSION FUND DESCRIPTION (continued)

Employee Contribution Rates				
For the Period of July 1, 2022 to June 30, 2023				
	Municipal (1)	Elected (2)	Police	Fire
Plan 67	7.00%	N/A	6.00%	6.00%
Plan 87	3.63%	12.01%	6.84%	6.84%
Plan 87 – 50% of Aggregate Normal Cost (3)	4.38%	N/A	N/A	N/A
Plan 87 – Accelerated Vesting (4)	4.61%	13.46%	N/A	N/A
Plan 87 Prime (5)	4.63%	13.01%	7.84%	7.84%
Plan '10	2.44%	N/A	7.34%	7.34%
Plan '10 – Accelerated Vesting	2.93%	N/A	N/A	N/A
Plan '16 (6)	4.14%	N/A	N/A	N/A
Plan '16 – Accelerated Vesting (7)	4.52%	N/A	N/A	N/A

- 1- For the Municipal Plan 67 members who participate in the Social Security System, employee contributions are 4.75% of compensation up to the social security wage base and 7% above it.
- 2- The employee contribution rate is based upon the normal cost of \$589,721 under Plan 87 Elected, normal cost or \$338,869 under Plan 87 Municipal and current annual payroll of \$3,200,320.
- 3- This represents 50% of Aggregate Normal Cost for all members in Plan Y and applies to Deputy Sheriffs hired between 1/1/2012 and 6/20/2018.
- 4- Member rates for Municipal Plan 87 (Y5) members eligible to vest in five years, and Elected Officials (L8) eligible to be vested in eight years instead of 10.
- 5- Plan 87 Prime refers to new hires who have the option to elect Plan 10 but have elected to stay in Plan 87. New hires after 7/1/2017 in Police and Fire Plan 87 Prime pay 8.50% and are not reflected above.
- 6- All Municipal groups (except elected officials) hired after January 1, 2019 participate in Plan 16.
- 7- Member rate for Municipal Plan 16 members eligible to vest in 7 years instead of 10 years.

Employer contributions are made by the City throughout each fiscal year (which ends June 30) and by three (3) quasi-governmental agencies on a quarterly basis. These contributions, determined by an annual actuarial valuation report ("AVR"), when combined with plan member contributions, are expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

Within the AVR, three contribution amounts are determined based upon three different sets of rules for determining the way the unfunded actuarial liability is funded.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

A. PENSION FUND DESCRIPTION (continued)

The first method is defined in accordance with Act 205 and defines the Minimum Municipal Obligation (“MMO”), which is the City’s minimum required contribution under Pennsylvania state law.

The second method is in accordance with the City’s Funding Policy, which predates the Act 205 rules and calls for contributions that are greater than the MMO until the initial unfunded liability determined in 1984 is fully funded.

The third method which is currently followed by the City, the Revenue Recognition Policy (“RRP”), calls for additional revenue to be contributed each in excess of the MMO. There are three sources of additional revenue that will be received by the Fund: 1) a portion of the sales tax according to the State Legislation, 2) additional tiered member contributions based on salary level for all municipal employees, and 3) additional member contributions from the current and future uniform members in Plan 87.

Under all funding methods, there are two components: the normal cost and the amortized unfunded actuarial liability. The actuarial unfunded liability is the amount of the unfunded actuarial liability that is paid each year based upon the given or defined amortization periods. The amortization periods are the same under the MMO and RRP, but different under the City’s Funding Policy.

City’s Funding Policy:

The initial July 1, 1985 unfunded actuarial liability (“UAL”) was amortized over 34 years ending June 30, 2019, with payments increasing at 3.3% per year, the assumed payroll growth. All future amortization periods will follow the MMO funding policy below. Other changes in the actuarial liability are amortized in level-dollar payments as follows:

- Actuarial gains and losses – 20 years beginning July 1, 2009. Prior gains and losses were amortized over 15 years.
- Assumptions changes – 15 years beginning July 1, 2010. Prior to July 1, 2010, assumption changes were amortized over 20 years.
- Plan changes for active members – 10 years.
- Plan changes for inactive members – 1 year.
- Plan changes mandated by the State – 20 years.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

A. PENSION FUND DESCRIPTION (continued)

In fiscal year 2023, the City and other employers' contributions of \$1.2 billion was more than the actuarially determined employer contribution (ADEC) of \$801.7 million. In the event that the City contributes less than the funding policy, an experience loss will be created which will be amortized in accordance with funding policy over a closed 20-year period.

The Schedule of Employer Contributions (based on the City's Funding Policy) is included as Required Supplementary Information and provides a 10-year presentation of employer contributions.

Minimum Municipal Obligation (MMO):

For the purposes of the MMO under Act 205 reflecting the fresh start amortization schedule, the July 1, 2009 UAL was "fresh started" to be amortized over 30 years ending June 30, 2039. This is a level dollar amortization of the UAL.

In fiscal year 2023, the City and other employers' contributions of \$1.2 billion exceeded the Minimum Municipal Obligation of \$664.1 million.

The Schedule of Employer Contributions (based on the MMO Funding Policy) is included as Required Supplementary Information and provides a 10-year presentation of the employer contributions.

Revenue Recognition Policy (RRP)

Revenue Recognition Policy is similar to the MMO except that the assets used to determine the unfunded liability do not include a portion of sales tax revenue, tiered member contributions from the municipal employees, and additional uniform members' contributions. These sources of income are contributed over and above the City's contribution of the MMO and will be in addition to the MMO. Therefore, under this funding method, the additional revenue amounts are separately tracked and accumulated in a notional account which is then subtracted from the assets before calculating the contribution amounts due under the Minimum Municipal Obligation (MMO) methodology. The Fund accumulates these amounts in a notional account and deducts them from the Actuarial Asset Value before the MMO is determined. These amounts are accumulated at the Actuarial Asset Value return rates to preserve the new funding methodology objective.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

A. PENSION FUND DESCRIPTION (continued)

Revenue Recognition Policy (RRP)

In fiscal year 2023, the City and other employers' contributions of \$1.2 billion exceeded the contribution under the Revenue Recognition Policy of \$726.5 million.

The Schedule of Employer Contributions (based on the RRP Funding Policy) is included as Required Supplementary Information and provides a 10-year presentation of the employer contributions.

B. BENEFITS

The Fund provides retirement, disability, and death benefits according to the provisions of Title 22 of the Philadelphia Code. These provisions prescribe retirement benefit calculations, vesting thresholds, and minimum retirement ages that vary based on bargaining unit, uniform/non-uniform status, and entry date into the System.

Non-uniform employees may retire at either age 55 with up to 80% of average final compensation ("AFC") or age 60 with up to either 100% or 25% of AFC, depending on entry date into the Fund. Uniformed employees may retire at either age 45 with up to 100% of AFC or age 50 with up to either 100% or 35% of AFC, depending on entry date into the Fund. Survivorship selections may result in an actuarial reduction to the calculated benefit.

Members may qualify for service-connected disability benefits regardless of length of service. Service-connected disability benefits are equal to 70% of a member's final rate of pay and are payable immediately without an actuarial reduction. These applications require approval by the Board. Eligibility to apply for nonservice-connected disability benefits varies by bargaining unit and uniform/nonuniform status. Non-service-connected disability benefits are determined in the same manner as retirement benefits, and are payable immediately.

Service-connected death benefits are payable to:

1. surviving spouse/life partner at 60% of final rate of pay plus up to 2 children under age 18 at 10% each of final rate of pay (maximum payout: 80%);
2. if no surviving spouse/life partner, up to 3 children under age 18 at 25% each of final rate of pay (maximum payout 75%); or
3. if no surviving spouse/life partner or children under age 18, up to 2 surviving parents at 15% each of final rate of pay (maximum payout 30%).

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)
1. CITY PENSION PLANS (continued)
B. BENEFITS (continued)

Non-service-connected deaths are payable as a lump sum payment, unless the deceased was either vested or had reached minimum retirement age for their plan, in which case the beneficiary(ies) may instead select a lifetime monthly benefit, payable immediately with an actuarial reduction.

A Pension Adjustment Fund (“PAF”) is funded with 50% of the excess earnings that are between 1% and 6% above the actuarial assumed earnings rate. Each year within sixty days of the end of the fiscal year, by majority vote of its members, the Board of Directors of the Fund (the “Board”) shall consider whether sufficient funds have accumulated in the PAF to support an enhanced benefit distribution (which may include, but is not limited to, a lump sum bonus payment, monthly pension payment increases, ad-hoc cost-of-living adjustments, continuous cost-of-living adjustments, or some other form of increase in benefits as determined by the Board) to retirees, their beneficiaries and their survivors. As of July 1, 2022, the date of the most recent actuarial valuation, there was \$4.3 million in the PAF and the Board voted to make PAF distributions of \$29.7 million during the fiscal year ended June 30, 2023.

The Fund includes a Deferred Retirement Option Plan (“DROP Plan”). The DROP Plan allows a participant to declare that they will retire within 4 years. During the four-year period, the City will make no further contributions for the participant. The participants would continue to work and to receive their salary; however, any increases would not be counted towards their pension benefit. During the four-year period the individual participates in the DROP Plan, their pension benefits will be paid into an escrow account in the participant's name. After the four-year period, the participant would begin to receive their pension benefits and the amount that has been accumulated in the escrow account in a lump sum payment. The balance in the DROP Plan as of June 30, 2023 is \$173.2 million.

C. INVESTMENTS

The Pension Board’s Investment Policy Statement provides, in part:

The overall investment objectives and goals should be achieved by the use of a diversified portfolio, with safety of principal a primary emphasis. The portfolio policy should employ flexibility by prudent diversification into various asset classes based upon the relative expected risk-reward relationship of the asset classes and the expected correlation of their returns.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)
1. CITY PENSION PLANS (continued)
C. INVESTMENTS (continued)

The Fund seeks an annual total rate of return of not less than 7.35% over a full market cycle. It is anticipated that this return standard should enable the Fund to meet its actuarially assumed earnings projection of 7.35% over a market cycle. The investment return assumption was reduced by the Board from 7.40% to 7.35% from the prior fiscal year. The Fund's investment program will pursue its aforesaid total rate of return by a combination of income and appreciation, relying upon neither exclusively in evaluating a prospective investment for the Fund.

All investments are made only upon recommendation of the Fund's Investment Staff and approval by a majority of the Pension Board. In order to document and communicate the objectives, restrictions, and guidelines for the Fund's investment staff and investments, a continuously updated Investment Policy Statement is maintained. The Investment Policy Statement is maintained (and re-affirmed) each year at the January Board meeting.

The following was the Board's approved asset allocation policy as of April 22, 2021:

(See the pension plan's investment policy: <http://www.phila.gov/pensions/PDF/ips.pdf>)

Asset Class	Target Allocation
Broad Fixed Income	13.0%
High Yield	1.0%
Global Aggregate	1.0%
Emerging Market Debt	2.0%
U.S. Large Cap Core Equity	20.0%
U.S. Mid Cap Core Equity	4.0%
U.S. Small Cap Core Equity	4.0%
Global Low Volatility Equity	10.0%
International Developed Large Cap Equity	10.0%
International Small Cap Equity	3.0%
Emerging Market Equity	3.0%
Core Real Estate	10.0%
Public REITs	1.0%
Opportunistic Real Estate	1.0%
Global Infrastructure	5.0%
Private Equity	12.0%
Total	100%

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)
1. CITY PENSION PLANS (continued)
C. INVESTMENTS (continued)

Money-Weighted Rate of Return

For the year ended June 30, 2023, the annual money-weighted return on pension plan investments, net of pension plan investment expense, was 8.52%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

D. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Financial statements of the Fund are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the Fund.

Methods Used to Value Investments

The Fund's investments are reported at fair value. Fair value is the amount that the Fund can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller; that is, other than in a forced or liquidation sale. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges or security pricing services. Securities which are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar sales.

For alternative investments which include private equity, private debt, venture capital, hedge funds, and equity real estate investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership's most recent available financial information. Some of the investment values provided in the report are estimates due to a lag in reporting for alternative investments.

Futures contracts, foreign exchange contracts, and options are marked-to-market daily with changes in market value recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

D. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment expenses consist of investment manager fees and investment consultant fees related to the traditional investments only, and not those fees related to the alternative investments. Unsettled investment sales are reported as Accrued Interest and Other Receivable, and unsettled investment purchases are included in Accrued Expenses and Other Liabilities.

Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned on an accrual basis.

Income Taxes

The Fund qualifies under Section 401(a) of the Internal Revenue Code (IRC) and is exempt from income taxation as allowed by Section 501(a) of the IRC.

Related Parties

The City's Department of Finance provides cash receipt and cash disbursement services to the Fund. The City Solicitor's office provides legal services to the Fund. Other administrative services are also provided by the City.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Risks and Uncertainties

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Fund's Statement of Fiduciary Net Position.

Contributions are calculated based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these statements and assumptions in the near term would be material to the financial statements.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

D. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Administrative Expenses

Administrative expenses of the Fund are paid for by the Fund.

E. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING

Legal Provisions

The Fund is authorized to invest in "prudent investments," including obligations of the U.S. Treasury, agencies and instrumentalities of the United States, investment grade corporate bonds, common stock, real estate, private market, etc. City ordinances contain provisions which preclude the Fund from investing in organizations that conduct business in certain countries and also impose limitations on the amounts invested in certain types of securities.

Custodial Credit Risk

Custodial credit risk for Deposits is the risk that in the event of a bank failure, the Fund's deposits may not be returned to them. The Fund's cash deposits are held in two banks as of June 30, 2023. Amounts are insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation (FDIC). Deposits in excess of the FDIC limit are collateralized with securities held by the pledging financial institution's trust department or agent in the Fund's name. The Fund classifies Money Market funds held by custodian institution, Northern Trust, as cash equivalents. The Fund also classifies Treasury Bills and Commercial Paper as cash equivalents if the date of maturity is three months or less from the acquisition date.

Custodial credit risk for investments is the risk that in the event of counter-party failure, the Fund may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities held by the counterparty or counterparty's trust department, are uninsured and are not registered in the name of the Fund. The Fund requires that all investments be clearly marked as to ownership, and to the extent possible, be registered in the name of the Fund. Certain investments may be held by the managers in the Fund's name.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

**E. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING
(continued)**

Interest Rate Risk

Interest rate risk is the largest risk faced by an investor in the fixed income market. The price of a fixed income security generally moves in the opposite direction of the change in interest rates. Securities with long maturities are highly sensitive to interest rate changes.

Duration is a measure of the approximate sensitivity of a bond's value to interest rate changes. The higher the duration, the greater the changes in fair value when interest rates change. The Fund measures interest rate risk using segmented time distribution, which shows the total fair value of investments maturing during a given period.

The table below details the exposure to interest rate changes based upon maturity dates of the fixed income securities at June 30, 2023:

(Thousands of Dollars)	Total Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Asset Backed Securities	\$ 22,513	\$ -	\$ 10,170	\$ 4,010	\$ 8,332
Commercial Mortgage Backed Securities	17,799	-	656	2,577	14,566
Corporate Bonds	319,536	3,739	118,640	137,525	59,632
Fixed Income ETF	6,557	6,557	-	-	-
Government Agencies	25,332	391	9,454	7,390	8,097
Government Bonds	374,031	8,427	132,389	134,174	99,041
Government Mortgage Back Securities	244,517	3,753	454	3,994	236,316
Gov't-issued Commercial Mortgage Backed	4,651	-	4,542	42	67
Municipal Bonds	11,412	-	1,249	2,729	7,434
Non-gov't backed CMOS	517	-	-	-	517
Sukuk	1,083	-	767	316	-
Total Interest Risk of Debt Securities	<u>\$1,027,948</u>	<u>\$ 22,868</u>	<u>\$278,321</u>	<u>\$292,757</u>	<u>\$ 434,002</u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

**E. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING
(continued)**

Concentration of Credit Risk

Concentration of credit risk is the risk of substantial loss if investments are concentrated in one issuer. As of June 30, 2023, the Fund has no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Fund is subject to credit risk on \$716.2 million of directly owned fixed income securities. The Fund's directly owned rated debt investments as of June 30, 2023 were rated by Standard & Poor's, a nationally recognized statistical rating agency and are presented below using Standard & Poor's rating scale:

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

**E. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING
(continued)**

(Thousands of Dollars)	Credit Rating										
	Total Fair Value	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR
Asset Backed Securities	\$ 22,136	\$ 9,986	\$ 3,747	\$ 422	\$ 1,406	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,575
Commercial Mortgage Backed Securities	17,799	4,948	904	-	625	-	-	-	-	-	11,322
Corporate Bonds	319,536	3,076	6,520	53,439	73,649	78,225	68,447	10,032	145	61	25,942
Fixed Income ETF	6,557	-	-	-	-	-	-	-	-	-	6,557
Government Agencies	19,520	1,815	9,575	-	2,769	859	205	196	-	-	4,101
Government Bonds	96,325	2,975	97	1,344	28,769	13,813	3,229	1,708	-	1,027	43,363
Government Mortgage Backed Securities	216,775	-	216,012	-	-	-	-	-	-	-	763
Gov't-issued Commercial Mortgage Backed	4,584	-	4,584	-	-	-	-	-	-	-	-
Municipal Bonds	11,412	-	6,406	2,235	70	655	-	-	-	-	2,046
Non-Gov't Backed C.M.O.s	517	104	-	12	-	-	11	-	-	-	390
Sukuk	1,083	-	-	-	767	-	-	-	-	-	316
Total Interest Risk of Debt Securities	<u>\$ 716,244</u>	<u>\$ 22,904</u>	<u>\$ 247,845</u>	<u>\$ 57,452</u>	<u>\$ 108,055</u>	<u>\$ 93,552</u>	<u>\$ 71,892</u>	<u>\$ 11,936</u>	<u>\$ 145</u>	<u>\$ 1,088</u>	<u>\$ 101,375</u>
U.S. Gov't Guaranteed*	<u>311,704</u>										
	<u>\$ 1,027,948</u>										

*U.S. government agency securities explicitly guaranteed by the U.S. government are categorized here.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

**E. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING
(continued)**

Foreign Currency Risk

The Fund's exposure to foreign currency risk derives from its position in foreign currency-denominated cash and investments in fixed income, equities, and derivatives. The foreign currency investment in equity securities is 40.51% of the total investment in equities. The Fund's exposure to foreign currency risk at June 30, 2023 follows (expressed in thousands):

<u>Currency</u>	<u>Cash</u>	<u>Fixed Income</u>	<u>Equities</u>	<u>Derivatives</u>	<u>Total</u>
Euro (EUR)	\$ 1,057	\$ 5,769	\$ 508,493	\$ (1,217)	\$ 514,102
Japanese Yen (JPY)	854	-	331,331	(950)	331,235
British Pound Sterling (GBP)	337	17,295	238,797	(479)	255,950
Canadian Dollar (CAD)	399	1,700	185,154	(1,473)	185,780
Swiss Franc (CHF)	1,338	-	121,098	-	122,436
Hong Kong Dollar (HKD)	348	-	114,029	(120)	114,257
Australian Dollar (AUD)	261	-	105,601	(477)	105,385
Danish Krone (DKK)	174	-	41,796	-	41,970
South Korean Won (KRW)	-	-	40,393	-	40,393
Swedish Krona (SEK)	302	-	38,510	-	38,812
Mexican Peso (MXN)	106	21,303	7,411	-	28,820
Singapore Dollar (SGD)	221	-	25,421	-	25,642
Brazilian Real (BRL)	8	9,017	13,610	-	22,635
South African Rand (ZAR)	-	6,146	7,051	-	13,197
Norwegian Krone (NOK)	211	-	12,136	-	12,347
Indonesian Rupiah (IDR)	8	2,713	6,722	-	9,443
Thai Baht (THB)	-	1,159	7,516	-	8,675
New Israeli Shekel (ILS)	154	-	8,163	-	8,317
Columbian Peso (CLP)	60	7,452	92	-	7,604
Malaysian Ringgit (MYR)	5	1,042	5,067	-	6,114
New Zealand Dollar (NZD)	186	1,009	4,409	-	5,604
Phillippine Peso	212	-	4,791	-	5,003
Polish Zloty	2	1,074	3,306	-	4,382
New Taiwan Dollar	2,461	-	573	-	3,034
All Others	659	5,563	4,724	-	10,946
	<u>\$ 9,363</u>	<u>\$ 81,242</u>	<u>\$ 1,836,194</u>	<u>\$ (4,716)</u>	<u>\$ 1,922,083</u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

**E. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING
(continued)**

Derivatives

The Fund may invest in derivatives as permitted by guidelines established by the Pension Board. Pursuant to such authority, the Fund may invest in foreign currency forward contracts, options, futures (S&P Fund) and swaps. No derivatives were purchased with borrowed funds.

Derivatives are generally used to provide market exposure in the equity portfolio and to hedge against foreign currency risk and changes in interest rates, improve yield and adjust the duration of the Fund's fixed income portfolio. These securities are subject to changes in value due to changes in interest rates or currency valuations. Credit risk for derivatives results from the same considerations as other counterparty risk assumed by the Fund, which is the risk that the counterparty might be unable to meet its obligations.

Derivative instruments such as swaps, options, futures, and forwards are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities.

The Fund enters into a variety of financial contracts, which include options, futures, forwards, and swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. treasury strips. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. The Fund is exposed to credit risk in the event of non-performance by counterparties to financial instruments. The Fund generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The Fund is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions. The notional or contractual amounts of derivatives indicate the extent of the Fund's involvement in the various types and uses of derivative financial instruments and do not measure

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

**E. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING
(continued)**

the Fund's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

Derivative Instruments

The following table summarizes aggregate notional or contractual amounts for the Fund's derivative financial instruments at June 30, 2023 in addition to the fair value and change in the fair value of derivatives.

List of Derivatives Aggregated by Investment Type					
Classification	Change in Fair Value	Fair Value at June 30, 2023		Notional	
Investment					
Derivatives					
Forwards Currency	Net Appreciation (Depreciation) in				
Contracts	Investments	\$	1,514	Investments	\$ (2,703) \$ 234,750
	Net Appreciation (Depreciation) in				
Futures	Investments		-	Investments	21,097
Grand Totals		\$	1,514	\$ (2,703)	\$ 255,847

A Derivatives Policy Statement identifies and allows common derivative investments and strategies, which are consistent with the Investment Policy Statement of the City of Philadelphia Municipal Fund. The guidelines identify transaction-level and portfolio-level risk control procedures and documentation requirements. Managers are required to measure and monitor exposure to counterparty credit risk. All counterparties must have credit ratings available from nationally recognized rating institutions such as Moody, Fitch, and S&P. The details of other risks and financial instruments in which the Fund involves are described below.

Credit risk:

The Fund is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Fund's policy to require counterparty collateral posting provisions in its non-exchange - traded hedging derivative instruments. These terms require full

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
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IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

**E. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING
(continued)**

collateralization of the fair value of hedging derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating fall below AA as issued by Fitch Ratings and Standard & Poor's or Aa as issued by Moody's Investors Service. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The City has never failed to access collateral when required.

It is the Fund's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

Swap agreements:

These derivative instruments provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes, or interest rates. Under fixed interest rate type swap arrangements, the Fund receives the fixed interest rate on certain equity or debt securities or indexes in exchange for a fixed charge. There were no fixed interest rate Swaps during 2023. On its pay-variable, received-fixed interest rate swap, as LIBOR increases, the Fund's net payment on the swap increases. Alternatively, on its pay-fixed, receive-variable interest rate swap, as LIBOR or the SIFMA swap index decreases, the Fund's net payment on the swap increases.

Futures contracts:

These derivative instruments are types of contracts in which the buyer agrees to purchase, and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that the counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the Fund enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures

**PHILADELPHIA WATER DEPARTMENT
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IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

**E. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING
(continued)**

contracts and collateral for short sales are provided by investment securities pledged as collateral and by cash held by various brokers. Although the Fund has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The realized gain from Futures contracts was \$666,852 and is included in the net change in fair value of investments in the statement of changes in fiduciary net position.

Forward contracts:

The Fund is exposed to basis risk on its forward contracts because of a possible mismatch between the price of the asset being hedged and the price at which the forward contract is expected to settle. The realized loss from forward contracts was (\$7,656,474) and is included in the net change in fair value of investments in the statement of changes in fiduciary net position.

Termination risk:

The Fund or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, the Fund is exposed to termination risk on its receive-fixed interest rate swap. The Fund is exposed to termination risk on its rate cap because the counterparty has the option to terminate the contract if the SIFMA swap index exceeds 12%. If at the time of termination, a hedging derivative instrument is in a liability position, the City would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Rollover risk:

The Fund is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the Fund will be re-exposed to the risks being hedged by the hedging derivative instrument.

Fair Value Measurement

The accounting pronouncement on fair value measurements establishes a framework for measuring fair value. That framework provides a fair value

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
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IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

**E. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING
(continued)**

Fair Value Measurement (continued)

hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The Municipal Pension Fund has the following recurring fair value measurement as of June 30, 2023 (expressed in thousands):

	June 30, 2023	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Asset Backed Securities	\$ 22,513	\$ -	\$ 22,513	\$ -
Commercial Mortgage Backed	17,799	-	17,154	645
Corporate Bonds	319,536	-	319,381	155
Fixed Income ETF	6,557	6,557	-	-
Government Agencies	25,332	-	25,332	-
Government Bonds	374,031	-	366,628	7,403
Government Mortgage Backed Securities	244,517	-	244,517	-
Gov't-issues Commercial Mortgage Backed	4,651	-	4,651	-
Municipal Bonds	11,412	-	11,412	-
Non-Government Backed C.M.O.s	517	-	218	299
Sukuk	1,083	-	1,083	-
Equity	4,532,751	4,529,325	29	3,397
Total Investments by Fair Value Level	<u>5,560,699</u>	<u>4,535,882</u>	<u>1,012,918</u>	<u>11,899</u>
Investments Measured at the Net Asset Value (NAV)				
Fixed Income Hedge Funds	18,552			
Private Market	1,039,404			
Real Estate	498,303			
Equity Long/Short Hedge Funds	26,074			
Total Investments Measured at the NAV	<u>1,582,333</u>			
Total Investments Measured at Fair Value	<u>\$ 7,143,032</u>			
Investment Derivative Instruments				
Forward Currency Contracts (Assets)	\$ 1,121	\$ -	\$ 1,121	
Forward Currency Contracts (Liabilities)	(3,824)	-	(3,824)	
Total Investment Derivative Instruments	<u>\$ (2,703)</u>	<u>\$ -</u>	<u>\$ (2,703)</u>	

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

**E. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING
(continued)**

Fair Value Measurement (continued)

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access. Such inputs include quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data substantially for the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table (expressed in thousands):

		Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Investment Measured at the Net Asset Value (NAV)				
Fixed Income Hedge Funds	\$ 18,552	\$ -	Quarterly	90-120 Days
Private Market	1,039,404	278,781	N/A	N/A
Real Estate	498,303	23,097	N/A	N/A
Equity Long/Short Hedge Funds	26,074	-	Quarterly	90 Days' Notice
Total Investments Measured at the NAV	<u>\$ 1,582,333</u>			

- 1. Fixed Income Hedge Funds:** The primary goal of these Funds is to create alpha by sourcing proprietary opportunities, avoiding capital loss, buying securities below their intrinsic value, and selling securities above their intrinsic value. Firms look for opportunities that are currently mispriced, based on fundamentals or potentially an event that may improve the price of the holding. Investments are generally driven by fundamental, value-oriented analysis, and specific credit events. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments. Investments can be redeemed with 90-120 days' notice. These Funds have been terminated but because of their structure and illiquid nature, the investments haven't been fully liquidated yet.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

**E. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING
(continued)**

- 2. Private market funds:** The primary goal of these Funds is to generate returns for investors that exceed private equity industry benchmarks and are commensurate with asset class risk through the construction of a portfolio of opportunistic, highly performing private equity investments. Investments in these funds may include early-stage venture capital, later-stage growth financings, leveraged buyouts of medium and large-sized companies, mezzanine investments, PIPES and investments in companies that are being taken private. These investments can never be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the underlying assets of the fund would be liquidated over five to 10 years. The fair values of the investments in this type have been determined using recent observable transaction information for similar investments and nonbinding bids received from potential buyers of the investments. Once a buyer has been identified, the investee fund's management is required to approve of the buyer before the sale of the investments can be completed.
- 3. Real estate funds:** This type includes funds that invest in U.S. and Non-U.S. commercial and residential real estate. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. However, the individual investments that will be sold have not yet been determined. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital. Once it has been determined which investments will be sold and whether those investments will be sold individually or in a group, the investments will be sold in an auction process. The investee fund's management is required to approve of the buyer before the sale of the investments can be completed. It is expected that the underlying assets of the funds will be liquidated over the next seven to 10 years.
- 4. Equity long/short hedge funds:** This Fund will typically hold 0-50 long positions and 10-15 short positions in U.S. common stocks. Management can shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The Fund mitigates market risk by utilizing short positions. In periods of extreme volatility, the Fund may hold a significant portion of its assets in cash. The fair values of the investments in this type have been determined using the NAV per share of the

**PHILADELPHIA WATER DEPARTMENT
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JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

**E. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING
(continued)**

Equity long/short hedge funds: (continued)

investments. Investments can be redeemed with 90 days' notice.

Securities Lending Program

The Fund, pursuant to a Securities Lending Authorization Agreement, has authorized Northern Trust to act as the Fund's agent in lending the Fund's securities to approved borrowers. Northern Trust, as agent, enters into Securities Loan Agreements with borrowers.

Securities are loaned versus collateral that may include cash; U.S. government and select OECD government debt securities; and domestic and international equities from major indices as defined specifically in the non-cash collateral guidelines within the Securities Lending Authorization Agreement. U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market value of the securities plus any accrued interest. Non-Cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of City of Philadelphia Board of Pensions and Retirement loans was approximately 80 days as of June 30, 2023.

Cash open collateral is invested in a short-term investment pool, the NT Coll SL Core S/T Inv Fund, which had an interest sensitivity of 24 days as of this statement date.

There were no violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent.

There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
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IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

**E. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING
(continued)**

Securities Lending Program (continued)

As of June 30, 2023, the fair value of securities on loan was \$334.7 million. Associated collateral totaling \$341.2 million was comprised of cash which was invested in a separately managed account based upon the investment guidelines established by the Fund. As of June 30, 2023, the invested cash collateral was \$341.2 million and is valued at amortized cost.

F. INVESTMENT ADVISORS

The Fund utilizes investment advisors to manage long-term debt, real estate, private market, and equity portfolios. To be eligible for consideration, investments must meet criteria set forth in governing laws and regulations.

G. NET PENSION LIABILITY

The components of the net pension liability as of June 30, 2023 were as follows:

Total Pension Liability	\$	12,650,397
Plan Fiduciary Net Position		7,808,089
Net Pension Liability	\$	<u>4,842,308</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability is 61.7%.

The Water Fund's portion of the net pension liability was \$340,522,982 and \$387,417,903 as of June 30, 2023 and 2022, respectively.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2022 and was rolled forward to June 30, 2023. The June 30, 2021 actuarial valuation used the following actuarial assumptions, applied to all periods including the measurement period:

Actuarial Cost Method:	Entry Age Normal
Investment Rate of Return:	7.35% compounded annually, net of expenses
Salary Increases:	Age Based Table

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
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IV. OTHER INFORMATION (continued)
1. CITY PENSION PLANS (continued)
G. NET PENSION LIABILITY

Actuarial Assumptions (continued)

The investment return assumption was changed from 7.40% from the prior year valuation to 7.35% for the current year valuation.

To recognize the expense of the benefits payable under the Pension Adjustment Fund, the actuarial liabilities have been increased by 0.54%. This estimate is based on the statistical average expected value of the benefits.

Mortality Rates: For Municipal and Elected Officials, 109% and 126% for males and females, respectively, of the Pub-2010(B) General Healthy Annuitant Below-Median Table projected from base year of 2010 to 2025 using mortality improvement scale MP-2021. For Uniform, 118% and 122%, for males and females, respectively, of the Pub-2010(B) Safety Healthy Annuitant Below-Medium Table projected from base year of 2010 to 2025 using mortality improvement scale MP-2021.

The measurement date for the net pension liability (NPL) is June 30, 2023. Measurements are based on the fair value of assets as of June 30, 2023 and the total pension liability (TPL) as of the valuation date, July 1, 2022, updated to June 30, 2023. The roll-forward procedure included the addition of service cost and interest cost offset by actual benefit payments and an adjustment to reflect changes in assumptions.

There were no changes in benefits during the year. Effective July 1, 2023, there was an assumption change, approved by the Board, reducing the expected long-term return on assets from 7.40% to 7.35% which increased the TPL by approximately \$59 million.

During the measurement year, the collective NPL increased by approximately \$592 million. The service cost and interest cost increased the collective NPL by approximately \$1.1 billion while contributions and investment gains offset by administrative expenses decreased the collective NPL by approximately \$1.8 billion. Additionally, there was an actuarial experience loss during the year of approximately \$74 million.

As defined under title section 22-311 of the Philadelphia Code, the Pension Adjustment Fund (PAF) provides for additional benefit distributions to retirees and beneficiaries through the use of excess earnings. The Fiduciary Net Position (FNP) balances as of the beginning and end of the measurement period include the PAF assets. PAF distributions are reflected when the additional benefits are actually

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
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IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

G. NET PENSION LIABILITY (continued)

Actuarial Assumptions (continued)

paid out of the FNP balance. During the measurement year, PAF distributions increased the collective NPL by approximately \$30 million.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using the software simulations developed by the Fund's investment consultant, Marquette Associates, in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023 are summarized in the following table:

Asset Class	Long-Term Expected Rate of Return
Broad Fixed Income	4.8%
High Yield	8.4%
Global Aggregate	3.8%
Emerging Market Debt	7.5%
U.S. Large Cap Core Equity	6.9%
U.S. Mid Cap Core Equity	7.4%
U.S. Small Cap Core Equity	8.0%
Global Low Volatility Equity	6.5%
International Developed Large Cap Equity	7.6%
International Small Cap Equity	8.1%
Emerging Market Equity	7.8%
Hedge Funds	5.3%
Core Real Estate	6.5%
Public REITs	5.8%
Opportunistic Real Estate	11.0%
Global Infrastructure	6.9%
Private Equity	11.1%

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

G. NET PENSION LIABILITY (continued)

Long-term Expected Rate of Return (continued)

The above table reflects the expected real rate of return for each major asset class. The expected inflation rate is projected at 2.75% for the same time period.

Discount Rate: The discount rate used to measure the total pension liability was 7.35%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine the total pension liability.

Sensitivity of the net pension liability: The following presents the net pension liability of the Fund, calculated using the discount rate of 7.35%, as well as what the Fund's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease 6.35%	Discount Rate 7.35%	1% Increase 8.35%
(In thousands)			
Total Pension Liability	\$ 13,939,721	\$ 12,650,397	\$ 11,550,772
Plan Fiduciary Net Position	7,808,089	7,808,089	7,808,089
Collective Net Pension Liability	<u>\$ 6,131,632</u>	<u>\$ 4,842,308</u>	<u>\$ 3,742,683</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	56.0%	61.7%	67.6%

H. GUARANTEE OF BENEFITS

Benefits under the Fund are guaranteed by statute. In the event that employee contributions do not equal required benefits, the City's General Fund must provide any shortfall.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

I. PARTICIPATION IN THE PENSION FUND

The trustees for the Fund are also members of the Fund and as such, are subject to the provisions of the Fund as described in the notes to these financial statements.

J. REPORTING INFORMATION FOR PARTICIPATING EMPLOYERS

Changes in Collective Net Pension Liability: The following table shows the changes in total pension liability (TPL), the plan fiduciary net position (i.e., fair value of the System assets) (FNP), and the net pension liability (NPL) during the measurement period ended on June 30, 2023

Change in Collective Net Pension Liability			
Increase (Decrease)			
<i>(Amounts in thousands of USD)</i>			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at 6/30/22	\$ 12,374,126	\$ 6,939,834	\$ 5,434,292
Changes for the year:			
Service cost	191,726	-	191,726
Interest	900,854	-	900,854
Change of benefits	-	-	-
Differences between expected and actual experience	74,248	-	74,248
Changes of assumptions	59,179	-	59,179
Contributions - employer	-	1,164,974	(1,164,974)
Contributions - member	-	120,691	(120,691)
Net investment income	-	570,957	(570,957)
Benefit payments	(949,736)	(949,736)	-
Administrative expense	-	(8,938)	8,938
PAF Distributions	-	(29,693)	29,693
Net changes	276,271	868,255	(591,984)
Balances at 6/30/23	\$ 12,650,397	\$ 7,808,089	\$ 4,842,308

Employer's Proportionate Shares: GASB 68 requires that the proportionate share for each employer be determined based upon the "employer's projected long-term contribution effort to the pension as compared to the total long-term contribution effort of all employers." In addition to the City, three governmental

**PHILADELPHIA WATER DEPARTMENT
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IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

J. REPORTING INFORMATION FOR PARTICIPATING EMPLOYERS (continued)

Employer's Proportionate Shares: (continued)

agencies currently participate in the system, PHDC, PPA, and PMA. The method of allocation is based on the ratio of quasi-agency contributions in proportion to total contributions by the plan.

Pension Amounts by Employer: The following schedule presents the pension amounts for each participating employer: Philadelphia Parking Authority (PPA), Philadelphia Municipal Authority (PMA), Philadelphia Housing Development Corporation (PHDC), and the City of Philadelphia (City).

Schedule of Pension Amounts by Employer

(Amounts in thousands of USD)

	For the year ended	PPA	PMA	PHDC	City	Total
Collective pension expenses		\$ 3,763	\$ 294	\$ 1,000	\$ 582,940	\$ 587,997
Change in proportion		(18,540)	64	(356)	18,832	-
Contribution difference		6,853	149	849	(7,850)	-
Employer pension expense		(7,924)	507	1,493	593,922	587,997
Net pension liability	6/30/22	41,301	2,174	7,608	5,383,212	5,434,295
Net pension liability	6/30/23	30,991	2,421	8,232	4,800,664	4,842,308
Change in net pension liability		(10,310)	247	624	(582,548)	(591,987)
Deferred outflows	6/30/22	16,462	931	2,204	514,827	534,424
Deferred outflows	6/30/23	14,542	1,153	3,662	435,356	454,713
Change in deferred outflows		(1,920)	222	1,458	(79,471)	(79,711)
Deferred inflows	6/30/22	(44,177)	(879)	(1,965)	(165,243)	(212,264)
Deferred inflows	6/30/23	(31,265)	(596)	(1,263)	(114,437)	(147,561)
Change in deferred inflows		12,912	283	702	50,806	64,703
Employer contributions		13,379	764	3,030	1,147,801	1,164,974
Employer pension expense		(7,924)	507	1,493	593,922	587,998

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
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IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

**J. REPORTING INFORMATION FOR PARTICIPATING EMPLOYERS
(continued)**

Reconciliation of Net Pension Liability

The following table reconciles the Collective Net Pension Liability to the amount reported in the Statement of Net Position included in the City of Philadelphia's Annual Comprehensive Financial Report:

Reconciliation of Collective Net Pension Liability to the Primary Government Net Pension Liability

		<i>(Thousands of Dollars)</i>	
Municipal Pension Fund	Proportionate Share of NPL	Discretely Presented Component Units	City and Blended Component Units
City	\$ 4,800,664	\$ -	\$ 4,800,664
PPA	30,991	30,991	-
PMA	2,421	-	2,421
PHDC (1)	8,232	8,232	-
Collective Net Pension Liability	<u>\$ 4,842,308</u>	<u>\$ 39,223</u>	<u>\$ 4,803,085</u>
State Pension Fund			
PICA			1,541
City's Primary Government Net Pension Liability (Exhibit 1)			<u>\$ 4,804,626</u>

(1) PHDC does not appear in the Component Unit Financial Statements (XI Statement of Net Position and Exhibit XII Statement of Activities) due to immateriality.

Deferred Outflows by Employer

The following table summarizes the deferred outflows allocated to each employer for experience, assumption changes, investment returns, and contribution differences:

Schedule of Employer's Deferred Outflows

<i>(Amounts in Thousands USD)</i>					
	PPA	PMA	PHDC	CITY	Total
Proportionate Shares	0.64%	0.05%	0.17%	99.14%	100.0%
Experience	\$ 392	\$ 31	\$ 104	\$ 60,768	\$ 61,295
Assumption changes	1,154	90	306	178,700	180,250
Investment return	1,068	83	284	165,506	166,941
Proportion change	-	643	1,227	30,382	32,252
Contribution difference	11,928	306	1,741	-	13,975
	<u>\$ 14,542</u>	<u>\$ 1,153</u>	<u>\$ 3,662</u>	<u>\$ 435,356</u>	<u>\$ 454,713</u>

The Water Funds proportionate share of Deferred Outflows of Resources related to the pension plan as of June 30, 2023 and 2022 was \$32,127,438 and \$38,524,935, respectively.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

1. CITY PENSION PLANS (continued)

J. REPORTING INFORMATION FOR PARTICIPATING EMPLOYERS (continued)

Deferred Inflows by Employer

The following table summarizes the deferred inflows allocated to each employer for experience, assumptions changes, investment return, and contribution differences:

Schedule of Employer's Deferred Inflows					
<i>(Amounts in Thousands USD)</i>					
	PPA	PMA	PHDC	CITY	Total
Proportionate Shares	0.64%	0.05%	0.17%	99.14%	100.0%
Experience	\$ 649	\$ 51	\$ 172	\$ 100,462	\$ 101,334
Assumption changes	-	-	-	-	-
Investment return	-	-	-	-	-
Proportion change	30,616	545	1,091	-	32,252
Contribution difference	-	-	-	13,975	13,975
	<u>\$ 31,265</u>	<u>\$ 596</u>	<u>\$ 1,263</u>	<u>\$ 114,437</u>	<u>\$ 147,561</u>

The Water Fund's proportionate share of Deferred Inflows of Resources related to the pension plan as of June 30, 2023 and 2022 was \$6,744,038 and \$10,833,935, respectively.

Recognition of Deferred Outflows and Inflows by Employer

The following table shows the net amounts of deferred outflows and inflows to be recognized by each participating employer in each of the next five years and the total thereafter:

Schedule of Employer's Recognition of Deferred Outflows and Inflows					
<i>(Amounts in Thousands USD)</i>					
For Year Ending	PPA	PMA	PHDC	CITY	Total
2024	\$ (10,862)	\$ 109	\$ 606	\$ 78,294	\$ 68,147
2025	(7,319)	50	350	4,651	(2,268)
2026	1,391	251	897	221,371	223,910
2027	69	147	546	16,602	17,364
2028	-	-	-	-	-
Thereafter	-	-	-	-	-
Total	<u>\$ (16,721)</u>	<u>\$ 557</u>	<u>\$ 2,399</u>	<u>\$ 320,918</u>	<u>\$ 307,153</u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

2. ACCUMULATED UNPAID SICK LEAVE

Employees are credited with varying amounts of sick leave according to type of employee and/or length of service. Employees may accumulate unused sick leave to predetermined balances. Non-uniformed employees (upon retirement only) and uniformed employees (upon retirement or in case of death while on active duty) are paid varying amounts ranging from 25% to 60% of unused sick time, not to exceed predetermined amounts. Employees, who separate for any reason other than indicated above, forfeit their entire sick leave.

3. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description: The City of Philadelphia self-administers a single employer, defined benefit plan that provides OPEB for all eligible retirees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided: The City of Philadelphia subsidizes health care for five years from the time of coverage election for eligible retirees. Certain union represented employees may defer their coverage until a later date, but the amount that the City pays for their health care is limited to the amount that the City would have paid at the date of their retirement. The City also provides lifetime insurance coverage for all eligible retirees. Firefighters are entitled to \$7,500 coverage and all other employees receive \$6,000 in coverage. The plan does not issue stand-alone financial statements, and the accounting for the plan is reported within the financial statements of the City of Philadelphia.

Funding Policy: The City's funding policy is to pay the net expected benefits for the current retirees. To provide health care coverage, the City pays a negotiated monthly premium for retirees covered by union contracts and is self-insured for non-union employees. The City's contributions are estimated to be about \$101.1 million for fiscal year ended June 30, 2023.

Employees covered by benefit terms: At July 1, 2022, the following employees were covered by the benefit terms:

Medical Coverage

Inactive employees or beneficiaries currently receiving medical coverage	3,960
DROPS with medical coverage	1,917
Active employees	26,715
Total	32,592

Life Insurance Coverage

Inactive employees or beneficiaries currently receiving life insurance coverage	27,769
Active employees	26,715
Total	54,484

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

3. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Total OPEB Liability: The City's total OPEB liability as of June 30, 2023 of \$1,784,500,000 was measured as of June 30, 2022 and was determined by an actuarial valuation as of July 1, 2022.

The Water Fund's proportionate share of the OPEB liability was \$132.9 million and \$162.8 million as of June 30, 2023 and June 30, 2022, respectively.

Actuarial assumptions and other inputs: The total OPEB liability in the July 1, 2022 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Measurement Dates: June 30, 2022 and June 30, 2021; reporting dates June 30, 2023 and June 30, 2022.

Discount Rate:

- 3.54% per annum for the valuation measured as of June 30, 2022
- 2.16% per annum for the valuation measured as of June 30, 2021

Salary Increase Rate:

<u>Age</u>	<u>Municipal and Elected Officials</u>	<u>Uniformed</u>
<20	20.00%	18.00%
20	18.00%	16.50%
25	10.00%	10.00%
30	7.00%	6.25%
35	5.75%	4.50%
40	4.50%	4.00%
45	4.25%	3.75%
50	4.00%	3.50%
55	3.75%	3.25%
60	3.50%	3.00%
65+	3.25%	2.75%

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

3. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Per Person Cost Trends: The trend rates represent the annual rate of increase in employer claim payments, employer premiums (including those paid to union-sponsored plans), and retiree contributions.

To Year Beginning July 1	<u>Medical</u>		<u>Rx</u>		<u>Medical/Rx Combined</u>	
	Pre Medicare	Medicare Eligible	Pre Medicare	Medicare Eligible	Pre Medicare	Medicare Eligible
2023	8.00%	8.00%	9.00%	9.00%	8.20%	7.80%
2024	7.75%	7.75%	8.75%	8.75%	7.95%	7.55%
2025	7.50%	7.50%	8.50%	8.50%	7.70%	7.30%
2026	7.00%	7.00%	8.25%	8.25%	7.25%	7.05%
2027	6.66%	6.66%	7.70%	7.70%	6.87%	6.70%
2028	6.32%	6.32%	7.16%	7.16%	6.49%	6.36%
2029	5.99%	5.99%	6.61%	6.61%	6.11%	6.01%
2030	5.65%	5.65%	6.06%	6.06%	5.73%	5.66%
2031	5.31%	5.31%	5.52%	5.52%	5.35%	5.32%
2032	4.97%	4.97%	4.97%	4.97%	4.97%	4.97%
2033	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%
2034	4.57%	4.57%	4.57%	4.57%	4.57%	4.57%
2035	4.46%	4.46%	4.46%	4.46%	4.46%	4.46%
2036	4.39%	4.39%	4.39%	4.39%	4.39%	4.39%
2037	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%
2038	4.32%	4.32%	4.32%	4.32%	4.32%	4.32%
2039	4.29%	4.29%	4.29%	4.29%	4.29%	4.29%
2040	4.28%	4.28%	4.28%	4.28%	4.28%	4.28%
2041	4.26%	4.26%	4.26%	4.26%	4.26%	4.26%
2042	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%
2043	4.14%	4.14%	4.14%	4.14%	4.14%	4.14%
2044	4.14%	4.14%	4.14%	4.14%	4.14%	4.14%

Dental and vision costs are assumed to increase at 3% per year.

Retirees Share of Benefit Related Costs:

Percent of Retirees Electing Coverage

Participation rate for medical coverage

- 85% of future retirees from non-represented groups are assumed to elect post-retirement medical covers.
- 100% of future retirees from represented groups (DC 33, DC 47, Fire, and Police) are assumed to elect post-retirement medical coverage.
- 100% of DROP participants are assumed to continue in DROP for the remainder of their DROP period (maximum four years) and then retire with a medical benefit.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

3. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Retirees Share of Benefit Related Costs: (continued)

Participation rate for life insurance

- 95% of current and future retired firefighters who participated in the pension plan are assumed to be covered by City-provided life insurance. 87% of all other current and future retired pension plan participants are assumed to be covered by City-provided life insurance.

Mortality Rates:

Rates of Pre-retirement Mortality:

- Municipal and Elected members: 109% and 126%, for males and females, respectively, follows Pub-2010(B) General Employee Below-Median Table projected from base year of 2010 to 2025 using mortality improvement scale MP-2021.
- Uniformed members: 118% and 122%, for males and females, respectively, of the Pub-2010(B) Safety Employee Below-Median Table projected from base year of 2010 to 2025 using mortality improvement scale MP-2021.

Rates of Post-retirement Mortality:

- Municipal and elected members: 109% and 126%, for males and females, respectively, of the Pub-2010(B) General Healthy Annuitant Below-Median Table projected from base year of 2010 to 2025 using mortality improvement scale MP-2021.
- For uniformed members: 118% and 122%, for males and females, respectively, of the Pub-2010(B) Safety Healthy Annuitant Below-Median Table projected from base year of 2010 to 2025 using mortality improvement scale MP-2021.

Rates of Post-Disability Mortality:

- Municipal and elected members: 108% and 105%, for males and females, respectively, of the Pub-2010 General Disabled Annuitant Table projected from base year of 2010 to 2025 using mortality improvement scale MP-2021.
- For uniformed members: 135% for males only of the Pub-2010 Safety Disabled Annuitant Table projected from base year of 2010 to 2025 using mortality improvement scale MP-2021.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

3. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Change in the Total OPEB Liability:

The table below shows the changes in the Total OPEB Liability (TOL), the plan fiduciary net position (i.e., the fair value of Plan assets) (FNP), and the Net OPEB Liability (NOL) during the measurement period ended on June 30, 2022.

	Change in Net OPEB Liability		
	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at 6/30/21	\$ 2,156,100,000	\$ -	\$ 2,156,100,000
Changes for the year:			
Service cost	118,100,000		118,100,000
Interest	47,900,000		47,900,000
Changes of benefits	-		-
Differences between expected/actual	(65,000,000)		(65,000,000)
Changes of Assumptions	(354,300,000)		(354,300,000)
Contributions - employer		118,300,000	(118,300,000)
Contributions - non employer		-	-
Contributions - member		-	-
Net investment income		-	-
Benefit payments	(118,300,000)	(118,300,000)	-
Administrative expense			-
Net changes	<u>(371,600,000)</u>	<u>-</u>	<u>(371,600,000)</u>
Balances at 6/30/22	<u>\$ 1,784,500,000</u>	<u>\$ -</u>	<u>\$ 1,784,500,000</u>

The employer contribution of \$118.3 million is based on a blend of actual contributions provided by the City of Philadelphia and estimated contributions based on the prior report.

There was a gain of \$65.0 million due to experience. This is due to the change in population between the June 30, 2020 valuation and the June 30, 2022 valuation and updated valuation data as of the valuation date.

There was a net gain in the liability of \$354.3 million related to changes in the assumptions. This net gain is primarily due to the experience study assumption updates, the increase in the discount rate from 2.16% to 3.54%, and changes to the medical claims and trend assumptions.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

3. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Change in the Total OPEB Liability: (continued)

There were no benefit changes during the measurement period.

Sensitivity of the total OPEB liability to changes in the discount rate:

The following represents the total OPEB liability (TOL) of the City, using the discount rate of 3.54%, as well as what the City's total liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.54%) or 1-percentage-point higher (4.54%) than the current discount rate:

Changes in the discount rate affect the measurement of the TOL. Lower discount rates produce a higher TOL and higher discount rates produce a lower TOL. The table below shows the sensitivity of the NOL to the discount rate.

Sensitivity of Net OPEB Liability to Changes in Discount Rate

	1% Decrease 2.54%	Discount Rate 3.54%	1% Increase 4.54%
Total OPEB Liability	\$ 1,931,800,000	\$ 1,784,500,000	\$ 1,651,000,000
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	<u>\$ 1,931,800,000</u>	<u>\$ 1,784,500,000</u>	<u>\$ 1,651,000,000</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.0%	0.0%	0.0%

A one percent decrease in the discount rate increases the TOL and NOL by approximately 8%. A one percent increase in the discount rate decreases the TOL and NOL by approximately 7%.

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.

The following represents the total OPEB liability of the City, as well as what the City's total liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current discount rate.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

3. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

***Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.
(continued)***

Changes in healthcare trends affect the measurement of the TOL. Lower healthcare trends produce a lower TOL and higher healthcare trends produce a higher TOL. The table below shows the sensitivity of the NOL to the healthcare trends.

Sensitivity of Net OPEB Liability to Changes in Healthcare Cost Trend Rates

	1% Decrease	Healthcare Trend	1% Increase
Total OPEB Liability	\$ 1,625,700,000	\$ 1,784,500,000	\$ 1,970,600,000
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	<u>\$ 1,625,700,000</u>	<u>\$ 1,784,500,000</u>	<u>\$ 1,970,600,000</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.0%	0.0%	0.0%

A 1% decrease in the healthcare trends decreases the TOL and NOL by approximately 9%. A 1% increase in the healthcare trend rate increases the TOL and NOL by approximately 10%.

For the year ended June 30, 2022, the City recognized OPEB expense of \$105,700,000. The table below shows the development of OPEB expense.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

3. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.

Calculation of OPEB Expense

Fiscal Year Ending	June 30, 2023
Measurement Year Ending	June 30, 2022
Change in Net OPEB Liability	\$ (371,600,000)
Change in Deferred Outflows	23,600,000
Change in Deferred Inflows	335,400,000
Non Employer Contributions	-
Employer Contributions	118,300,000
OPEB Expense	<u>\$ 105,700,000</u>
OPEB Expense as % of Payroll	5.50%
Operating Expenses	
Service cost	\$ 118,100,000
Employee contributions	-
Administrative expenses	-
Total	<u>\$ 118,100,000</u>
Financing Expenses	
Interest cost	\$ 47,900,000
Expected return on assets	-
Total	<u>\$ 47,900,000</u>
Changes	
Benefit changes	\$ -
Recognition of assumption changes	(60,500,000)
Recognition of liability gains and losses	200,000
Recognition of investment gains and losses	-
Total	<u>\$ (60,300,000)</u>
 OPEB Expense	 <u><u>\$ 105,700,000</u></u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

3. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

At June 30, 2023, the City reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

Schedule of Deferred Inflows and Outflows of Resources as of
June 30, 2023 Projected Fiscal Year End
June 30, 2022 Measurement Date

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 37,400,000	\$ 56,900,000
Changes in assumptions	86,600,000	390,800,000
Net difference between projected and actual earnings on OPEB plan investments	-	-
Contributions subsequent to the measurement date	(101,100,000)	-
Total	<u><u>\$ 22,900,000</u></u>	<u><u>\$ 447,700,000</u></u>

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

	Year ended June 30:
2024	(60,200,000)
2025	(45,200,000)
2026	(45,200,000)
2027	(45,300,000)
2028	(35,100,000)
Thereafter	\$ (92,700,000)

The subsequent contributions after the measurement date are reflected as a deferred outflow of resources, but this is not subject to a deferred recognition period in the OPEB expense. Instead, this will be fully recognized in the OPEB expense for the fiscal year ending June 30, 2024.

At June 30, 2022, the Water Fund reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 9,199,720	\$ 34,971,000
Contributions subsequent to measurement date	7,601,400	-
Total	<u><u>\$ 16,801,120</u></u>	<u><u>\$ 34,971,000</u></u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

3. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Amounts reported as deferred outflows and inflows of resources will be recognized in OPEB expense over a six-year period.

Required Supplementary Information: The schedule below shows the changes in NOL and related ratios required by GASB.

Schedule of Changes in Net OPEB Liability and Related Ratios

Measurement of Year Ending	6/30/2021	6/30/2020
<u>Total OPEB Liability</u>		
Service cost (BOY)	\$ 110,900,000	\$ 93,900,000
Interest (includes interest on service cost)	47,500,000	69,200,000
Changes of benefit terms	-	-
Differences between expected and actual experience	-	18,100,000
Changes of assumptions	8,300,000	75,300,000
Benefit payments, including refunds of member contributions	(97,800,000)	(104,600,000)
Net change in total OPEB liability	68,900,000	151,900,000
Total OPEB liability - beginning	2,087,200,000	1,935,300,000
Total OPEB liability - ending	2,156,100,000	2,087,200,000
<u>Plan Fiduciary Net Positions</u>		
Contributions - employer	97,800,000	96,900,000
Contributions - non-employer	-	-
Contributions - member	-	-
Net investment income	-	-
Benefit payments, including refunds of member contributions	(97,800,000)	(96,900,000)
Administrative expense	-	-
Net change in plan fiduciary net position	-	-
Plan fiduciary net position - beginning	-	-
Plan fiduciary net position - ending	-	-
Net OPEB liability - ending	\$ 2,156,100,000	\$ 2,087,200,000
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%
Covered payroll	\$ 1,921,200,000	\$ 1,842,600,000
Net OPEB liability as a percentage of covered payroll	112.23%	113.27%

The Plan is not currently being pre-funded so there is no actuarially determined contribution shown below. The actuarially determined contribution is a target or recommended contribution to the OPEB plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contributions for the reporting period was adopted. The Actuarial Required Contribution (ARC) determined under GASB 45 is not a recommended contribution under Actuarial Standards of Practice, and thus is not shown below. If the Plan decides to pre-fund the liabilities; the actuary will provide an appropriate actuarially determined contribution.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

4. PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY (PICA)

PICA, a body corporate and politic, was organized in June 1991 and exists under and by virtue of the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the Act). Pursuant to the Act, PICA was established to provide financial assistance to cities of the first class. The City currently is the only city of the first class in the Commonwealth of Pennsylvania. Under the Act, PICA is administered by a governing Board consisting of five voting members and two ex officio non-voting members. The Governor of Pennsylvania, the President Pro Tempore of the Pennsylvania Senate, the Minority Leader of the Pennsylvania Senate, the Speaker of the Pennsylvania House of Representatives, and the Minority Leader of the Pennsylvania House of Representatives each appoints one voting member to the Board.

The Act provides that, upon PICA's approval of a request of the City to PICA for financial assistance, PICA shall have certain financial and oversight functions. First, PICA shall have the power to issue bonds and grant or lend the proceeds thereof to the City. Second, PICA also shall have the power, in its oversight capacity, to exercise certain advisory and review powers with respect to the City's financial affairs, including the power to review and approve five-year financial plans prepared at least annually by the City and to certify noncompliance by the City with its current five-year financial plan (which certification would require the Secretary of the Budget of the Commonwealth of Pennsylvania to cause certain Commonwealth payments due to the City to be withheld).

PICA bonds are payable from the proceeds of a PICA tax on the wages and income earned by City residents. The City has reduced the amount of wage and earnings tax that it levies on City residents by an amount equal to the PICA tax so that the total tax remains the same. PICA returns to the City any portion of the tax not required to meet their debt service and operating expenses. In Fiscal 2023, this transfer amounted to \$674.3 million.

5. RELATED PARTY TRANSACTIONS

The City is associated, through representation on the respective Board of Directors, with several local governmental organizations and certain quasi-governmental organizations created under the laws of the Commonwealth of Pennsylvania. These organizations are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate independent governmental entities.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

5. RELATED PARTY TRANSACTIONS (continued)

A list of such related party organizations and a description of significant transactions with the City, where applicable, follows:

A. SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY (SEPTA)

During the year, the City provided an operating subsidy of \$100.7 million to SEPTA.

B. OTHER ORGANIZATIONS

The City provides varying levels of subsidy and other support payments which totaled \$130.15 million during the year to the following organizations:

- Philadelphia Health Management Corporation
- Philadelphia Industrial Development Corporation
- Fund for Philadelphia Incorporated

6. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City (except for Aviation Fund operations, the Municipal Authority, and PICA) is self-insured for fire damage, casualty losses, public liability, Workers' Compensation and Unemployment Compensation. The Aviation Fund is self-insured for Workers' Compensation and Unemployment Compensation and insured through insurance carriers for other coverage. The City is self-insured for medical benefits provided to employees in the Fraternal Order of Police, its City-administered health plan, the International Association of Fire Fighters, and District Council 47.

The City covers all claim settlements and judgments, except for those discussed above, out of the resources of the fund associated with the claim. Claim expenditures and liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. These losses include: an estimate of claims that have been incurred but not reported; the effects of specific, incremental claims adjustment expenditures, salvage, and subrogation; and unallocated claims adjustment expenditures.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)
6. RISK MANAGEMENT (continued)

At June 30, the amount of these liabilities was \$410.1 million for the Primary Government. This liability is the City's best estimate based on available information. Changes in the reported liability since June 30, 2021 resulted from the following:

(Millions of Dollars)

	Beginning Liability	Current Year Claims & Changes In Estimates	Claim Payments	Ending Liability
Fiscal 2021	\$ 391.8	\$ 321.2	\$ (222.6)	\$ 490.4
Fiscal 2022	490.4	194.1	(235.2)	449.3
Fiscal 2023	449.3	246.4	(285.6)	410.1

The City's Unemployment Compensation and Workers' Compensation coverages are provided through its General Fund. Unemployment Compensation and Workers' Compensation coverages are funded by a pro rata charge to the various funds. Payments for the year were \$2.1 million for Unemployment Compensation claims and \$95.3 million for Workers' Compensation claims.

The City's estimated outstanding workers' compensation liabilities are \$301.6 million discounted at 3.5%. On an undiscounted basis, these liabilities total \$393.7 million. These liabilities include provisions for indemnity, medical and allocated loss adjustment expense (ALAE). Excluding the ALAE, the respective liabilities for indemnity and medical payments relating to workers' compensation total \$268.5 million (discounted) and \$353.1 million (undiscounted). The Water Fund's accrued liability for workers' compensation was \$24.1 million and \$24.1 million at June 30, 2023 and 2022, respectively.

During the last five (5) fiscal years, claim settlements have exceeded the level of insurance coverage for operations using third party carriers. None of the City's insured losses have been settled with the purchase of annuity contracts.

7. COMMITMENTS AND CONTINGENCIES

Commitments

Encumbrance accounting is utilized to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end, the open amount of open encumbrances for both the current and prior fiscal years totaled \$946,947,000.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

7. COMMITMENTS AND CONTINGENCIES (continued)

Contingencies

Generally, claims against the City are payable out of the General Fund, except claims against the City Water Department, City Aviation Division, or Component Units which are paid out of their respective funds and only secondarily out of the General Fund which is then reimbursed for the expenditure. Unless specifically noted otherwise, all claims hereinafter discussed are payable out of the General Fund or the individual Enterprise Fund. The Act of October 5, 1980, P.L. 693, No. 142, known as the "Political Subdivision Tort Claims Act", established a \$500,000 aggregate limitation on damages arising from the same cause of action or transaction or occurrence or series of causes of action, transactions, or occurrences with respect to governmental units in the Commonwealth such as the City. The constitutionality of that aggregate limitation has been upheld by the United States Supreme Court. There is no such limitation under federal law.

Various claims have been asserted against the City and in some cases lawsuits have been instituted. Many of these claims are reduced to judgment or otherwise settled in a manner requiring payment by the Water Fund. The aggregate estimate of loss deemed to be probable as of June 30, 2023 and 2022 is approximately \$1.3 million and \$4.0 million, respectively. This amount has been included on the Statement of Fund Net Position under Other Long-Term Liabilities.

The City's aggregate estimate of loss deemed to be probable is approximately \$386.0 million. Of this amount, \$39.6 million is charged to the current operations of the Enterprise Funds. The remaining \$346.4 million pertaining to the General Fund is reflected in the City's Government Wide Statements

In addition to the above, there are certain lawsuits against the City for which an additional loss is reasonably possible. These lawsuits relate to General Fund and Enterprise Fund operations. The aggregate estimate of the amount of loss from these lawsuits in which some amount of loss is reasonably possible is approximately \$102.6 million from the General Fund, \$2.0 million from the Water Fund and \$4.4 million from the Aviation Fund. This represents the best estimate of the entire current inventory of such litigation and pre-suits as of February 16, 2024.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

8. SUBSEQUENT EVENTS

In preparing the accompanying financial statements, the Water Fund has reviewed events that occurred subsequent to June 30, 2023, through and including February 25, 2024. The following events are described below:

In September 2023, the City issued its \$564.8 million City of Philadelphia, Pennsylvania Water and Wastewater Revenue Bonds, Series 2023B (the “Bonds”). The Bonds were issued to provide funds to finance (i) capital improvements to the System, (ii) a deposit to the Debt Reserve Account of the Sinking fund, (iii) the refunding of a portion of the City’s outstanding Water and Wastewater Revenue Refunding Bonds (Federally Taxable), Series 2019A and a portion of the City’s outstanding Water and Wastewater Revenue Refunding Bonds (Federally Taxable), Series 2020B and (iv) the costs of issuance related to the Bonds.

In December 2023, the Water Department was awarded \$24.6 million from three Commonwealth Financing Authority grants under the American Rescue Plan Act’s H2O PA Program. The grants will help to fund three infrastructure improvement projects: Northeast Effluent Pump Station Infrastructure Project (\$15 million), Queen Lane Raw Water Pump Station Power Resilience Project (\$5.5 million), and the 21st Street Storm Sewer Improvement (\$4.1 million).

Additionally, during Fiscal Year 2023, the Water Department received approval from the Pennsylvania Infrastructure Investment Authority (PennVest) for loans as noted below:

PennVest 2024 Linear Assets – Sewer: In April 2023 the PennVest Board approved a loan totaling \$44.9 million to fund sewer replacements. The award is expected to close in July 2024.

PennVest 2024 Linear Assets – Water: In April 2023 the PennVest Board approved a loan totaling \$31.1 million to fund water main replacements. The award is expected to close in July 2024.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

9. ACCOUNTS RECEIVABLE

Balances of accounts receivable and allowance for doubtful accounts consisted of the following:

Fiscal Year Ending June 30, 2023	
Billed in Last Twelve Months	\$ 181,346,862
Billed in 15-Year Cycle Billing	3,906,174
Penalties on Receivables	12,525,158
Other Receivables	853,064
Subtotal	198,631,258
Bad Debt Written Off	(3,906,174)
	<u>\$ 194,725,084</u>
Allowance for Doubtful Accounts	<u>\$ 20,314,132</u>
Fiscal Year Ending June 30, 2022	
Billed in Last Twelve Months	\$ 170,852,297
Billed in 15-Year Cycle Billing	7,406,520
Penalties on Receivables	11,654,218
Other Receivables	826,799
Subtotal	190,739,834
Bad Debt Written Off	(7,406,520)
	<u>\$ 183,333,314</u>
Allowance for Doubtful Accounts	<u>\$ 20,476,432</u>

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)
10. LONG TERM AGREEMENTS

The City has entered into several long term agreements with third parties through the Philadelphia Municipal Authority as follows:

A. Contract for Biosolids Treatment with Philadelphia Biosolids Services, LLC

In 2008, the City entered into a long-term contract and lease with the Philadelphia Municipal Authority (the “PMA”) for the PMA to operate the Water Department’s existing Biosolids Recycling Center (the “BRC”). The PMA and Philadelphia Biosolids Services, LLC (“PBS”) entered into a Service Agreement (the “PBS Service Contract”), pursuant to which PBS designed and built, and currently operates, a facility at the BRC to heat dry and dispose of biosolids captured during wastewater treatment. The PMA is required to make annual payments to PBS for operating the BRC. Pursuant to a Service Agreement between the PMA and the City (the “City Service Contract”), the City assumed all of PMA’s obligations under the PBS Service Contract. The obligations under the City Service Contract constitute operating expenses of the Water Department. In Fiscal Years 2023 and 2022, the City paid to PMA, from revenues generated by the Water Department, \$27,856,813 and \$22,138,315, respectively. The City Service Contract contains adjusters for the Consumer Price Index, Producer Price Index, and fluctuations in fuel prices, among others; thus, expenditures under the City Service Contract may vary over time. The Biosolids Service Contract expires on February 10, 2032 and contains the possibility of a five-year renewal term at the option of the City.

B. Northeast Water Pollution Control Plant Digester Gas Cogeneration Facility

In 2011, the City entered into a long-term contract and lease with the PMA for the PMA to arrange the construction, financing, maintenance, and sublease of a digester gas cogeneration facility at the Northeast Water Pollution Control Plant. The PMA entered into a lease (the “Lease”) with BAL Green Biogas I, LLC, a special purpose entity of Bank of America (the “Lessor”), which requires the PMA to make certain lease payments to the Lessor. Pursuant to a sublease dated December 23, 2011 (the “Sublease”), the City assumed all of the PMA’s obligations under the Lease. The obligations under this contract constitute operating expenses of the Water Department. In Fiscal Year 2023 and Fiscal Year 2022, the City paid to the Lessor from revenues generated from the Water Department, \$7,026,971 and \$6,108,449, respectively. The Sublease expires on September 25, 2029, unless renewed by PMA for an additional term of eighteen months.

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)

10. LONG TERM AGREEMENTS (continued)

C. Advanced Meter Reading Infrastructure

In February 2019, the City, through PMA, entered into a contract with Sensus USA Inc. (“Sensus”) for the delivery of an advanced metering infrastructure (“AMI”) system for water meter reading, including installation, operation, and maintenance of the AMI system. The transition from Automatic Meter Reading (“AMR”) to Sensus was completed in September 2019, and Sensus has assumed the meter reading services formerly provided by ITRON. The installation of the AMI system and communications network was completed on February 12, 2020. The deployment phase, during which AMR equipment will be replaced with AMI units, is expected to take approximately 24 months. The deployment phase started in December of 2020. The costs for installation and deployment are included in the Water Capital Improvement Program. After the initial installation and deployment phase, the AMI operations and maintenance term of the contract will begin for a term of 20 years, with the option to renew for additional one-year terms for a period of up to three years. In Fiscal Year 2022, the Water Department paid \$1,668,268 for meter reading services and \$17,571,425 for the purchase and installation of new water meters. In Fiscal Year 2023, The Water Department paid \$11,038,213 for meter reading services (including over \$9.0 million from the prior fiscal year due to a delay in price negotiations) and \$10,167,569 for the purchase and installation of new water meters.

11. RESTRICTED ASSETS

Assets whose use is limited to a specific purpose have been classified as “restricted” in the Statement of Fund Net Position.

Restricted assets as of June 30, 2023, comprised the following:

	(Thousands of Dollars)	
	Cash and Investments	Accrued Interest
Capital Projects	\$ 710,104	\$ 972
Rate Stabilization	133,180	806
Residual	16,510	14
Sinking Fund	15,468	1
Sinking Fund Reserve	202,339	822
Total	\$ 1,077,601	\$ 2,615

**PHILADELPHIA WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

IV. OTHER INFORMATION (continued)
11. RESTRICTED ASSETS (continued)

Restricted assets as of June 30, 2022, comprised the following:

	(Thousands of Dollars)	
	Cash and Investments	Accrued Interest
Capital Projects	\$ 532,343	\$ 254
Rate Stabilization	138,989	679
Residual	16,102	6
Sinking Fund	4,821	-
Sinking Fund Reserve	189,723	292
Total	\$ 881,978	\$ 1,231

Required Supplementary Information

CITY OF PHILADELPHIA WATER DEPARTMENT
BUDGETARY COMPARISON SCHEDULE
Water Operating Fund
For the Fiscal Year Ended June 30, 2023
(Legally Enacted Basis)

(Thousands of Dollars)

<u>Revenues</u>	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Final Budget to Actual Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Locally Generated Non-Tax Revenue	\$ 778,676	\$ 778,681	\$ 775,864	\$ (2,817)
Revenue from Other Governments	500	500	792	292
Revenue from Other Funds (1)	64,722	83,182	40,220	(42,962)
Total Revenues	\$ 843,898	\$ 862,363	\$ 816,876	\$ (45,487)
<u>Expenditures and Encumbrances</u>				
Personal Services	185,992	185,992	164,532	21,460
Pension Contributions	67,002	72,002	68,614	3,388
Other Employee Benefits	71,760	71,760	65,209	6,551
Sub-Total Employee Compensation	324,754	329,754	298,355	31,399
Purchase of Services	229,532	236,480	219,833	16,647
Materials and Supplies	62,089	68,634	66,258	2,376
Equipment	8,950	8,921	7,290	1,631
Contributions, Indemnities and Taxes	6,510	6,510	7,505	(995)
Debt Service	200,992	200,992	199,767	1,225
Payments to Other Funds	51,071	51,071	47,103	3,968
Advances and Other Miscellaneous Payments	-	-	-	-
Total Expenditures and Encumbrances	883,898	902,363	846,111	56,252
Operating Surplus (Deficit) for the Year	\$ (40,000)	\$ (40,000)	\$ (29,235)	\$ 10,765
Fund Balance Available, July 1, 2022	-	-	-	-
<u>Operations in Respect to Prior Fiscal Years</u>				
Commitments Cancelled - Net	40,000	40,000	29,235	\$ (10,765)
Prior Period Adjustments	-	-	-	-
Adjusted Fund Balance, July 1, 2022	40,000	40,000	29,235	(10,765)
Fund Balance Available, June 30, 2023	\$ -	\$ 0	\$ -	\$ (0)

(1) Revenue from Other Funds include Services to General and Aviation Fund, Employee Benefits Fund, and Transfer from Rate Stabilization Fund.

City of Philadelphia - Schedule of Changes in Net OPEB Liability and Related Ratios *(Amounts in thousands USD)*

	FYE 2022	FYE 2021	FYE 2020	FYE 2019	FYE 2018	FYE 2017
Total OPEB Liability						
Service Cost (BOY)	118,100	110,900	93,900	82,400	81,800	89,300
Interest (includes interest on service cost)	47,900	47,500	69,200	71,900	67,900	56,100
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	(65,000)	-	18,100	-	56,800	-
Changes of assumptions	(354,300)	8,300	75,300	54,000	(147,800)	(105,600)
Benefit payments, including refunds of member contributions	(118,300)	(97,800)	(104,600)	(96,900)	(96,400)	(114,800)
Net change in total OPEB liability	(371,600)	68,900	151,900	111,400	(37,700)	(75,000)
Total OPEB liability - beginning	2,156,100	2,087,200	1,935,300	1,823,900	1,861,600	1,936,600
Total OPEB liability - ending	1,784,500	2,156,100	2,087,200	1,935,300	1,823,900	1,861,600
Plan fiduciary net position						
Contributions - employer	118,300	97,800	104,600	96,900	96,400	114,800
Contributions - non-employer	-	-	-	-	-	-
Contributions - member	-	-	-	-	-	-
Net investment income	-	-	-	-	-	-
Benefit payments, including refunds of member contributions	(118,300)	(97,800)	(104,600)	(96,900)	(96,400)	(114,800)
Administrative expense	-	-	-	-	-	-
Net change in plan fiduciary net position	-	-	-	-	-	-
Plan fiduciary net position - beginning	-	-	-	-	-	-
Plan fiduciary net position - ending	-	-	-	-	-	-
Net OPEB liability - ending	1,784,500	2,156,100	2,087,200	1,935,300	1,823,900	1,861,600
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Covered-employee payroll	1,921,100	1,886,500	1,921,200	1,842,600	1,805,400	1,744,700
Net OPEB liability as a percentage of covered-employee payroll	92.89%	114.29%	108.64%	105.03%	101.02%	106.70%

Note: There are no assets accumulated in a trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits for the OPEB plan. The schedules of changes in net OPEB liability and related ratios are intended to show information for 10 years. Additional years will be displayed as they become available.

City of Philadelphia - Municipal Pension Plan - Schedule of Changes in Net Pension Liability *(Amounts in thousands USD)*

	FYE 2023	FYE 2022	FYE 2021	FYE 2020	FYE 2019	FYE 2018	FYE 2017	FYE 2016	FYE 2015
Total Pension Liability									
Service Cost (MOY)	191,726	186,294	187,598	190,457	183,756	164,137	157,607	148,370	143,556
Interest (includes interest on service cost)	900,854	879,400	884,099	871,361	857,349	843,172	823,959	802,450	791,299
Changes of benefit terms	-	-	-	-	378	4,065	-	-	-
Differences between expected and actual experience	74,248	(200,733)	(2,417)	9,483	11,098	28,937	103,879	151,919	34,910
Changes of assumptions	59,179	220,153	57,076	-	53,489	106,022	51,441	85,148	48,146
Benefit payments, including refunds of member contributions	(949,736)	(929,291)	(891,445)	(862,198)	(842,469)	(828,266)	(821,495)	(889,343)	(881,465)
Net change in total pension liability	276,271	155,823	234,911	209,123	263,601	318,067	315,391	298,544	136,446
Total Pension liability - beginning	12,374,126	12,218,303	11,983,392	11,774,269	11,510,668	11,192,601	10,877,210	10,578,666	10,442,220
Total Pension liability - ending	12,650,397	12,374,126	12,218,303	11,983,392	11,774,269	11,510,668	11,192,601	10,877,210	10,578,666
Plan fiduciary net position									
Contributions - employer	1,164,974	859,786	788,483	768,720	797,806	781,984	706,237	660,247	577,195
Contributions - member	120,691	110,447	111,273	111,825	99,180	83,289	73,607	67,055	58,658
Net investment income	570,957	(479,763)	1,643,490	87,151	363,736	440,327	566,625	(145,662)	13,338
Benefit payments, including refunds of member contributions	(949,736)	(929,291)	(891,445)	(862,198)	(842,469)	(828,266)	(821,495)	(889,343)	(881,666)
Administrative expense	(8,938)	(8,933)	(9,709)	(10,991)	(11,155)	(10,123)	(8,874)	(8,554)	(10,478)
PAF Distributions	(29,693)	(37,395)	-	-	-	-	-	-	-
Net change in plan fiduciary net position	868,255	(485,149)	1,642,092	94,507	347,098	467,211	516,100	(316,277)	(242,453)
Plan fiduciary net position - beginning	6,939,834	7,424,983	5,782,891	5,688,384	5,341,286	4,874,075	4,357,975	4,674,252	4,916,705
Plan fiduciary net position - ending	7,808,089	6,939,834	7,424,983	5,782,891	5,688,384	5,341,286	4,874,075	4,357,975	4,674,252
Net pension liability - ending	4,842,308	5,434,292	4,793,320	6,200,501	6,085,885	6,169,382	6,318,526	6,519,235	5,904,414
Plan fiduciary net position as a percentage of the total pension liability	61.72%	56.08%	60.77%	48.26%	48.31%	46.40%	43.55%	40.07%	44.19%
Covered payroll	2,025,114	1,921,142	1,886,512	1,921,217	1,842,555	1,805,400	1,744,728	1,676,549	1,597,849
Net pension liability as a percentage of covered payroll	239.11%	282.87%	254.08%	322.74%	330.30%	341.72%	362.15%	388.85%	369.52%

Note: The schedules of changes in net Pension liability and related ratios are intended to show information for 10 years. Additional years will be displayed as they become available.

City of Philadelphia Schedule of Collective Contributions (Based on Minimum Municipal Obligations)

Last 10 Fiscal Years

Amounts in Thousands

	FYE2023	FYE 2022	FYE 2021	FYE 2020	FYE 2019	FYE 2018	FYE 2017	FYE 2016	FYE 2015	FYE 2014
Actuarially determined Contribution	664,067	678,192	673,884	675,751	668,281	661,257	629,620	594,975	556,030	523,368
Contributions in Relation to the Actuarially Determined Contribution	1,164,974	859,787	788,483	768,721	797,806	781,984	706,237	660,247	577,195	553,179
Contribution Deficiency/(Excess)	(500,907)	(181,595)	(114,599)	(92,970)	(129,525)	(120,727)	(76,617)	(65,272)	(21,165)	(29,811)
Covered Payroll	2,025,114	1,921,142	1,886,512	1,921,217	1,842,555	1,805,400	1,744,728	1,676,549	1,597,849	1,495,421
Contributions as a Percentage of Covered Payroll	57.53%	44.75%	41.80%	40.01%	43.30%	43.31%	40.48%	39.38%	36.12%	36.99%

City of Philadelphia Schedule of Collective Contributions (Based on Revenue Recognition Policy)

Last 10 Fiscal Years

Amounts in Thousands

	FY2023	FYE 2022	FYE 2021	FYE 2020	FYE 2019	FYE 2018	FYE 2017	FYE 2016	FYE 2015	FYE 2014
Actuarially determined Contribution	726,501	727,430	712,978	704,589	680,808	662,139	629,620	594,975	556,030	523,368
Contributions in Relation to the Actuarially Determined Contribution	1,164,974	859,787	788,483	768,721	797,806	781,984	706,237	660,247	577,195	553,179
Contribution Deficiency/(Excess)	(438,473)	(132,357)	(75,505)	(64,132)	(116,998)	(119,845)	(76,617)	(65,272)	(21,165)	(29,811)
Covered Payroll	2,025,114	1,921,142	1,886,512	1,921,217	1,842,555	1,805,400	1,744,728	1,676,549	1,597,849	1,495,421
Contributions as a Percentage of Covered Payroll	57.53%	44.75%	41.80%	40.01%	43.30%	43.31%	40.48%	39.38%	36.12%	36.99%

City of Philadelphia Schedule of Collective Contributions (Based on Funding Policy)

Last 10 Fiscal Years

Amounts in Thousands

	FY2023	FYE 2022	FYE 2021	FYE 2020	FYE 2019	FYE 2018	FYE 2017	FYE 2016	FYE 2015	FYE 2014
Actuarially determined Contribution	801,674	826,407	856,456	839,691	874,706	871,802	881,356	846,283	798,043	823,885
Contributions in Relation to the Actuarially Determined Contribution	1,164,974	859,787	788,483	768,721	797,806	781,984	706,237	660,247	577,195	553,179
Contribution Deficiency/(Excess)	(363,300)	(33,380)	67,973	70,970	76,900	89,818	175,119	186,036	220,847	270,706
Covered Payroll	2,025,114	1,921,142	1,886,512	1,921,217	1,842,555	1,805,400	1,744,728	1,676,549	1,597,849	1,495,421
Contributions as a Percentage of Covered Payroll	57.53%	44.75%	41.80%	40.01%	43.30%	43.31%	40.48%	39.38%	36.12%	36.99%

Notes to Schedule

Valuation Date	July 1, 2021
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation two years prior to the beginning of the plan year.

Key Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age
Asset valuation method	Ten-year smoothed market
Amortization method	Gain/Losses are amortized over closed 20-year periods, assumption changes over 15years, benefit changes for actives over 10 year, and benefit changes for inactive members over 1 year, and plan changes mandated by state over 20 years.
	Under the City's Funding policy, the initial July 1, 1985 unfunded actuarial liability (UAL) is amortized over 34 years ending June 30, 2019. Future Amortization periods follow the MMO funding policy.
	Under the MMO Funding Policy, the July 1, 2009 unfunded actuarial liability (UAL) was "fresh started", to be amortized over 30 years, ending June 30, 2039. This is level dollar amortization of the UAL.
	Under the RRP Funding Policy, sales tax revenue and additional member contributions are dedicated to fund the unfunded liability instead of reducing the City's obligation such that this revenue is in addition to what the MMO would have been without these additional assets.
Discount rate	7.45%
Amortization growth rate	3.30%
Salary increases	Age based salary scale separated by employee classification
Mortality	RP-2014 Mortality Tables projected from base year of 2006 to 2021 using mortality improvement scale MP-2017

A complete description of the methods and assumptions used to determine contribution rates for the year ending June 30, 2023 can be found in the July 1, 2021 actuarial valuation report.

Other Supplementary Information

CITY OF PHILADELPHIA WATER DEPARTMENT
BONDED DEBT
WATER AND WASTEWATER REVENUE BONDS
AS OF JUNE 30, 2023

<u>Year End</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Debt Service</u>
06/30/2024	\$ 83,765,192	\$ 124,523,144	\$ 208,288,336
06/30/2025	93,103,342	137,138,560	230,241,902
06/30/2026	103,934,892	132,829,267	236,764,159
06/30/2027	110,111,311	128,279,270	238,390,581
06/30/2028	97,545,859	124,067,788	221,613,647
06/30/2029	92,506,531	120,334,669	212,841,200
06/30/2030	94,681,138	116,444,564	211,125,702
06/30/2031	95,119,732	112,336,470	207,456,202
06/30/2032	95,223,780	108,055,465	203,279,245
06/30/2033	86,489,030	103,937,475	190,426,505
06/30/2034	90,493,453	99,928,399	190,421,852
06/30/2035	94,431,084	95,858,091	190,289,175
06/30/2036	95,675,888	91,713,413	187,389,301
06/30/2037	98,574,468	87,484,995	186,059,463
06/30/2038	103,413,287	83,142,475	186,555,762
06/30/2039	107,758,809	78,563,510	186,322,319
06/30/2040	112,220,000	73,789,331	186,009,331
06/30/2041	117,220,000	68,797,213	186,017,213
06/30/2042	120,005,000	63,713,767	183,718,767
06/30/2043	124,865,000	58,485,173	183,350,173
06/30/2044	124,630,000	53,062,212	177,692,212
06/30/2045	119,120,000	47,740,205	166,860,205
06/30/2046	124,420,000	42,380,221	166,800,221
06/30/2047	95,990,000	37,382,894	133,372,894
06/30/2048	96,845,000	32,724,100	129,569,100
06/30/2049	101,580,000	27,996,319	129,576,319
06/30/2050	106,670,000	22,901,256	129,571,256
06/30/2051	112,150,000	17,424,756	129,574,756
06/30/2052	106,120,000	11,957,825	118,077,825
06/30/2053	82,850,000	6,755,375	89,605,375
06/30/2054	67,690,000	2,833,975	70,523,975
06/30/2055	21,350,000	533,750	21,883,750
Total	\$ 3,176,552,796	\$ 2,313,115,927	\$ 5,489,668,723

(1) Totals may not add due to rounding.

(2) Total Debt Service reflects the impact of a Capitalized Interest account for FY2023.

CITY OF PHILADELPHIA WATER DEPARTMENT
SUPPLEMENTAL SCHEDULE OF RATE COVENANT COMPLIANCE FOR FISCAL YEARS ENDED
JUNE 30, 2023, 2022, AND 2021 (Legally Enacted Basis)

(Thousands of Dollars)

LINE NO.		YEAR ENDED JUNE 30,		
		2023	2022	2021
1.	Total Revenue	809,126	753,581	\$ 730,451
2a.	Operating Expense	(603,817)	(547,229)	(545,089)
2b.	Liquidated Encumbrances (commitments cancelled)	29,236	36,805	23,993
2c.	Net Operating Expenses	(574,581)	(510,424)	(521,096)
3.	Transfer (To) From Rate Stabilization Fund	7,750	(15,000)	27,000
4.	Net Revenues	242,295	228,157	236,355
5.	Revenue Bonds Outstanding	(199,293)	(176,993)	(186,178)
6.	Transfer to Escrow Account to Redeem Bonds	-	-	-
6a.	Other (Adjustment between Debt Service Payments to Sinking Fund, Revenue Bond Payments, LOC expenses and Net Operating Expenses due to timing differences)	(474)	-	(134)
7.	Pennvest Loan	-	-	-
8.	Total Debt Service	(199,767)	(176,993)	(186,312)
9.	Net Revenue after Debt Service	42,528	51,164	50,043
10.	Transfer to General Fund	-	-	-
11.	Transfer to Capital Fund	(30,094)	(29,170)	(27,833)
12.	Transfer to Residual Fund	(12,433)	(21,994)	(22,210)
13.	Total Transfers	(42,527)	(51,164)	(50,043)
14.	Net Operating Balance for Current Year	\$ -	\$ -	\$ -

The rate covenant contained in the General Ordinance requires the City to establish rates and charges for the use of the Water and Wastewater Systems to yield Net Revenues, as defined as defined therein, in each fiscal year sufficient to meet three coverage tests:

Senior Debt Service Coverage: Net Revenues must equal at least 120% of the Debt Service Requirements payable in such fiscal year (excluding debt service due on any Subordinated Bonds).

90% Test Coverage: Net Revenues (excluding amounts transferred from the Rate Stabilization Fund into the Revenue Fund during, or as of the end of, such fiscal year) must equal at least equal to 90% of the Debt Service Requirements (excluding debt service on any Subordinated Bonds) payable in such fiscal year.

Total Payments Coverage: Net Revenues must equal at least 100% of : (i) the Debt Service Requirements (including Debt Service Requirements in respect of Subordinated Bonds) payable in such fiscal year; (ii) amounts required to be deposited into the Debt Reserve Account during such fiscal year; (iii) debt service on all General Obligations Bonds issued for the Water and Wastewater Systems payable in such fiscal year; (iv) debt service on Interim Debt payable in such fiscal year; and (v) the Capital Account Deposit Amount for such fiscal year, less amounts transferred from the Residual Fund to the Capital Account during such fiscal year.

To ensure compliance with the rate covenant, the General Ordinance requires that the City review its rates, rents, fees, and charges at least annually.

Senior Debt Service Coverage				
	2023	2022	2021	
Line 4	\$ 242,295	\$ 228,157	\$ 236,355	
/ Line 5	\$ 199,293	\$ 176,993	\$ 186,178	
	1.22	1.29	1.27	

90% Test Coverage				
	2023	2022	2021	
Line 4 - Line 3	\$ 234,545	\$ 243,157	\$ 209,355	
/ Line 5	\$ 199,293	\$ 176,993	\$ 186,178	
	1.18	1.37	1.12	

Total Payments Coverage				
	2023	2022	2021	
Line 4	\$ 242,295	\$ 228,157	\$ 236,355	
/ Line 5 + Line 11	\$ 229,387	\$ 206,163	\$ 214,011	
	1.06	1.11	1.10	

CITY OF PHILADELPHIA WATER DEPARTMENT
HISTORICAL OPERATING RESULTS FOR FISCAL
YEARS ENDED JUNE 30, 2023, 2022, AND 2021

(Thousands of Dollars)			
LINE NO.	FY23	FY22	FY21
1 Operating Revenues:			
2 Sales to General Customers	\$ 705,967	\$ 660,731	\$ 632,207
3 Wholesale Wastewater Revenues	42,280	36,339	39,102
4 Services to General and Aviation Fund	32,279	30,306	29,990
5 Private Fire Connections	3,818	3,661	3,937
6 Industrial Sewer Surcharge	5,136	6,043	5,024
7 Other Operating Revenue	8,569	7,855	8,673
8 Operating Grants	792	464	669
9 Total Operating Revenue	798,841	745,399	719,602
10 Non-Operating Revenues			
11 Interest Earnings on Investments ⁽¹⁾	1,888	(832)	(82)
12 Other Non-Operating Revenues	8,396	9,013	10,931
13 Total Non-Operating Revenues	10,284	8,181	10,849
14 Total Revenues ⁽²⁾	\$ 809,125	\$ 753,580	\$ 730,451
15 Operating Expenses ⁽³⁾	\$ 603,817	\$ 547,229	\$ 545,089
Less: Liquidated Encumbrances (Commitments Cancelled which reduces operating expenses) ⁽⁴⁾	29,236	36,805	23,993
16 Net Operating Expenses	\$ 574,581	\$ 510,424	\$ 521,096
17 Adjustment: Debt Service and Net Operating Expenses due to timing differences	\$ -	\$ -	\$ -
18 Excess of Total Operating Revenues over Net Operating Expenses (Line 9 - Line 17)	224,260	234,975	198,506
19 Excess of Total Revenues over Net Operating Expenses (Line 14 - Line 17)	\$ 234,544	\$ 243,156	\$ 209,355
20 Interest Expense:			
21 Revenue Bonds	\$ 111,930	\$ 87,951	\$ 98,341
22 Total Interest Expense	111,930	87,951	98,341
23 Excess of Total Revenues over Net Operating and Interest Expenses (Line 20 - Line 23)	122,614	155,205	111,014
24 Add: Unencumbered Funds Available for Appropriation at Beginning of Fiscal Year	-	-	-
25 Add: Debt Service Payments to Sinking Fund, Revenue Bond Payments, LOC expenses and Net Operating Expenses due to timing differences	(474)	1	(134)
26 Deduct: Principal Paid on Bonded Indebtedness During Fiscal Year	87,363	89,042	87,837
27 Deduct: Transfer to Escrow Account to Redeem Bonds	-	-	-
28 Net Unapplied Revenues (Line 24 + Line 25 + Line 26- Line 27 - Line 28)	34,777	66,164	23,043
29 Deduct: Funds Transferred to Residual Fund (Further Transfer to Capital Account)	12,433	21,994	22,210
30 Deduct: Funds Transferred to Capital Account (Required Transfer of 1% NPPE)	30,094	29,170	27,833
31 Transfer (TO)/FROM The Rate Stabilization Fund	\$ 7,750	\$ (15,000)	\$ 27,000
32 Debt Service Coverage Ratio:			
33 Senior Debt Service Coverage: Net Revenues ⁽⁵⁾ /Revenue Bond Debt Service (Line 14-Line17+Line32)/ (Line23+27)	1.22	1.29	1.27
34 90% Test Coverage : Net Revenues ⁽⁵⁾ excluding Transfer from Rate Stabilization Fund/Revenue Bond Debt Service (Line 14-Line 17)/(Line 23+Line 27)	1.18	1.37	1.12
35 Total Payments Coverage: Net Revenues ⁽⁵⁾ /Total Debt Service and Other Transfers (Line 14-Line17+Line32)/ (Line23+Line27+Line31)	1.06	1.11	1.10

1) Only includes interest earnings credited to the Revenue Fund pursuant to the GBO

2) Calculated to include Project Revenues, as defined in the GBO, plus interest earnings from line 10

3) Operating Expenses excludes, pursuant to the GBO, depreciation, amortization, interest and sinking fund charges

4) Commitments cancelled represent the liquidation of encumbrances and offset operating expenses. An encumbrance is an expense that is anticipated to be charged to the Water Fund.

5) As defined in GBO

**CITY OF PHILADELPHIA WATER DEPARTMENT
WHOLESALE WATER AND WASTEWATER
CUSTOMER REVENUES AND CONTRACT TERMS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

		Total Revenue	% Total Revenue *	Contract End Date	COA % **
Wastewater					
Bucks County Water & Sewer Authority (BCWSA)	\$	8,933,587	1.09%	3/31/2038	N/A
BCWSA - Springfield Township ^{(1) (2)}		2,927,116	0.36%	6/30/2023	0.79%
BCWSA - Bensalem ⁽¹⁾		2,380,459	0.29%	6/30/2023	N/A
BCWSA Total	\$	14,241,162	1.74%		0.79%
Delcora ⁽³⁾	\$	11,112,691	1.36%	4/1/2028	9.44%
Lower Southampton Township		3,816,520	0.47%	6/30/2024	0.96%
Aqua Pennsylvania Wastewater, Inc. ⁽⁴⁾		3,554,451	0.44%	6/30/2025	2.43%
Upper Darby Township		3,188,181	0.39%	8/8/2023	N/A
Lower Merion Township ⁽⁵⁾		2,730,484	0.33%	N/A	N/A
Abington Township		2,664,987	0.33%	6/30/2023	0.58%
Lower Moreland Township		971,662	0.12%	6/30/2025	0.36%
Wastewater Total	\$	42,280,137	5.17%		14.56%
Water					
Aqua Pennsylvania	\$	3,289,792	0.40%	3/1/2026	N/A
Water Total	\$	3,289,792	0.40%		
Total Wholesale Revenues	\$	45,569,929	5.57%		

Note: The Water Department includes capital charges within operation and maintenance charges for all customers except Bensalem, Lower Merion, and Upper Darby.

* The percentage of Total Revenue is the yearly revenue received by the Township divided by the total yearly revenue of the Water Operating Fund. The FY 2023 total is \$816,876,000.

** Consent Order Agreement % (COA) is the Township's share of expenses for the Long Term Control Plan to mitigate combined sewer overflows (CSOs).

(1) Bucks County Water and Sewer Authority purchased the wastewater collection and disposal system of Springfield Township in December 2015 and purchased the wastewater collection system of Bensalem in September 1999.

(2) The COA% reflects the total amount for Wyndmoor and Erdenheim combined.

(3) Delcora allocated capital is based on assets placed in service on or after July 4, 2011.

(4) Cheltenham Township sold its sewer system to Aqua PA Wastewater, Inc., an Essential Utilities Company ("Aqua PA Wastewater") in December of 2019. The Water Department's contract with the township was transferred to Aqua PA Wastewater in connection with the sale.

(5) The contract for Lower Merion Township does not contain an end date.

**CITY OF PHILADELPHIA WATER DEPARTMENT
TOP 10 CUSTOMERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

	<u>Customer</u>	<u>Revenue (\$)</u>	<u>% Total Revenue **</u>
1	City of Philadelphia*	\$ 23,702,882	2.90%
2	Philadelphia Housing Authority	15,040,440	1.84%
3	University of Pennsylvania	6,399,482	0.78%
4	School District of Philadelphia	5,891,787	0.72%
5	Vicinity Energy Philadelphia***	5,376,285	0.66%
6	AdvanSix Inc ⁽¹⁾	5,311,782	0.65%
7	SEPTA	4,626,566	0.57%
8	Temple University	4,010,638	0.49%
9	University of Pennsylvania Health System	3,997,229	0.49%
10	Federal Government	3,763,981	0.46%
	TOTALS****	\$ 78,121,072	9.56%

*The total above for the City of Philadelphia includes, among others, charges for water, wastewater and stormwater services as follows: (i) \$20,175,743 – General Fund and (ii) 3,527,139 – Aviation Fund.

** The % of Total Revenue is calculated using the yearly revenue received by the customer divided by the total yearly revenue of the Water Operating Fund. The total revenue for Fiscal Year 2023 was \$816,876,000.

*** Previously known as Veolia Energy Philadelphia

**** Totals may not add due to rounding.

**CITY OF PHILADELPHIA WATER DEPARTMENT
INCENTIVE AND ASSISTANCE PROGRAMS
FOR THE FISCAL YEARS ENDED JUNE 30, 2023, 2022 AND 2021**

Program	Program Type	FY2023	FY2022	FY2021
SMIP ⁽¹⁾ and GARP ^{(2) (3)}	Operating Expense	\$ 27,294,173	\$ 17,322,111	\$ 8,419,131
Phase in Program (CAP) ⁽⁴⁾	Bill Reduction	943,040	1,081,778	1,405,875
Stormwater Credits ⁽⁴⁾	Bill Reduction	21,672,545	20,596,053	19,699,865
Community Gardens	Bill Reduction	1,309	211	437
Tiered Assistance Program (TAP) ⁽⁵⁾	Bill Reduction	9,174,780	8,525,312	9,464,471
Charity & School Discounts	Bill Reduction	7,235,825	7,071,055	6,464,986
Senior Citizen Discount	Bill Reduction	4,519,762	4,215,019	4,251,353
Total		\$70,841,434	\$58,811,539	\$49,706,118

⁽¹⁾ Stormwater Management Incentives Program.

⁽²⁾ Grant and Greened Acres Retrofit Program.

⁽³⁾ SMIP and GARP were partially funded with grants.

⁽⁴⁾ Amounts are credits against certain customers' bills.

⁽⁵⁾ TAP is a low-income assistance program commenced in July of 2017. It will reduce customers' bills and result in a reduction in revenue for the Water Department.

CITY OF PHILADELPHIA WATER DEPARTMENT**Typical Residential****Monthly Water and Sewer Rate Charges**

	Effective Date	Water	Sewer	Stormwater	Service- Charge	Total	Percentage Change
5/8" Meter	9/1/2023	\$26.76	\$17.18	\$18.50	\$12.37	\$ 74.81	7.90%
Residential -	9/1/2022	22.50	16.29	18.05	12.47	69.31	6.40%
450 Cu. Ft. Monthly	9/1/2021	21.01	15.17	16.86	12.10	65.14	3.60%

CITY OF PHILADELPHIA WATER DEPARTMENT
RECONCILIATION OF LEGALLY ENACTED AND GAAP BASIS
OPERATING REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023

(Thousands of Dollars)

Legal Basis of Accounting Revenues

Legal Basis Revenues	\$ 816,876
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GAAP Adjustments

Reverse Fiscal Year 2022 Accounts Receivable Accrual	(30,545)
Record Fiscal Year 2023 Accounts Receivable Accrual	32,427
Allowance for Doubtful Accounts Adjustment	8,168
Reclassification of Operating Fund - Interest Income Only to Nonoperating Revenue	(1,889)
Reclassification of Miscellaneous Revenue	(191)
Reclassification of Transfers In (DSRF)	(7,750)

Total GAAP Adjustments	220
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Total GAAP Basis Operating Revenues	\$ 817,096
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Legal Basis of Accounting Expenses

Legal Basis Expenses, Transfers and Debt Service	\$ 846,111
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GAAP Adjustments

Expense in Fiscal Year 2023, included in Fiscal Year 2022 for Legal Basis	74,167
Encumbrances in Fiscal Year 2023, included in Fiscal Year 2022 for Legal Basis	(110,890)
Depreciation & Amortization on Capital Assets, not included for Legal Basis	148,296
Payments among Water Department Funds, netted for GAAP Basis	(47,103)
Accrual of Probable Indemnities and Worker's Compensation Expenses	4,127
Reclassification of Transfers Out to Nonoperating Expenses	(42,549)
Allocation of Interfund Activity - Payment to General Fund	4,576
Allocation of Accrued Expenses	10,048
Change in Inventory Balance as of June 30, 2023	(407)
Elimination of Legal Basis Adjustments	(2,959)
Net Pension Expense, included in GAAP Basis	(44,587)
OPEB Expense, included in GAAP Basis	370
Removal of Debt Service Principal Payments and Transfers to the Escrow Account, Included in Legal Basis	(199,767)
Net Adjustments from Capitalization of Capital Assets	(9,815)
Removal of Legal Basis Compensated Absences Expense and Increase in Compensated Absence Liability	(43)
Reclassification of Lease Expenditures - GASB 87	(2,000)

Total GAAP Adjustments	(218,536)
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Total GAAP Basis Operating Expenses	\$ 627,575
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APPENDIX II

SUMMARIES OF CERTAIN AUTHORIZATIONS FOR THE BONDS

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APPENDIX II

SUMMARIES OF CERTAIN AUTHORIZATIONS FOR THE BONDS

The following are summaries of certain provisions of The First Class City Revenue Bond Act (the “Act”), the Restated General Water and Wastewater Revenue Bond Ordinance of 1989, as previously amended and supplemented (the “General Ordinance”), including as supplemented by (1) the Eighteenth Supplemental Ordinance to the General Ordinance approved by the Mayor on December 8, 2018 (the “Eighteenth Supplemental Ordinance”), (2) the Twenty-Third Supplemental Ordinance to the General Ordinance approved by the Mayor on June 26, 2020 (the “Twenty-Third Supplemental Ordinance”), and (3) the Twenty-Seventh Supplemental Ordinance to the General Ordinance approved by the Mayor on March 29, 2023 (the “Twenty-Seventh Supplemental Ordinance”), pursuant to which The City of Philadelphia, Pennsylvania (the “City”) proposes to issue its Water and Wastewater Revenue Bonds, Series 2024C (the “Series 2024C Bonds”). The summaries are not, and should not be regarded as, complete statements of the provisions of these documents and legislation. Reference is made to the Act, the General Ordinance, the Eighteenth Supplemental Ordinance, the Twenty-Third Supplemental Ordinance and the Twenty-Seventh Supplemental Ordinance, copies of which are available from the Office of the Director of Finance, 1300 Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102, for the complete terms and provisions thereof.

THE FIRST CLASS CITY REVENUE BOND ACT
(Act 234 of the General Assembly of
the Commonwealth, approved October 18, 1972,
***P.L. 955; 53 P.S. §§ 15901-15924*)**

The following summarizes the terms of the Act. All capitalized terms used in the following summary of the Act are defined as in the Act and may be differently referenced in other portions of this Official Statement.

General Authorization; Definition of Project; Bonds to be Special Obligations

The Act is intended to provide a comprehensive authorization to the City and any other Pennsylvania cities of the first class to issue revenue bonds (“Bonds”) to finance various types of projects.

The Act defines “Project” to include, among other things, any buildings, structures, facilities or improvements of a public nature, the related land, rights or leasehold estates in land and the related furnishings, machinery, apparatus or equipment of a capital nature, which the City is authorized to own, construct, acquire, improve, lease, operate, maintain or support; any item of construction, acquisition or extraordinary maintenance or repair thereof, the City’s share of the cost of any of the foregoing or any combination thereof undertaken jointly with others; and any combination of any of or all of the foregoing or any undivided portion of the cost of any of the foregoing as may be designated as a “Project” by the City for financing purposes and in respect of which the City may reasonably be expected to receive Project Revenues.

Bonds issued under the Act are required to be payable solely from Project Revenues and to be secured solely by such revenues and by any reserve funds which may be created or funded in connection with the Bonds. The Bonds are not permitted to pledge the credit or taxing power of the City to create any debt or charge against the tax or general revenues of the City or create any lien against any of the City property other than the Project Revenues pledged therefore and reserve funds established in respect of the Bonds. The Bonds do not constitute a debt of the City and are excluded from the calculation of the City’s debt-incurring capacity under the Pennsylvania Constitution.

Estimates of Future Revenues

To establish that Project Revenues will be sufficient to amortize all Bonds outstanding, the Act requires a finding to be made in the ordinance authorizing the issuance of the Bonds that the pledged Project Revenues will be sufficient to pay any prior parity charges thereon and the principal of and interest on the Bonds. This finding is to be based on a report of the chief fiscal officer of the City filed with the City Council and supported by appropriate schedules and summaries. The report of the chief fiscal officer of the City may be based on a report of consulting engineers employed by the City to evaluate the project.

For the purpose of estimating future Project Revenues, the Act provides that only the following shall be included: (i) those rents, rates, tolls or charges to the general public which, under existing authorizations, will be reasonably collectible in such year under the schedule or rate of rents, rates or charges which are or will be in effect during such year in accordance with such ordinance, resolutions or rate schedule or which may be imposed by administrative action without further legislation; (ii) those bulk payments which may be imposed under subsisting legislation or which are provided under subsisting agreements or which are the subject of an expression of intent by the prospective obligor deemed reliable by the chief fiscal officer of the City; and (iii) those governmental subsidies or payments which, under subsisting legislation, are subject to reasonably precise calculation and, unless stated in such legislation or authorization to be of an annually or more frequently recurring nature, are payable in such year.

Detail of Bonds and City Covenants

The Act provides that the ordinance authorizing the issuance of the Bonds shall fix the aggregate amounts of the Bonds to be issued from time to time and determine, or designate officers of the City to determine, the form and details of the Bonds. The City may include in its Bond ordinance various covenants with Bondholders, including covenants governing the imposition, collection and disbursement of Project Revenues, Project operation and maintenance, the establishment, segregation, maintenance, custody, investment and disbursement of sinking funds and reserves, the issuance of additional priority or parity bonds, the redemption of the Bonds and such other provisions as the City deems necessary or desirable in the interest or for the protection of the City or of such Bondholders. Under the Act, the covenants, terms and provisions of the Bond ordinance made for the benefit of Bondholders constitute contractual obligations of the City, but such covenants (within limitations, if any, fixed by the Bond ordinance) may be modified by agreement with a majority in interest of the Bondholders or such larger portion thereof as may be provided in the Bond ordinance.

Sinking Fund

The Act requires that the Bond ordinance shall provide for the establishment of a sinking fund for the payment of the principal of and interest (including Qualified Swap payments) on the Bonds. Payment into such sinking fund shall be made in annual or more frequent installments and shall be sufficient to pay or accumulate for payment all principal of and interest on the Bonds for which the sinking fund is established as and when the same shall become due and payable. The sinking fund shall be managed by the chief fiscal officer of the City and moneys therein to the extent not currently required, shall be invested, subject to limitations established by the Bond ordinance and the Act. Interest and profits from investment of moneys in the sinking fund shall be added to such fund and may be applied in reduction of or to complete required deposits into the sinking fund. Excess moneys in the sinking fund shall be repaid to the City for its general purposes or may be applied as may be provided in the Bond ordinance. All moneys deposited in the sinking fund are subjected to a perfected security interest for the benefit of the holders of the Bonds, for which the fund is established, until property disbursed. This perfected security interest also applies, under the terms of the Act, to moneys in the sinking fund reserve created as part of the sinking fund by the General Ordinance.

Refunding

Any outstanding Bonds issued under the Act or other bonds issued for purposes for which Bonds are issuable under the Act, whether issued before or after the effective date of the Act, may from time to time be refunded by Bonds issued under the Act and are subject to the same protections and provisions required for the issuance of an original issue of Bonds. The last stated maturity date of the refunding Bonds may not be later than ten years after the last stated maturity date of the Bonds to be refunded. If outstanding Bonds are refunded in advance of their maturity or redemption date, the principal thereof and interest thereon to payment or redemption date, and redemption premium payable, if any, will no longer be deemed to be outstanding obligations when the City shall have deposited with a bank, bank and trust company or trust company, funds irrevocably pledged to the purpose, which are represented by demand deposits, interest-bearing time accounts, savings deposits, certificates of deposit (insured or secured as public funds) or specified obligations of the United States or of the Commonwealth of Pennsylvania sufficient to effect such redemption or payment or, if interest on the deposited funds to the time of disbursement is also pledged, sufficient, together with such interest, for such purpose and, in the case of redemption, shall have duly called the Bonds for redemption or given irrevocable instructions to give notice of such call.

Validity of Proceedings; Suits and Limitations Thereon

Prior to the delivery of any Bonds, the City is required to file with the Court of Common Pleas of Philadelphia County (the "Court") a transcript of the proceedings authorizing the issuance of the Bonds. If no action is brought on or before the twentieth day following the date of recording of the transcript, or when the proceedings have been approved finally by the Court, then notwithstanding any defect or error in such proceedings, the validity of the proceedings, the City's right to issue the Bonds, the lawful nature of the purpose for which the Bonds are issued, and the validity and enforceability of the Bonds in accordance with their terms may not thereafter be inquired into judicially, in equity, at law, or by civil or criminal proceedings, or otherwise, either directly or collaterally except where a constitutional question is involved.

Negotiable Instruments

The Act provides that Bonds issued thereunder shall have the qualities and incidents of securities under Article 8 of the Uniform Commercial Code of the Commonwealth and shall be negotiable instruments.

Exemption from State Taxation

The Commonwealth pledges with the holders from time to time of Bonds issued under the Act that such Bonds, and interest thereon, shall at all times be free from taxation within and by the Commonwealth, but this exemption does not extend to underwriting profits or to gift, succession or inheritance taxes or any other taxes not levied directly on the Bonds and the receipt of interest thereon.

Defaults and Remedies

If the City should fail to pay the principal of or interest on any Bond when the same shall be due and payable, the remedy provisions of the Act permit the holder of such Bond, subject to the limitations described below, to recover the amount due in an action in Philadelphia Common Pleas Court; but a judgment rendered in favor of the Bondholder in such an action is collectible only from amounts pledged for the payment of such bonds. The holders of 25% or more in aggregate principal amount of the Bonds of such series then outstanding which are in default, whether because of failure of timely payment which is not cured in 30 days, or failure of the City to comply with any other provisions of the Bonds or any Bond ordinance, may appoint a trustee to represent them. On being appointed, the trustee shall be the exclusive

representative for the affected Bondholders and the individual rights of action described above shall no longer be available. The trustee may, and upon written request of the holders of 25% or more in aggregate principal amount of Bonds in default, and on being furnished with indemnity satisfactory to it, shall, take one or more of the following actions, which, if taken, shall preclude similar action, whether previously or subsequently initiated, by individual holders of Bonds; enforce, by proceedings at law or in equity, all rights of the holders of the Bond; bring suit on the Bonds; bring in suit in equity to require the City to make an accounting for all pledged Project Revenues received and to enjoin unlawful action or action in violation of the holders' rights; and, after 30 days' written notice to the City, and subject to any limitations in the Bond ordinance, declare the unpaid principal of the Bonds to be immediately due and payable, together with interest thereon at the rates stated in the Bonds until final payment, and upon the curing of all defaults, to annul such declaration. In any suit, action or proceeding by or on behalf of holders of defaulted Bonds, trustee fees and expenses, including operating costs of a project and reasonable counsel fees, shall constitute taxable costs, and all such costs and expenses allowed by the Court shall be deemed additional principal due on the Bonds and shall be paid in full from any recovery prior to any distribution to the holders of the Bonds. The General Ordinance limits any such recovery to pledged amounts. The trustee shall make distribution of any sums so collected in accordance with the Act.

Refunding with General Obligation Bonds

Upon certification by the City's chief fiscal officer that Project Revenues pledged for the payment of Bonds have become insufficient to meet the requirements of the ordinance or ordinances under which the Bonds were issued, the City Council is empowered, but not required, subject to applicable Pennsylvania constitutional debt limitations, to authorize the issuance and sale of general obligation refunding bonds of the City, without limitation as to rate of interest and in such principal amount (subject to the aforesaid limitations on indebtedness) as may be required, together with other available funds, to pay and redeem such Bonds including principal, interest to the date fixed for redemption or payment and premium, whether or not the principal of or interest on the refunding bonds shall exceed the principal of or interest on the bonds to be refunded.

THE RESTATED GENERAL WATER AND WASTEWATER REVENUE BOND ORDINANCE OF 1989

**(Ordinance of the City Council approved
June 24, 1993 - Bill No. 544, as amended and supplemented)**

The following is a summary of certain terms defined in the Restated General Water and Wastewater Revenue Bond Ordinance of 1989, as previously amended and supplemented (the "General Ordinance"), used in this Official Statement. Reference should be made to the General Ordinance for a full and complete statement of its terms and any capitalized terms used herein but not otherwise defined. All capitalized terms used in the following summary of the General Ordinance are defined as in the General Ordinance and may be differently referenced in other portions of this Official Statement.

Certain Definitions

Accreted Value means, with respect to Capital Appreciation Bonds, the amount to which, as of any specified time, the Original Value of any such Bond has been increased by accretion, all as may be provided in an applicable Supplemental Ordinance.

Act means The First Class City Revenue Bond Act, approved October 18, 1972 (Act No. 234, 53 P.S. §15901 to 15924), as from time to time amended.

Balloon Bonds means any Series of Bonds, or any portion of a Series of Bonds, designated by a Determination as Balloon Bonds, (a) 25% or more of the principal payments (including mandatory sinking fund payments) of which are due in a single year, or (b) 25% or more of the principal of which may, at the option of the holder or holders thereof, be redeemed at one time; provided, however that a Variable Rate Bond that is able to be redeemed at the option of the Holder shall not constitute a Balloon Bond.

Bond or *Bonds* means, upon and after issuance of the first series of bonds under the General Ordinance, if and to the extent Outstanding at any time, (i) the Existing Bonds and (ii) all series of bonds authorized and issued under one or more Supplemental Ordinances amending and supplementing the General Ordinance.

Bond Committee means the Mayor, City Controller and City Solicitor or a majority thereof.

Bond Counsel means a firm of nationally recognized bond counsel selected by the City.

Bondholder or *Holder* means any registered owner of Bonds or holder of Bonds issued in coupon form at the time Outstanding.

Capital Account means the Capital Account within the Construction Fund.

Capital Account Deposit Amount means an amount equal to one percent (1%) of the depreciated value of property, plant and equipment of the System or such greater amount as shall be annually certified to the City in writing by a Consulting Engineer as sufficient to make renewals, replacements and improvements in order to maintain adequate water and wastewater service to the areas served by the System.

Capital Appreciation Bonds means any Bonds issued under the General Ordinance which do not pay interest either until maturity or until a specified date prior to maturity, but whose Original Value increases periodically by accretion to a final Maturity Value.

Charges Account means the Charges Account established within the Sinking Fund to provide for the payment of fees under any Credit Facility to the extent payment of such fees are not otherwise provided.

City Controller means the head of the City's auditing department as provided by the Philadelphia Home Rule Charter.

City Solicitor means the head of the City's law department as provided by the Philadelphia Home Rule Charter.

Code means the Internal Revenue Code of 1986, as amended.

Construction Fund means the Construction Fund established pursuant to the General Ordinance.

Consulting Engineer means a nationally recognized Independent registered consulting engineer or a nationally recognized Independent firm of registered consulting engineers, in either case having experience in the design and analysis of the operation of water and wastewater systems of the magnitude and scope of the System.

Credit Facility means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement (other than a Qualified Swap or an Exchange Agreement) that is provided by a commercial bank, insurance company or other institution.

Debt Reserve Account means the Debt Reserve Account within the Sinking Fund established pursuant to the General Ordinance.

Debt Reserve Facility means a surety bond, insurance policy or irrevocable letter of credit deposited to the Debt Reserve Account or any Series Debt Reserve Subaccount thereof pursuant to the provisions of the General Ordinance.

Debt Reserve Requirement means (i) with respect to all Bonds outstanding (regardless whether interest thereon may be excluded from the gross income of the holder thereof for federal income tax purposes) (a) whose Debt Service Requirements are payable from the Sinking Fund (i.e., excluding Subordinated Bonds) and (b) that are of a Series for which the City has not created a Series Debt Reserve Subaccount, an amount equal to the greatest amount of Debt Service Requirements on such Bonds payable in any one Fiscal Year (except that such Debt Service Requirements will be computed as if any Qualified Swap did not exist and the Debt Service Requirements attributable to any Variable Rate Bonds may be based upon the fixed rate of interest as set forth in the Supplemental Ordinance or Determination for such Bonds) determined as of any particular date, and (ii) with respect to the amount to be deposited in the Debt Reserve Account, pursuant to the General Ordinance, in connection with the issuance of such a Series of Bonds, the lesser of (x) the amount necessary to comply clause (i) and (y) the maximum amount permitted to be financed with proceeds of Bonds permitted by Section 148(d)(1) of the Code (or any successor provision).

Debt Service Account means the Debt Service Account within the Sinking Fund established pursuant to the General Ordinance.

Debt Service Requirements, with reference to a specified period, means:

- (a) amounts required to be paid into any mandatory sinking fund established for the benefit of Bonds during the period;
- (b) amounts needed to pay the principal or redemption price of Bonds maturing during the period and not to be redeemed at or prior to maturity through any sinking fund established for the Bonds;
- (c) interest payable on Bonds during the period, with adjustments for capitalized interest or redemption through any sinking fund established for the benefit of Bonds; and
- (d) all net amounts, if any, due and payable by the City under a Qualified Swap during such period.

For purposes of estimating Debt Service Requirements for any future period, (i) any Option Bond outstanding during such period shall be assumed to mature on the stated maturity date thereof, except that the principal amount of any Option Bond tendered for payment and cancellation before its stated maturity date shall be deemed to accrue on the date required for payment pursuant to such tender; and (ii) Debt Service Requirements on Bonds for which the City has entered into a Qualified Swap shall be calculated assuming that the interest rate on such Bonds shall equal the stated fixed or variable rate on the Qualified Swap or, if applicable and if greater than such stated rate, the applicable rate for any Bonds issued in connection with the Qualified Swap adjusted, in the case of a variable rate obligation, as provided in the General Ordinance. Calculation of Debt Service Requirements with respect to Variable Rate Bonds and Balloon Bonds shall be subject to adjustment as permitted by the General Ordinance.

Debt Service Withdrawal means the aggregate amount withdrawn from the Capital Account during a Fiscal Year and applied toward the payment of principal or redemption price of or interest on Bonds or toward the elimination of a deficiency in any reserve fund established for the benefit of Bonds.

Determination means a determination by the Bond Committee regarding certain matters relating to the issuance of a Series of Bonds, made pursuant to the General Ordinance or the Supplemental Ordinance providing for the issuance of such Series of Bonds.

Director of Finance means the chief financial officer of the City as established by the Philadelphia Home Rule Charter.

Effective Date means when (but only when) all Prior Bonds issued under the Prior Ordinance have been paid or defeased as set forth in Section 10 of the Act.

Exchange Agreement means, to the extent from time to time permitted by applicable law, any interest exchange agreement, interest rate swap agreement, currency swap agreement or other contract or agreement, other than a Qualified Swap, authorized, recognized and approved by a Supplemental Ordinance or Determination as an Exchange Agreement and providing for (i) certain payments by the City from the Residual Fund and (ii) payments by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, or whose obligations under an Exchange Agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability are rated not less than “A3” by Moody’s, “A-” by S&P or “A-” by Fitch, or the equivalent thereof by any successor thereto as of the date the Exchange Agreement is entered into; which payments by the City and counterparty are calculated by reference to fixed or variable rates and constituting a financial accommodation between the City and such counterparty.

Existing Bonds means the bonds originally issued under the Prior Ordinance other than Prior Bonds, which Existing Bonds shall be specified in a certificate of the Director of Finance on the Effective Date and thereafter shall be secured by the General Ordinance.

Financial Consultant means a firm of investment bankers, a financial consulting firm, a firm of certified public accountants or any other firm which is qualified to calculate amounts required to be rebated to the United States pursuant to Section 148(f) of the Code.

Fiscal Agent means a bank or other entity designated as such pursuant to the General Ordinance or its successor.

Fiscal Year means the fiscal year of the City.

Fitch means Fitch Ratings and any successor thereto.

General Obligation Bonds means the general obligation bonds of the City issued and outstanding from time to time to finance improvements to the System and adjudged, pursuant to the Constitution and laws of the Commonwealth of Pennsylvania, to be self-sustaining on the basis of expected Project Revenues.

General Ordinance means the Restated General Water and Wastewater Revenue Bond Ordinance of 1989, as previously amended and supplemented.

Government Obligations means direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, including but not limited to interest obligations of the Resolution Funding Corporation or any successor thereto.

Independent means a person who is not a salaried employee or elected or appointed official of the City; provided, however, that the fact that such person is retained regularly by or transacts business with the City shall not make such person an employee within the meaning of this definition.

Initial Deposit means the initial, one time, deposit to be made by the City from any source into the Rate Stabilization Fund upon the establishment of such Rate Stabilization Fund.

Interdepartmental Charges means the proportionate charges for services performed for the Water Department by all officers, departments, boards or commissions of the City which are required by the Philadelphia Home Rule Charter to be included in the computation of operating expenses of the Water Department.

Interim Debt means any bond anticipation notes or other temporary borrowing which the City anticipates permanently financing with Bonds or other long term indebtedness under the General Ordinance or otherwise.

Kroll means Kroll Bond Rating Agency, Inc. and any successor thereto.

Maturity Value with respect to Capital Appreciation Bonds means the amount due on the maturity date.

Moody's means Moody's Investors Service and any successor thereto.

Net Revenues for any period means the Project Revenues collected during such period and deposited into the Revenue Fund plus (x) the amounts, if any, transferred from the Rate Stabilization Fund into the Revenue Fund during, or as of the end of, such period and (y) interest earnings during such period on moneys in any of the funds or accounts established under the General Ordinance to the extent such interest earnings are credited to the Revenue Fund pursuant to the General Ordinance minus the sum of (a) Operating Expenses incurred during such period and (b) the amounts, if any, transferred from the Revenue Fund to the Rate Stabilization Fund during, or as of the end of, such period; provided, however that in determining such Net Revenues the Initial Deposit shall not reduce such Net Revenues.

Operating Expense Withdrawal means the aggregate amount withdrawn from the Capital Account during a Fiscal Year and applied toward the payment of Operating Expenses.

Operating Expenses for any period means all costs and expenses of the Water Department necessary and appropriate to operate and maintain the System in good operating condition, and shall include, without limitation, salaries and wages, purchases of services by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the System, which is not properly chargeable to property, plant and equipment, pension and welfare plan and worker's compensation requirements, provisions for claims, refunds and uncollectible receivables and for Interdepartmental Charges, all in accordance with generally accepted accounting principles consistently applied, but Operating Expenses shall exclude depreciation, amortization, interest and sinking fund charges.

Option Bond means any Bond which by its terms may be tendered by and at the option of the Holder thereof for payment by the City prior to its stated maturity date or the maturity date of which may be extended by and at the option of the Holder thereof.

Ordinance means the General Ordinance, as amended from time to time in accordance with the provisions of the General Ordinance.

Original Value with respect to Capital Appreciation Bonds means the principal amount paid by the initial purchasers on the date of original issuance.

Outstanding, when used with reference to Bonds, means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the General Ordinance except (i) any Bonds cancelled by the Fiscal Agent at or prior to such date; (ii) Bonds (or portion of Bonds) for the payment or redemption of which moneys, equal to the principal amount, Accreted Value or redemption price thereof, as the case may be, with interest (except to the extent of any Capital Appreciation Bonds) to the date of maturity or redemption date, shall be held in trust under the General Ordinance and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as provided in the General Ordinance or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice; (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the General Ordinance; and (iv) Bonds deemed to have been paid as provided in the General Ordinance.

Philadelphia Home Rule Charter means the Philadelphia Home Rule Charter, as amended or superseded by any new home rule charter, adopted pursuant to authorization of the First Class City Home Rule Act approved April 21, 1949, P.L. 665 §1, *et seq.* (53 P.S. §13101, *et seq.*).

Prior Bonds means the bonds issued under the Prior Ordinance designated as Water and Sewer Revenue Bonds (i) the First Series through Ninth Series, and the Eleventh Series and Twelfth Series, and (ii) to the extent the following bonds are defeased on the Effective Date, the Tenth Series and the Thirteenth Series through Sixteenth Series.

Prior Ordinance means the General Water and Sewer Revenue Bond Ordinance of 1974 approved May 16, 1974, as amended and supplemented from time to time.

Project Revenues means all rents, rates, fees and charges imposed or charged for the connection to, or use or product of or services generated by the System to the ultimate users or customers thereof, all payments under bulk contracts with municipalities, governmental instrumentalities or other bulk users, all subsidies or payments payable by Federal, State or local governments or governmental agencies on account of the cost of operation of, or the payment of the principal of or interest on moneys borrowed to finance costs chargeable to the System, all grants, payments and contributions made in aid or on account of the System exclusive of grants and similar payments and contributions solely in aid of construction and all accounts, contract rights and general intangibles representing the foregoing.

Qualified Escrow Securities means funds which are represented by (a) demand deposits, interest-bearing time accounts, savings deposits or certificates of deposit, but only to the extent such deposits or accounts are fully insured by the Federal Deposit Insurance Corporation or any successor United States governmental agency, or to the extent not insured, fully secured and collateralized by Government Obligations having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such deposits or accounts, (b) if at the time permitted under the Act, obligations of any state or

political subdivision thereof or any agency or instrumentality of such state or political subdivision for which cash, Government Obligations or a combination thereof have been irrevocably pledged to or deposited in a segregated escrow account for the payment when due of principal or redemption price of and interest on such obligations, and any such cash or Government Obligations pledged and deposited are payable as to principal or interest in such amounts and on such dates as may be necessary without reinvestment to provide for the payment when due of the principal or redemption price of and interest on such obligations, and such obligations are rated by any Rating Agency in the highest rating category assigned by each such rating service to obligations of the same type, or (c) noncallable Government Obligations. In each case such funds (i) are subject to withdrawal, maturing or payable at the option of the holder, at or prior to the dates needed for disbursement, provided such deposits or accounts, whether deposited by the City or by such depository, are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof, (ii) are irrevocably pledged for the payment of such obligations and (iii) are sufficient, together with the interest to disbursement date payable with respect thereto, if also pledged, to meet such obligations in full.

Qualified Rebate Fund Securities means either:

- (a) Government Obligations; or
- (b) rights to receive the principal of or the interest on Government Obligations through (i) direct ownership, as evidenced by physical possession of such Government Obligations or unmatured interest coupons or by registration as to ownership on the books of the issuer or its duly authorized paying agent or transfer agent, or (ii) purchase of certificates or other instruments evidencing an undivided ownership interest in payments of the principal of or interest on Government Obligations.

Qualified Swap or *Swap Agreement* means, with respect to a Series of Bonds, any financial arrangement that (i) is entered into by the City with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (ii) provides that (a) the City shall pay to such entity an amount based on the interest accruing at a fixed rate on an amount equal to the principal amount of the Outstanding Bonds of such Series, and that such entity shall pay to the City an amount based on the interest accruing on a principal amount initially equal to the same principal amount as such Bonds, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Bonds) or that one shall pay to the other any net amount due under such arrangement or (b) the City shall pay to such entity an amount based on the interest accruing on the principal amount of the Outstanding Bonds of such Series at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the City an amount based on interest accruing on a principal amount equal to the Outstanding Bonds of such Series at an agreed fixed rate (which shall not be the same as the rate on the Bonds) or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Fiscal Agent by the City as a Qualified Swap with respect to the Bonds.

Qualified Swap Provider means, with respect to a Series of Bonds, an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated (at the time the subject Qualified Swap is entered into) at least as high as Aa by Moody's, and AA by S&P, or the equivalent thereof by any successor thereto.

Rate Covenant means the rate covenant contained in the General Ordinance.

Rate Stabilization Fund means the Rate Stabilization Fund established pursuant to the General Ordinance.

Rating Agency means any rating service that has issued a credit rating on the Bonds which is in effect at the time in question or, upon discontinuance of any of such rating services, such other nationally recognized rating service or services if any such rating service has issued a credit rating on the Bonds at the request of the City and such credit rating is in effect at the time in question.

Rebate Bond Year, for purposes of the General Ordinance and in order to facilitate compliance with the arbitrage rebate requirements of the Code, shall mean the period or periods specified in a Supplemental Ordinance or Determination for a Series of Bonds.

Rebate Fund means the Rebate Fund established pursuant to the General Ordinance.

Remarketing Agent means a Remarketing Agent appointed in the manner provided in the applicable Supplemental Ordinance or Determination authorizing the issuance of Variable Rate Bonds.

Remarketing Agreement means an agreement providing for the remarketing of tendered Variable Rate Bonds by a Remarketing Agent, as more fully set forth and defined in the Supplemental Ordinance authorizing any Series of Variable Rate Bonds.

Residual Fund means the Residual Fund established pursuant to the General Ordinance.

Revenue Fund means the Revenue Fund established pursuant to the General Ordinance.

S&P means S & P Global Ratings and any successor thereto.

Series when applied to Bonds means, collectively, all of the Bonds of a given issue authorized by Supplemental Ordinance, as provided in the General Ordinance, and may also mean, if appropriate, a subseries of any Series if, for any reason, the City should determine to divide any Series into one or more subseries of Bonds.

Series Debt Reserve Requirement means, for any Series of Bonds, the amount, if any, required pursuant to a Supplemental Ordinance or Determination to be reserved and (if such amount is greater than zero dollars (\$0)) deposited or maintained in the Series Debt Reserve Subaccount established for such Series of Bonds; provided that such amount may equal zero dollars (\$0); and provided further that such amount may not exceed the lesser of (i) the greatest amount of Debt Service Requirements payable on such Series of Bonds in any one Fiscal Year and (ii) the maximum amount permitted to be financed with proceeds of such Series of Bonds permitted by Section 148(d)(1) of the Code (or any successor provision).

Series Debt Reserve Subaccount means any subaccount of the Debt Reserve Account created, pursuant to a Supplemental Ordinance or Determination for a particular Series of Bonds, which Series of Bonds will not otherwise be secured by the Debt Reserve Account and for which a Series Debt Reserve Requirement applies.

Sinking Fund means the Sinking Fund established pursuant to the General Ordinance.

Sinking Fund Installment means an amount so designated which is established pursuant to the General Ordinance.

Special Water Infrastructure Account means the Special Water Infrastructure Account of the Residual Fund established in the General Ordinance.

Standby Agreement with respect to a Series of Bonds, means an irrevocable letter of credit and related reimbursement agreement, line of credit, standby bond purchase agreement or similar agreement providing for the purchase of all or a portion of the Bonds of such Series, as amended, supplemented or extended from time to time.

Standby Purchaser, with respect to a Series of Bonds, means the provider of the Standby Agreement for such Series of Bonds.

Subordinated Bond means any Bond referred to in, and complying with the provisions of the General Ordinance with respect to Subordinated Bonds.

Subordinated Bond Fund means the Subordinated Bond Fund established in the General Ordinance.

Substitute Credit Facility means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement (other than a Qualified Swap or an Exchange Agreement) that replaces a Credit Facility and is provided by a commercial bank, insurance company or other financial institution.

Supplemental Ordinance means an ordinance supplemental to the General Ordinance enacted pursuant to the Act and the General Ordinance by the Council of the City.

System means the entire combined water system and wastewater system of the City, now existing and hereafter acquired by lease, direct control, purchase or otherwise or constructed by the City, including any interest or participation of the City in any facilities in connection with said System, together with all additions, betterments, extensions and improvements to said System or any part thereof hereafter constructed or acquired and together with all lands, easements, licenses and rights of way of the City and all other works, property or structures of the City and contract rights and other tangible and intangible assets of the City now or hereafter owned or used in connection with or related to said System.

Tender Agent, with respect to a Series of Bonds, means any commercial bank or trust company organized under the laws of any state of the United States or any national banking association designated as a tender agent for such Series of Bonds, and its successor or successors hereafter appointed in the manner provided in the applicable Supplemental Ordinance or Determination.

Uncertificated Bond means any Bond which is fully registered as to principal and interest and which is not represented by an instrument.

Variable Rate Bond means any Bond, the rate of interest on which is subject to change prior to maturity and cannot be determined in advance of such change.

Water and Wastewater Funds means, collectively, the Revenue Fund, the Sinking Fund, the Subordinated Bond Fund, the Rate Stabilization Fund, the Residual Fund and the Construction Fund.

Water Commissioner means the head of the Water Department as provided by the Philadelphia Home Rule Charter.

Water Department means the Water Department of the City created pursuant to Section 3-100 of the Philadelphia Home Rule Charter.

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL ORDINANCE

The following is a summary of certain operative provisions of the General Ordinance. Reference should be made to the General Ordinance for a full and complete statement of its provisions and the meaning of any capitalized terms used herein but not otherwise defined.

Form and Terms of Bonds

All Bonds shall be in substantially such form as may be approved by the City and set forth in the Supplemental Ordinance or Determination providing for the issuance thereof. Bonds shall be generally designated as Water and Wastewater Revenue Bonds of the City and shall be issued in such Series and within such Series in such subseries as the City may from time to time determine. The aggregate principal amount of Bonds which may be issued, authenticated and delivered under the General Ordinance is unlimited, but prior to the issuance of such Series of Bonds, the City shall enact a Supplemental Ordinance authorizing such Series and the maximum aggregate principal amount of such Series.

The Bonds shall be issued in fully registered form, except as provided in the General Ordinance and, such Bonds shall be issued upon and contain such additional terms as may be set forth in the Supplemental Ordinance and Determination providing for the issuance of the Bonds in question. As required by Section 5 of the Act, all Bonds shall contain a brief statement of the Project Revenues pledged as security therefor and the priority or priorities, if any, in the application of such pledged Project Revenues and shall contain a covenant of the City to pay from the pledged Project Revenues on the respective due dates the amounts required to pay the interest on and principal or redemption price of the Bonds. Bonds may be designated as of such Series by date, number, letter or otherwise and may also have such individual letters, identifying numbers or other marks, and such descriptive panels, registration panels, legends or endorsements placed thereon as may, consistent with the General Ordinance and the Act, be determined by a Supplemental Ordinance, Determination or the Director of Finance. The Bonds may also have printed thereon or on the reverse thereof the text of an approving legal opinion with respect thereto. Any portion of the text of any Bond may be set forth on the reverse thereof with an appropriate reference on the face of the Bond.

The Bonds of each Series shall be issued in such aggregate principal amount, shall be in such denominations, shall mature or be subject to mandatory redemption in such principal amounts, on such dates and at such places, shall have such Sinking Fund Installments for Bonds of like maturity and interest rate, shall bear interest from such date or dates and at such rate or rates (including variable, adjustable, convertible or other rates), shall be subject to optional redemption at such times and upon such terms, shall (if such Bonds are Option Bonds) be subject to optional or mandatory tender, and shall contain such other terms and conditions not inconsistent with the General Ordinance or the Act, all as shall be determined by the City and set forth in the Supplemental Ordinance or Determination under which such Bonds are issued, or as shall be determined by a designated officer or officers of the City thereunto authorized by the Supplemental Ordinance, or in the absence of such provisions or designation, as shall be determined by the Director of Finance as specified below.

If permitted by applicable law, any Series of Bonds may be issued as Uncertificated Bonds and the foregoing provisions specifying the form of Bonds shall be inapplicable to such Series.

A Series of Bonds may be secured by a Credit Facility meeting the requirements of the General Ordinance and the applicable Supplemental Ordinance. In connection with the issuance of its Bonds or at any time thereafter so long as a Series of Bonds remains Outstanding, the City also may enter into Qualified Swaps or Exchange Agreements if the Bond Committee determines that such Qualified Swap or Exchange

Agreement will assist the City in more effectively managing its interest costs. The City's payment obligation under any Qualified Swap shall be made from the Sinking Fund and its payment obligation under any such Exchange Agreement shall be made from the Residual Fund created pursuant to the General Ordinance. Unless otherwise acknowledged by each Rating Agency by virtue of its confirmation of the existing credit ratings on the City's Outstanding Bonds, the City will not enter into any Qualified Swap or Exchange Agreement unless it gives at least fifteen (15) day's advance notice of its intention to do so to each of the Rating Agencies, which notice shall specify the identity of the Qualified Swap Provider or Exchange Agreement counterparty, as the case may be.

Sale of Bonds; Taxes Not to be Assumed; Authority of Director of Finance

Bonds may be sold by the City at public, private, or invited sale upon such terms not inconsistent with the Act and at such prices as the City may determine. To the extent that the Supplemental Ordinance authorizing any Series of Bonds and the Determination relating to such Series shall not otherwise provide:

- (a) all Bonds shall be sold at competitive public sale to the purchaser or purchasers submitting the highest and best bid upon such terms and conditions of the bidding as shall be specified in an official notice of sale issued in the name of the City by the Director of Finance;
- (b) no covenant to pay or assume any taxes shall be included in such Bonds; and
- (c) subject to the foregoing, the terms upon which are the prices for which the Bonds are to be sold or exchange, and the form, terms or provisions of the Bonds including, without limitation, the matters referred to in Section 5 of the Act, shall be determined by the Director of Finance who is designated in the General Ordinance as the officer of the City authorized to make such determinations based, to the extent applicable, on the prices, interest rates or other terms set forth in the highest and best proposal conforming to the bidding specifications, as ascertained and accepted on behalf of the City by the Director of Finance.

Payments of Principal, Redemption Price and Interest; Date of Bonds

Unless otherwise provided in any Bond or the Supplemental Ordinance or Determination relating thereto:

- (a) The principal or redemption price of each Bond shall be payable upon surrender thereof at the principal Philadelphia office of the Fiscal Agent in Philadelphia, Pennsylvania or at the principal office of a paying agent designated in such Bonds.
- (b) The interest due on any Bond in fully registered form shall be payable by check or draft mailed to the Holder thereof, or at the request of a Holder of \$1,000,000 or more in principal amount or maturity value of Bonds by wire transfer to an account at a financial institution in the United States, designated in writing to the Fiscal Agent or the paying agent, subject to such provisions concerning record dates as may be contained in such Bond and in the Supplemental Ordinance and Determination providing for the issuance and terms thereof.
- (c) The principal or redemption price of and the interest on each Bond shall be payable in any coin or currency of the United States of America which, at the time of payment, is legal tender for the payment of public and private debts, or Bonds of a Series may be payable in such foreign currency as may be specified in the Supplemental Ordinance authorizing such Series of Bonds, if applicable law permits.
- (d) Fully registered Bonds of each Series shall be dated as of the date six months preceding the interest payment date next following the date of execution thereof by the Fiscal Agent, unless such date

of execution shall be an interest payment date, in which case they shall be dated as of such date of execution; provided, however, that if, as shown by the records of the Fiscal Agent, interest on the Bonds of any Series shall be in default, fully registered Bonds of such Series issued in lieu of Bonds surrendered for transfer or exchange may be dated as of the date to which interest has been paid in full on the Bonds surrendered. Fully registered Bonds of each Series shall bear interest from their date.

Notwithstanding any other provision in the General Ordinance to the contrary, the foregoing provisions are subject to the express understanding that the principal of and interest on all Bonds issued under the General Ordinance and the premium, if any, payable on redemption thereof, shall be payable only from Project Revenues and other funds provided for the payment of Bonds. The Bonds are not general obligations of the City and do not pledge the general credit or taxing power or create any debt or charge against the general revenues of the City, or create any lien against any property of the City other than pledged Project Revenues.

Execution of Bonds

The Bonds shall be executed on behalf of the City by the Fiscal Agent by the manual signatures of two of its duly authorized officers or signers, under the seal of the City which shall be either affixed or reproduced thereon in facsimile and shall be countersigned and attested by the manual or facsimile signature of the City Controller, or in such other manner as shall be authorized by law and prescribed by Supplemental Ordinance. Any such Bonds may be executed, issued and delivered notwithstanding that one or more of the officers or signers signing such Bonds or whose facsimile signature shall be upon such Bonds shall have ceased to be such officers or signers at the time when such Bonds shall actually be delivered, and although at the nominal date of the Bond any such person shall not have been such officer or signer.

Bond Registrar and Bond Register

The City shall designate one or more persons to act as "Bond Registrar" for the Bonds provided that the Bond Registrar appointed for the Bonds shall be either the Fiscal Agent or a person which would meet the requirements for qualification as a Fiscal Agent imposed by the General Ordinance. Any person other than the Fiscal Agent undertaking to act as Bond Registrar shall first execute a written agreement, in form satisfactory to the City and the Fiscal Agent, to perform the duties of a Bond Registrar under the General Ordinance, which agreement shall be filed with the Fiscal Agent.

The Bond Registrar shall act as registrar and transfer agent for the Bonds. The City shall cause the Bond Registrar to designate, by a written notification to the Fiscal Agent, a specific office location at which the Bond Register is kept. The principal corporate trust office of the Fiscal Agent shall be such office in respect of the Bonds for which the Fiscal Agent is acting as Bond Registrar.

The Bond Registrar shall, in any case where it is not also the Fiscal Agent, forthwith following each regular record date and at any other time as reasonably requested by the Fiscal Agent, certify and furnish to the Fiscal Agent and any paying agent as the Fiscal Agent shall specify, the names, addresses, and holdings of Bondholders and any other relevant information reflected in the Bond Register, and the Fiscal Agent and any such paying agent shall for all purposes be fully entitled to rely upon the information so furnished to it and shall have no liability or responsibility in connection with the preparation thereof.

Interchangeability of Bonds

Fully registered Bonds, upon surrender thereof at the office of Bond Registrar with a written instrument of transfer satisfactory to the Bond Registrar, duly executed by the registered owner or his duly authorized attorney may at the option of the registered owner thereof, and upon payment by such registered

owner of any charges, which the City or Bond Registrar may make, be exchanged for an equal aggregate principal amount of fully registered Bonds of the same Series, maturity and interest rate of any other authorized denominations.

Negotiability, Transfer and Registry

Fully registered Bonds shall be transferable only by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Bond Registrar duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bonds the City shall issue and the Bond Registrar shall execute in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount and Series, maturity and interest rate as the surrendered Bonds.

The City, the Fiscal Agent and any paying agent designated in the Bonds may deem and treat the person in whose name any Bond shall be registered in the Bond Register as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and redemption price of and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the City, the Fiscal Agent nor any paying agent designated in the Bond shall be affected by any notice to the contrary.

Any consent, waiver or other action taken by the registered owner of any Bond pursuant to the provisions of the General Ordinance shall be conclusive and binding upon such Holder, his heirs, successors or assigns, and upon all transferees of such Bond whether or not notation of such consent, waiver or other action shall have been made on such Bond or on any Bond issued in exchange therefor.

Regulations With Respect to Exchanges and Transfers

In all cases in which the privilege of exchanging Bonds or transferring registered Bonds is exercised, the City shall execute and deliver Bonds in accordance with the General Ordinance. All Bonds surrendered in any such exchanges or transfers shall forthwith be delivered to the Bond Registrar and cancelled or retained by the Bond Registrar. For every such exchange or transfer of Bonds, whether temporary or definitive, the City or the Bond Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge imposed by a governmental unit other than the City in connection with said exchange, transfer or registration and for any charge of insuring Bonds during the delivery thereof. Neither the City nor the Bond Registrar shall be required (a) to transfer or exchange Bonds of any Series for a period of 20 days next preceding any selection of Bonds to be redeemed or thereafter until after the first mailing of any notice of redemption, or (b) to transfer, exchange or register any Bonds called for redemption.

Credit Enhancement; Exchange Agreements; Qualified Swaps

As provided by Supplemental Ordinance or Determination relating to any Series of Bonds and subject to the requirements of the General Ordinance, the City may provide for a Credit Facility, Exchange Agreement or Qualified Swap with respect to any Series of Bonds.

Purpose of Bonds; Combination or Projects for Financing Purposes

The Bonds issued under the General Ordinance shall be issued for the purpose (i) of paying the costs of Projects (as such term is defined in the Act) relating to the System, (ii) of reimbursing any fund of the City from which such costs shall have been paid or advanced, (iii) of funding any of such costs for

which the City shall have outstanding bond anticipation notes or other obligations, (iv) of refunding any Bonds or bonds of the City issued for the foregoing purposes or (v) of financing anything else relating to the System permitted under the Act. The water and wastewater systems of the City (referenced in the definition of “System” above) are combined as a Project for the purpose of capital financing but the separate accounts or subaccounts required by the Philadelphia Home Rule Charter shall be maintained within the funds and accounts established under the General Ordinance in accordance with the Philadelphia Home Rule Charter.

Pledge of Revenues; Grant of Security Interest; Limitation on Recourse

The City pledges, and assigns to the Fiscal Agent, its successors in trust and its assigns, for the security and payment of all Bonds (other than Subordinated Bonds) and grants to said Fiscal Agent, its successors in trust and its assigns, a lien on and security interest in (i) all Project Revenues and (ii) all amounts on deposit in or standing to the credit of the funds and accounts (other than the Rebate Fund) established in the General Ordinance together with interest earnings on amounts in such funds and accounts (other than the Rebate Fund). The Fiscal Agent shall hold and apply the security interest granted in the General Ordinance and the pledged revenues and funds described therein, in trust, for the equal and ratable benefit and security of all present and future Holders of Bonds (other than Subordinated Bonds) issued pursuant to the provisions of the General Ordinance and each Supplemental Ordinance, without preference, priority or distinction of any one Bond over any other Bond (other than Subordinated Bonds); provided however, that the pledge of the General Ordinance may also be for the benefit of a Credit Facility and Qualified Swap, or any other person who undertakes to provide moneys for the account of the City for the payment of principal or redemption price of and interest on any Series of Bonds (other than Subordinated Bonds), on an equal and ratable basis with Bonds, to the extent provided by any Supplemental Ordinance or Determination.

For the purpose of compliance with the filing requirements of the Uniform Commercial Code in order to perfect the security interest granted by the General Ordinance, the Fiscal Agent shall be deemed to be, and the City recognizes the Fiscal Agent as, the representative of Bondholders to execute financing statements as the secured party.

Neither the Bonds nor the City’s reimbursement or other contractual obligations under any Credit Facility, Qualified Swap or Exchange Agreement shall constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness. No Bondholder or beneficiary of any of the foregoing agreements shall ever have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal and redemption price of or interest on the Bonds or the making of any payments under the General Ordinance. The Bonds and the obligations evidenced thereby and by the foregoing agreements, shall not constitute a lien on any property of or in the City, other than the Project Revenues and amounts on deposit in or standing to the credit of the Water and Wastewater Funds and interest earnings on amounts in such funds.

Parity Bonds

All Bonds issued under the General Ordinance (other than Subordinated Bonds) shall be parity Bonds equally and ratably secured by the pledge of and grant of the security interest in the Project Revenues and the amounts on deposit in or standing to the credit of the funds and accounts (other than the Rebate Fund), together with interest earnings on amounts in such funds and accounts (other than the Rebate Fund) without preference, priority or distinction as to lien or otherwise, except as otherwise provided, of any one Bond over any other Bond or as between principal and interest.

The City reserves the right, and nothing in the General Ordinance shall be construed to impair such right, to finance improvements to the System by the issuance of its general obligation bonds or by the issuance, under ordinances other than Supplemental Ordinances, of water and/or wastewater revenue bonds or notes for the payment of which Project Revenues may be used or pledged subject and subordinate to the payment from such Project Revenues of the payments described below under “Transfers From Revenue Fund” and subject to the elimination of any deficiency in any fund or account established under the General Ordinance or under any Supplemental Ordinance.

Establishment of Funds and Accounts

The following funds and accounts are established by the General Ordinance and shall be held by the Fiscal Agent:

- (a) Revenue Fund;
- (b) Sinking Fund and within such Fund a Debt Service Account, a Charges Account and a Debt Reserve Account;
- (c) Subordinated Bond Fund;
- (d) Rate Stabilization Fund;
- (e) Residual Fund and within such Fund a Special Water Infrastructure Account;
- (f) Construction Fund, and within the Construction Fund, separate accounts designated as follows:
 - (i) the Existing Projects Account, into which existing proceeds, if any, of revenue Bonds heretofore issued under the Act in respect of the System shall be deposited,
 - (ii) the Bond Proceeds Account, into which proceeds of Bonds issued under the General Ordinance shall be deposited, and
 - (iii) the Capital Account;
- (g) Rebate Fund.

Nothing in the General Ordinance shall be construed to prevent the City from establishing, in connection with the issuance of one or more Series of Bonds, additional funds or accounts to be held for the benefit of one or more Series of Bonds issued under the General Ordinance, as set forth in Supplemental Ordinances; provided that, no such additional funds or accounts shall be established unless, in the opinion of Bond Counsel, establishment of additional funds or accounts would not adversely affect the exclusion of interest on Bonds, if any, from gross income for federal income tax purposes.

Segregation of Water and Wastewater Funds; Deposit of Project Revenues into Revenue Fund

(a) The Water and Wastewater Funds shall be held separate and apart from all other funds and accounts of the City and the Fiscal Agent and the funds and accounts therein shall not be commingled with, loaned or transferred among themselves or to any other City funds or accounts except as expressly permitted by the General Ordinance.

(b) The City shall cause all Project Revenues received by it on any date to be deposited into the Revenue Fund upon receipt thereof by the City and the Fiscal Agent shall, upon receipt of Project Revenues, deposit such Project Revenues into the Revenue Fund. The City and Fiscal Agent also shall cause to be deposited into the Revenue Fund such portion of proceeds of Bonds as designated by Supplemental Ordinance or Determination and any other funds directed to be deposited into the Revenue Fund by the City. The Fiscal Agent shall, at the written direction of the City, disburse from the Revenue Fund the amounts and at the times specified below under "Transfers From Revenue Fund."

(c) If at any time sufficient moneys are not available in the Revenue Fund to pay Operating Expenses and to make transfers required pursuant to the General Ordinance, then amounts on deposit in the Construction Fund, Rate Stabilization Fund and Residual Fund may be loaned temporarily, at the written direction of the City, to the Revenue Fund for the payment of such Operating Expenses to the extent of the deficiency, until such loaned amounts are required by the Water Department for purposes of the Fund making the loan. If a similar deficiency exists in the Construction Fund, amounts on deposit in the Revenue Fund, Rate Stabilization Fund and Residual Fund may be loaned temporarily, at the written direction of the City, to the Construction Fund, to the extent of the deficiency, until required by the Water Department for purposes of the Fund making the loan.

Transfers From Revenue Fund

Amounts on deposit in the Revenue Fund shall be applied by the Fiscal Agent, at the written direction of the City, in the following manner and in the following order of priority:

(a) to the City or its designees to pay such sums as are necessary to meet Operating Expenses in a timely manner;

(b) (i) on or before the dates that the principal or redemption price of and interest on Bonds (other than Subordinated Bonds) or payments under a Swap Agreement or Credit Facility are due, to deposit in the Debt Service Account of the Sinking Fund the amount necessary to provide for the timely payment of the principal or redemption price of and interest on such Bonds (other than Subordinated Bonds), any payments under any Swap Agreement and any amounts under a Credit Facility to repay advances thereunder to pay any of the foregoing, and (ii) on or before the dates that other payments are due under any Credit Facility with respect to Bonds (other than Subordinated Bonds) to deposit in the Charges Account of the Sinking Fund the amount necessary to make such payments;

(c) if the transfers in paragraphs (a) and (b) above are being made according to schedule, for deposit in the Debt Reserve Account, the amount, if any, required to eliminate any deficiency therein;

(d) if the transfers in paragraphs (a) and (b) above are being made according to schedule, and following any transfer required pursuant to paragraph (c) above, to deposit in any debt reserve account established within the Sinking Fund and not held for the equal and ratable benefit of all Bonds (other than Subordinated Bonds), the amount, if any, required to eliminate any deficiency therein;

(e) if the transfers in paragraphs (a) and (b) above are being made according to schedule, and following any transfer then required to be made pursuant to paragraphs (c) and (d) above, to deposit in the Subordinated Bond Fund the amount necessary to provide for the timely payment of the principal or redemption price of and interest on Subordinated Bonds, and forward to the paying agent in respect of bond anticipation notes (payable by exchange for, or out of the proceeds of the sale of Subordinated Bonds) the amount necessary to provide for the timely payment of interest thereon (to the extent not capitalized);

(f) if the transfers in paragraphs (a) and (b) above are being made according to schedule, and following any transfer then required to be made pursuant to paragraphs (c), (d) and (e) above to pay to the City the amount necessary to provide for the timely payment of the principal or redemption price of and interest on General Obligation Bonds;

(g) if the transfers in paragraphs (a) and (b) above are being made according to schedule, and following any transfer then required to be made pursuant to paragraphs (c), (d), (e) and (f) above, to transfer to the Rate Stabilization Fund such amount as the Water Commissioner may determine, the first such determination to be made on the Effective Date and to include the balance on that date in the Renewal and Replacement Fund created under the Prior Ordinance and the unencumbered operating balance of the Water Department as of the end of the Fiscal Year immediately preceding the Effective Date;

(h) if the transfers in paragraphs (a) and (b) above are being made according to schedule, and following any transfer then required to be made pursuant to paragraphs (c), (d), (e), (f) and (g) above, to transfer to the Capital Account of the Construction Fund on June 20, of each Fiscal Year (or the first business day following June 20 if June 20 is not a business day) an amount equal to the sum of (i) the Capital Account Deposit Amount, (ii) the Debt Service Withdrawal for the preceding Fiscal Year and (iii) the Operating Expense Withdrawal for the preceding Fiscal Year, less any amounts transferred during the Fiscal Year to such Capital Account from the Residual Fund; and

(i) if the transfers in paragraphs (a) and (b) above are being made according to schedule, and following any transfer then required to be made pursuant to paragraphs (c), (d), (e), (f), (g) and (h) above and after providing for the repayment of any inter-Fund loans, to transfer as of June 30 of each year all remaining amounts to the Residual Fund.

Notwithstanding the foregoing, nothing in the General Ordinance shall prevent the City from directing the transfer of amounts on deposit in any fund or account established under the General Ordinance into the Rebate Fund in the amounts and at the times specified below under “Funds and Accounts — Rebate Fund.”

Sinking Fund

The Sinking Fund is to be a consolidated fund for the equal and proportionate benefit of the Holders of all Bonds (other than Subordinated Bonds) from time to time Outstanding and each account therein may be invested and reinvested on a consolidated basis.

The Fiscal Agent, as directed by the City by Supplemental Ordinance, Determination or other written direction, shall pay out of the Debt Service Account of the Sinking Fund to the designated paying agent or agents (i) on or before each interest payment date for any of the Bonds (other than Subordinated Bonds) the amount required for the interest payable on such date; and (ii) on or before each principal, redemption or prepayment date for any Bonds (other than Subordinated Bonds), the amount required for the principal, redemption or prepayment payable on such date, and (iii) on or before the respective due dates the amounts, if any, due under any Swap Agreements. Such amounts shall be applied by the designated paying agent or agents on the due dates thereof. The Fiscal Agent shall also pay out of the Debt Service Account of the Sinking Fund the accrued interest included in the purchase price of Bonds purchased for retirement and on or before the due dates any amounts owing by the City under any Credit Facility on account of advances to pay principal of or interest or redemption premium on Bonds (other than Subordinated Bonds).

Amounts accumulated in the Debt Service Account with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking

Fund Installment was established) if so directed by the City, shall be applied by the Fiscal Agent, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, to the purchase of Bonds of the Series, maturity and interest rate within each maturity for which such Sinking Fund Installment was established. All purchases of Bonds pursuant to this provision shall be made at prices not exceeding the applicable sinking fund redemption price of such Bonds plus accrued interest, and such purchases shall be made by the Fiscal Agent as directed by the City. As soon as practicable after the 42nd day preceding the due date of any such Sinking Fund Installment, the Fiscal Agent shall proceed to call for redemption, by giving notice as provided in the General Ordinance, on such due date Bonds of the Series, maturity and interest rate within each maturity for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment after making allowance for any Bonds purchased with moneys held in the Subordinated Bond Fund which the City has directed the Fiscal Agent to apply as a credit against such Sinking Fund Installment. The Fiscal Agent shall pay out of the Sinking Fund to the appropriate paying agent or agents, on or before such redemption date (or maturity date) the amount required for the redemption of the Bonds so called for redemption (or for the payment of such Bonds then maturing) and such amount shall be applied by such paying agent or agents to such redemption (or payment). All expenses in connection with the purchase or redemption of Bonds shall be paid by the City from Project Revenues.

In the event of the refunding of any Bonds, the Fiscal Agent shall, if the City so directs, withdraw from the Sinking Fund all, or any portion of, the amounts accumulated therein with respect to principal or interest on the Bonds being refunded and deposit such amounts with itself or another financial institution serving as escrow agent to be held for the payment of the principal or redemption price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless immediately thereafter the Bonds being refunded shall be deemed to have been paid as described below under "Deposit of Funds for Payment of Bonds." In the event of a refunding, the City may also direct the Fiscal Agent to withdraw from the Sinking Fund all, or a portion of, the amounts accumulated therein with respect to principal and interest on the Bonds being refunded and deposit such amounts in any fund or account established under the General Ordinance.

If any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity or otherwise or at the date fixed for redemption thereof, if moneys sufficient to pay such Bond shall have been deposited with the Fiscal Agent, it shall be the duty of the Fiscal Agent to hold such moneys, without liability to the City, any Bondholder or any other person for interest thereon, for the benefit of the owner of such Bond. Notwithstanding the foregoing, any moneys in the Sinking Fund for the payment of the interest, principal or redemption premium of Bonds unclaimed for two (2) years after the due date shall be repaid to the City but such repayment shall not discharge the obligation, if any, for which such moneys were previously held in the Sinking Fund; provided, however, that such repayment shall not be made unless, at the time of such repayment, there shall exist no deficiency in any fund or account established under the General Ordinance or any Supplemental Ordinance.

The Fiscal Agent shall pay out of the Charges Account to the appropriate payees any fees, expenses and other amounts due under any Credit Facility with respect to Bonds (other than Subordinated Bonds), to the extent such amounts are not paid from the Debt Service Account.

Credits Against Sinking Fund Installments

If at any time Bonds of any Series or maturity for which Sinking Fund Installments shall have been established are purchased or redeemed other than (i) from amounts accumulated in the Debt Service Account or (ii) Bonds deemed to have been paid as described under "Deposit of Funds for Payment of Bonds" below, and, with respect to such Bonds which have been deemed paid, irrevocable instructions have

been given to the Fiscal Agent to redeem or purchase the same on or prior to the due date of the Sinking Fund Installment to be credited under this paragraph, the City may from time to time and at any time by written notice to the Fiscal Agent specify the portion, if any, of such Bonds so purchased, redeemed or deemed to have been paid and not previously applied as a credit against any Sinking Fund Installment which are to be credited against future Sinking Fund Installments. Such notice shall specify the amounts of such Bonds to be applied as a credit against such Sinking Fund Installment or Installments and the particular Sinking Fund Installment or Installments against which such Bonds are to be applied as a credit; provided, however that none of such Bonds may be applied as a credit against a Sinking Fund Installment to become due less than 42 days after such notice is delivered to the Fiscal Agent. All such Bonds to be applied as a credit shall be surrendered to the Fiscal Agent for cancellation on or prior to the due date of the Sinking Fund Installment against which they are being applied as a credit. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

Debt Reserve Account

(a) Unless otherwise provided in the applicable Supplemental Ordinance in compliance with the General Ordinance, the City is required, under direction of the Director of Finance, to deposit in the Debt Reserve Account from the proceeds of sale of each Series of Bonds issued under the General Ordinance, an amount which, when added to the existing balance in the Debt Reserve Account, will be equal to the Debt Reserve Requirement immediately after the issuance of such Series of Bonds. The money and investments in the Debt Reserve Account shall be held and maintained in an amount equal at all times to the Debt Reserve Requirement; provided that if the Supplemental Ordinance authorizing a Series of Bonds shall authorize the accumulation from Project Revenues of a reserve of such amount in respect of such Bonds over a period of not more than three (3) Fiscal Years after the issuance and delivery of such Bonds, then the full payment of the annual deposits required under such Supplemental Ordinance will meet the Debt Reserve Requirements of the General Ordinance in respect of such Bonds.

(b) Notwithstanding any provision of the above paragraph (a) to the contrary, a Supplemental Ordinance may provide for the establishment of a Series Debt Reserve Requirement for each Series of Bonds issued pursuant to such Supplemental Ordinance, and a separate Series Debt Reserve Subaccount (if such Series Debt Reserve Requirement is greater than zero dollars (\$0)) within the Debt Reserve Account in respect of such Series of Bonds. The City shall not designate a Series Debt Reserve Requirement for a Series of Bonds unless (i) such Series of Bonds will be refunding Bonds issued pursuant to the General Ordinance, or (ii) the City first obtains written confirmation from any one Rating Agency then rating the Bonds that such action, in and of itself, will not result in a downgrade, suspension or withdrawal of the credit rating on any Bonds Outstanding thereunder. The City shall deposit in the Series Debt Reserve Subaccount created pursuant to any Supplemental Ordinance, the Series Debt Reserve Requirement for such Series of Bonds. The money and investments in each Series Debt Reserve Subaccount shall be held and maintained in an amount equal at all times to the Series Debt Reserve Requirement for such Series secured thereby, as provided in the Supplemental Ordinance authorizing such Series of Bonds. All amounts in each Series Debt Reserve Subaccount shall be available solely to secure and pay the Debt Service Requirements of the Bonds for which such subaccount was created pursuant to such Supplemental Ordinance; and the Holders of such Bonds shall otherwise have no interests in or rights to amounts in the Debt Reserve Account.

(c) If at any time and for any reason, the moneys in the Debt Service Account of the Sinking Fund shall be insufficient to pay, as and when due, the principal of (and premium, if any) or interest on any Bond or Bonds or other obligations payable from the Debt Service Account then due (including under Swap

Agreements and Credit Facilities), the Fiscal Agent is authorized and directed to withdraw from the Debt Reserve Account or, as applicable, any Series Debt Reserve Subaccount, and pay over the amount of such deficiency for deposit in the Debt Service Account to pay such obligations. If by reason of such withdrawal or for any other reason there shall be a deficiency in the Debt Reserve Account or a Series Debt Reserve Subaccount, the City covenants to restore such deficiency promptly from Net Revenues; provided that in the event that there simultaneously shall be deficiencies in the Debt Reserve Account and one or more Series Debt Reserve Subaccounts, the City covenants to restore such deficiencies from Net Revenues on a pari passu basis, based on the Debt Reserve Requirement and the Series Debt Reserve Requirement(s) outstanding; and provided further, that notwithstanding the preceding proviso, the Supplemental Ordinance or Determination pursuant to which a Series Debt Reserve Requirement is established may provide for the restoration of such a deficiency in the related Series Debt Reserve Subaccount from Net Revenues on a less than pari passu basis for the related Series of Bonds.

(d) (i) Subject to paragraph (d)(ii) and paragraph (e) under this heading, any moneys in the Debt Reserve Account or any Series Debt Reserve Subaccount in excess of, respectively, the Debt Reserve Requirement or the Series Debt Reserve Requirement, shall be transferred and applied, at the written direction of the City, to any of the following purposes:

(A) to the Debt Service Account, to pay the Debt Service Requirements on Bonds secured by such account or subaccount, including without limitation redemption price in connection with the optional redemption of any such Bonds; or

(B) to an escrow fund or account established to facilitate the payment of Bonds pursuant to the General Ordinance, to pay the Debt Service Requirements on Bonds secured by such account or subaccount, including without limitation redemption price in connection with the optional redemption of any such Bonds; or

(C) if such moneys do not constitute tax-exempt bond proceeds, to the Residual Fund for the purposes thereof.

(ii) In connection with the issuance of refunding Bonds pursuant to the General Ordinance, the City may transfer amounts from the Debt Reserve Account or a Series Debt Reserve Subaccount held by the Fiscal Agent in respect of the Bonds being refunded to the Debt Reserve Account or a Series Debt Reserve Subaccount to satisfy any debt reserve requirements in respect of such refunding Bonds.

(e) Notwithstanding the foregoing provisions, in lieu of the required deposits into the Debt Reserve Account or any Series Debt Reserve Subaccount thereof, the City may cause to be deposited therein a surety bond or an insurance policy payable to the Fiscal Agent for the account of the Bondholders and any Qualified Swap or an irrevocable letter of credit to be benefitted thereby in an amount equal to the difference between the Debt Reserve Requirement or the Series Debt Reserve Requirement and the remaining sums, if any, then on deposit in the Debt Reserve Account or Series Debt Reserve Subaccount. The surety bond, insurance policy or letter of credit (referred to, collectively, as the "Debt Reserve Facility") shall be payable (upon the giving of notice as required thereunder) on any interest payment date on which moneys will be required to be withdrawn from the Debt Reserve Account or Series Debt Reserve Subaccount and applied to the payment of Debt Service Requirements of the Bonds secured thereby if such withdrawal cannot be met by amounts on deposit in the Debt Reserve Account or Series Debt Reserve Subaccount, or provided from any other Fund under the General Ordinance.

If a disbursement is made pursuant to a surety bond, an insurance policy or a letter of credit provided pursuant to this paragraph (e), the City shall be obligated either (i) to reinstate the maximum limits of the surety bond insurance policy or letter of credit or (ii) to deposit into the Debt Reserve Account or

applicable Series Debt Reserve Subaccount, funds in the amount of the disbursement made under such surety bond insurance policy or letter of credit, or combination of such alternatives, as shall provide that the amount in the Debt Reserve Account or applicable Series Debt Reserve Subaccount equals the Debt Reserve Requirement or the Series Debt Reserve Requirement within a time period not longer than would be required to restore the Debt Reserve Account or the Series Debt Reserve Requirement by operation under this provision and from the same source of funds as provided in the General Ordinance.

The insurer providing a surety bond or insurance policy pursuant to this paragraph (e) shall be an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in not lower than the “A” category (without regard to gradations) by any one Rating Agency. The letter of credit issuer providing a letter of credit pursuant to this paragraph (e) shall be a bank or trust company that is rated not lower than the “A” category (without regard to gradations) by any one Rating Agency; and the letter of credit itself shall be rated in at least “A” category of such Rating Agency. Upon the occurrence of any reduction or suspension of any credit rating with respect to such bond insurance policy or letter of credit or the provider thereof required by the General Ordinance, the City shall so notify the provider of the surety, bond insurance policy or letter of credit and prior to the effective date of any cancellation of such surety, bond insurance policy or letter of credit, shall either provide a substitute surety bond, insurance policy or letter of credit meeting the above described requirements of the General Ordinance or shall deposit cash in the Debt Reserve Account or applicable Series Debt Reserve Subaccount so that the amount in such account or subaccount shall equal the Debt Reserve Requirement or Series Debt Reserve Requirement, respectively.

In the event that after the City has deposited cash as required in connection with a Debt Reserve Facility rating reduction or suspension, but prior to any cancellation thereof, such Debt Reserve Facility meets the rating criteria set forth in this paragraph (e) for deposit, no excess of the Debt Reserve Requirement shall result for purposes of paragraph (d) above.

Subordinated Bond Fund

Subject to the third paragraph under this heading, the Fiscal Agent shall apply amounts in the Subordinated Bond Fund to the payment of the principal of, redemption premium, if any, and interest on Subordinated Bonds of a Series and to payments due under any Credit Facilities and Exchange Agreements with respect to Subordinated Bonds in accordance with the provisions of, and subject to the priorities and limitations and restrictions provided in, the Supplemental Ordinance and Determination authorizing such Series of Subordinated Bonds.

At any time and from time to time the City may deposit in the Subordinated Bond Fund for the payment of the principal of, redemption premium, if any, and interest on Subordinated Bonds amounts received from any source other than Project Revenues which is not inconsistent with the General Ordinance or any Supplemental Ordinance or Determination.

If at any time the amounts in the Sinking Fund shall be less than the current requirement of such fund pursuant to paragraphs (b) and (c) under “Transfers from Revenue Fund” above and there shall not be on deposit in the Debt Reserve Account, the Capital Account or the Residual Fund available moneys sufficient to cure such deficiency, then the Fiscal Agent shall withdraw from the Subordinated Bond Fund and deposit in the Sinking Fund the amount necessary (or all the moneys in said fund, if less than the amount necessary) to eliminate such deficiency.

Any moneys in the Subordinated Bond Fund for the payment of the interest, principal or redemption premium of Subordinated Bonds unclaimed for two years after the due date are to be repaid to the City but such repayment shall not discharge the obligation, if any, for which such moneys were previously held in

the Subordinated Bond Fund; provided, however, that such repayment shall not be made unless, at the time of such repayment, there shall exist no deficiency in any fund or account established under the General Ordinance or any Supplemental Ordinance.

Construction Fund

Proceeds of Bonds issued for capital purposes are to be deposited into the Bond Proceeds Account of the Construction Fund and disbursed according to established procedures of the City.

The Fiscal Agent shall on the Effective Date deposit in the Existing Projects Account proceeds of Prior Bonds as directed by a Supplemental Ordinance or Determination; deposit in the Bond Proceeds Account the proceeds of Bonds as directed by a Supplemental Ordinance or Determination; and deposit in the Capital Account any amounts transferred pursuant to paragraph (h) under “Transfers from Revenue Fund” above. Amounts in the Existing Projects Account and Bond Proceeds Account shall be applied as directed in writing by the City for purposes permitted by the Act and the Bonds and such other purposes as are permitted under the General Ordinance.

Amounts deposited in the Capital Account may be applied at the written direction of the City to (i) payments for the cost of renewals, replacements and improvements to the System; (ii) payments into the Sinking Fund or into the Subordinated Bond Fund to cure a deficiency in one of the foregoing; or (iii) the purchase of Bonds if a Consulting Engineer shall first have certified to the City that amounts remaining on deposit in the Capital Account following the proposed purchase of Bonds will be sufficient to pay the cost of renewals, replacement and improvements to the System projected to be payable during such Fiscal Year; provided, however, that no Bond shall be purchased at a price in excess of the principal amount and redemption price which would be applicable if the Bond were redeemed at the time such Bond was first subject to redemption.

As described in the section titled “Segregation of Water and Wastewater Funds; Deposit of Project Revenues into Revenue Fund”, the General Ordinance requires that, if at any time sufficient moneys are not available for the payment of Operating Expenses, then amounts on deposit in the Capital Account may be used for the payment of Operating Expenses to the extent of the deficiency.

Residual Fund

Amounts on deposit in the Residual Fund may be used at the written direction of the City (i) to pay Operating Expenses; (ii) to fund transfers to any fund or account established under the General Ordinance or under a Supplemental Ordinance (other than the Revenue Fund and the Rate Stabilization Fund); (iii) to make payments required under any Exchange Agreement; (iv) for the payment of principal, redemption premium, if any, and interest on any revenue bonds or notes (the proceeds of which were applied in respect of the System) issued under the Act but not under the General Ordinance; (v) for the payment of principal, redemption premium, if any, and interest on any General Obligation Bonds; (vi) for the payment of principal, redemption premium, if any, and interest on other general obligation debt issued in respect of the System; (vii) for the payment of amounts due under capitalized leases or similar obligations relating to the System; and (viii) to fund a transfer to the City’s “General Fund” in an amount not to exceed the lower of (A) all “Net Reserve Earnings” as defined below or (B) \$4,994,000. “Net Reserve Earnings” shall mean the amount of interest earnings during the Fiscal Year on amounts in the Debt Reserve Account and the Subordinated Bond Fund less the amount of interest earnings during the Fiscal Year on amounts in any such reserve funds and accounts giving rise to a rebate obligation pursuant to Section 148(f) of the Code.

The General Ordinance provides that the City establish expenditure authority from the Residual Fund to enable it to pay Operating Expenses and the other items permitted by the General Ordinance. In

the event that there is a substitution of appropriate surety bonds or insurance policies from some or all of the deposits held in the Debt Reserve Account, a transfer of resulting excess money in the Debt Reserve Account to the Revenue Fund and, following compliance with the provisions described under “Transfers From Revenue Fund” above, a transfer of remaining amounts of such excess to the Residual Fund, such remaining amount shall be deposited into the Special Water Infrastructure Account. Any amounts deposited in the Special Water Infrastructure Account may be used to finance water-related infrastructure projects.

Rate Stabilization Fund

Pursuant to the General Ordinance, as of the effective date of the General Ordinance and 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 by the Water Commissioner to be transferred for such Fiscal Year.

Rebate Fund

The General Ordinance provides that the Rebate Fund shall be maintained for so long as any Series of Bonds is Outstanding, and for 60 days thereafter (or such other period as may be specified by the Code and applicable regulations), for the purpose of paying to the United States Treasury the amount required to be rebated pursuant to Section 148(f) of the Code. All amounts in the Rebate Fund, including income earned from investment of amounts in the Rebate Fund, shall be held by the City free and clear of the lien created by the General Ordinance.

Management of Funds and Accounts

The General Ordinance provides that the moneys on deposit in the funds and accounts established under the General Ordinance, to the extent not currently required, shall be invested and secured as required by Section 9 of the Act, all at the direction and under the management of the Director of Finance or such other chief fiscal officer of the City as may hereinafter be established.

Investment of Funds and Accounts

All moneys deposited in any fund or account established under the General Ordinance or under any Supplemental Ordinance may be invested by the City or by the Fiscal Agent, at the oral or written direction of the City, in any investments permitted by law (except as otherwise provided in the General Ordinance with respect to the Debt Reserve Account and Rebate Fund); provided that any investments with respect to amounts on deposit in the funds (other than the Debt Reserve Account) and accounts established under the General Ordinance shall mature or shall be subject to redemption by the holder thereof upon demand at par no later than the date when such amounts are needed for the purposes of such funds or accounts. Interest earnings on amounts on deposit (i) in the Revenue Fund are to be credited to the Revenue Fund; (ii) in the Sinking Fund (except as provided in (iii) below) are to be credited to the Sinking Fund to the extent needed to meet Debt Service Requirements in respect of Bonds (other than Subordinated Bonds) and additional interest earnings shall be credited to the Revenue Fund; (iii) in the Debt Reserve Account shall be credited to the Debt Reserve Account until such account is fully funded and shall then be credited to the Residual Fund up to the maximum amount to be transferred to the City’s General Fund and any excess is to then be transferred to the Revenue Fund; (iv) in the Subordinated Bond Fund are to be credited to the Subordinated Bond Fund to the extent needed to meet Debt Service Requirements in respect of Subordinated Bonds and additional interest earnings shall be credited to the Revenue Fund or to such other fund or account established under the General Ordinance as the City may direct pursuant to a Supplemental Ordinance; (v) in the Residual Fund, shall be credited to the Residual Fund; (vi) in the Rate Stabilization Fund shall be credited to the Revenue Fund; (vii) in the Construction Fund shall be credited to the appropriate account of

the Construction Fund or to the Revenue Fund, as the City shall direct; and (viii) in the Rebate Fund shall be credited to the Rebate Fund.

Valuation of Funds and Accounts

In computing the assets of any fund or account established under the General Ordinance, investments and accrued interest thereon are to be deemed a part thereof. Such investments shall be valued on June 30 of each Fiscal Year at the lower of the cost or current market value thereof if the applicable maturity is more than one year and at par if the applicable maturity is equal to or less than one year plus accrued interest, or at the redemption price thereof, if then redeemable at the option of the holder; provided that investments in any reserve fund or reserve account of the Sinking Fund established pursuant to a Supplemental Ordinance may be valued as provided in the Supplemental Ordinance establishing it. The annual valuation is to apply for all purposes of the General Ordinance except if Bonds are issued or a fund deficit occurs based on the annual valuation, in which cases a valuation is to be made on the date Bonds are issued or the deficit is eliminated, as the case may be.

Covenants of the City

Rate Covenant.

(a) Pursuant to the General Ordinance, the City covenants with the Bondholders that it will, at a minimum, impose, charge and collect in each Fiscal Year such water and wastewater rents, rates, fees and charges as shall yield Net Revenues which shall be equal to at least:

(i) 1.20 times the Debt Service Requirements for such Fiscal Year (excluding Debt Service Requirements in respect of Subordinated Bonds); and

(ii) 0.90 times Debt Service Requirements for such Fiscal Year (excluding Debt Service Requirements in respect of Subordinated Bonds); provided that, for purposes of this clause (ii), Net Revenues shall be calculated to exclude therefrom any amounts transferred from the Rate Stabilization Fund to the Revenue Fund in, or as of the end of, such Fiscal Year; and

(iii) 1.00 times (A) the Debt Service Requirements for such Fiscal Year (including Debt Service Requirements in respect of Subordinated Bonds); (B) amounts required to be deposited into the Debt Reserve Account during such Fiscal Year; (C) the principal or redemption price of and interest on General Obligation Bonds payable during such Fiscal Year; (D) debt service requirements on Interim Debt payable during such Fiscal Year; and (E) the Capital Account Deposit Amount for such Fiscal Year (less any amounts transferred from the Residual Fund to the Capital Account during such Fiscal Year).

(b) In estimating Debt Service Requirements on any Interim Debt for the purposes of projecting compliance with this covenant, the City is entitled to assume that (i) such Interim Debt will be amortized over a period of up to the maximum term permitted by the Act, provided, however, such period shall not be in excess of the useful life of the assets to be financed, on an approximately level debt service basis and bear interest at the average interest rate on bonds of a similar maturity and credit rating (without any credit enhancement) as the Bonds outstanding under the General Ordinance. Promptly upon any material change in the circumstances which were contemplated at the time such rents, rates, fees and charges were most recently reviewed, but not less frequently than once in each Fiscal Year, the City is required to review the rents, rates, fees and charges as necessary to enable the City to comply with the foregoing requirements; provided that such rents, rates, fees and charges shall in any event produce moneys sufficient to enable the City to comply with its covenants in the General Ordinance.

(c) (i) In the event that any Bonds Outstanding are, or any proposed Series of Bonds are to be, Balloon Bonds, then Debt Service Requirements on such Balloon Bonds shall be calculated for purposes of projecting compliance with the General Ordinance, or for purposes of determining the Debt Reserve Requirement or Series Debt Reserve Requirement (as applicable) for a particular Series of Balloon Bonds, whether for any period prior to or after the date of calculation, as follows.

- (A) If such Balloon Bonds are not Capital Appreciation Bonds, then, for purposes of determining Debt Service Requirements, each maturity that constitutes Balloon Bonds shall, unless otherwise provided in a Supplemental Ordinance under which such Balloon Bonds are issued, be treated as if it were to be amortized over a period of no more than 30 years and with substantially level annual debt service funding payments commencing not later than the year following the year in which such Balloon Bonds were issued, and extending not later than the stated or deemed, as the case may be, final maturity of such Balloon Bonds, but in no event later than 30 years from the date such Balloon Bonds were originally issued; and the interest rate used for such computation shall be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or its successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index designated in a Determination, or if a Determination fails to select a replacement index, that rate determined by a banking institution or an investment banking institution as the interest rate or rates at which the City could reasonably expect to borrow by incurring indebtedness with the same term as assumed above, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Bonds only a portion of which constitutes Balloon Bonds, the remaining portion shall be treated as described in such other provision of the definition of Debt Service Requirements as shall be applicable and, with respect to any Bonds or that portion of a series thereof which constitutes Balloon Bonds, all Debt Service Requirements becoming due prior to the year of the stated maturity of the Balloon Bonds shall be treated as described in such other provision of Debt Service Requirements as shall be applicable; and
- (B) If such Balloon Bonds are Capital Appreciation Bonds, by assuming that the Accreted Value of such Bonds for purposes of determining Debt Service Requirements, each maturity that constitutes Balloon Bonds shall, unless otherwise provided in a Supplemental Ordinance under which such Balloon Bonds are issued, be treated as if it were to be amortized over a period of no more than 30 years and with substantially level annual debt service funding payments commencing not later than the year following the year in which such Balloon Bonds were issued, and extending not later than the stated or deemed, as the case may be, final maturity of such Balloon Bonds, but in no event later than 30 years from the date such Balloon Bonds were originally issued; and the interest rate used for such computation shall be that rate quoted The Bond Buyer 25 Revenue Bond Index, or its successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index designated in a Determination, or if a Determination fails to select a replacement index, that rate determined by a banking institution or an investment banking institution as the interest rate or

rates at which the City could reasonably expect to borrow by incurring indebtedness with the same term as assumed above, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Bonds only a portion of which constitutes Balloon Bonds, the remaining portion shall be treated as described in such other provision of the definition of Debt Service Requirements as shall be applicable and, with respect to any Bonds or that portion of a series thereof which constitutes Balloon Bonds, all Debt Service Requirements becoming due prior to the year of the stated maturity of the Balloon Bonds shall be treated as described in such other provision of Debt Service Requirements as shall be applicable.

(ii) In estimating Debt Service Requirements on any Variable Rate Bonds for purposes of projecting compliance with this covenant or funding the Reserve Account, the City is entitled to assume that such Variable Rate Bonds will bear interest at a rate equal to (A) the average interest rate on the Variable Rate Bonds during the period of twenty-four (24) consecutive calendar months preceding the date of calculation or (B) if the Variable Rate Bonds were not Outstanding during the entire twenty-four (24) month period, the average interest rate on the Variable Rate Bonds since their date of issue or (C) such other rate as may be specified in a Supplemental Ordinance or Determination.

(d) The City represents that it has, by its Code of General Ordinances, as amended, authorized the imposition of rents, rates, fees and charges by the Water Department sufficient from time to time to comply with the Rate Covenant and covenants with the Holders of Bonds that it will not repeal or materially adversely dilute or impair such authorization.

Timely Payment of Principal, Redemption Premium and Interest. Pursuant to the General Ordinance, the City covenants with the Holders of all Bonds Outstanding under the General Ordinance that so long as such Bonds shall remain Outstanding it will pay or cause the Fiscal Agent or a paying agent to pay from the Project Revenues deposited in the Sinking Fund and the Subordinated Bond Fund the principal of, redemption premium, if any, and interest on all Bonds as the same shall become due and payable and as more particularly set forth in the Bonds and to pay the amounts due with respect to any and all Credit Facilities (including the reimbursement agreement or similar related agreement) and Qualified Swaps.

Operation of System. Pursuant to the General Ordinance, the City covenants with the Holders of all Bonds Outstanding under the General Ordinance that so long as such Bonds shall remain Outstanding it will continuously maintain the System or cause the System to be maintained in good condition and will continuously operate the System or cause the System to be operated.

Conditions of and Provisions Relating to Issuing Bonds. The City covenants with the Holders of all Bonds Outstanding under the General Ordinance that so long as any such Bonds shall remain Outstanding it will not issue any Series of Bonds under the General Ordinance without first complying with certain conditions stated in the General Ordinance including, without limitation, (a) the enactment of a Supplemental Ordinance, (b) the filing with the Fiscal Agent of a transcript of the proceedings relating to the issuance of such Series of Bonds, (c) the delivery to the City Council of a Consulting Engineer's Report, (d) the filing with the Fiscal Agent of certain opinions of counsel and (e) the execution of appropriate documents.

The Consulting Engineer's Report referred to in the preceding paragraph shall state that the Net Revenues are currently sufficient to comply with the Rate Covenant and are projected to be sufficient to comply with the Rate Covenant for each of the two Fiscal Years following the Fiscal Year in which the Bonds are to be issued; provided that if interest on such Bonds or a portion thereof has been capitalized, the

projection shall extend to the two Fiscal Years following the Fiscal Year up to which interest has been capitalized on the Bonds or a portion thereof.

The General Ordinance provides that upon compliance with the conditions enumerated in the preceding paragraph and unless otherwise provided in the applicable Supplemental Ordinance or Determination, accrued interest on Bonds (other than Subordinated Bonds) shall be deposited in the Sinking Fund, accrued interest on Subordinated Bonds shall be deposited in the Subordinated Bond Fund, an amount sufficient to satisfy the requirements concerning the Debt Reserve Account shall be deposited in the Debt Reserve Account and the balance of the proceeds of the Bonds shall be deposited in the Bond Proceeds Account of the Construction Fund and shall be disbursed therefrom, in accordance with established procedures of the City; provided, however, that if such Bonds shall be issued for the purpose of funding or refunding Bonds previously issued by the City such proceeds shall, unless otherwise directed by the Supplemental Ordinance, be deposited in a special fund or account to be established with and held by the Fiscal Agent or another entity acting as an escrow agent and invested (if appropriate) and disbursed under the direction of the Director of Finance for the purpose of retiring the Bonds being funded or refunded.

Refunding Bonds

If the City shall, by Supplemental Ordinance, authorize the issuance of refunding Bonds pursuant to Section 10 of the Act, in the absence of specific direction or inconsistent authorization in the Supplemental Ordinance, the Director of Finance is authorized in the name and on behalf of the City to take all such action, including the irrevocable pledge of proceeds and the income and profit from the investment thereof for the payment and redemption of the funded or refunded bonds, bonds or notes and, if there shall have been provided a Qualified Swap with respect to the Bonds to be refunded, provision for the payment, if any, of all amounts due and payable by the City under such Qualified Swap, and including the publication of all required redemption notices or the giving of irrevocable instructions therefor, as may be necessary or appropriate to accomplish the funding or refunding and to comply with the requirements of Section 10 of the Act.

Subordinated Bonds

The City may, at any time, or from time to time, issue Subordinated Bonds for any purpose permitted under the General Ordinance and under the Act. Subordinated Bonds shall be payable out of, and may be secured by a security interest in and a pledge and assignment of, Project Revenues and amounts on deposit in the Subordinated Bond Fund; provided, however, that any such security interest in and pledge and assignment of Project Revenues and amounts on deposit in the Subordinated Bond Fund shall be, and shall be expressed to be, subordinate in all respects to the security interest in, and pledge and assignment of, the Project Revenues and the amounts on deposit in the funds and accounts (other than the Rebate Fund but including the Subordinated Bond Fund) established under the General Ordinance for the security of the Bonds (other than Subordinated Bonds).

Annual Reports

The City covenants with the Holders of all Bonds Outstanding under the General Ordinance that so long as such Bonds shall remain Outstanding it will, within 120 days following the close of each Fiscal Year of the City or as soon thereafter as is practicable (not exceeding 150 days following the close of each Fiscal Year), file with the Fiscal Agent a report of the operation of the System, setting forth, among other things, in reasonable detail financial data concerning, and consolidated for, the water and wastewater components of the System for such Fiscal Year, including a balance sheet and a statement of income, expenses, and surplus (in each case not inconsistent with the statement of income, expenses, and other accounts of the City audited by the City Controller) prepared by the Water Department in accordance with

generally accepted accounting principles consistently applied, showing compliance with the Rate Covenant, accompanied by a certificate of the Water Commissioner that the water and wastewater components of the System are in good operating condition and by a certificate of the Director of Finance that as of the date of such report the City has complied with all of the covenants in the General Ordinance and in all Supplemental Ordinances on its part to be performed. Such report shall be furnished to the Fiscal Agent in such reasonable number of copies as shall be required to meet the written requests of Bondholders therefor on a first come first served basis.

Disposition of Insurance Proceeds and Proceeds from the Sale of Assets

In the event that any assets of the System are destroyed or the City shall sell any assets of the System (except in the event of the sale or transfer of all or substantially all of the assets of the System to a municipal authority), the City shall, if the insurance proceeds or the proceeds from the sale of assets exceed 1.5% of the depreciated value of property, plant and equipment of the System, as shown on the financial statements of the City for the preceding Fiscal Year, apply such amounts, at the direction of the Director of Finance or such other chief fiscal officer of the City as may hereinafter be established (i) to the retirement of the principal amount of debt incurred in respect to the System; (ii) to the reconstruction, repair or replacement of assets of the System; or (iii) to the making of capital additions or improvements to the System.

Bonds Not to Become Arbitrage Bonds

The General Ordinance provides that the City covenants for the benefit of the Bondholders that, notwithstanding any other provision of the General Ordinance or any other instrument, it will neither make nor instruct the Fiscal Agent to make any investment or other use of amounts on deposit in the funds and accounts established by the General Ordinance or other proceeds of the Bonds which would cause any Series of Bonds issued under the General Ordinance as tax-exempt to be arbitrage bonds under Section 148 of the Code and the regulations thereunder to the extent that the same are applicable at the time of such investment; it will file any reports required to be filed pursuant to the Code; and it will not take or fail to take any action so as to render any Series of Bonds issued under the General Ordinance as tax-exempt to be arbitrage bonds under Section 148 of the Code.

Prohibition Against Certain Uses of Funds; Enforcement

The City covenants that while any Bonds are Outstanding under the General Ordinance, it will not direct the Fiscal Agent to transfer, loan or advance proceeds of the Bonds or Project Revenues from the Water and Wastewater Funds to any City account for application other than for Water Department purposes.

If, on any date when a deposit is required to be made of the Project Revenues, the City fails to comply with any provision of the General Ordinance, the Fiscal Agent is authorized to and shall seek, by mandamus or other suit, action or proceeding at law or in equity, the specific enforcement or performance of the obligation of the City to cause the Project Revenues to be transferred to the Revenue Fund, and shall have any and all other rights and remedies of a fiscal agent under the General Ordinance, any Supplemental Ordinance, the Act or otherwise at law or in equity.

Credit Facilities and Qualified Swaps

All or any of the foregoing covenants of the City for the benefit of the Bondholders may also be for the benefit of the providers of any Credit Facility and any Qualified Swap to the extent provided in a Supplemental Ordinance or Determination.

Bonds May Be Subject to Redemption

Bonds of any Series may be subject to either optional or mandatory redemption at the times, in the order, in the amounts, at the redemption prices, and under such terms, conditions and restrictions, all as may be set forth in the Supplemental Ordinance authorizing the issuance of such Series of Bonds or in the Determination relating to such Series of Bonds or, in the absence of such provisions, as may be set forth in the Bonds of such Series, at the direction of the Director of Finance. Notwithstanding or in limitation of the foregoing, a Supplemental Ordinance or Determination for a Series of Bonds may contain provisions for optional redemption of a Series of Bonds which may be retained by the City as a call option or may be held by the City or sold simultaneously with such Series of Bonds or at future dates as determined by such Supplemental Ordinance or Determination.

Effect of Redemption, Payment

Upon compliance with certain notice requirements stated in the General Ordinance, or upon irrevocable instructions to give such notice having been delivered to the Fiscal Agent, irrevocable instruction having been delivered to the Fiscal Agent to pay said Bonds or portions thereof and to pay the amount, if any, due and payable under any Qualified Swap related to said Bonds, and funds having been deposited in the Sinking Fund or the Subordinated Bond Fund (as the case may be) prior to the date fixed for redemption, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated, and interest on such Bonds or portions thereof shall cease from such redemption date, whether such Bonds be presented for redemption or not. The principal amount of all Bonds or portions thereof so called for redemption, together with the premium, if any, and accrued interest thereon, shall be paid by the Fiscal Agent or any other paying agent designated in the Bonds, upon presentation and surrender thereof in negotiable form.

Partial Redemption

Upon presentation of any Bond which is to be redeemed in part only, the City and the Fiscal Agent shall execute and deliver to the Holder thereof, at the expense of the City, a new Bond or Bonds of authorized denominations in a principal amount equal to and of the same Series and maturity as the unredeemed portion of the Bond or Bonds so presented.

Fiscal Agent

The Fiscal Agent under the Prior Ordinance or its successor, shall be Fiscal Agent as of the Effective Date for the General Ordinance. The City may appoint a successor Fiscal Agent by Supplemental Ordinance to act as Fiscal Agent under the General Ordinance, and in connection with the Bonds issued under the General Ordinance. The Fiscal Agent shall also act as depository of the Sinking Fund and the Subordinated Bond Fund, and may act as paying agent and bonds registrar.

Nothing in the General Ordinance is to be construed to prevent the City, in accordance with law, from engaging other Fiscal Agents from time to time or to engage other paying agents of the Bonds or any Series thereof in addition to, or as a successor to the Fiscal Agent. Any entity appointed by the City as Fiscal Agent under the General Ordinance shall be a trust company or national or state bank having trust powers and combined capital and surplus of at least \$50,000,000 and be qualified to serve pursuant to the Act. Any entity appointed by the City as Fiscal Agent under the General Ordinance as a successor to the Fiscal Agent shall assume all rights and obligations of the Fiscal Agent under the General Ordinance.

Subject to the foregoing, the General Ordinance provides that the proper officers of the City are authorized to enter into contracts or to confirm existing agreements governing the maintenance of funds

and accounts and records, the disposal of cancelled Bonds, the rights, duties, privileges and immunities of the Fiscal Agent, and such other matters as are authorized by the Act and as are customary and appropriate and to confirm the agreement of the Fiscal Agent, in its several capacities, to comply with the provisions of the Act and of the General Ordinance.

The Fiscal Agent shall keep on file a copy of each report and its accompanying certificates delivered to it pursuant to the General Ordinance for a period of ten years and shall exhibit the same to, and permit the copying thereof by, any Bondholder or his authorized representative at all reasonable times.

Resignation of Fiscal Agent

The Fiscal Agent may resign and be discharged of the duties created by the General Ordinance by written resignation filed with the Director of Finance not less than 60 days before the date when such resignation is to take effect. Such resignation shall take effect on the day specified in such notice provided that a successor Fiscal Agent is appointed. If a successor Fiscal Agent is appointed prior to the date specified in the notice, the resignation shall take effect immediately on the appointment of such successor, and the City shall give the required notices described under “Appointment of Successor Fiscal Agent” below.

Appointment of Successor Fiscal Agent

If the Fiscal Agent or any successor Fiscal Agent resigns, is replaced, or is dissolved or if its property or business is taken under the control of any state or federal court or administrative body, a vacancy shall exist in the office of the Fiscal Agent, and the City shall appoint a successor within 30 days of such vacancy and shall mail notice of such appointment to the Bondholders and to the registered depositories at their registered addresses by first class mail, postage prepaid, within 30 days of such appointment.

Defaults and Statutory Remedies; Notice to Bondholders

If the City shall fail or neglect to pay or to cause to be paid the principal of, redemption premium, if any, or interest on any Bond or any Series of Bonds issued under the General Ordinance, whether at stated maturity or upon call for prior redemption, or if the City, after written notice to it, shall fail or neglect to make any payment owed by it as a result of a Credit Facility or Qualified Swap entered into with respect to Bonds and the provider of the Credit Facility or the Qualified Swap Provider provides written notification to the Fiscal Agent of such failure or neglect, or if the City shall fail to comply with any provision of any Bonds or with any covenant of the City contained in the General Ordinance, then, under and subject to the terms and conditions stated in the Act, the Holder or Holders of any Bond or Bonds shall be entitled to all of the rights and remedies, including the appointment of a trustee, provided in the Act; provided, however, that the remedy provided in Section 20(b)(4) of the Act may be exercised only upon the failure of the City to pay, when due, principal and redemption price (including principal due as a result of a scheduled mandatory redemption) and interest on a Series of Bonds.

Upon the occurrence of the event of default described above, or if an event occurs which could lead to a default with the passage of time and of which the Fiscal Agent has notice, the Fiscal Agent is required to, within 30 days, give written notice thereof by first-class mail to all Bondholders.

Remedies Not Exclusive; Effect of Delay in Exercise of Remedies

No remedy contained in the General Ordinance or in the Act conferred upon or reserved to the trustee, if any, or to the Holder of any Bond is intended to be exclusive (except as specifically provided in the Act) of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall

be in addition to every other remedy given under the General Ordinance or now or hereafter existing at law or in equity or by statute.

No delay or omission of a trustee, if one be appointed pursuant to Section 20 of the Act, or of any Holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default, or an acquiescence therein; and every power and remedy provided with respect to an event of default under the General Ordinance, by the Act or otherwise may be exercised from time to time, and as often as may be deemed expedient.

Remedies to be Enforced Only Against Project Revenues

Any decree or judgment for the payment of money against the City by reason of default under the General Ordinance shall be enforceable only against the Project Revenues and the investments thereof and amounts on deposit in the funds and accounts (other than the Rebate Fund) established under the General Ordinance, and no decree or judgment against the City upon an action brought under the General Ordinance shall order or be construed to permit the occupation, attachment, seizure, or sale upon execution of any other property of the City.

Conveyance of System and Assignment, Assumption and Release

The General Ordinance provides that nothing in the General Ordinance is to prevent the City from conveying and assigning to a municipal authority created pursuant to the Municipality Authorities Act of 1945, as amended, or an authority created pursuant to any other applicable statute or to another entity (the "Authority") all or substantially all (or less than substantially all, as provided below) of its right, title and interest in the System and thereupon becoming released from all of its obligations under the General Ordinance, under any Supplemental Ordinance and under the Bonds and related obligations, including, but not limited to, Credit Facilities, Qualified Swaps and Exchange Agreements, (i) if the Authority assumes in writing the City's obligations (1) to operate or cause the System to be operated and to maintain or cause the System to be maintained in good condition; and (2) to pay the principal, redemption premium, if any, and interest on all Bonds issued, and all payments due under Credit Facilities, Qualified Swaps and Exchange Agreements entered into, pursuant to the General Ordinance and then outstanding according to the terms thereof; and (ii) if the instrument of assumption provides the Bondholders or the trustee or entity serving in a similar capacity and acting on behalf of the Bondholders with the substantial equivalent of all of the rights and remedies provided in the General Ordinance and the Act; provided, however, that before the City may consummate such a conveyance and assignment and obtain a release of its obligations under the General Ordinance, under any Supplemental Ordinance and under the Bonds, certain conditions are required to have been satisfied, including, without limitation, (a) the receipt by the City and the Fiscal Agent of certain opinions of counsel, (b) the granting of a security interest by the Authority to the trustee or entity serving in a similar capacity on behalf of the Bondholders, (c) a report of a Consulting Engineer detailing, among other things, continued compliance with covenants relating to Debt Service Requirements and (d) the conveyance and assignment to the Authority of amounts in the funds and accounts established under the General Ordinance. Upon a conveyance of all or substantially all of the assets of the System to the Authority, the General Ordinance provides that the provisions of the General Ordinance are to cease being enforceable against the City.

Amendments and Modifications

In addition to the enactment of Supplemental Ordinances supplementing or amending the General Ordinance in connection with the issuance of successive Series of Bonds, the General Ordinance and any Supplemental Ordinance may be further supplemented, modified or amended: (a) to cure any ambiguity, formal defect or omission or to make such provisions in regard to matters or questions arising thereunder

which shall not be inconsistent with the provisions of the General Ordinance or the Supplemental Ordinance and which shall not adversely affect the interests of Bondholders; (b) to grant to or confer upon Bondholders, or a trustee, if any, for the benefit of Bondholders any additional rights, remedies, powers, authority, or security that may be lawfully granted or conferred; (c) to incorporate modifications requested by any Rating Agency or Credit Facility provider to obtain or maintain a credit rating on any Series of Bonds; (d) to comply with any mandatory provision of state or federal law or with any permissive provision of such law or regulation which does not substantially impair the security or right to payment of the Bonds; provided however that no amendment or modification discussed in parts (a)-(d) under this paragraph shall be made with respect to any Outstanding Bonds to alter the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or to alter the redemption provisions thereof without the written consent of the Holders of all affected Outstanding Bonds; and (e) except as aforesaid, in such other respect as may be authorized in writing by the Holders of a majority in principal amount or Original Value in the case of Capital Appreciation Bonds of the Bonds Outstanding and affected. In the case of a Credit Facility, Standby Agreement or Qualified Swap, if and to the extent provided in the Supplemental Ordinance and Determination of Bonds related thereto, the provider thereof may be the representative of the Bondholders of such Series or portion of such Series for purposes of Bondholder consent, approval or authorization. The written authorization of Bondholders of any supplement to or modification or amendment of the General Ordinance or any Supplemental Ordinance need not approve the particular form of any proposed supplement, modification or amendment but only the substance thereof. Bonds, the payment for which has been provided for upon the redemption thereof, are to be deemed to be not Outstanding.

Deposit of Funds for Payment of Bonds

When interest on, and principal or redemption price (as the case may be) of, all Bonds issued under the General Ordinance, and all amounts owed under any Credit Facility, Qualified Swap and Exchange Agreement entered into under the General Ordinance, have been paid, or there shall have been deposited with the Fiscal Agent or an entity which would qualify as a Fiscal Agent under the General Ordinance an amount, evidenced by moneys or Qualified Escrow Securities the principal of and interest on which, when due, will provide sufficient moneys to fully pay the Bonds at the maturity date or date fixed for redemption thereof, and all amounts owed under any Credit Facility, Qualified Swap and Exchange Agreement entered into under the General Ordinance, the pledge and grant of a security interest in the Project Revenues made under the General Ordinance shall cease and terminate, and the Fiscal Agent and any other depository of funds and accounts established under the General Ordinance shall turn over to the City or to such person, body or authority as may be entitled to receive the same all balances remaining in any such funds and accounts established under the General Ordinance.

If the City deposits with the Fiscal Agent or such other qualified entity moneys or Qualified Escrow Securities sufficient to pay the principal or redemption price of any particular Bond or Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, interest on the Bond or Bonds shall cease to accrue on the due date and all liability of the City with respect to such Bond or Bonds shall likewise cease, except as provided in the following paragraph. Thereafter such Bond or Bonds shall be deemed not to be outstanding under the General Ordinance and shall have recourse solely and exclusively to the funds so deposited for any claims of whatsoever nature with respect to such Bond or Bonds, and the Fiscal Agent or such other qualified entity shall hold such funds in trust for such Holder or Holders.

Moneys deposited with the Fiscal Agent or such other qualified entity pursuant to the preceding paragraphs which remain unclaimed two years after the date payment thereof becomes due shall, upon written request of the City, if the City is not at the time to the knowledge of the Fiscal Agent or such other qualified entity (the Fiscal Agent having no responsibility to independently investigate), in default with

respect to any covenant in the General Ordinance or the Bonds contained, be paid to the City; and the Holders of the Bonds for which the deposit was made shall thereafter be limited to a claim against the City; provided, however, that before making any such payment to the City, the Fiscal Agent or such other qualified entity shall, at the expense of the City, publish in a newspaper of general circulation published in Philadelphia, Pennsylvania, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of publication of such notice, the balance of such moneys then unclaimed will be paid to the City.

The provisions regarding the deposit of funds for the payment of Bonds stated above are not be construed to limit the procedure set forth in Section 10 of the Act for calculating the principal or redemption price of and interest on any Bonds for the purpose of ascertaining the sufficiency of revenues for the purpose of Sections 7(a)(5) and 8(a)(iii) of the Act and for the purpose of determining the outstanding net debt of the City if General Obligation Bonds of the City are refunded pursuant to the Act.

Maintenance of Tax Exempt Status of Bonds

No deposit of funds for the payment of Bonds shall be made if, in the opinion of Bond Counsel, such action shall cause the interest on any Series of Bonds initially issued as tax exempt Bonds, to become subject to Federal income tax.

Nothing contained in the General Ordinance shall require any Series of Bonds to be structured so that interest on such Bonds will be excluded from income of the Holders thereof for the purpose of calculating Federal income tax; provided that the provisions contained in the General Ordinance are satisfied.

Interested Parties

The General Ordinance provides that nothing in the General Ordinance expressed or implied is intended or is to be construed to confer upon, or to give to, any person or corporation, other than the City, the Owners of the Bonds, the Fiscal Agent, each provider of a Credit Facility, and Qualified Swap, Standby Agreement and Remarketing Agreement, any right, remedy or claim under or by reason of the General Ordinance or any covenants, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in the General Ordinance contained by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Fiscal Agent, the Owners of the Bonds, each provider of a Credit Facility, Qualified Swap, Standby Agreement and Remarketing Agreement.

Ordinances are Contracts With Bondholders

The General Ordinance and Supplemental Ordinances adopted pursuant to the General Ordinance are contracts with the Holders of all Bonds from time to time Outstanding thereunder and are enforceable in accordance with the provisions of the General Ordinance and the laws of Pennsylvania.

Effectiveness

The General Ordinance provides that it is to become effective as to the holders of Bonds only upon consent in writing of the owners of not less than 67% in principal amount of all Bonds outstanding at the time of such consent.

THE EIGHTEENTH SUPPLEMENTAL ORDINANCE

Reference is made below to the Eighteenth Supplemental Ordinance and the General Ordinance, which provide more complete details of the terms of the Series 2024C Bonds. All capitalized and defined terms used in the following summary of the Eighteenth Supplemental Ordinance that are not otherwise defined in this Official Statement are defined as in the Eighteenth Supplemental Ordinance.

Authorization, Scope and Purpose

The Eighteenth Supplemental Ordinance was enacted pursuant to the Act and constitutes a Supplemental Ordinance enacted for the purpose of authorizing one or more Series of Bonds within the meaning of the General Ordinance.

Section 1(a) of the Eighteenth Supplemental Ordinance authorizes the Bond Committee, on behalf of the City, to borrow, by the issuance and sale of one or more series or subseries of Water and Wastewater Revenue Bonds of the City (the “Eighteenth Ordinance New Money Bonds”), to be expended as provided in Section 4(a) of the Eighteenth Supplemental Ordinance, a sum or sums which in the aggregate principal amount shall not exceed \$600,000,000, exclusive of original issue discount; and in the event the Eighteenth Ordinance New Money Bonds are issued with original issue discount, the Bond Committee is authorized to increase the aggregate principal amount of the Eighteenth Ordinance New Money Bonds so issued, by the amount of such original issue discount.

Section 1(b) of the Eighteenth Supplemental Ordinance authorizes the Bond Committee, on behalf of the City, to borrow, by the issuance and sale of one or more series or subseries of Water and Wastewater Revenue Refunding Bonds of the City (the “Eighteenth Ordinance Refunding Bonds,” and, together with the Eighteenth Ordinance New Money Bonds, the “Eighteenth Ordinance Bonds”), to be expended as provided in Section 4(b) of the Eighteenth Supplemental Ordinance, a sum or sums which in the aggregate principal amount shall not exceed the principal amount of Refunding Bonds as provided in Section 4(b) of the Eighteenth Supplemental Ordinance.

The Eighteenth Supplemental Ordinance provides that proceeds of the Eighteenth Ordinance New Money Bonds shall be used for: (a) constructing, acquiring, reconstructing and renovating wastewater treatment plants and related facilities and equipment for the sewer system; (b) constructing, acquiring, reconstructing and renovating water treatment plants and related facilities and equipment for the water system; (c) constructing, acquiring, reconstructing and replacing water, wastewater and stormwater pipes, pumping stations and related facilities; (d) purchasing equipment and apparatus of a capital nature for the water and wastewater systems; (e) constructing, acquiring, reconstructing and renovating stormwater management and mitigation improvements and facilities and other improvements and facilities in furtherance of the City’s Combined Sewer Overflow (CSO) Long Term Control Plan Update (referred to as the Green City, Clean Waters Program) dated September 1, 2009, as permitted under the Act and the General Ordinance; and (f) purchasing vehicles that serve the water and wastewater system, all as included in capital budgets of the City; (g) paying any other Project Costs as such term is defined in the Act; (h) making the deposits referred to in Section 6 of the Eighteenth Supplemental Ordinance; and (i) paying the issuance costs of the Eighteenth Ordinance New Money Bonds.

The Eighteenth Supplemental Ordinance provides that proceeds of the Eighteenth Ordinance Refunding Bonds shall be used to: (a) refund and redeem, at any time, all or any portion of the Eighteenth Ordinance New Money Bonds issued pursuant to the Eighteenth Supplemental Ordinance (the “Eighteenth Ordinance Refunded Bonds”); (b) if applicable, pay the costs of Enhancement Agreements; (c) pay any other Project Costs as such term is defined in the Act; (d) make the deposits referred to in Section 6 of the

Eighteenth Supplemental Ordinance and (e) pay the issuance costs of the Eighteenth Ordinance Refunding Bonds.

In accordance with the General Ordinance, the Bond Committee shall approve the final terms of the Eighteenth Ordinance Bonds in one or more Determinations of the Bond Committee (each a “Determination”) prior to, and as a condition of, the issuance of any series of Eighteenth Ordinance Bonds. Any such Determination shall be deemed a supplement to the Eighteenth Supplemental Ordinance.

The Bond Committee is authorized on behalf of the City to enter into agreements specified in a Determination (the “Enhancement Agreements”) with any bank, insurance company or other appropriate entity providing credit enhancement or payment or liquidity sources (collectively a “Provider”) for the account of the City for any Series of Eighteenth Ordinance Bonds, including, without limitation, letters of credit and bond insurance. Such Enhancement Agreements may provide for payment of the principal or purchase price of or interest on the Eighteenth Ordinance Bonds if the City does not pay the Eighteenth Ordinance Bonds when due and may provide for repayment with interest to the Provider from the date of such payment.

The Eighteenth Supplemental Ordinance authorizes the Bond Committee or the Director of Finance, as appropriate, to make all such covenants and to take any and all such other actions on behalf of the City as may be necessary or appropriate in connection with the consummation of the transactions contemplated in the Eighteenth Supplemental Ordinance.

Terms of the Bonds

The Eighteenth Supplemental Ordinance provides that any Eighteenth Ordinance Bonds shall be sold either at public competitive sale to the highest bidder or bidders or at a private negotiated sale, as the Bond Committee shall determine to be in the best interest of the City. The Eighteenth Ordinance Bonds may be sold in one or more Series or, as authorized by the General Ordinance and as specified by the Determination, in one or more subseries, each of which shall be deemed a Series for purposes of the General Ordinance and shall be designated by letter as a Series of Bonds of the year in which such Series is issued, and may include serial bonds, terms bonds, Capital Appreciation Bonds or derivative financial instruments as specified in the Determination.

The Eighteenth Supplemental Ordinance provides that the Eighteenth Ordinance Bonds issued thereunder (including the Series 2024C Bonds) shall not pledge the credit or taxing power of the City, or create any debt, charge or lien against the tax, general revenues or property of the City other than the revenues pledged by the General Ordinance.

No Series of Refunding Bonds will be issued under the Eighteenth Supplemental Ordinance unless: (1) the final maturity of such Series of Refunding Bonds shall not exceed the final maturity of the Eighteenth Ordinance Refunded Bonds in respect of which such Refunding Bonds are being issued; and (2) Debt Service Requirements in each Fiscal Year for such Series of Refunding Bonds shall not exceed the Debt Service Requirements that would have been payable in such Fiscal Year for the Eighteenth Ordinance Refunded Bonds in respect of which such Series of Refunding Bonds are being issued.

The aggregate principal amount of the Eighteenth Ordinance Refunding Bonds shall not exceed the principal amount necessary to accomplish the refunding of the Eighteenth Ordinance New Money Bonds, if any, as contemplated by, and subject to the financial conditions and other limitations set forth in, the Eighteenth Supplemental Ordinance, and as shall be determined by the Bond Committee and specified in the Determination.

Deposit of Bond Proceeds

As provided in the General Ordinance, accrued interest, if any, on the Eighteenth Ordinance Bonds shall be deposited in the Sinking Fund. Remaining Eighteenth Ordinance Bond proceeds shall be deposited first in the Debt Reserve Account in an amount equal to the Debt Reserve Requirement to the extent that such requirement is not satisfied in whole or in part by available funds of the City or by a surety bond, insurance policy or letter of credit in accordance with the General Ordinance; all other Eighteenth Ordinance Bond proceeds and other moneys currently on deposit under the General Ordinance, including current reserves and construction funds, shall be deposited or transferred as provided in a certificate of the Director of Finance.

Requirements of the Act

Under the Eighteenth Supplemental Ordinance, in accordance with the Act, it is determined that the pledged Project Revenues will be sufficient to: (a) comply with the Rate Covenant and (b) pay all costs, expenses and payments required to be paid from pledged Project Revenues in the order and priority stated in the General Ordinance.

Prior to enactment of the Eighteenth Supplemental Ordinance by City Council, an opinion of the City Solicitor was filed with the City Council pursuant to the Act.

Payments from the Sinking Fund

The City covenants in the Eighteenth Supplemental Ordinance that, so long as any Eighteenth Ordinance Bonds shall remain outstanding, it will make payments or cause payments to be made out of the Sinking Fund established pursuant to the General Ordinance or any of the other Water and Wastewater funds available therefor, at such times and in such amounts as shall be sufficient for the payment of the interest (including the Qualified Swap payments if any) on the Eighteenth Ordinance Bonds and the principal thereof when due.

Tax Covenants

The Eighteenth Supplemental Ordinance authorizes the Director of Finance and any other applicable City officer to make such additional covenants and to take such other action with respect to the use and investment of the proceeds of the Eighteenth Ordinance Bonds as may be necessary or advisable in order that the Eighteenth Ordinance Bonds shall not be “arbitrage bonds” as defined in Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”), that the City will comply with the requirements of Section 148 throughout the term of the Eighteenth Ordinance Bonds as described in the Determination and in order to otherwise effect or maintain the exclusion of interest on Eighteenth Ordinance Bonds from gross income of the holders thereof for federal income tax purposes, and further to establish such sub-accounts within the Sinking Fund and terms or restrictions to permit issuance of the Eighteenth Ordinance Bonds.

Continuing Disclosure

The Eighteenth Supplemental Ordinance authorizes the Director of Finance to execute and deliver a Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”) meeting the requirements of Rule 15c2-12 promulgated under Securities Exchange Act of 1934. The City covenants and agrees that it will comply with and carry out all of the provisions of such Continuing Disclosure Agreement.

THE TWENTY-THIRD SUPPLEMENTAL ORDINANCE

Reference is made below to the Twenty-Third Supplemental Ordinance and the General Ordinance, which provide more complete details of the terms of the Series 2024C Bonds. All capitalized and defined terms used in the following summary of the Twenty-Third Supplemental Ordinance that are not otherwise defined in this Official Statement are defined as in the Twenty-Third Supplemental Ordinance.

Authorization, Scope and Purpose

The Twenty-Third Supplemental Ordinance was enacted pursuant to the Act and constitutes a Supplemental Ordinance enacted for the purpose of authorizing one or more Series of Bonds within the meaning of the General Ordinance.

Section 1(a) of the Twenty-Third Supplemental Ordinance authorizes the Bond Committee, on behalf of the City, to borrow, by the issuance and sale of one or more series or subseries of refunding Bonds of the City to be expended as provided in Section 4(a) of the Twenty-Third Supplemental Ordinance, a sum or sums which in the aggregate principal amount shall not exceed \$1,470,000,000, exclusive of original issue discount; and in the event the aforementioned Refunding Bonds are issued with original issue discount, the Bond Committee is authorized to increase the aggregate principal amount of the Refunding Bonds so issued, by the amount of such original issue discount.

Section 1(b) of the Twenty-Third Supplemental Ordinance authorizes the Bond Committee, on behalf of the City, to borrow, by the issuance and sale of one or more series or subseries of refunding Bonds of the City (collectively with the Refunding Bonds authorized to be issued under Section 1(a) of the Twenty-Third Supplemental Ordinance, the “Twenty-Third Ordinance Refunding Bonds”) to be expended as provided in Section 4(b) of the Twenty-Third Supplemental Ordinance, a sum or sums which in the aggregate principal amount shall not exceed the principal amount as provided in Section 4(b) of the Twenty-Third Supplemental Ordinance.

The Twenty-Third Supplemental Ordinance provides that proceeds of the Twenty-Third Ordinance Refunding Bonds issued pursuant to Section 1(a) thereof shall be used to: (a) refund and redeem, at any time, all or any portion of then-outstanding Bonds that were not issued pursuant to issuing authority granted under the Twenty-Third Supplemental Ordinance; (b) if applicable, pay the costs of Enhancement Agreements relating to such Water and Wastewater Refunding Revenue Bonds; (c) pay any other Project Costs as such term is defined in the Act; (iv) make the deposits referred to in Section 5 of the Twenty-Third Supplemental Ordinance; and (v) pay the issuance costs of the Twenty-Third Ordinance Refunding Bonds (including the Series 2024C Bonds).

The Twenty-Third Supplemental Ordinance provides that proceeds of any Refunding Bonds issued pursuant to Section 1(b) thereof shall be used to: (a) refund and redeem, at any time, all or any portion of the Twenty-Third Ordinance Refunding Bonds issued pursuant to the Twenty-Third Supplemental Ordinance (the “Twenty-Third Ordinance Refunded Bonds”); (b) if applicable, pay the costs of Enhancement Agreements; (c) pay any other Project Costs as such term is defined in the Act; (d) make the deposits referred to in Section 5 of the Twenty-Third Supplemental Ordinance; and (e) pay the issuance costs of such Twenty-Third Ordinance Refunding Bonds (including the Series 2024C Bonds).

In accordance with the General Ordinance, the Bond Committee shall approve the final terms of the Twenty-Third Ordinance Refunding Bonds (including the Series 2024C Bonds) in one or more Determinations of the Bond Committee (each a “Determination”) prior to, and as a condition of, the issuance of any series of Twenty-Third Ordinance Refunding Bonds. Any such Determination shall be deemed a supplement to the Twenty-Third Supplemental Ordinance.

The Bond Committee is authorized on behalf of the City to enter into agreements specified in a Determination (the “Enhancement Agreements”) with any bank, insurance company or other appropriate entity providing credit enhancement or payment or liquidity sources (collectively a “Provider”) for the account of the City for any Series of Twenty-Third Ordinance Refunding Bonds (including the Series 2024C Bonds), including, without limitation, letters of credit and bond insurance. Such Enhancement Agreements may provide for payment of the principal or purchase price of or interest on the Twenty-Third Ordinance Refunding Bonds if the City does not pay the Twenty-Third Ordinance Refunding Bonds when due and may provide for repayment with interest to the Provider from the date of such payment.

The Twenty-Third Supplemental Ordinance authorizes the Bond Committee or the Director of Finance, as appropriate, to make all such covenants and to take any and all such other actions on behalf of the City as may be necessary or appropriate in connection with the consummation of the transactions contemplated in the Twenty-Third Supplemental Ordinance.

Terms of the Bonds

The Twenty-Third Supplemental Ordinance provides that and Twenty-Third Ordinance Refunding Bonds shall be sold either at public competitive sale to the highest bidder or bidders or at a private negotiated sale, as the Bond Committee shall determine to be in the best interest of the City. The Twenty-Third Ordinance Refunding Bonds may be sold in one or more Series or, as authorized by the General Ordinance and as specified by the Determination, in one or more subseries, each of which shall be deemed a Series for purposes of the General Ordinance and shall be designated by letter as a Series of Bonds of the year in which such Series is issued, and may include serial bonds, terms bonds, Capital Appreciation Bonds or derivative financial instruments as specified in the Determination.

The Twenty-Third Supplemental Ordinance provides that the Twenty-Third Ordinance Refunding Bonds issued thereunder (including the Series 2024C Bonds) shall not pledge the credit or taxing power of the City, or create any debt, charge or lien against the tax, general revenues or property of the City other than the revenues pledged by the General Ordinance.

No Series of Refunding Bonds will be issued under the Twenty-Third Supplemental Ordinance unless: (1) the final maturity of such Series of Refunding Bonds shall not exceed the final maturity of the Twenty-Third Ordinance Refunded Bonds in respect of which such Refunding Bonds are being issued; and (2) Debt Service Requirements in each Fiscal Year for such Series of Refunding Bonds shall not exceed the Debt Service Requirements that would have been payable in such Fiscal Year for the Twenty-Third Ordinance Refunded Bonds in respect of which such Series of Refunding Bonds are being issued.

The aggregate principal amount of the Twenty-Third Ordinance Refunding Bonds shall not exceed the principal amount necessary to accomplish the refunding of the Twenty-Third Ordinance Refunding Bonds, if any, as contemplated by, and subject to the financial conditions and other limitations set forth in, the Twenty-Third Supplemental Ordinance, and as shall be determined by the Bond Committee and specified in the Determination.

Deposit of Bond Proceeds

As provided in the General Ordinance, accrued interest, if any, on the Twenty-Third Ordinance Refunding Bonds shall be deposited in the Sinking Fund. Remaining Twenty-Third Ordinance Refunding Bond proceeds shall be deposited first in the Debt Reserve Account in an amount equal to the Debt Reserve Requirement to the extent that such requirement is not satisfied in whole or in part by available funds of the City or by a surety bond, insurance policy or letter of credit in accordance with the General Ordinance; all other Twenty-Third Ordinance Refunding Bond proceeds and other moneys currently on deposit under

the General Ordinance, including current reserves and construction funds, shall be deposited or transferred as provided in a certificate of the Director of Finance.

Requirements of the Act

Under the Twenty-Third Supplemental Ordinance, in accordance with the Act, it is determined that the pledged Project Revenues will be sufficient to: (a) comply with the Rate Covenant and (b) pay all costs, expenses and payments required to be paid from pledged Project Revenues in the order and priority stated in the General Ordinance.

Prior to enactment of the Twenty-Third Supplemental Ordinance by City Council, an opinion of the City Solicitor was filed with the City Council pursuant to the Act.

Payments from the Sinking Fund

The City covenants in the Twenty-Third Supplemental Ordinance that, so long as any Twenty-Third Ordinance Refunding Bonds shall remain outstanding, it will make payments or cause payments to be made out of the Sinking Fund established pursuant to the General Ordinance or any of the other Water and Wastewater funds available therefor, at such times and in such amounts as shall be sufficient for the payment of the interest (including the Qualified Swap payments if any) on the Twenty-Third Ordinance Refunding Bonds and the principal thereof when due.

Tax Covenants

The Twenty-Third Supplemental Ordinance authorizes the Director of Finance and any other applicable City officer to make such additional covenants and to take such other action with respect to the use and investment of the proceeds of the Twenty-Third Ordinance Refunding Bonds as may be necessary or advisable in order that the Twenty-Third Ordinance Refunding Bonds shall not be “arbitrage bonds” as defined in Section 148 of the Code, that the City will comply with the requirements of Section 148 throughout the term of the Twenty-Third Ordinance Refunding Bonds as described in the Determination and in order to otherwise effect or maintain the exclusion of interest on the Twenty-Third Ordinance Refunding Bonds from gross income of the holders thereof for federal income tax purposes, and further to establish such sub-accounts within the Sinking Fund and terms or restrictions to permit issuance of the Twenty-Third Ordinance Refunding Bonds.

Continuing Disclosure

The Twenty-Third Supplemental Ordinance authorizes the Director of Finance to execute and deliver a Continuing Disclosure Agreement meeting the requirements of Rule 15c2-12 promulgated under Securities Exchange Act of 1934. The City covenants and agrees that it will comply with and carry out all of the provisions of such Continuing Disclosure Agreement.

THE TWENTY-SEVENTH SUPPLEMENTAL ORDINANCE

Reference is made below to the Twenty-Seventh Supplemental Ordinance and the General Ordinance, which provide more complete details of the terms of the Series 2024C Bonds. All capitalized and defined terms used in the following summary of the Twenty-Seventh Supplemental Ordinance that are not otherwise defined in this Official Statement are defined as in the Twenty-Seventh Supplemental Ordinance.

Authorization, Scope and Purpose

The Twenty-Seventh Supplemental Ordinance was enacted pursuant to the Act and constitutes a Supplemental Ordinance enacted for the purpose of authorizing one or more Series of Bonds within the meaning of the General Ordinance.

The Twenty-Seventh Supplemental Ordinance authorizes the Bond Committee on behalf of the City to borrow, by the issuance and sale of one or more series or subseries of Bonds of the City (the “Twenty-Seventh Ordinance Bonds”), a sum or sums which in the aggregate principal amount shall not exceed nine hundred forty-five million dollars (\$945,000,000), exclusive of original issue discount; and in the event the Twenty-Seventh Ordinance Bonds are issued with original issue discount, the Bond Committee is authorized to increase the aggregate principal amount of the Twenty-Seventh Ordinance Bonds so issued by the amount of such original issue discount.

Proceeds of the Twenty-Seventh Ordinance Bonds may be expended for the purposes of (i) paying, or reimbursing the City, for costs of (A) constructing, acquiring, reconstructing and renovating wastewater treatment plants and related facilities and equipment for the sewer system; (B) constructing, acquiring, reconstructing and renovating water treatment plants and related facilities and equipment for the water system; (C) constructing, acquiring, reconstructing and replacing water, wastewater and stormwater pipes, pumping stations and related facilities; (D) purchasing equipment and apparatus of a capital nature for the System; (E) constructing, acquiring, reconstructing and renovating storm water management and mitigation improvements and facilities and other improvements and facilities in furtherance of the City’s Combined Sewer Overflow (CSO) Long Term Control Plan Update (referred to as the Green City, Clean Waters Program) dated September 1, 2009, as permitted under the Act and the General Ordinance; and (F) purchasing vehicles that serve the water or wastewater system, all as included in the capital budgets of the City; (ii) paying or defeasing all or any portion of the Obligations issued under or in connection with the City’s Water and Wastewater Revenue Bond Commercial Paper Program established under the Twenty-Fifth Supplemental Ordinance to the General Ordinance; (iii) paying costs of any Enhancement Agreements; (iv) paying any other Project Costs as such term is defined in the Act; (v) making the deposits referred to in Section 6 of the Twenty-Seventh Supplemental Ordinance including, without limitation, the establishment of a debt reserve account or series subaccount within the Sinking Fund and any other fund permitted by the General Ordinance; and (vi) paying the issuance costs of the Twenty-Seventh Ordinance Bonds (including the Series 2024C Bonds).

Proceeds of the Twenty-Seventh Ordinance Bonds may be also be expended for the purposes of (i) refunding and redeeming, from time to time, (A) all or any portion of the New Money Bonds issued under the Twenty-Seventh Supplemental Ordinance and (B) any Refunding Bonds previously issued pursuant to the Twenty-Seventh Supplemental Ordinance (the “Twenty-Seventh Ordinance Refunded Bonds”); (ii) if applicable, paying the costs of Enhancement Agreements; (iii) paying any other Project Costs as such term is defined in the Act; (iv) making the deposits referred to in Section 6 of the Twenty-Seventh Supplemental Ordinance; and (v) paying the issuance costs of the Twenty-Seventh Ordinance Refunding Bonds (including the Series 2024C Bonds).

In accordance with the General Ordinance, the Bond Committee shall approve the final terms of Twenty-Seventh Ordinance Bonds (including the Series 2024C Bonds) issued under the Twenty-Seventh Supplemental Ordinance in one or more Determinations of the Bond Committee (each a “Determination”) prior to, and as a condition of, the issuance of any series of such Twenty-Seventh Ordinance Bonds. Any such Determination shall be deemed a supplement to the Twenty-Seventh Supplemental Ordinance.

The Bond Committee is authorized on behalf of the City to enter into Enhancement Agreements (as specified in a Determination) with any Provider for the account of the City for any Series of Bonds

issued under the Twenty-Seventh Supplemental Ordinance (including the Series 2024C Bonds), including, without limitation, letters of credit, liquidity and credit facilities, and bond insurance. Such Enhancement Agreements may provide for payment of the principal or purchase price of or interest on the Twenty-Seventh Ordinance Bonds if the City does not pay the Twenty-Seventh Ordinance Bonds when due and may provide for repayment with interest to the Provider from the date of such payment.

The Twenty-Seventh Supplemental Ordinance authorizes the Bond Committee or the Director of Finance, as appropriate, to make all such covenants and to take any and all such other actions on behalf of the City as may be necessary or appropriate in connection with the consummation of the transactions contemplated in the Twenty-Seventh Supplemental Ordinance.

Terms of the Bonds

The Twenty-Seventh Supplemental Ordinance provides that Twenty-Seventh Ordinance Bonds issued thereunder (including the Series 2024C Bonds) shall be sold either at public competitive sale to the highest bidder or bidders or at a private negotiated sale, as the Bond Committee shall determine to be in the best interest of the City. Twenty-Seventh Ordinance Bonds may be sold in one or more Series or, as authorized by the General Ordinance and as specified by the Determination, in one or more subseries, each of which shall be deemed a Series for purposes of the General Ordinance and shall be designated by letter as a Series of Bonds of the year in which such Series is issued, and may include serial bonds, terms bonds, Capital Appreciation Bonds or derivative financial instruments as specified in the Determination.

The Twenty-Seventh Supplemental Ordinance provides that the Twenty-Seventh Ordinance Bonds issued thereunder (including the Series 2024C Bonds) shall not pledge the credit or taxing power of the City, or create any debt, charge or lien against the tax, general revenues or property of the City other than the revenues pledged by the General Ordinance.

No Series of Refunding Bonds will be issued under the Twenty-Seventh Supplemental Ordinance unless: (1) the final maturity of such Series of Refunding Bonds shall not exceed the final maturity of the Twenty-Seventh Ordinance Refunded Bonds in respect of which such Refunding Bonds are being issued; and (2) Debt Service Requirements in each Fiscal Year for such Series of Refunding Bonds shall not exceed the Debt Service Requirements that would have been payable in such Fiscal Year for the Twenty-Seventh Ordinance Refunded Bonds in respect of which such Series of Refunding Bonds are being issued.

Deposit of Bond Proceeds

As provided in the General Ordinance, accrued interest, if any, on Bonds issued under the Twenty-Seventh Supplemental Ordinance (including the Series 2024C Bonds) shall be deposited in the Sinking Fund. Remaining proceeds of the Twenty-Seventh Ordinance Bonds shall be deposited first in the Debt Reserve Account in an amount equal to the Debt Reserve Requirement to the extent that such requirement is not satisfied in whole or in part by available funds of the City or by a surety bond, insurance policy or letter of credit in accordance with the General Ordinance; all other proceeds and other moneys currently on deposit under the General Ordinance, including current reserves and construction funds, shall be deposited or transferred as provided in a certificate of the Director of Finance.

Requirements of the Act

Under the Twenty-Seventh Supplemental Ordinance, in accordance with the Act, it is determined that the pledged Project Revenues will be sufficient to: (a) comply with the Rate Covenant and (b) pay all costs, expenses and payments required to be paid from pledged Project Revenues in the order and priority stated in the General Ordinance.

Prior to enactment of the Twenty-Seventh Supplemental Ordinance by City Council, an opinion of the City Solicitor was filed with the City Council pursuant to the Act.

Payments from the Sinking Fund

The City covenants in the Twenty-Seventh Supplemental Ordinance that, so long as any Twenty-Seventh Ordinance Bonds issued thereunder (including the Series 2024C Bonds) shall remain outstanding, it will make payments or cause payments to be made out of the Sinking Fund established pursuant to the General Ordinance or any of the other Water and Wastewater funds available therefor, at such times and in such amounts as shall be sufficient for the payment of the interest (including the Qualified Swap payments if any) on the Twenty-Seventh Ordinance Bonds and the principal thereof when due.

Tax Covenants

The Twenty-Seventh Supplemental Ordinance authorizes the Director of Finance and any other applicable City officer to make such additional covenants and to take such other action with respect to the use and investment of the proceeds of the Bonds issued thereunder (including the Series 2024C Bonds) as may be necessary or advisable in order that the Twenty-Seventh Ordinance Bonds shall not be “arbitrage bonds” as defined in Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”), that the City will comply with the requirements of Section 148 throughout the terms of the Twenty-Seventh Ordinance Bonds as described in the Determination and in order to otherwise effect or maintain the exclusion of interest on the Twenty-Seventh Ordinance Bonds from gross income of the holders thereof for federal income tax purposes, and further to establish such sub-accounts within the Sinking Fund and terms or restrictions to permit issuance of the Twenty-Seventh Ordinance Bonds.

Continuing Disclosure

The Twenty-Seventh Supplemental Ordinance authorizes the Director of Finance to execute and deliver a Continuing Disclosure Agreement meeting the requirements of Rule 15c2-12 promulgated under Securities Exchange Act of 1934. The City covenants and agrees that it will comply with and carry out all of the provisions of such Continuing Disclosure Agreement.

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APPENDIX III

GOVERNMENT AND FINANCIAL INFORMATION OF THE CITY OF PHILADELPHIA

The Bonds are payable solely from Project Revenues and monies deposited in the Water and Wastewater Funds. The Bonds are special obligations of the City and do not pledge the full faith, credit or taxing power of the City, or create any debt or charge against the tax or general revenues of the City, or create any lien or charge against any property of the City other than against the Project Revenues and amounts, if any, at any time on deposit in the water and wastewater funds. This APPENDIX III is included for purposes of providing general financial information regarding the City.

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OVERVIEW

The City of Philadelphia (the “City” or “Philadelphia”), located along the southeastern border of the Commonwealth of Pennsylvania (the “Commonwealth” or “Pennsylvania”), is the largest city in the Commonwealth and the sixth-largest city in the United States. The City is also the center of the United States’ seventh-largest metropolitan statistical area, which is an 11-county area encompassing the City, Camden, NJ, and Wilmington, DE. In 2022, the City’s population was 1.593 million residents, with a slight decrease to 1.55 million residents estimated for 2023 (according to the U.S. Census data).

The City benefits from its strategic geographical location, relative affordability, cultural and recreational amenities, and its growing strength in key industries. The City’s economy is composed of diverse industries, with virtually all classes of industrial and commercial businesses represented. The City is a major regional business and personal services center with strengths in insurance, law, finance, healthcare, higher education, utilities, logistics, and the arts. In addition, the City is a center for health, education, research, and life science facilities with the nation’s largest concentration of healthcare resources within a 100-mile radius.

The cost of living in the City is relatively moderate and affordable compared to other major metropolitan areas in the northeast United States. The City, as one of the country’s education centers, offers its business community a large and diverse labor pool that draws from major universities including, within the geographical boundaries of the City, the University of Pennsylvania, Temple University, Drexel University, St. Joseph’s University, and LaSalle University, among others.

Fiscal Health of the City

The City has implemented several strategies to address significant fiscal challenges for Fiscal Year 2024 and over the course of Fiscal Years 2024-2029, which are described in the Fiscal Year 2024 Adopted Budget, the Thirty-Third Five-Year Plan, the FY 2024 Fourth Quarter QCMR, and the Fiscal Year 2025 Adopted Budget (each as defined herein), as applicable.

The current estimates for Fiscal Year 2024 are sourced to the FY 2024 Fourth Quarter QCMR throughout this APPENDIX III, unless otherwise noted herein.

COVID-19: In response to increased expenses related to the continuing impacts from the novel coronavirus (“COVID-19”) pandemic, various federal, state, and local recovery grants have become available to the City, including recovery grants under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and the American Rescue Plan Act of 2021 (the “American Rescue Plan” or “ARPA”). The CARES Act and the American Rescue Plan include substantial federal relief funds for state and local governments, including the City, to address the impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses. The funds include \$276 million in Coronavirus Relief Funds (via the CARES Act) and \$1.395 billion Coronavirus State and Local Fiscal Recovery Funds (via the American Rescue Plan), which represent the two largest allocations made to the City. The American Rescue Plan funds are fully allocated in the Thirty-Third Five-Year Plan and such funds have been obligated.

Fiscal Impact. The City continues to closely monitor and assess the ongoing effects of the COVID-19 pandemic and its economic, operating, financial, and budgetary impact on the City. The COVID-19 pandemic resulted in significant revenue losses and higher costs for service provision due to changes in work patterns, inflation, and a tight labor market. The federal relief funding from the American Rescue Plan (which as described above, totals \$1.395 billion) was used to replace lost revenue to support core government services and pandemic response efforts. The City gradually spent the federal

relief funding over several years and has made its final draw on these federal funds. While significant, the federal funding from the American Rescue Plan alone was not sufficient to close the budgetary gap projected at the start of COVID-19. Notwithstanding the foregoing, the City projects in the Thirty-Third Five-Year Plan that it will end Fiscal Years 2024-2029 with positive General Fund balances and cumulative balances in the Budget Stabilization Reserve (as defined herein).

The Fiscal Year 2024 Adopted Budget, the Thirty-Third Five-Year Plan, the FY 2024 Fourth Quarter QCMR, and the Fiscal Year 2025 Adopted Budget, as applicable, reflect the ongoing evolution of the pandemic and its impacts on work, consumer, and other social patterns, and the City's associated response. For more information on the Fiscal Year 2024 Adopted Budget, the Thirty-Third Five-Year Plan, the FY 2024 Fourth Quarter QCMR, and the Fiscal Year 2025 Adopted Budget, the City's historical financial operations, and the City's projected General Fund balances for Fiscal Years 2024-2029, see "DISCUSSION OF FINANCIAL OPERATIONS" and Tables 1 and 2 (and the text following Table 2) herein.

Revenues. For Fiscal Year 2024, the City is estimating revenues of \$5.946 billion (based on the FY 2024 Fourth Quarter QCMR), a \$101.4 million (1.7%) decrease compared to Fiscal Year 2023. For Fiscal Year 2024, the City is estimating decreases in tax collections, resulting in projected tax collections of \$4.009 billion (based on the FY 2024 Fourth Quarter QCMR), a \$145.6 million (3.5%) decrease compared to Fiscal Year 2023. Such amounts include the reassignment of Parking Tax revenue from the General Fund to the Transportation Fund (which totaled approximately \$101.9 million in Fiscal Year 2023). For more information on tax revenues, see "– Fiscal Health of the City – Tax Revenues" and "REVENUES OF THE CITY" and Table 3 herein.

Expenses. The City is projecting higher costs for essential services and increased fixed costs, including overtime and other added labor costs and higher pension payments. In Fiscal Years 2020-2023, the City incurred significant new expenses for healthcare to reduce the spread of COVID-19 and treat those affected, including labor costs and expenses for testing sites and supplies, quarantine locations and services, surge hospital capacity, medical vehicles, personal protective equipment, disinfectant/cleaning supplies, morgue capacity, business supports, and vaccination rollout and administration. In addition to then-ongoing pandemic-related expenses, the City incurred additional expenses relating to certain unplanned events in Fiscal Year 2021 that stressed operations and the local economy.

As noted above, the City received \$276 million from the CARES Act and \$1.395 billion from the American Rescue Plan for COVID-19-related costs. The City received in Fiscal Years 2020 and 2021 certain CARES Act funding in the amounts of \$100 million in the General Fund and \$176 million in the Grants Revenue Fund, respectively. Such amounts were available to be transferred periodically from the Grants Revenue Fund to the General Fund to reimburse for COVID-19-related costs. In Fiscal Years 2021-2024, the City drew down on approximately \$26 million, \$250 million, \$335 million, and \$391 million, respectively, in federal COVID-19 relief funding from the American Rescue Plan.

The American Rescue Plan funds are fully allocated in the Thirty-Third Five-Year Plan and the Fiscal Year 2025 Adopted Budget, as applicable. In Fiscal Year 2025, the City has drawn down on approximately \$419 million in federal COVID-19 relief funding from the American Rescue Plan (which represents the last of such relief funding). Such funds have been obligated.

As described above, federal COVID-19 relief funding received by the City from the American Rescue Plan has been included in the Fiscal Year 2024 Adopted Budget, the Thirty-Third Five-Year Plan, and the Fiscal Year 2025 Adopted Budget, as applicable. The City does not include potential federal stimulus funding entitlements or funds from other federal or Commonwealth sources that may be received in its budgetary projections or five-year financial planning.

The Thirty-Third Five-Year Plan specifically highlights two key expense challenges for the City – the exhaustion of the American Rescue Plan funds (as described above) and a balloon payment due on pension obligation bonds in Fiscal Year 2029 (see Table 42 herein). The City has budgeted and planned for both of these fiscal matters.

Budget Measures. In the Fiscal Year 2025 Adopted Budget, budget priorities are centered around investments in six key areas: (i) public safety, (ii) clean and green, (iii) access to economic opportunity, (iv) housing, (v) education, and (vi) core support with a continued focus on the City’s long-term fiscal health.

At the start of Mayor Parker’s administration, a midyear transfer ordinance was enacted to allow the new administration to start spending on the key priority areas outlined above. A few of the largest investments made possible through the transfer ordinance include funds for equipment purchases for the clean and green initiative, vehicle purchases as part of the public safety pillar, PAYGO financing for the planned forensic lab, and additional contributions tied to workforce development as part of the economic opportunity pillar.

The Mayor has also announced an initiative to encourage workers across sectors to return to the office, with the goal of reversing remote work trends. Some large private employers in the City have also announced similar initiatives. The Mayor announced that all City workers were required to return to the office five days per week beginning on July 15, 2024. One of the City’s largest unions filed for an injunction to block this return to the office initiative. The motion on the injunction was denied on July 13, 2024.

The Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan, as applicable, include budgeted reserves for specific costs or scenarios in the future. For information on budgeted reserves, see “– Budgeted Reserves” and “DISCUSSION OF FINANCIAL OPERATIONS,” Table 1, Table 2, and related footnotes herein.

For information on the City’s historical financial operations and the City’s projected General Fund balances for Fiscal Years 2024-2029, see “– General Fund Balance” and “DISCUSSION OF FINANCIAL OPERATIONS” and Tables 1 and 2 (and the text following Table 2) herein.

Long-Term Effects of COVID-19. The City continues to closely monitor and assess the long-term effects of the COVID-19 pandemic and its impact on the City’s financial position and operations. Various economic sectors throughout the City were affected by the COVID-19 pandemic, including higher education, healthcare, commercial real estate, travel, leisure and hospitality, and professional services, among others. Future events may further impact the overall economic conditions in the City.

The information provided by the City in this Official Statement and previous filings by the City on EMMA was provided as of the respective dates and for the periods specified therein and is subject to change without notice. In particular, the dates as of and periods for which information was provided in this Official Statement and previous filings by the City on EMMA may have occurred before the COVID-19 pandemic and before realizing the economic impact of measures instituted to slow the spread of COVID-19. Accordingly, such information may not be indicative of future results or performance due to these and other factors.

General Fund Balance: As set forth in the City’s audited Annual Comprehensive Financial Report for Fiscal Year 2023 (the “Fiscal Year 2023 ACFR”), the City reported that Fiscal Year 2023 ended with a cumulative adjusted year end General Fund balance of \$981.6 million.

The City's current estimate is that Fiscal Year 2024 will end with a cumulative adjusted year-end General Fund balance of \$628.1 million, which at 10.6% of projected revenues exceeds the administration's target for the General Fund balance of at least 6-8% of revenues, but remains below the Government Finance Officers Association ("GFOA") recommendation of 17% of revenues.

In the Fiscal Year 2025 Adopted Budget, the City estimates that Fiscal Year 2025 will end with a cumulative adjusted year-end General Fund balance of \$568.5 million, which at 9.06% of projected revenues exceeds the administration's target for the General Fund balance of at least 6-8% of revenues, but remains below the Government Finance Officers Association ("GFOA") recommendation of 17% of revenues.

The cumulative adjusted year-end General Fund balances described in the preceding two paragraphs do not include amounts deposited in the Budget Stabilization Reserve.

For more information on the City's historical financial operations and the City's projected General Fund balances for Fiscal Years 2024-2029, see "DISCUSSION OF FINANCIAL OPERATIONS" and Tables 1 and 2 (and the text following Table 2) herein.

Budget Stabilization Reserve: To provide the City with a financial cushion should unexpected costs arise, the City made a deposit of \$34.3 million to the Budget Stabilization Reserve, pursuant to the adopted budget for Fiscal Year 2020. Pursuant to the adopted budget for Fiscal Year 2021, the City drew down such funds and redirected them to spending.

There were no payments to the Budget Stabilization Reserve in Fiscal Years 2021 or 2022. In Fiscal Year 2023, \$65.1 million was deposited into the Budget Stabilization Reserve. In Fiscal Year 2024, \$42.3 million was deposited into the Budget Stabilization Reserve. In the Thirty-Third Five-Year Plan, the City projects payments to the Budget Stabilization Reserve in Fiscal Years 2025, 2026, and 2027 in the amounts of \$58.3 million, \$59.7 million, and \$57.8 million, respectively. There can be no assurance that such payments to the Budget Stabilization Reserve will occur. The Thirty-Third Five-Year Plan does not include any projected payments to the Budget Stabilization Reserve in Fiscal Years 2028 and 2029. The Thirty-Third Five-Year Plan does not include any withdrawals from the Budget Stabilization Reserve. For more information on the Budget Stabilization Reserve, see "DISCUSSION OF FINANCIAL OPERATIONS – Budget Stabilization Reserve" herein.

Budgeted Reserves: The Fiscal Year 2024 Adopted Budget, the Thirty-Third Five-Year Plan, and the Fiscal Year 2025 Adopted Budget, as applicable, include budgeted reserves, certain of which are described below.

Labor Reserve. The Fiscal Year 2024 Adopted Budget, the Thirty-Third Five-Year Plan, and the Fiscal Year 2025 Adopted Budget, as applicable, include a labor reserve for potential future labor cost increases (the "Labor Reserve"). For more information on the City's labor contracts, see "EXPENDITURES OF THE CITY – Overview of City Employees" herein.

In the Thirty-Third Five-Year Plan (or with respect to Fiscal Year 2024, the FY 2024 Fourth Quarter QCMR), the City projects that the Labor Reserve will total approximately (i) \$11.2 million in Fiscal Year 2024, (ii) \$43.5 million in Fiscal Year 2025, (iii) \$69.6 million in Fiscal Year 2026, (iv) \$77.6 million in Fiscal Year 2027, (v) \$96.6 million in Fiscal Year 2028, and (vi) \$119.6 million in Fiscal Year 2029.

For the foregoing reserves, any portion of such reserves that is not used to offset the applicable stated costs will increase the General Fund balance at the end of the given Fiscal Year, if not used by the

City for other purposes. Information related to the foregoing reserves can be found in Tables 1 and 2 and the related footnotes in “DISCUSSION OF FINANCIAL OPERATIONS.”

Tax Revenues: Roughly 67% of the City’s revenues come from local taxes and approximately 89% of tax revenues come from just four taxes: Wage and Earnings Taxes, Real Estate Taxes, Business Income and Receipts Taxes (“BIRT”), and Real Property Transfer Taxes, with the largest portion of such tax revenues (approximately 46%) coming from the Wage and Earnings Tax (see Table 3 and “REVENUES OF THE CITY – Wage, Earnings, and Net Profits Taxes” herein). Less than 40% of the Wage and Earnings Tax is paid by non-resident workers.

As the City emerges from the pandemic and remote work arrangements continue for certain workers, the City continues to closely monitor Wage and Earnings Taxes. Of the City’s workforce, commuters account for less than 40% of all Wage and Earnings Taxes. Non-resident workers are not required to pay this tax when their employer requires them to work from home outside the City. If the region experiences long-term or permanent shifts to required work-from-home policies, changes in consumer preferences, and population shifts, there may be a lasting negative impact on City finances. In the Thirty-Third Five-Year Plan, the City assumes a permanent reduction in the non-resident tax base of 25%, as a result of remote work arrangements. This 25% loss has already been sustained and is assumed throughout the Thirty-Third Five-Year Plan. In Fiscal Year 2024, the non-resident portion of the Wage and Earnings Taxes was approximately 14.0% of General Fund total revenue.

In Fiscal Year 2024, Wage and Earnings Tax collections are projected to increase by 6.4% over Fiscal Year 2023. Wage and Earnings Tax collections for Fiscal Years 2022 and 2023, and projections for Fiscal Year 2024, exceed the amounts collected in Fiscal Year 2019 (pre-pandemic).

Additionally, the City remains unique among the nation’s largest cities in that it imposes a tax on both net income and gross receipts, the Business Income and Receipts Tax, which generated approximately 16.2% of the City’s local tax revenue in Fiscal Year 2023 (based on the Fiscal Year 2023 ACFR) and is projected to generate approximately 15.1% of the City’s local tax revenue in Fiscal Year 2024 (based on the FY 2024 Fourth Quarter QCMR). See “REVENUES OF THE CITY” and Table 3 herein.

High Fixed Costs: The City’s high fixed costs consume a significant portion of the City’s budget. The largest of such costs is the City’s payment to the Municipal Pension Fund. In Fiscal Year 2023, the City’s contribution to the Municipal Pension Fund was approximately \$1,165.0 million, of which the General Fund’s share (including the Commonwealth contribution) was \$1,023.4 million. See Table 29. Even with such payments, the Municipal Pension Fund is only 62.2% funded on an actuarial basis (as of the July 1, 2023 Valuation (as defined herein)). See “PENSION SYSTEM” and Table 27 herein.

The School District of Philadelphia: While the School District of Philadelphia (the “School District”) is an independent governmental entity, the City provides direct financial contributions to the School District. In the Fiscal Year 2023 ACFR, the City reported that its direct contribution to the School District from the General Fund was \$270.0 million in Fiscal Year 2023. In the Fiscal Year 2024 Adopted Budget, the City’s direct contribution to the School District from the General Fund is \$282.1 million in Fiscal Year 2024 (which is unchanged as the current estimate in the FY 2024 Fourth Quarter QCMR). In the Fiscal Year 2025 Adopted Budget, the City’s direct contribution to the School District from the General Fund is \$284.1 million in Fiscal Year 2025.

In addition to the direct financial contribution noted above, Real Estate Taxes (as defined herein) are divided into two portions – the City Real Estate Tax and the School District Real Estate Tax.

Presently, the portions are 44% for the City Real Estate Tax and 56% for the School District Real Estate Tax.

For more information on the School District, see “THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Local Government Agencies – Mayoral-Appointed or Nominated Agencies – The School District.” For more information on Real Estate Taxes and the allocation thereof, see “REVENUES OF THE CITY – Real Property Taxes – Assessment and Collection.” For more information on the City’s historical contributions to the School District, see “EXPENDITURES OF THE CITY – City Payments to School District” and Table 21 herein.

Investigation of Overspending by the Office of Homeless Services. In Fiscal Year 2021, the City reduced the Office of Homeless Services (“OHS”) General Fund appropriations. Some of these reductions were offset by federal CARES Act funds and certain other grant funding. Despite the reduced funding, OHS service demands remained high during this period, which included the height of the COVID-19 pandemic and the emergence of several homeless encampments throughout the City.

From Fiscal Years 2021 through 2024, OHS spent and entered into contractual commitments that exceeded its budgeted authority by an estimated \$15 million. Once such overspending was uncovered, the City referred the matter to the Office of the Inspector General (“OIG”) in late 2023.

In April 2024, the OIG released a preliminary report on these OHS budget matters. While the report did not present evidence of criminal wrongdoing or self-enrichment, it illustrated that OHS officials knowingly overspent across multiple fiscal years to meet rising service demand. In particular, OHS (i) encumbered partial amounts on contracts, (ii) paid prior year invoices with current year funds, and (iii) encumbered funds across various fiscal and calendar years, all of which obscured the full picture of contractual costs incurred and contributed to a growing budget gap.

In Fiscal Year 2024, the City addressed the aforementioned overspending by providing OHS with an additional \$9.6 million through a transfer ordinance. OHS expects to address the remaining gap through expenditure reductions.

The OIG’s report included recommendations for additional financial controls and encumbrance oversight to prevent a similar situation from occurring in the future, including (i) strengthening the budget verification process, (ii) imposing stricter encumbrance rules, (iii) collecting and tracking more data from the Finance Payment Verification Unit (part of the Office of the Director of Finance) in order to intervene in a more timely manner should budgetary problems occur, (iv) evaluating the scope of the non-profit exemption and the ability of OHS to contract with non-profit vendors without a competitive process, and (v) restricting the use of local funds and grant funds on a single contract. In connection with (iv), City Council passed a bill to remove the non-profit exemption for OHS and a number of other departments effective in Fiscal Year 2026. The Mayor took no action on the bill and it became law on September 5, 2024.

The City has also engaged an external accounting firm to supplement the OIG’s work with a deeper forensic investigation and the results of this review are pending. The City expects the full investigation to be completed by the end of calendar year 2024.

Additionally, OHS also expects to engage a financial consultant upon receipt of the results of the investigations described above to temporarily increase capacity, implement recommendations, and train OHS staff.

This “OVERVIEW” is intended to highlight the strategies implemented by the City to address its principal anticipated fiscal challenges, and the City continues to monitor the circumstances related

thereto. The reader is cautioned to review with care the more detailed information presented in this APPENDIX III.

THE GOVERNMENT OF THE CITY OF PHILADELPHIA

Introduction

Philadelphia is the largest city in the Commonwealth of Pennsylvania, the sixth-largest city in the United States, and the center of the United States' seventh-largest metropolitan statistical area. The city benefits from its strategic geographical location, relative affordability, cultural and recreational amenities, and its growing strength in key industries.

In particular, as one of the country's education centers, the City offers the business community a large and diverse labor pool. The University of Pennsylvania, Temple University, Drexel University, St. Joseph's University, La Salle University, and Community College of Philadelphia are some of the well-known institutions of higher education located in the City. Within the region, there are also a number of other well-known colleges and universities, notably including Villanova University, Bryn Mawr College, Haverford College, Swarthmore College, Lincoln University, and the Camden Campus of Rutgers University, among others.

Philadelphia is a center for health, education, research, and life science facilities. In the City, there are more than 30 hospitals, including the Children's Hospital of Philadelphia, Hospital of the University of Pennsylvania, Einstein Medical Center-Philadelphia, Temple University Hospital, and Thomas Jefferson University Hospitals and Jefferson Health, among others, and schools of medicine, dentistry, pharmacy, optometry, podiatry, and veterinary medicine.

Additionally, tourism is important to the City and is driven by the City's extraordinary historic and cultural assets. The City's Historic District includes Independence Hall, the Liberty Bell, Carpenters' Hall, the Betsy Ross House, and Elfreth's Alley, the nation's oldest residential street. The Benjamin Franklin Parkway District (referred to as the "Parkway" in APPENDIX IV) includes the Philadelphia Museum of Art, the Barnes Foundation, and the Rodin Museum. The Avenue of the Arts, located along a mile-long section of South Broad Street between City Hall and Washington Avenue, includes the Kimmel Center, the Academy of Music, and other performing arts venues. Philadelphia also hosts all four major sports leagues in a stadium district within city limits.

For more information on the City's demographic and economic resources and economic development initiatives, see APPENDIX IV hereto.

History and Organization

The City was incorporated in 1789 by an Act of the General Assembly of the Commonwealth (the "General Assembly") (predecessors of the City under charters granted by William Penn in his capacity as proprietor of the colony of Pennsylvania may date to as early as 1682). In 1854, the General Assembly, by an act commonly referred to as the Consolidation Act: (i) made the City's boundaries coterminous with the boundaries of Philadelphia County (the same boundaries that exist today) (the "County"); (ii) abolished all governments within these boundaries other than the City and the County; and (iii) consolidated the legislative functions of the City and the County. Article 9, Section 13 of the Pennsylvania Constitution abolished all county offices in the City, provides that the City performs all functions of county government, and states that laws applicable to counties apply to the City.

Since 1952, the City has been governed under a Home Rule Charter authorized by the General Assembly pursuant to the First Class City Home Rule Act, Act of April 21, 1949, P.L. 665, Section 17,

and adopted by the voters of the City (as amended and supplemented, the “City Charter”). The City Charter provides, among other things, for the election, organization, powers and duties of the legislative branch (the “City Council”) and the executive and administrative branch, as well as the basic rules governing the City’s fiscal and budgetary matters, contracts, procurement, property, and records. Under Article XII of the City Charter, the School District operates as a separate and independent home rule school district. Certain other constitutional provisions and Commonwealth statutes continue to govern various aspects of the City’s affairs, notwithstanding the broad grant of powers of local self-government in relation to municipal functions set forth in the First Class City Home Rule Act.

Under the City Charter, there are two distinct principal governmental entities in the City: (i) the City, which performs municipal and county functions; and (ii) the School District, which has boundaries coterminous with the City and responsibility for all public primary and secondary education.

The court system in the City, consisting of Common Pleas and Municipal Courts, is part of the Commonwealth judicial system. Although judges are paid by the Commonwealth, most other court costs are paid by the City, with partial reimbursement from the Commonwealth.

Elected and Appointed Officials

The Mayor is elected for a term of four years and is eligible to be elected for no more than two successive terms. Each of the seventeen members of City Council is also elected for a four-year term, which runs concurrently with that of the Mayor. There is no limitation on the number of terms that may be served by members of City Council. Of the members of City Council, ten are elected from districts and seven are elected at-large. No more than five of the seven at-large candidates for City Council may be nominated by any one party or political body. The District Attorney and the City Controller are elected at the mid-point of the terms of the Mayor and City Council.

In November 2023, the City held elections for Mayor and City Council, as well as a special election for City Controller.

The City Controller is an independently elected office. The City Charter, various City ordinances and state and federal statutes, and contractual arrangements with auditees. The City Controller must follow Generally Accepted Government Auditing Standards, established by the federal Government Accountability Office (formerly known as the General Accounting Office), and Generally Accepted Auditing Standards, promulgated by the American Institute of Certified Public Accountants (collectively, “Generally Accepted Auditing Standards”).

The City Controller audits and reports on the City’s and the School District’s respective Annual Comprehensive Financial Reports (“ACFRs”), federal assistance received by the City, and the performance of City departments. The City Controller also conducts a pre-audit program of City expenditure documents required to be submitted for approval, such as invoices, payment vouchers, purchase orders and contracts. Documents are selected for audit by category and statistical basis. The Pre-Audit Division verifies that expenditures are authorized and accurate in accordance with the City Charter and other pertinent legal and contractual requirements before any funds are paid by the City Treasurer. The Pre-Audit Technical Unit, consisting of auditing and engineering staff, inspects and audits capital project design, construction and related expenditures. Other responsibilities of the City Controller include investigation of allegations of fraud, preparation of economic reports, certification of the City’s debt capacity and the capital nature and useful life of capital projects, and opining to the Pennsylvania Intergovernmental Cooperation Authority (“PICA”) on the reasonableness of the assumptions and estimates in the City’s five-year financial plans.

Under the City Charter, the principal officers of the City's government are the Managing Director of the City (the "Managing Director"), the Director of Finance of the City (the "Director of Finance"), the City Solicitor (the "City Solicitor"), the Director of Planning and Development (the "Director of Planning and Development"), the Director of Commerce (the "Director of Commerce"), the Director of Labor (the "Director of Labor"), the City Representative (the "City Representative"), and the Director of Aviation (the "Director of Aviation"). Under the City Charter, the Mayor appoints each of the foregoing. With respect to the City Solicitor, the Mayor appoints an individual to such position, with the advice and consent of a majority of City Council.

The Managing Director, in coordination with the senior officials of City departments and agencies, is responsible for supervising most of the operating departments and agencies of the City that provide the City's various municipal services. The Director of Commerce is charged with the responsibility of promoting and developing commerce and industry. The City Representative is the Ceremonial Representative of the City and especially of the Mayor. The City Representative is charged with the responsibility of giving wide publicity to any items of interest reflecting the activities of the City and its inhabitants, and for the marketing and promotion of the image of the City. Under the City Charter, the Director of Planning and Development oversees the Department of Planning and Development, which includes three divisions: (i) the Division of Development Services; (ii) the Division of Planning and Zoning; and (iii) the Division of Housing and Community Development. Such divisions represent five budgetary programs/fiscal divisions, including Executive Administration, Planning & Zoning, Development Services, Community Development, and Housing Development.

The City Solicitor is head of the Law Department and acts as legal advisor to the Mayor, City Council, and all of the agencies of the City government. The City Solicitor is also responsible for: (i) advising on legal matters pertaining to all of the City's contracts and bonds; (ii) assisting City Council, the Mayor, and City agencies in the preparation of ordinances for introduction in City Council; and (iii) conducting litigation involving the City.

The Director of Finance is the chief financial and budget officer of the City and is selected from three names submitted to the Mayor by a Finance Panel, which is established pursuant to the City Charter and is comprised of the President of the Philadelphia Clearing House Association, the Chairman of the Philadelphia Chapter of the Pennsylvania Institute of Certified Public Accountants, and the Dean of the Wharton School of Finance and Commerce of the University of Pennsylvania. Under Mayor Parker's administration, the Director of Finance is responsible for the financial functions of the City, including: (i) development of the annual operating budget, the capital budget, and capital program; (ii) the City's program for temporary and long-term borrowing; (iii) supervision of the operating budget's execution; (iv) the collection of revenues through the Department of Revenue; (v) the oversight of pension administration as Chairperson of the Board of Pensions and Retirement; and (vi) the supervision of the Office of Property Assessment. The Director of Finance is also responsible for the appointment and supervision of the City Treasurer, whose office manages the City's debt program and serves as the disbursing agent for the distribution of checks and electronic payments from the City Treasury and the management of cash resources.

The following are brief biographies of Mayor Parker, her Chief of Staff, the Director of Finance, and the City Treasurer.

Cherelle Parker, Mayor. On November 7, 2023, Cherelle L. Parker was elected as the City's 100th Mayor and was sworn into office on January 2, 2024. She is the first woman to lead the City and hold the office in 341 years. Mayor Parker is a lifelong Philadelphia resident and a former public school teacher. Elected to the Pennsylvania House of Representatives in 2005, Mayor Parker represented the 200th legislative district for ten years. In 2015, Mayor Parker was elected to serve as a Democratic

Philadelphia City Councilmember representing the 9th District. She championed key legislation on pension reform, workforce training and small business supports, and affordable housing during her time in City Council. Building on those legislative measures, Mayor Parker’s administration is also focused on a cleaner, greener, safer Philadelphia with access to economic opportunity for all. Mayor Parker holds a Bachelor of Science in English Education from Lincoln University and a Master of Public Administration from the University of Pennsylvania.

Tiffany W. Thurman, Chief of Staff. Tiffany W. Thurman was appointed Chief of Staff effective January 2, 2024. Previously, she served as Senior Vice President for Government and Community Affairs for the Greater Philadelphia YMCA, the Pennsylvania Local Government Lead at Accenture, and Chief of Staff within the Philadelphia Department of Parks and Recreation. She was also previously appointed Executive Director of the Philadelphia Delegation to the House of Representatives. She has a Master of Public Administration from the University of Pennsylvania and a bachelor’s degree from Temple University.

Rob Dubow, Director of Finance. Mr. Dubow has served as Director of Finance since being appointed on January 7, 2008. Prior to that appointment, Mr. Dubow was the Executive Director of PICA. He has also served as Executive Deputy Budget Secretary of the Commonwealth, from 2004 to 2005, and as Budget Director for the City, from 2000 to 2004.

Jacqueline Dunn, City Treasurer. On February 11, 2021, Ms. Dunn was appointed City Treasurer. Prior to such appointment, Ms. Dunn served as Acting City Treasurer beginning September 25, 2020, and prior to that, she served as Deputy City Treasurer beginning July 2019. As City Treasurer, Ms. Dunn (i) oversees the issuance of all notes and bonds on behalf of the City’s General Fund and Enterprise Funds used to finance capital projects, (ii) manages cash collections and cash resources in the City Treasury, and (iii) serves as the disbursing agent for the distribution of checks and electronic payments from the City Treasury. Ms. Dunn also serves as the Director of Finance’s designee on the Philadelphia Board of Pensions and Retirement and as a board member for the Philadelphia Municipal Authority (“PMA”). In 2014, Ms. Dunn joined the City as an Assistant Finance Director in the Finance Department. In 2016, she was appointed Chief of Staff to the Director of Finance. Prior to joining the City, Ms. Dunn worked for Public Financial Management and the Annenberg Public Policy Center. She has a master’s degree in Governmental Administration and a bachelor’s degree in Political Science, both from the University of Pennsylvania.

Government Services

Municipal services provided by the City include: (i) police and fire protection; (ii) health care; (iii) certain welfare programs; (iv) construction and maintenance of local streets, highways, and bridges; (v) trash collection, disposal and recycling; (vi) provision for recreational programs and facilities; (vii) maintenance and operation of the water and wastewater systems (the “Water and Wastewater Systems”); (viii) acquisition and maintenance of City real and personal property, including vehicles; (ix) maintenance of building codes and regulation of licenses and permits; (x) maintenance of records; (xi) collection of taxes and revenues; (xii) purchase of supplies and equipment; (xiii) construction and maintenance of airport facilities (the “Airport System”); and (xiv) maintenance of a prison system. For information on the Water and Wastewater Systems, see APPENDIX IV – “KEY CITY-RELATED SERVICES AND BUSINESSES – Water and Wastewater.” For information on the Airport System, see APPENDIX IV – “TRANSPORTATION – Airport System.”

The City owns the assets that comprise the Philadelphia Gas Works (“PGW” or the “Gas Works”). PGW serves residential, commercial, and industrial customers in the City. PGW is operated by Philadelphia Facilities Management Corporation (“PFMC”), a non-profit corporation specifically

organized to manage and operate PGW for the benefit of the City. For more information on PGW, see “PGW PENSION PLAN,” “PGW OTHER POST-EMPLOYMENT BENEFITS,” “EXPENDITURES OF THE CITY – PGW Annual Payments,” and “LITIGATION – PGW” and APPENDIX IV – “KEY CITY-RELATED SERVICES AND BUSINESSES – Gas Works.”

Local Government Agencies

There are a number of governmental authorities and quasi-governmental non-profit corporations that also provide services within the City. Certain of these entities are comprised of governing boards, the members of which are either appointed or nominated, in whole or part, by the Mayor, while others are independent of the Mayor’s appointment or recommendation.

Mayoral-Appointed or Nominated Agencies

Philadelphia Industrial Development Corporation and Philadelphia Authority for Industrial Development. The Philadelphia Industrial Development Corporation (“PIDC”) and the Philadelphia Authority for Industrial Development (“PAID”), along with the City’s Commerce Department, coordinate the City’s efforts to maintain an attractive business environment, attract new businesses to the City, and retain existing businesses. PIDC manages PAID’s activities through a management agreement. Of the 30 members of the board of PIDC, eight are City officers or officials (the Mayor, the Managing Director, the Finance Director, the Commerce Director, the Director of Planning and Development, the City Solicitor, and two members of City Council), nine members are designated by the President of the Chamber of Commerce of Greater Philadelphia (the “Chamber of Commerce”), and the remaining 13 members are jointly designated by the Chamber of Commerce and the Commerce Director. The five-member board of PAID is appointed by the Mayor.

Philadelphia Municipal Authority. PMA (formerly the Equipment Leasing Authority of Philadelphia) was originally established for the purpose of buying equipment and vehicles to be leased to the City. PMA’s powers have been expanded to include any project authorized under the Municipality Authorities Act that is specifically authorized by ordinance of City Council. PMA is governed by a five-member board appointed by City Council from nominations made by the Mayor.

Philadelphia Energy Authority. The Philadelphia Energy Authority (“PEA”) was established by the City and incorporated in 2011. PEA has all powers necessary or appropriate to carry out and effectuate its energy-related purposes, including, among other things, the powers to acquire, construct, finance, improve, maintain and operate projects. PEA is authorized to participate in projects on behalf of the City, other government agencies, institutions and businesses. PEA is governed by a seven-member board appointed by City Council from five nominations made by the Mayor and two nominations from City Council.

Philadelphia Redevelopment Authority. The Philadelphia Redevelopment Authority (formerly known as the Redevelopment Authority of the City of Philadelphia) (the “PRA”), supported by federal funds through the City’s Community Development Block Grant Fund and by Commonwealth and local funds, is responsible for the redevelopment of the City’s blighted areas. PRA is governed by a five-member board appointed by the Mayor.

In 2019, the PRA combined operations under the Philadelphia Housing Development Corporation to achieve certain administrative and programmatic efficiencies. Other than such efficiencies, PRA remains independent in all other respects.

Philadelphia Land Bank. The Philadelphia Land Bank (the “PLB”) is an independent agency formed under the authority of City ordinance and Pennsylvania law to return vacant and tax delinquent

properties to productive reuse. The PLB has an 11-member board of directors, of which five are appointed by the Mayor and five are appointed by City Council. The final board member is appointed by a majority vote of the other board members.

In 2019, the PLB combined operations under the Philadelphia Housing Development Corporation to achieve certain administrative and programmatic efficiencies. Other than such efficiencies, PLB remains independent in all other respects. For more information on the PLB, see APPENDIX IV – “ECONOMIC DEVELOPMENT STRATEGIES AND IMPLEMENTATION – City and Quasi-City Economic Development Agencies and Related Programs – Philadelphia Land Bank.”

Philadelphia Housing Authority. The Philadelphia Housing Authority (the “PHA”) is a public body organized pursuant to the Housing Authorities Law of the Commonwealth and is neither a department nor an agency of the City. PHA is responsible for developing and managing low and moderate income rental units and limited amounts of for-sale housing in the City. PHA is also responsible for administering rental subsidies to landlords who rent their units to housing tenants qualified by PHA for such housing assistance payments. PHA is governed by a nine-member Board of Commissioners, all of whom are appointed by the Mayor with the approval of a majority of the members of City Council. The terms of the Commissioners are concurrent with the term of the appointing Mayor. Two of the members of the Board are required to be PHA residents. For more information on PHA, see APPENDIX IV – “ECONOMIC DEVELOPMENT STRATEGIES AND IMPLEMENTATION – City and Quasi-City Economic Development Agencies and Related Programs – The Philadelphia Housing Authority.”

Hospitals and Higher Education Facilities Authority of Philadelphia. The Hospitals and Higher Education Facilities Authority of Philadelphia (the “Hospitals Authority”) assists non-profit hospitals by financing hospital construction projects. The City does not own or operate any hospitals. The powers of the Hospitals Authority also permit the financing of construction of buildings and facilities for certain colleges and universities and other health care facilities and nursing homes. The Hospitals Authority is governed by a five-member board appointed by City Council from nominations made by the Mayor.

Southeastern Pennsylvania Transportation Authority. The Southeastern Pennsylvania Transportation Authority (“SEPTA”), which is supported by transit revenues and federal, Commonwealth, and local funds, is responsible for developing and operating a comprehensive and coordinated public transportation system in the southeastern Pennsylvania region. Two of the 15 members of SEPTA’s board are appointed by the Mayor and confirmed by City Council. SEPTA is not a department or agency of the City. For more information on SEPTA, see “EXPENDITURES OF THE CITY – City Payments to Southeastern Pennsylvania Transportation Authority (SEPTA)” and APPENDIX IV – “TRANSPORTATION – Southeastern Pennsylvania Transportation Authority.”

Pennsylvania Convention Center Authority. The Pennsylvania Convention Center Authority (the “Convention Center Authority”) constructed and maintains, manages, and operates the Pennsylvania Convention Center, which opened on June 25, 1993. The Pennsylvania Convention Center is owned by the Commonwealth and leased to the Convention Center Authority. An expansion of the Pennsylvania Convention Center was completed in March 2011. This expansion enlarged the Pennsylvania Convention Center to approximately 2,300,000 square feet with the largest contiguous exhibit space in the Northeast, the largest convention center ballroom on the East Coast, and the ability to host large tradeshow or two major conventions simultaneously.

Of the 15 members of the board of the Convention Center Authority, two are appointed by the Mayor and one by each of the President and Minority Leader of City Council. The Director of Finance is

an ex-officio member of the Board with no voting rights. The Commonwealth, the City, and the Convention Center Authority have entered into an operating agreement with respect to the operation and financing of the Pennsylvania Convention Center. ASM Global manages and operates the Pennsylvania Convention Center. For more information on the Convention Center Authority, see “EXPENDITURES OF THE CITY – City Payments to Convention Center Authority.”

The School District. The School District was established, pursuant to the First Class City Home Rule Education Act, by the Educational Supplement to the City Charter as a separate and independent home rule school district to provide free public education to the City’s residents. Under the City Charter, the School District is governed by the Board of Education of the School District of Philadelphia (the “Board of Education”), which is appointed by the Mayor and approved by City Council.

Under the City Charter, the Board of Education is required to levy taxes annually, within the limits and upon the subjects authorized by the General Assembly or City Council, in amounts sufficient to provide for operating expenses, debt service charges, and for the costs of any other services incidental to the operation of public schools. The School District has no independent power to authorize school taxes. Certain financial information regarding the School District is included in the City’s ACFR.

The School District is part of the Commonwealth system of public education. In a number of matters, including the incurrence of short-term and long-term debt, the School District is governed by the separate statutes of the Commonwealth. The School District is a separate political subdivision of the Commonwealth, and the City has no property interest in or claim on any revenues or property of the School District.

In the Fiscal Year 2023 ACFR, the City reported that its direct contribution to the School District from the General Fund was \$270.0 million in Fiscal Year 2023. In the Fiscal Year 2024 Adopted Budget, the City’s direct contribution to the School District from the General Fund is \$282.1 million in Fiscal Year 2024 (which amount is unchanged as the current estimate in the FY 2024 Fourth Quarter QCMR). In the Fiscal Year 2025 Adopted Budget, the City’s direct contribution to the School District from the General Fund is \$284.1 million in Fiscal Year 2025. Such amounts do not include funding from taxes levied by the School District and authorized by City Council. For more information on the City’s historical contributions to the School District, see “EXPENDITURES OF THE CITY – City Payments to School District” and Table 21.

Non-Mayoral-Appointed or Nominated Agencies

PICA. PICA was created by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the “PICA Act”) in 1991 to provide financial assistance to cities of the first class. The City is the only city of the first class in the Commonwealth. The Governor of Pennsylvania (the “Governor”), the President pro tempore of the Pennsylvania Senate, the Minority Leader of the Pennsylvania Senate, the Speaker of the Pennsylvania House of Representatives, and the Minority Leader of the Pennsylvania House of Representatives each appoints one voting member of PICA’s board. The Secretary of the Budget of the Commonwealth and the Director of Finance of the City serve as ex officio members of PICA’s board with no voting rights.

In January 1992, the City and PICA entered into an Intergovernmental Cooperation Agreement (the “1992 PICA Agreement”), pursuant to which PICA agreed to issue bonds from time to time, at the request of the City, for the purpose of funding, among other things, deficits in the General Fund and a debt service reserve. The authority for PICA to issue bonds to fund deficits of the City has expired. See “DEBT OF THE CITY – PICA Bonds.”

Under the PICA Act, the City is required to submit to PICA: (i) a five-year financial plan on an annual basis; and (ii) quarterly financial reports, each as further described below under “DISCUSSION OF FINANCIAL OPERATIONS – Five-Year Plans of the City” and “– Quarterly Reporting to PICA.”

On July 7, 2022, an amendment to the PICA Act was signed into law by the Governor, which, among other things, (i) extends the term of existence of PICA until the later of January 2, 2047 or one year after all its liabilities are met or, in the case of PICA Bonds, one year after provision for such payment shall have been made or provided for in the applicable bond indenture; (ii) continues all of the financial oversight and reporting requirements of the PICA Act for the life of PICA (regardless of whether PICA Bonds are outstanding); (iii) permits on a limited basis during certain recurring three-year periods on a decennial basis, at the request of the City, the issuance of PICA Bonds for capital projects of the City; and (iv) continues the authorization and dedication of the PICA Tax for so long as PICA remains in existence (regardless of whether any PICA Bonds are outstanding). For more information on PICA Bonds, see “DEBT OF THE CITY – PICA Bonds.” In June 2023, City Council passed, and the Mayor signed, an amendment to the PICA Tax ordinance to extend its duration in response to the continued authorization of the PICA Tax pursuant to the amendments to the PICA Act. In addition, the City and PICA approved and entered into a new intergovernmental cooperation agreement (the “2023 PICA Agreement”) that reflects and implements the PICA Act as amended, and replaces the expired 1992 PICA Agreement.

The PICA Act and the 2023 PICA Agreement provide PICA with certain financial and oversight functions. PICA has the power to exercise certain advisory and review procedures with respect to the City’s financial affairs, including the power to review and approve the five-year financial plans prepared by the City, and to certify non-compliance by the City with the then-existing five-year plan. PICA is also required to certify non-compliance if, among other things, no approved five-year plan is in place or if the City has failed to file mandatory revisions to an approved five-year plan. Under the PICA Act, any such certification of non-compliance would, upon certification by PICA, require the Secretary of the Budget of the Commonwealth to withhold funds due to the City from the Commonwealth or any of its agencies (including, with certain exceptions, all grants, loans, entitlements, and payments payable to the City by the Commonwealth, including payment of the portion of the PICA Tax, as further described under “DEBT OF THE CITY – PICA Bonds” below, otherwise payable to the City). Such withheld funds are held in escrow by the Commonwealth or in the applicable City account until such non-compliance is cured. A majority vote of PICA will determine when the conditions that caused the City to be certified as non-compliant have ceased to exist. Following such vote, PICA notifies the Secretary of the Budget and the withheld funds are released (together with all interest and income earned thereon during the period held in escrow).

Philadelphia Parking Authority. The Philadelphia Parking Authority (the “PPA”) is responsible for: (i) the construction and operation of parking facilities in the City and at Philadelphia International Airport (“PHL”); and (ii) enforcement of on-street parking regulations. The members of the PPA’s board are appointed by the Governor, with certain nominations from the General Assembly. PPA is not a department or agency of the City. For more information on the PPA, see “REVENUES OF THE CITY – Philadelphia Parking Authority Revenues.”

Cybersecurity

The City relies on a complex technology environment to conduct its operations. As a recipient and provider of personal, private, and sensitive information, the City and its departments and offices face multiple cyber threats including, but not limited to, hacking, viruses, malware, and other attacks on computers and other sensitive digital networks and systems. In recent years, various cyber incidents have

occurred that resulted in proactive remediation and quarantining of computer hardware and networks. The City's cyber policies and procedures have reduced the impact of such incidents.

The City's Office of Innovation and Technology works to protect the City from cyber threats by adopting new technology and ensuring City systems and resident data are protected. The Office of Innovation and Technology follows industry best practices, develops City-wide security policies, provides regular security training to all City employee users, and uses security tools to mitigate, prevent, deter, and respond to incidents if and when they occur. Additionally, to identify potential vulnerabilities and proactively mitigate them, the City organizes (i) ongoing vulnerability and compliance scanning of City systems, (ii) annual, and/or as major changes occur, penetration tests of City systems and supporting infrastructure, and (iii) ongoing audit and log monitoring of systems and users. These tests are performed by both the Office of Innovation and Technology, Departments, and third parties.

The Office of Innovation and Technology has worked to establish relationships with federal and state government, and commercial, academic, and law enforcement security experts. It is the City's expectation that such relationships will enable the City to stay informed of threats and continuing improvements to security systems.

While the City closely monitors its networks and conducts periodic tests and reviews thereof, no assurances can be given that such security and operational control measures will be successful in guarding against all future cyber threats and attacks. New technical cyber vulnerabilities are discovered in the United States daily. In addition, cyber-attacks have become more sophisticated and increasingly are capable of impacting municipal control systems and components. The techniques used to obtain unauthorized access to, or to disable or degrade, electronic networks, computers, systems and solutions are rapidly evolving and have become increasingly complex and sophisticated. As cybersecurity threats continue to evolve, the City may be required to expend significant additional resources to continue to modify and strengthen security measures, investigate and remediate any vulnerabilities, or invest in new technology designed to mitigate security risks. The results of any successful attack on the City's computer and information technology systems could impact its operations and damage the City's digital networks and systems, and the costs of remedying any such damage could be substantial.

Climate Change

The City's Office of Sustainability ("OOS") works with partners around the City, both public and private, to educate and prepare the City for climate change, among other things. OOS is responsible for implementing "Growing Stronger: Toward a Climate-Ready Philadelphia," the City's first climate adaptation plan, which identifies climate vulnerability and risk and outlines a variety of initiatives to prepare the City for future climate-related challenges.

Planning for the potential impacts of climate change in the City is challenging. The City's climate is variable and projections of future conditions range significantly depending on the emissions scenarios. However, regardless of emissions scenario, the models agree on the direction of change. Climate change impacts include rising temperatures (heat waves); air quality issues; increased heavy precipitation events (rain or snow); rising sea levels (likely ~1.25 feet by 2050 and between three to-four feet by 2100); and storm surges from more intense hurricanes and tropical storms.

Under the mid-century (2050) and end-of-century (2100) analyses, the City projects that it will experience a greater frequency of heavy and extremely heavy precipitation events, with the largest increase occurring in precipitation that falls during winter months. Heavy precipitation and flooding can be caused by a variety of weather systems, including tropical storms and hurricanes, thunderstorms, and frontal activity. When these heavy precipitation events fall as rain, they can exceed the capacity of the

City's storm sewer infrastructure; when they fall as snow, they require many City resources to manage. Some of these projections are already becoming a reality, as the City has experienced an increase in the intensity and frequency of storm events over the last decade, which has on occasion resulted in significant flooding.

The sea level rising is a particularly important risk for the City, as rising seas affect water levels in the tidal rivers and creeks bordering the City, such as the Delaware and Schuylkill Rivers and the Darby-Cobbs Creek. Higher sea levels will increase the depth and extent of flooding in and around the City from storm surges and will raise groundwater levels. Low-lying areas already experience localized flooding during heavy storm events, and both municipal infrastructure and private development exist along Philadelphia's tidal rivers and creeks. Because of the City's topography and its location next to tidal rivers, many City facilities and other properties are vulnerable to sea level rise, even under conservative (low) sea level rise scenarios. For example, Philadelphia International Airport (PHL) and at least a dozen other City facilities would be exposed to flooding with two feet of sea level rise, a scenario that is likely to be exceeded this century. At under two feet of sea level rise, only one City facility (Fort Mifflin) is highly vulnerable to permanent inundation (i.e., within the tidal cycle and not considering extreme storms), but at under four feet of sea level rise, 19 facilities are highly vulnerable and another 12 City facilities are moderately vulnerable to permanent inundation. Hundreds of additional facilities (both City and private) are highly vulnerable to both riverine flooding and the combination of sea level rise and storm surge. Many neighborhoods and City-owned assets and infrastructure are also vulnerable to inland flooding (e.g., pluvial, urban or rainfall-driven flooding) which can far away from water bodies and is not included in FEMA's flood maps.

As an example of the City's possible susceptibility to flooding from major storms or rising sea levels, on September 1, 2021, remnants of Hurricane Ida passed through the City and surrounding areas causing heavy rainfall, major flooding, and numerous tornadoes. The Schuylkill River rose to record levels, or near record levels, in various areas and caused flooding and damage throughout parts of the City. It was estimated that the damages from that single event are over \$1.3 billion for Philadelphia alone. The City received federal relief funding and grants, including \$163 million in grant funding from the United States Department of Housing and Urban Development (HUD), and received other aid from the Commonwealth, to offset costs incurred in addressing the damages from the storm.

Financial Impact. While the financial effects of climate change are difficult to quantify, the City has developed some cost estimates related to its future fiscal impact. Climate change will increase both the risk of expensive extreme events and the regular, recurring costs of doing business, along with equally important but less quantifiable costs to quality of life in the City. Proactive planning for climate change can help to reduce many of these costs, both public and private.

Climate change is increasing the intensity of extreme storms, and just one severe hurricane could cause more than \$2 billion in damage across the City. The City expects to see more frequent extreme storms with higher winds and more flooding, due in part to sea level rise combined with heavy rains and tropical cyclones. Depending on severity, each of these storms could cause an estimated \$20 million to \$900 million in damages in the City. In connection with such damages, the City could seek Commonwealth and federal funding to alleviate the burden of any disaster-related costs if any such funding becomes available. No assurances can be given that the City would receive any such requested funding if available.

In addition to increasing disaster costs, higher heat and more precipitation will increase the everyday cost of doing business for the City's government, businesses, and residents. Increased operating costs from climate change across all sectors would result in a significant economic impact in the City.

Much of these costs will be borne by City departments in combination with the Commonwealth and federal government; others will fall directly on the private sector.

As the effects of climate change take shape in the City, annual costs related thereto are expected to include a variety of increases ranging from energy and maintenance costs to the increasing costs of continuing to provide services to protective measures like a levee for flood mitigation. For example, the City expects climate change to (i) increase annual electricity costs due to increased demand for air conditioning; (ii) create additional roadway maintenance costs from precipitation, freeze-thaw cycles, and high temperatures; and (iii) increase the annual cost of running heat emergency helplines to advise callers about how to avoid heat stress and refer those in need of help to emergency services.

The City also expects to face a variety of other increased costs due to climate change, such as (i) costs associated with a variety of respiratory diseases caused by higher levels of ozone (with costs for medical treatment and lost productivity associated with these diseases approaching \$20 million by 2050), and (ii) increased regional transportation expenses (increased operational costs and damages from climate change could rise by almost \$2 million per year).

In 2016, OOS, along with a cross-departmental Climate Adaptation Working Group, issued *Growing Stronger: Toward a Climate-Ready Philadelphia* to (i) assess vulnerabilities and preparation opportunities for municipal government; (ii) identify low-barrier and high-impact internal actions that can be taken to reduce risks and decrease stressors on City infrastructure services; and (iii) guide proactive projects with benefits beyond municipal operations. The Office of Sustainability is actively working on an update to the City's Climate Resilience Plan and is developing climate services and tools to empower city staff to plan for the changes we face. The City expects to engage in an equitable citywide public process to support the plan, with the completion of the plan slated for summer 2026. Additionally, the City's All-Hazard Mitigation Plan update and the Comprehensive Plan update are both underway and will heavily feature climate change.

In addition to participating in planning efforts, City departments are taking action and implementing projects that aim to increase resilience on a broad array of climate issues. The Department of Public Property ensures that emergency generators in City-maintained facilities are well maintained and fueled, which is intended to allow other City departments to continue providing services during emergency situations. During heat emergencies, the Department of Public Health and the Office of Emergency Management ensures communication among City agencies and deploys environmental health teams into the community and operates cooling centers in coordination with the Philadelphia Free Library and Philadelphia Parks and Recreation. Philadelphia Parks and Recreation also developed and implements the Philly Tree Plan and works with citizen scientists to identify forest restoration practices suitable for the City's changing climate. The Philadelphia Water Department has an award-winning Climate Change Adaptation Program and adopted Climate-Resilient Planning and Design Guidance in 2022. Regarding broader development across the City, the Philadelphia City Planning Commission (the "Planning Commission") requires new facilities located in flood zones to be raised 18 inches above the Federal Emergency Management Agency base flood elevation, and the Philadelphia Water Department (the "Water Department") promotes green storm water infrastructure as a measure to reduce combined sewer overflows which also has a co-benefit of shaving the peak from extreme precipitation events and potentially helping with localized inland flooding.

CITY FINANCES AND FINANCIAL PROCEDURES

Except as otherwise noted, the financial statements, tables, statistics, and other information shown below have been prepared by the Office of the Director of Finance and can be reconciled to the financial statements in the Fiscal Year 2023 ACFR and notes therein. The Fiscal Year 2023 ACFR was prepared by the Office of the Director of Finance in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units and audited by the City Controller under Generally Accepted Auditing Standards.

General

Governmental funds account for their activities using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as in the case of full accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due; however, those expenditures may be accrued if they are to be liquidated with available resources.

Imposed non-exchange revenues, such as Real Estate Tax, are recognized when the enforceable legal claim arises and the resources are available. Derived tax revenues, such as Wage, BIRT, Net Profits and Earnings taxes, are recognized when the underlying exchange transaction has occurred and the resources are available. Grant revenues are recognized when all the applicable eligibility requirements have been met and the resources are available. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue that is considered to be program revenue includes: (i) charges to customers or applicants for goods received, services rendered or privileges provided; (ii) operating grants and contributions; and (iii) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program specific revenues; therefore, all taxes are considered general revenues.

The City's financial statements reflect the following three funds as major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.
- The Health Choices Behavioral Health Fund accounts for resources received from the Commonwealth. These resources are restricted to providing managed behavioral health care to residents of the City.
- The Grants Revenue Fund accounts for the resources received from various federal, Commonwealth, and private grantor agencies, including those received by the City's Department of Human Services ("DHS"). The resources are restricted to accomplishing the various objectives of the grantor agencies.

The City also reports on permanent funds, which are used to account for resources legally held in trust for use by the park and library systems of the City. There are legal restrictions on the resources of the permanent funds that require the principal to remain intact, while only the earnings may be used for the programs.

The City reports on the following fiduciary funds:

- The Municipal Pension Fund accumulates resources to provide pension benefit payments to qualified employees of the City and certain other quasi-governmental organizations.
- The PGW Retirement Reserve Fund accounts for contributions made by PGW to provide pension benefit payments to its qualified employees under its pension plan. For more information on the PGW Pension Plan (as defined herein), see “PGW PENSION PLAN.”
- The Departmental Custodial Accounts account for funds held in custody by various departments of the City.

The City reports on the following major proprietary funds:

- The Water Fund accounts for the activities related to the operation of the Water and Wastewater Systems.
- The Aviation Fund accounts for the activities of the Airport System.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s ongoing operations. The principal operating revenues of the Water Fund are charges for water and sewer service. The principal operating revenues of the Aviation Fund are charges for the use of the City’s airports, PHL and Northeast Philadelphia Airport. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Current City Disclosure Practices

It is the City’s practice to file its ACFR, which contains the audited combined financial statements of the City, in addition to certain other information, such as the City’s bond ratings and information about upcoming debt issuances, with the Municipal Securities Rulemaking Board (“MSRB”) as soon as practicable after delivery of such information. For bonds issued in calendar year 2015 and thereafter, the annual filing deadline is February 28; for bonds issued prior to calendar year 2015, the annual filing deadline is 240 days after the end of the respective Fiscal Year, being February 25. The Fiscal Year 2023 ACFR was filed with the MSRB on February 25, 2024, through the MSRB’s Electronic Municipal Market Access (“EMMA”) system.

A wide variety of information concerning the City is available from publications and websites of the City and others, including the City’s investor information website at <http://www.phila.gov/investor> (the “City’s Investor Website”). Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement.

Independent Audit and Opinion of the City Controller

The City Controller has examined and expressed opinions on the basic financial statements of the City contained in the Fiscal Year 2023 ACFR. The City Controller has not participated in the preparation of this Official Statement nor in the preparation of the budget estimates and projections and cash flow statements and forecasts set forth in various tables contained in this Official Statement. Consequently, the City Controller expresses no opinion with respect to any of the data contained in this Official Statement other than what is contained in the basic financial statements of the City in the Fiscal Year 2023 ACFR.

Budgetary Accounting Practices

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles ("GAAP"). In accordance with the City Charter, the City has formally established budgetary accounting control for its operating and capital improvement funds.

The operating funds of the City, consisting of the General Fund, twelve (12) Special Revenue Funds (County Liquid Fuels Tax, Special Gasoline Tax, Health Choices Behavioral Health, Hotel Room Rental Tax, Grants Revenue, Community Development, Car Rental Tax, Acute Care Hospital Assessment, Budget Stabilization Reserve, Housing Trust, Demolition, and Transportation) and two Enterprise Funds (Water and Aviation Funds), are subject to annual operating budgets adopted by City Council. These budgets appropriate funds for all City departments, boards and commissions by major class of expenditure within each department. Major classes are defined as: (i) personal services; (ii) purchase of services; (iii) materials and supplies; (iv) equipment; (v) contributions, indemnities, and taxes; (vi) debt service; (vii) payments to other funds; and (viii) advances and other miscellaneous payments. The appropriation amounts for each fund are supported by revenue estimates and take into account the elimination of accumulated deficits and the re-appropriation of accumulated surpluses to the extent necessary. All transfers between major classes (except for materials and supplies and equipment, which are appropriated together) must have City Council approval. Appropriations that are not expended or encumbered at Fiscal Year-end are lapsed.

The City's capital budget is adopted annually by City Council. The capital budget is appropriated by project for each department. Requests to transfer appropriations between projects must be approved by City Council. Any appropriations that are not obligated at year-end are either lapsed or carried forward to the next Fiscal Year.

Schedules prepared on the legally enacted basis differ from the GAAP basis in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures. The primary difference between the GAAP and legal (budgetary) fund balance is due to the timing of recognizing the BIRT. The legal basis recognizes BIRT revenues in the Fiscal Year they are collected. The GAAP basis requires the City to recognize the BIRT revenues (which are primarily paid in April) for the calendar year in which the BIRT taxes are due, requiring the City to defer a portion of the April payment into the next Fiscal Year. For more information on BIRT, see "REVENUES OF THE CITY – Business Income and Receipts Tax."

DISCUSSION OF FINANCIAL OPERATIONS

Principal Operations

The major financial operations of the City are conducted through the General Fund. In addition to the General Fund, operations of the City are conducted through two other major governmental funds and 19 non-major governmental funds. The City operates on a July 1 to June 30 fiscal year (“Fiscal Year”) and reports on all the funds of the City, as well as its component units, in the City’s ACFR. PMA’s and PICA’s financial statements are blended with the City’s statements. The financial statements for PGW, PRA, the PPA, the School District, the Community College of Philadelphia, the Community Behavioral Health, Inc., PHA, and PAID are presented discretely.

Fund Accounting

Funds are groupings of activities that enable the City to maintain control over resources that have been segregated for specific purposes or objectives. All funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. The governmental funds are used to account for the financial activity of the City’s basic services, such as: general government; economic and neighborhood development; public health, welfare and safety; cultural and recreational; and streets, highways and sanitation. The funds’ financial activities focus on a short-term view of the inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the Fiscal Year. The financial information presented for the governmental funds is useful in evaluating the City’s short-term financing requirements.

The City maintains 23 individual governmental funds. The City’s ACFRs, including the Fiscal Year 2023 ACFR, present data separately for the General Fund, Grants Revenue Fund, and Health Choices Behavioral Health Fund, which are considered to be major funds. Data for the remaining 20 funds are combined into a single aggregated presentation.

Proprietary Funds. The proprietary funds are used to account for the financial activity of the City’s operations for which customers are charged a user fee; they provide both a long- and short-term view of financial information. The City maintains three enterprise funds that are a type of proprietary fund – airport, water and wastewater operations, and industrial land bank.

Fiduciary Funds. The City is the trustee, or fiduciary, for its employees’ pension plans. It is also responsible for PGW’s employees’ retirement reserve assets. Both of these fiduciary activities are reported in the City’s ACFRs, including the Fiscal Year 2023 ACFR, as separate financial statements of fiduciary net assets and changes in fiduciary net assets.

See “CITY FINANCES AND FINANCIAL PROCEDURES” for a further description of these governmental, proprietary, and fiduciary funds.

Budget Procedure

The City Charter provides that, at least 90 days before the end of the Fiscal Year, the operating budget for the next Fiscal Year is prepared by the Mayor and submitted to City Council for adoption. The budget, as adopted, must be balanced and provide for discharging any estimated deficit from the current Fiscal Year and make appropriations for all items to be funded with City revenues. The Mayor’s budgetary estimates of revenues for the ensuing Fiscal Year and projection of surplus or deficit for the current Fiscal Year may not be altered by City Council. Not later than the passage of the operating

budget ordinance, City Council must enact such revenue measures as will, in the opinion of the Mayor, yield sufficient revenues to balance the budget. While the City Charter requires the Mayor to submit the operating budget for the next Fiscal Year to City Council at least 90 days before the end of the Fiscal Year, such submissions have occasionally been submitted after such deadline. There is no practical consequence to submitting the proposed budget after the 90-day deadline in the City Charter.

The City Charter provides that, at least 30 days before the end of the Fiscal Year, City Council must adopt by ordinance an operating budget and a capital budget for the ensuing Fiscal Year and a capital program for the six ensuing Fiscal Years. If the Mayor disapproves the bills, they must be returned to City Council with the reasons for disapproval at the first meeting thereof held not less than ten days after receipt of such bills. If the Mayor does not return the bills within the time required, they become law without the Mayor's approval. If City Council passes the bills by a vote of two-thirds of all of its members within seven days after the bills have been returned with the Mayor's disapproval, they become law without the Mayor's approval. While the City Charter requires that City Council adopt the ordinances for the operating and capital budgets at least 30 days before the end of the Fiscal Year, in practice, such ordinances are often adopted after such deadline, but before the end of such Fiscal Year. For example, the proposed Fiscal Year 2025 operating budget was submitted by the Mayor to City Council on March 14, 2024, approved by City Council on June 13, 2024, and signed by the Mayor on June 14, 2024. There is no practical consequence to adopting the budget ordinances after the deadline in the City Charter, but before the end of the Fiscal Year.

The capital program is prepared annually by the Planning Commission to present the capital expenditures planned for each of the six ensuing Fiscal Years, including the estimated total cost of each project and the sources of funding (local, state, federal, and private) estimated to be required to finance each project. The capital improvement plans for the Water Department and the Department of Aviation are included in the City's capital program. The capital program is reviewed by the Mayor and transmitted to City Council for adoption with the Mayor's recommendation thereon. The Capital Program ordinance for Fiscal Years 2025-2030 (the "Fiscal Year 2025-2030 Adopted Capital Program") was approved by City Council on June 13, 2024 and signed by the Mayor on June 14, 2024 (see Table 48).

The capital budget ordinance, authorizing in detail the capital expenditures to be made or incurred in the ensuing Fiscal Year from City Council appropriated funds, is adopted by City Council concurrently with the capital program. The capital budget must be in full conformity with that part of the capital program applicable to the Fiscal Year that it covers.

For more information on the City's budgets and five-year plans, see "– Current Financial Information" and the text following Table 2. For more information on the City's capital program, see "CITY CAPITAL PROGRAM" herein.

Budget Stabilization Reserve

In April 2011, the City adopted an amendment to the City Charter that established the "Budget Stabilization Reserve." Under the City Charter, if the projected General Fund balance for the upcoming Fiscal Year equals or exceeds three percent of General Fund appropriations for such Fiscal Year, the annual operating budget ordinance is required to provide for appropriations to a Budget Stabilization Reserve. Such reserve is to be created and maintained by the Director of Finance as a separate fund, which may not be commingled with any other funds of the City. City Council can appropriate additional amounts to the Budget Stabilization Reserve by ordinance, no later than at the time of passage of the annual operating budget ordinance and only upon recommendation of the Mayor. Total appropriations to the Budget Stabilization Reserve are currently subject to a limit of five percent (5.0%) of General Fund

appropriations. Amounts in the Budget Stabilization Reserve from the prior Fiscal Years, including any investment earnings certified by the Director of Finance, are to remain on deposit therein.

In February 2023, City Council passed a resolution to amend the City Charter to require larger contributions to the Budget Stabilization Reserve in years where the projected General Fund revenues at the end of the current Fiscal Year equal or exceed certain percentages. The amendment also increases the maximum contribution to the Budget Stabilization Reserve from 5.0% to 17.0%. The proposal was part of a ballot measure that was approved by City voters in May 2023. Under the amendment, the schedule of contributions to the Budget Stabilization Reserve is as follows: (i) less than 3.0% of projected General Fund revenues at the end of the then current Fiscal Year – no required contribution; (ii) 3.0% or more, but less than 5.0% of projected General Fund revenues at the end of the then current Fiscal Year – a contribution of 0.75% of projected unrestricted General Fund revenues for the upcoming Fiscal Year; (iii) 5.0% or more, but less than 8.0% of projected General Fund revenues at the end of the then current Fiscal Year – a contribution of 1.0% of projected unrestricted General Fund revenues for the upcoming Fiscal Year; and (iv) 8.0% or more, but less than 17.0% of projected General Fund revenues at the end of the then current Fiscal Year – the amount that exceeds such 8.0% or 1.0% of projected unrestricted General Fund revenues for the upcoming Fiscal Year, whichever is greater. After 17%, any extra funds in the General Fund are to remain there as unrestricted fund balance. Such amended provisions become effective for Fiscal Year 2025 and are reflected in the projections included in the Thirty-Third Five-Year Plan.

Withdrawals from the Budget Stabilization Reserve are permitted only upon (i) approval by ordinance of a transfer of appropriations from the Budget Stabilization Reserve and only for the purposes set forth in such transfer ordinance and (ii) either (1) a certification by the Director of Finance that General Fund revenues actually received by the City during the prior Fiscal Year were at least one percent less than the General Fund revenues set forth in the Mayor's estimate of receipts, or (2) a certification by the Director of Finance that such withdrawal is necessary to avoid either a material disruption in City services or to fund emergency programs necessary to protect the health, safety or welfare of City residents, and that it would be fiscally imprudent to seek emergency appropriations pursuant to the City Charter. Any such certification must be approved either by a resolution adopted by two-thirds of all of the members of City Council or an agency of the Commonwealth with responsibility for ensuring the fiscal stability of the City.

Pursuant to the adopted budget for Fiscal Year 2020, the City made a deposit of \$34.3 million to the Budget Stabilization Reserve, which was the first ever deposit to such reserve. Pursuant to the adopted budget for Fiscal Year 2021, the City drew down on such funds and redirected them to spending. There were no payments to the Budget Stabilization Reserve in Fiscal Years 2021 or 2022. In Fiscal Year 2023, \$65.1 million was deposited into the Budget Stabilization Reserve. In Fiscal Year 2024, \$42.3 million was deposited into the Budget Stabilization Reserve. In the Thirty-Third Five-Year Plan, the City projects payments to the Budget Stabilization Reserve in Fiscal Years 2025, 2026, and 2027 in the amounts of \$58.3 million, \$59.7 million, and \$57.8 million, respectively. There can be no assurance that such payments to the Budget Stabilization Reserve will occur. The Thirty-Third Five-Year Plan does not include any projected payments to the Budget Stabilization Reserve in Fiscal Years 2028 and 2029. The Thirty-Third Five-Year Plan does not include any withdrawals from the Budget Stabilization Reserve. The foregoing projections reflect the approval of the ballot measure amending the Budget Stabilization Reserve as described above.

Annual Financial Reports

The City is required by the City Charter to issue, within 120 days after the close of each Fiscal Year, a statement as of the end of the Fiscal Year showing the balances in all funds of the City, the amounts of the City's known liabilities, and such other information as is necessary to furnish a true picture of the City's financial condition (the "Annual Financial Reports"). The Annual Financial Reports, which are released on or about October 28 of each year, are intended to meet these requirements and are unaudited. As described above, the audited financial statements of the City are contained in its ACFR, which is published at a later date. The Annual Financial Reports contain financial statements for all City governmental funds and blended component units presented on the modified accrual basis. The proprietary and fiduciary funds are presented on the full accrual basis. They also contain budgetary comparison schedules for those funds that are subject to an annual budget. The financial statements of the City's discretely presented component units that are available as of the date of the Annual Financial Reports are also presented. Historically, the results for General Fund balance have not materially changed between the Annual Financial Reports and the ACFRs.

On October 28, 2024, the City released its Annual Financial Report, which includes unaudited financial results for Fiscal Year 2024 (the "FY 2024 AFR (Unaudited)"). The FY 2024 AFR (Unaudited) was filed with the MSRB on October 29, 2024, through the EMMA system, and is also available on the City's investor information website. See "CITY FINANCES AND FINANCIAL PROCEDURES – Current City Disclosure Practices."

Five-Year Plans of the City

The PICA Act requires the City to annually prepare a financial plan that includes projected revenues and expenditures of the principal operating funds of the City for five Fiscal Years consisting of the current Fiscal Year and the subsequent four Fiscal Years. Each five-year plan, which must be approved by PICA, is required, among other things, to eliminate any projected deficits, balance the Fiscal Year budgets, and provide procedures to avoid fiscal emergencies. Under the PICA Act, each five-year plan is required to be submitted at least 100 days prior to the beginning of the next Fiscal Year or on such other date as PICA may approve upon the request of the City. It is the City's practice to submit its five-year plans to PICA after City Council approves, and the Mayor signs, the operating budget ordinance for the next Fiscal Year, which is typically after the 100-day deadline. For example, the Thirty-Third Five-Year Plan was submitted to PICA on June 25, 2024, after City Council approved, and the Mayor signed, the Fiscal Year 2025 Adopted Budget. PICA approved the Thirty-Third Five-Year Plan at a meeting on July 25, 2024. See "– Current Financial Information" and the text following Table 2.

Quarterly Reporting to PICA

The PICA Act requires the City to prepare and submit quarterly reports to PICA so that PICA may determine whether the City is in compliance with the then-current five-year plan. Each quarterly report is required to describe actual or current estimates of revenues, expenditures, and cash flows compared to budgeted revenues, expenditures, and cash flows by covered funds for each month in the previous quarter and for the year-to-date period from the beginning of the then-current Fiscal Year of the City to the last day of the fiscal quarter or month, as the case may be, just ended. Each such report is required to explain any variance existing as of such last day.

Under the 2023 PICA Agreement, a "variance" is deemed to have occurred as of the end of a reporting period if (i) a net adverse change in the fund balance of a covered fund (i.e., a principal operating fund) of more than 5% of the revenues budgeted for such fund for that Fiscal Year is reasonably projected to occur, such projection to be calculated from the beginning of the Fiscal Year for the entire

Fiscal Year, or (ii) the actual net cash flows of the City for a covered fund are reasonably projected to be less than 95% of the net cash flows of the City for such covered fund for that Fiscal Year originally forecast at the time of adoption of the budget, such projection to be calculated from the beginning of the Fiscal Year for the entire Fiscal Year.

PICA may not take any action with respect to the City for variances if the City: (i) provides a written explanation of the variance that PICA deems reasonable; (ii) proposes remedial action that PICA believes will restore overall compliance with the then-current five-year plan; (iii) provides information in the immediately succeeding quarterly financial report demonstrating to the reasonable satisfaction of PICA that the City is taking remedial action and otherwise complying with the then-current five-year plan; and (iv) submits monthly supplemental reports until it regains compliance with the then-current five-year plan.

A failure by the City to explain or remedy a variance would, upon certification by PICA, require the Secretary of the Budget of the Commonwealth to withhold funds due to the City from the Commonwealth or any of its agencies (including, with certain exceptions, all grants, loans, entitlements and payments payable to the City by the Commonwealth, including payment of the portion of the PICA Tax, as further described under “DEBT OF THE CITY – PICA Bonds” below, otherwise payable to the City). The City uses its Quarterly City Manager’s Reports to satisfy the quarterly reporting requirement to PICA. Such reports are released within 45 days following the end of the applicable quarter and the most recent versions of such reports are available on the City’s Investor Website. The most recent Quarterly City Manager’s Report is the report for the period ending June 30, 2024, which was released on August 15, 2024 (the “FY 2024 Fourth Quarter QCMR”). The next Quarterly City Manager’s Report is the report for the period ending September 30, 2024, and it is expected to be released on or about November 15, 2024.

Summary of Operations

The following table presents the summary of operations for the General Fund for Fiscal Years 2021-2023, budgeted amounts and current estimates for Fiscal Year 2024, and budgeted amounts Fiscal Year 2025. For a description of the legally enacted basis on which the City’s budgetary process accounts for certain transactions, see “CITY FINANCES AND FINANCIAL PROCEDURES – Budgetary Accounting Practices.” “Current Estimate,” as used in the tables and text below, refers (except as otherwise indicated) to the most recently revised estimates for Fiscal Year 2024, which were released by the City on August 15, 2024, as part of the FY 2024 Fourth Quarter QCMR, unless otherwise noted herein.

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Table 1
General Fund – Summary of Operations (Legal Basis)
Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)
(Amounts in Millions of USD)^{(1), (2)}

	Actual 2021	Actual 2022	Actual 2023	Adopted Budget 2024 (June 23, 2023)	Current Estimate 2024 (August 15, 2024)	Adopted Budget 2025 (June 14, 2024)
Revenues						
Real Property Taxes	\$723.3	\$700.6	\$809.6	\$845.9	\$825.7	\$925.0
Wage and Earnings Tax	1,450.7	1,653.9	1,732.8	1,767.1	1,844.3	1,930.6
Net Profits Tax	44.4	27.3	39.0	47.0	43.8	45.2
Business Income and Receipts Tax	541.6	749.9	673.3	669.7	606.7	616.7
Sales Tax ⁽³⁾	230.4	277.7	302.2	307.1	300.5	316.9
Other Taxes ⁽⁴⁾	363.3	654.6	524.0	430.9	317.5	355.0
Philadelphia Beverage Tax ⁽⁵⁾	70.2	75.4	73.4	73.5	70.3	71.2
Total Taxes	3,423.9	4,139.4	4,154.3	4,141.2	4,008.7	4,260.5
Locally Generated Non-Tax Revenue	344.2	396.4	415.1	386.7	408.6	391.8
Revenue from Other Governments						
Net PICA Taxes Remitted to the City ⁽⁶⁾	509.0	555.1	674.3	675.1	707.0	739.4
Other Revenue from Other Governments ⁽⁷⁾	327.6	376.1	422.3	350.2	366.4	398.4
Total Revenue from Other Governments	836.6	931.2	1,096.6	1,025.3	1,073.5	1,137.8
Receipts from Other City Funds	87.8 ⁽⁸⁾	300.6 ⁽⁹⁾	381.0 ⁽⁹⁾	458.8 ⁽⁹⁾	454.8 ⁽⁹⁾	481.2 ⁽⁹⁾
Total Revenue	4,692.5	5,767.5	6,047.0	6,012.1	5,945.6	6,271.4
Obligations/Appropriations						
Personal Services	1,811.4	1,890.7	1,976.6	2,168.0	2,177.1	2,279.1
Purchase of Services ⁽¹⁰⁾	941.4	1,014.4	1,207.3	1,380.1	1,400.5	1,422.3
Materials, Supplies and Equipment	90.9	125.6	167.7	145.1	204.7	148.3
Employee Benefits	1,275.1 ⁽¹¹⁾	1,690.0 ⁽¹¹⁾	1,625.0 ⁽¹¹⁾	1,661.0 ⁽¹¹⁾	1,625.5 ⁽¹¹⁾	1,677.1 ⁽¹¹⁾
Indemnities, Contributions, and Refunds ⁽¹²⁾	368.0	384.9	480.8	425.2	475.7	432.7
City Debt Service ⁽¹³⁾	178.5	188.7	190.5	201.6	201.6	234.7
Payments to Other City Funds	52.3	44.1	205.0	104.8	197.0	71.5
Advances & Miscellaneous Payments ⁽¹⁴⁾	0.0	0.0	0.0	67.4 ⁽¹⁵⁾	11.2 ⁽¹⁵⁾	43.5 ⁽¹⁵⁾
Payment to Budget Stabilization Reserve	0.0	0.0	65.1	42.3	42.3	58.3
Total Obligations/Appropriations	4,717.8	5,338.5	5,918.4	6,195.4	6,335.5	6,367.5
Operating Surplus (Deficit) for the Year	(25.3)	429.0	128.6	(183.3)	(390.0)	(96.1)
Net Adjustments – Prior Year ⁽¹⁶⁾	33.1	51.6	73.8	29.5	36.5	36.5
Cumulative Fund Balance Prior Year	290.7	298.5	779.1	682.5 ⁽¹⁷⁾	981.6 ⁽¹⁷⁾	628.1
Cumulative Adjusted Year End Fund Balance (Deficit)	\$298.5	\$779.1	\$981.6 ⁽¹⁷⁾	\$528.7	\$628.1	\$568.5

⁽¹⁾ Sources: For Fiscal Years 2021-2023, the City's ACFRs for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR, as applicable. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan, as applicable.

⁽²⁾ Figures may not sum due to rounding.

⁽³⁾ For more information on the City Sales Tax, see "REVENUES OF THE CITY – Sales and Use Tax."

⁽⁴⁾ Includes Amusement Tax, Real Property Transfer Tax, Parking Tax, Smokeless Tobacco Tax and miscellaneous taxes. Starting in Fiscal Year 2024, Parking Tax revenues are no longer part of the General Fund. Such revenues have been reassigned to the newly created Transportation Fund, which is accounted for as a special revenue fund.

⁽⁵⁾ The Philadelphia Beverage Tax (as defined herein) taxes the distribution of certain beverages at 1.5 cents per ounce and became effective January 1, 2017.

⁽⁶⁾ For a detailed breakdown of "Net PICA Taxes Remitted to the City," see Table 43. Such figures reflect revenues received by the City from the PICA Tax of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on PICA Bonds and PICA expenses. After paying debt service and expenses, net proceeds from the tax are remitted to the City as Revenue from Other Governments. There are no PICA Bonds outstanding as of September 30, 2024 and no current debt service payments. See "DEBT OF THE CITY – PICA Bonds."

⁽⁷⁾ For a detailed breakdown of "Other Revenue from Other Governments," see Table 12. "Other Revenue from Other Governments" includes state gaming revenues.

⁽⁸⁾ In Fiscal Year 2020, the City made a deposit of \$34.3 million to the Budget Stabilization Reserve. In Fiscal Year 2021, the City drew down on such funds and redirected them to spending. For Fiscal Year 2021, such funds are shown as revenue in "Revenues from Other Funds of City."

⁽⁹⁾ In Fiscal Year 2022, the City included approximately \$250 million in federal COVID-19 relief funding from the American Rescue Plan. In the Fiscal Year 2023, the City included approximately \$335 million in federal COVID-19 relief funding from the American Rescue Plan. In the Fiscal Year 2024 Adopted Budget, the City includes approximately \$391 million in federal COVID-19 relief funding from the American Rescue Plan, which amount remains unchanged in the Fiscal Year 2024 Current Estimate. In the Fiscal Year 2025 Adopted Budget, the City includes approximately \$419 million in federal COVID-19 relief funding from the American Rescue Plan.

⁽¹⁰⁾ Includes debt service on lease and service agreement financings.

⁽¹¹⁾ For Fiscal Year 2021, includes \$55.2 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2022, includes \$78.8 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2023, includes \$92.1 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2024 (Adopted Budget), assumes \$93.5 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2024 (Current Estimate), assumes \$90.2 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2025 (Adopted Budget), assumes \$98.5 million from such tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."

⁽¹²⁾ Includes contributions to the School District. See also Table 21 and the accompanying text herein.

⁽¹³⁾ Includes debt service on General Obligation Debt (as defined herein) and, if issued and outstanding, interest on tax and revenue anticipation notes; excludes debt service on PICA Bonds and lease and service agreement financings.

⁽¹⁴⁾ Advances & Miscellaneous Payments includes certain budgeted reserves for a given Fiscal Year. Any portion of such reserves that is not used to offset the applicable stated costs will increase the General Fund balance at the end of the given Fiscal Year, if not used by the City for other purposes.

⁽¹⁵⁾ For Fiscal Year 2024 (Adopted Budget), includes \$13.4 million in the Labor Reserve and \$54.0 million in a recession, inflation, and reopening reserve. For Fiscal Year 2024 (Current Estimate), includes \$11.2 million all in the Labor Reserve. For Fiscal Year 2025 (Adopted Budget), includes \$43.5 million in the Labor Reserve.

⁽¹⁶⁾ "Net Adjustments – Prior Year" includes the cancellation of commitments from previous Fiscal Years during the current Fiscal Year. Such figure for Fiscal Year 2021 includes a \$22 million contribution to the Municipal Pension Fund and the liquidation of \$47 million of pay-as-you-go capital encumbrances, each of which was obligated in Fiscal Year 2020.

⁽¹⁷⁾ In its Fiscal Year 2024 Adopted Budget, the City projected that Fiscal Year 2023 would end with a General Fund balance of \$682.5 million. In the Fiscal Year 2023 ACFR, the City reported that Fiscal Year 2023 ended with a General Fund balance of \$981.6 million. Such number has been included as the "Cumulative Fund Balance Prior Year" in the FY 2024 Fourth Quarter QCMR.

Current Financial Information

Table 2 below shows General Fund balances for Fiscal Year 2023, budgeted amounts and current estimates for Fiscal Year 2024, and the budgeted amounts for Fiscal Year 2025.

Table 2
General Fund – Fund Balance Summary
(Amounts in Thousands of USD)⁽¹⁾

	Fiscal Year 2023 Actual ⁽²⁾ (June 30, 2023)	Fiscal Year 2024 Adopted Budget ⁽²⁾ (June 23, 2023)	Fiscal Year 2024 Current Estimate ⁽²⁾ (August 15, 2024)	Fiscal Year 2025 Adopted Budget ⁽²⁾ (June 14, 2024)
<u>REVENUES</u>				
Taxes	\$4,154,299 ⁽³⁾	\$4,141,206 ⁽³⁾	\$4,008,680 ⁽³⁾	\$4,260,467 ⁽³⁾
Locally Generated Non – Tax Revenues	415,117	386,733	408,609	391,844
Revenue from Other Governments	1,096,581	1,025,340	1,073,451	1,137,828
Revenues from Other Funds of City	381,017 ⁽⁴⁾	458,835 ⁽⁴⁾	454,830 ⁽⁴⁾	481,223 ⁽⁴⁾
Total Revenue	<u>\$6,047,014</u>	<u>\$6,012,114</u>	<u>\$5,945,570</u>	<u>\$6,271,362</u>
<u>OBLIGATIONS / APPROPRIATIONS</u>				
Personal Services	\$1,976,579	\$2,167,983	\$2,177,127	\$2,279,091
Personal Services – Employee Benefits	1,624,963 ⁽⁵⁾	1,660,996 ⁽⁵⁾	1,625,487 ⁽⁵⁾	1,677,121 ⁽⁵⁾
Purchase of Services ⁽⁶⁾	1,207,275	1,380,127	1,400,501	1,422,267
Materials, Supplies, and Equipment	167,744	145,090	204,679	148,326
Contributions, Indemnities, and Taxes	480,792	425,194	475,703	432,724
Debt Service ⁽⁷⁾	190,496	201,632	201,632	234,667
Payments to Other Funds	205,404	104,771	196,954	71,491
Advances & Miscellaneous Payments ⁽⁸⁾	0	67,360 ⁽⁹⁾	11,200 ⁽⁹⁾	43,505 ⁽⁹⁾
Payment to Budget Stabilization Reserve	65,128	42,261	42,261	58,291
Total Obligations / Appropriations	<u>\$5,918,381</u>	<u>\$6,195,414</u>	<u>\$6,335,544</u>	<u>\$6,367,483</u>
Operating Surplus (Deficit)	128,633	(183,300)		(96,121)
<u>OPERATIONS IN RESPECT TO PRIOR FISCAL YEARS</u>				
Net Adjustments – Prior Years ⁽¹⁰⁾	73,795	29,500	36,500	36,500
Operating Surplus/(Deficit) & Prior Year Adj.	202,428	(153,800)	(353,474)	(59,621)
Prior Year Fund Balance	779,144	682,460 ⁽¹¹⁾	981,572 ⁽¹¹⁾	628,098
Year End Fund Balance	<u>\$981,572⁽¹¹⁾</u>	<u>\$528,660</u>	<u>\$628,098</u>	<u>\$568,477</u>

⁽¹⁾ Figures may not sum due to rounding.

⁽²⁾ Sources: For Fiscal Year 2023, the Fiscal Year 2023 ACFR. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR, as applicable. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan, as applicable.

⁽³⁾ For Fiscal Year 2023, includes \$73.4 million in revenue from the Philadelphia Beverage Tax. For Fiscal Year 2024 Adopted Budget, assumes \$73.5 million in revenue from such tax. For Fiscal Year 2024 Current Estimate, assumes \$70.3 million in revenue from such tax. For Fiscal Year 2025 Adopted Budget, assumes \$71.2 million in revenue from such tax. The Philadelphia Beverage Tax taxes the distribution of certain beverages at 1.5 cents per ounce and became effective January 1, 2017.

⁽⁴⁾ In the Fiscal Year 2023, the City included approximately \$335 million in federal COVID-19 relief funding from the American Rescue Plan. In the Fiscal Year 2024, the City includes approximately \$391 million in federal COVID-19 relief funding from the American Rescue Plan. In the Fiscal Year 2025, the City includes approximately \$419 million in federal COVID-19 relief funding from the American Rescue Plan.

⁽⁵⁾ For Fiscal Year 2023, includes \$92.1 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2024 (Adopted Budget), assumes \$93.5 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2024 (Current Estimate), assumes \$90.2 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2025 (Adopted Budget), assumes \$98.5 million from such tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."

⁽⁶⁾ Includes debt service on lease and service agreement financings.

⁽⁷⁾ Includes debt service on General Obligation Debt (as defined herein) and, if issued and outstanding, interest on tax and revenue anticipation notes; excludes debt service on PICA Bonds and lease and service agreement financings.

⁽⁸⁾ Advances & Miscellaneous Payments includes certain budgeted reserves for a given Fiscal Year. Any portion of such reserves that is not used to offset the applicable stated costs will increase the General Fund balance at the end of the given Fiscal Year, if not used by the City for other purposes.

⁽⁹⁾ For Fiscal Year 2024 (Adopted Budget), includes \$13.4 million in the Labor Reserve and \$54.0 million in a recession, inflation, and reopening reserve. For Fiscal Year 2024 (Current Estimate), includes \$11.2 million all in the Labor Reserve. For Fiscal Year 2025 (Adopted Budget), includes \$43.5 million in the Labor Reserve.

⁽¹⁰⁾ "Net Adjustments – Prior Year" includes the cancellation of commitments from previous Fiscal Years during the current Fiscal Year.

⁽¹¹⁾ In its Fiscal Year 2024 Adopted Budget, the City projected that Fiscal Year 2023 would end with a General Fund balance of \$682.5 million. In the Fiscal Year 2023 ACFR, the City reported that Fiscal Year 2023 ended with a General Fund balance of \$981.6 million. Such number has been included as the "Cumulative Fund Balance Prior Year" in the FY 2024 Fourth Quarter QCMR.

The following discussion of the Fiscal Year 2024 Adopted Budget, the Thirty-Second Five-Year Plan, the Fiscal Year 2025 Adopted Budget, the Thirty-Third Five-Year Plan, and the FY 2024 Fourth Quarter QCMR, as applicable, is based, in part, on estimates, projections, and forward-looking statements related to Fiscal Year 2024 and Fiscal Year 2025. No assurance can be given that the applicable budget estimates and forward-looking statements will be realized. The accuracy of such budget estimates and forward-looking statements cannot be verified until after the close of the given Fiscal Year and the completion of the related audits.

Fiscal Year 2024 Adopted Budget and Thirty-Second Five-Year Plan. The City's proposed Fiscal Year 2024 operating budget was submitted by the Mayor to City Council on March 2, 2023, along with the City's Proposed Five-Year Plan for Fiscal Years 2024-2028. On June 22, 2023, City Council approved the Fiscal Year 2024 operating budget ordinance, which was signed by the Mayor on June 23, 2023 (the "Fiscal Year 2024 Adopted Budget").

On June 26, 2023, the City submitted to PICA for approval its FY 2024-2028 Five Year Financial Plan (the "Thirty-Second Five-Year Plan"). PICA approved the Thirty-Second Five-Year Plan at a meeting on July 25, 2023.

Fiscal Year 2025 Adopted Budget and Thirty-Third Five-Year Plan. The City's proposed Fiscal Year 2025 operating budget was submitted by the Mayor to City Council on March 14, 2024, along with the City's Proposed Five-Year Plan for Fiscal Years 2025-2029. On June 13, 2024, City Council approved the Fiscal Year 2025 operating budget ordinance, which was signed by the Mayor on June 14, 2024 (the "Fiscal Year 2025 Adopted Budget").

On June 25, 2024, the City submitted to PICA for approval its FY 2025-2029 Five Year Financial Plan (the "Thirty-Third Five-Year Plan"). PICA approved the Thirty-Third Five-Year Plan at a meeting on July 25, 2024. PICA staff, in recommending that PICA approve the Thirty-Third Five-Year Plan, noted that the revenue and expenditure projections presented in the Plan were [quoting from the PICA Act] "based on reasonable and appropriate assumptions and methods of estimation . . . consistently applied."

The PICA staff report concluded that "[a]lthough PICA is confident that the [p]lan is based on reasonable and appropriate assumptions and includes year-end fund balances that are positive throughout the life of the [p]lan, certain factors were identified that may present risks to the [p]lan." In particular, the PICA staff report identified "external factors, internal policy, and operational choices [that] could unbalance the [p]lan and trigger a variance that would require the City to devise and deliver a new [p]lan for PICA approval." The PICA report identified such risks to the Plan and its projections as: (i) future labor costs; (ii) staffing levels; (iii) pension costs; (iv) interest rates and inflation; (v) funding shortfalls for SEPTA and the School District; (vi) unexpected events; and (vii) unplanned expenditures and revenue reductions.

The PICA staff report also provided certain recommendations to the City to address potential financial concerns that could impact the City's financial condition over the course of the Thirty-Third Five-Year Plan: (a) allocate additional resources for expected and unexpected circumstances and increase projected reserve levels; (b) seek structural balance between obligations and revenues (to address structural deficits, which increase the likelihood that the City could struggle to maintain positive fund balances and could undermine fiscal stability); and (c) enhance financial transparency of additional City funds (i.e., uses of funds in the Housing Trust Fund, the Transportation Fund, the Capital Fund, and the Grants Revenue Fund) and expand financial reporting thereon.

In the Fiscal Year 2025 Adopted Budget, the City is estimating (i) \$6.27 billion in General Fund revenues (compared to \$5.95 billion for Fiscal Year 2024 as set forth in the FY 2024 Fourth Quarter QCMR) and (ii) \$6.37 billion in General Fund obligations (compared to \$6.34 billion for Fiscal Year

2024 as set forth in the FY 2024 Fourth Quarter QCMR), with a General Fund year-end balance (on the legally enacted basis) of approximately \$568.5 million (compared to \$628.1 million for Fiscal Year 2024 as set forth in the FY 2024 Fourth Quarter QCMR).

Fiscal Year 2024 Current Estimates. The current estimates for Fiscal Year 2024 are derived from information included in the FY 2024 Fourth Quarter QCMR. As such, current estimates are sourced to the FY 2024 Fourth Quarter QCMR throughout this APPENDIX III, unless otherwise noted herein.

In the FY 2024 Fourth Quarter QCMR, the City estimates that it will end Fiscal Year 2024 with a General Fund balance (on the legally enacted basis) of approximately \$628.1 million (\$99.4 million higher than projected in the Fiscal Year 2024 Adopted Budget).

For Fiscal Years 2025-2029, the Thirty-Third Five-Year Plan projects that the City will end such Fiscal Years with General Fund balances (on the legally enacted basis) of approximately (i) \$568.5 million (Fiscal Year 2025), (ii) \$329.9 million (Fiscal Year 2026), (iii) \$108.4 million (Fiscal Year 2027), (iv) \$78.2 million (Fiscal Year 2028), and (v) \$65.8 million (Fiscal Year 2029).

FY 2024 AFR (Unaudited). As noted herein, each year, the City is required to prepare its “Annual Financial Report,” which is released on or about October 28 of each year, and is unaudited. The FY 2024 AFR (Unaudited) was released on October 28, 2024. The FY 2024 AFR (Unaudited) reflects that the City ended Fiscal Year 2024 with a General Fund balance of \$942.9 million, up from the projection of \$628.1 million as included in the FY 2024 Fourth Quarter QCMR.

For information on the fiscal health of the City, see “OVERVIEW – Fiscal Health of the City.” For more information on the City’s annual budget process under the City Charter and the five-year financial plans and quarterly reporting required under the PICA Act, see “– Budget Procedure,” “– Five-Year Plans of the City,” and “– Quarterly Reporting to PICA,” above.

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REVENUES OF THE CITY

General

Prior to 1939, the City relied heavily on the Real Estate Tax as the mainstay of its revenue system. In 1932, the General Assembly adopted an act (commonly referred to as the Sterling Act) under which the City is permitted to levy any tax that was not specifically pre-empted by the Commonwealth. Acting under the Sterling Act and other Pennsylvania legislation, the City has taken various steps over the years to broaden its sources of income, including: (i) enacting the Wage, Earnings, and Net Profits tax in 1939; (ii) introducing a sewer service charge to make the sewage treatment system self-sustaining after 1945; (iii) requiring under the City Charter that the water, sewer, and other utility systems be fully self-sustaining; (iv) enacting the Mercantile License Tax (a gross receipts tax on business done within the City) in 1952, which was replaced as of the commencement of Fiscal Year 1985 by the Business Privilege Tax (renamed the Business Income and Receipts Tax in May 2012), and (v) enacting the City Sales Tax (as defined herein) for City general revenue purposes effective beginning in Fiscal Year 1992.

Major Revenue Sources

The City derives its revenues primarily from various taxes, non-tax revenues, and receipts from other governments. See Table 3 for General Fund tax revenues for Fiscal Years 2021-2023, the budgeted amounts and current estimates for Fiscal Year 2024, and the budgeted amounts for Fiscal Year 2025. The following discussion of the City's revenues does not take into account revenues in the non-debt related funds.

Table 3 provides a detailed breakdown of the "Total Taxes" line from Table 1 above. Table 3 does not include "Revenues from Other Governments," which consists of "Net PICA Taxes Remitted to the City" and "Other Revenue from Other Governments." "Net PICA Taxes Remitted to the City" is set forth in Table 1 and a detailed breakdown of such revenues is shown in Table 43. "Other Revenue from Other Governments" is set forth in Table 1 and a detailed breakdown of such revenues is shown in Table 12.

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Table 3
General Fund Tax Revenues
Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)
(Amounts in Millions of USD) ^{(1), (2), (3)}

	Actual 2021	Actual 2022	Actual 2023	Adopted Budget 2024 (June 23, 2023)	Current Estimate 2024 (August 15, 2024)	Adopted Budget 2025 (June 14, 2024)
<u>Real Property Taxes</u>						
Current	\$693.9	\$670.8	\$780.3	\$817.2	\$797.0	\$896.8
Prior	<u>29.4</u>	<u>29.9</u>	<u>29.3</u>	<u>28.7</u>	<u>28.7</u>	<u>28.1</u>
Total	<u>\$723.3</u>	<u>\$700.6</u>	<u>\$809.6</u>	<u>\$845.9</u>	<u>\$825.7</u>	<u>\$925.0</u>
<u>Wage and Earnings Tax⁽⁴⁾</u>						
Current	\$1,447.7	\$1,648.1	\$1,730.1	\$1,761.7	\$1,838.9	\$1,925.2
Prior	<u>3.0</u>	<u>5.8</u>	<u>2.7</u>	<u>5.4</u>	<u>5.4</u>	<u>5.4</u>
Total	<u>\$1,450.7</u>	<u>\$1,653.9</u>	<u>\$1,732.8</u>	<u>\$1,767.1</u>	<u>\$1,844.3</u>	<u>\$1,930.6</u>
<u>Business Taxes</u>						
Business Income and Receipts Tax Current & Prior	<u>\$541.6</u>	<u>\$749.9</u>	<u>\$673.3</u>	<u>\$669.7</u>	<u>\$606.7</u>	<u>\$616.7</u>
<u>Net Profits Tax</u>						
Current	\$42.5	\$22.0	\$33.9	\$42.3	\$39.1	\$40.5
Prior	<u>1.9</u>	<u>5.3</u>	<u>5.1</u>	<u>4.7</u>	<u>4.7</u>	<u>4.7</u>
Subtotal Net Profits Tax	<u>\$44.4</u>	<u>\$27.3</u>	<u>\$39.0</u>	<u>\$47.0</u>	<u>\$43.8</u>	<u>\$45.2</u>
Total Business and Net Profits Taxes	<u>\$586.0</u>	<u>\$777.2</u>	<u>\$712.2</u>	<u>\$716.7</u>	<u>\$650.4</u>	<u>\$661.9</u>
<u>Other Taxes</u>						
Sales and Use Tax ⁽⁵⁾	\$230.4	\$277.7	\$302.2	\$307.1	\$300.5	\$317.0
Amusement Tax	2.9	26.1	36.1	33.4	38.3	41.7
Real Property Transfer Tax	304.0	536.9	378.8	388.9	271.8	305.8
Parking Taxes ⁽⁶⁾	53.2	86.6	101.9	0.0	0.0	0.0
Other Taxes	<u>3.1</u>	<u>5.1</u>	<u>7.1</u>	<u>8.5</u>	<u>7.3</u>	<u>7.5</u>
Subtotal Other Taxes	<u>\$593.7</u>	<u>\$932.4</u>	<u>\$826.2</u>	<u>\$737.9</u>	<u>\$617.9</u>	<u>\$671.9</u>
Philadelphia Beverage Tax ⁽⁷⁾	70.2	75.4	73.4	73.5	70.3	71.2
TOTAL TAXES	<u>\$3,423.9</u>	<u>\$4,139.4</u>	<u>\$4,154.3</u>	<u>\$4,141.2</u>	<u>\$4,008.7</u>	<u>\$4,260.5</u>

⁽¹⁾ Sources: For Fiscal Years 2020-2023, the City's ACFRs for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR, as applicable. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan, as applicable.

⁽²⁾ See Table 7 in the Fiscal Year 2023 ACFR for tax rates.

⁽³⁾ Figures may not sum due to rounding.

⁽⁴⁾ Does not include the PICA Tax of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on PICA Bonds and PICA expenses. After paying debt service and expenses, net proceeds from the tax are remitted to the City as Revenue from Other Governments. There are no PICA Bonds outstanding as of September 30, 2024 and no current debt service payments. See "DEBT OF THE CITY – PICA Bonds" for a description of the PICA Tax.

⁽⁵⁾ For more information on the City Sales Tax, see "– Sales and Use Tax" and Table 11.

⁽⁶⁾ Starting in Fiscal Year 2024, Parking Tax revenues are no longer part of the General Fund. Such revenues have been reassigned to the newly created Transportation Fund, which will utilize the Parking Tax and certain fees and grants to support transportation activities including paving, traffic, engineering, school crossing guards, right-of-way management, public safety enforcement officers, surveys, and street lighting. The Transportation Fund is accounted for as a special revenue fund.

⁽⁷⁾ The Philadelphia Beverage Tax taxes the distribution of certain beverages at 1.5 cents per ounce and became effective January 1, 2017.

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Wage, Earnings, and Net Profits Taxes

The largest tax revenue source (comprising approximately 42.6% of all tax revenues in Fiscal Year 2023) is the wage, earnings, and net profits tax (collectively, the “Wage, Earnings, and Net Profits Tax”). The Wage and Earnings Tax is collected from all employees whose employer is within City limits, with the exception of those non-residents who are required to work outside of the City. Wage Tax is also collected from all city residents regardless of work location. The Net Profits Tax is collected on the net profits from the operation of a trade, business, profession, enterprise or other activity conducted by individuals, partnerships, associations or estates and trusts within the City limits. The following table sets forth the resident and non-resident Wage, Earnings, and Net Profits Tax rates for Fiscal Years 2021-2024, the annual Wage, Earnings, and Net Profits Tax receipts in Fiscal Years 2021-2023, the budgeted amount and current estimate of such receipts for Fiscal Year 2024, and the budgeted amount of such receipts for Fiscal Year 2025.

Table 4

Summary of Wage, Earnings, and Net Profits Tax Rates and Receipts

Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)⁽¹⁾

Fiscal Year	Resident Wage, Earnings and Net Profits Tax Rates ⁽²⁾	Non-Resident Wage, Earnings and Net Profits Tax Rates	Annual Wage, Earnings and Net Profits Tax Receipts (including PICA Tax) (Amounts in Millions of USD) ⁽³⁾
2021	3.8712%	3.5019%	\$2,019.3 (Actual)
2022	3.8398%	3.4481%	\$2,266.8 (Actual)
2023	3.79%	3.44%	\$2,469.1 (Actual)
2024	3.75%	3.44%	\$2,489.2 (Adopted Budget)
			\$2,595.1 (Current Estimate)
2025	3.75%	3.44%	\$2,715.2 (Adopted Budget)

⁽¹⁾ See Table 7 in the Fiscal Year 2023 ACFR for tax rates for Fiscal Years 2021-2023. For tax rates for Fiscal Year 2024, see the Fiscal Year 2024 Adopted Budget. For tax rates for Fiscal Year 2025, see the Fiscal Year 2025 Adopted Budget.

⁽²⁾ Includes PICA Tax. See “DEBT OF THE CITY – PICA Bonds” for a description of the PICA Tax.

⁽³⁾ Sources: For Fiscal Years 2021-2023, the City’s ACFRs for the City’s annual Wage, Earnings, and Net Profits Tax receipts and the City’s Quarterly City Manager’s Reports for gross PICA Tax (see first column in Table 43). For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR, as applicable. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan as applicable.

Commonwealth funding from gaming revenues is mandated by statute to be used to reduce the resident and nonresident Wage, Earnings, and Net Profits Tax rate. Gaming revenues averaged approximately \$86.3 million in Fiscal Years 2018-2022. For Fiscal Year 2023, the amount of gaming revenues was \$108.8 million. For Fiscal Year 2024, the budgeted amount and current estimate of gaming revenues is \$108.8 million. For Fiscal Year 2025, the budgeted amount of gaming revenues is \$130.6 million.

In a 2015 decision the Supreme Court of the United States (*Comptroller of the Treasury of Maryland v. Wynne*, 135 S. Ct. 1787 (2015)), held that Maryland’s failure to provide a full credit against its personal income tax for income taxes a resident paid to other states violated the dormant Commerce Clause of the United States Constitution. The Maryland personal income tax was applied to income earned outside of the state of residency, and residents were not given a full credit for income taxes paid to the state where such income was earned, resulting, in the circumstances presented, in income earned interstate being taxed twice. The City provides a credit to resident taxpayers against their respective Wage, Earnings, and Net Profits tax liabilities for similar taxes paid to another locality but does not provide a credit for similar taxes paid to another state. Taxpayers have challenged the City’s refusal to grant a credit for taxes paid to other states. The City’s position has been upheld by the Tax Review Board, the Philadelphia Court of Common Pleas, the Commonwealth Court, and the Pennsylvania Supreme Court. In February 2024, the taxpayer filed a petition asking the U.S. Supreme Court to hear the case and the City has filed its petition in opposition. As of the date of the Official Statement, the U.S.

Supreme Court has not ruled on the parties' petitions. Should the U.S. Supreme Court accept the case and overturn the Pennsylvania Supreme Court's judgment, the City estimates refunds would be approximately \$15 million.

On May 3, 2023, the Pennsylvania Senate passed Senate Bill 671 ("SB 671"), which amends the Local Tax Enabling Act by adding a new chapter thereto and repeals the Sterling Act. SB 671 prohibits a city of the first class, such as the City, from imposing a tax on salaries, wages, commissions, or other compensation on a nonresident individual who is employed by an employer whose place of business is located within the City but performs all employment duties or services outside of the City. It clarifies that a city of the first class may only impose a tax on nonresident individuals' wages, or other compensation, on that portion of the nonresident's compensation attributable to duties performed by the individual while they are physically within the City. If SB 671 becomes law, it would reduce the amount of Wage and Earnings Taxes that the City collects and have a significant financial impact on the City. On May 3, 2023, SB 671 moved to the Pennsylvania House of Representatives for consideration. It was referred to the House Finance Committee on May 5, 2023 and it remains in committee. It is unclear at this time whether the Pennsylvania House of Representatives will advance the legislation or, if so advanced, whether the Governor would sign SB 671.

Business Income and Receipts Tax

Pursuant to The First Class City Business Tax Reform Act of 1984, City Council imposed a business tax measured by gross receipts, net income or the combination of the two. The same year, City Council by ordinance repealed the Mercantile License Tax and the General Business Tax and imposed the Business Privilege Tax. As of May 1, 2012, the Business Privilege Tax was renamed the Business Income and Receipts Tax (or BIRT). The BIRT allows for alternative tax computations for regulated industries, public utilities, manufacturers, wholesalers, and retailers. Rental activities are usually considered to be business activities. Every estate or trust (whether the fiduciary is an individual or a corporation) must file a BIRT return if the estate or trust is engaged in any business or activity for profit within the City. There are also credit programs where meeting the requirement of the program allows for a credit against the BIRT. All persons subject to both the BIRT and the Net Profits Tax are entitled to apply a credit of 60% of the net income portion of their BIRT liability against what is due on the Net Profits Tax to the maximum of the Net Profits Tax liability for that tax year.

Significant tax legislation, passed in 2011, incorporated several changes intended to help small and medium sized businesses and lower costs associated with starting a new business in order to stimulate new business formation and increase employment in the City, including the following: (i) the fee for a Commercial Activity License for all businesses was eliminated in 2014; (ii) business taxes for the first two years of operations for all new businesses with at least three employees in their first year and six employees in their second year were eliminated beginning in 2012; and (iii) across the board exclusions on the gross receipts portion of the BIRT were provided for all businesses phased in over a three-year period beginning in 2014 and eventually excluding the first \$100,000 of gross receipts, along with proportional reductions in the net income portion of the BIRT. The legislation also provided for implementation of single sales factor apportionment in 2015, which enables businesses to pay BIRT based solely on sales in the City, rather than on property or payroll.

In addition, legislation was enacted, effective for tax year 2019, to (i) eliminate the requirement for new businesses to make an estimated business tax payment when filing a return for their first tax year of business operations and (ii) allow such estimated payments in the second year to be made in quarterly installments.

The following table provides a summary of BIRT rates for tax years 2016-2025. Future BIRT rates remain subject to amendment by action of City Council and the Mayor.

Table 5
Summary of Business Income and Receipts Tax Rates

<u>Tax Year</u>	<u>Gross Receipts</u>	<u>Net Income</u>
2016	1.415 mills	6.39%
2017	1.415 mills	6.35%
2018	1.415 mills	6.30%
2019	1.415 mills	6.25%
2020	1.415 mills	6.20%
2021	1.415 mills	6.20%
2022	1.415 mills	6.20%
2023	1.415 mills	5.99%
2024	1.415 mills	5.81%
2025	1.415 mills	5.81%

BIRT Lawsuit. In August 2024, a lawsuit was filed against the City by a taxpayer challenging its BIRT liability, claiming that (i) the City’s single sales factor apportionment is not statutorily authorized and (ii) the small business exemption of the first \$100,000 of receipts from the BIRT tax (equally applicable to all taxpayers) violates the Uniformity Clause of the Pennsylvania Constitution. The City is evaluating this matter and the possible tax collections at issue, which could be significant.

Real Property Taxes

Assessment and Collection. Taxes are levied on the assessed value of all taxable residential and commercial real property located within the City’s boundaries for the City and for the School District (each, a “Real Estate Tax”) as assessed by the Office of Property Assessment (“OPA”) and collected by the Department of Revenue for both the City and the School District. Real Estate Taxes are authorized by Commonwealth law with the millage split between the City Real Estate Tax and the School District Real Estate Tax changing over the years. Currently, the City Real Estate Tax is equal to 44% of the total authorized millage and the School District Real Estate Tax is equal to 56% of the total authorized millage. Real Estate Taxes are levied on a calendar year basis. By separate ordinances, City Council authorizes and levies the rate of the City Real Estate Tax and authorizes the rate of the School District Real Estate Tax. The Board of Education levies all School District taxes, including the School District Real Estate Tax. Bills are sent in December for the following year and payments are due March 31.

In tax year 2014, all properties in Philadelphia were reassessed at their actual market value by OPA under the Actual Value Initiative (“AVI”) in order to replace outdated values and inequities within the system. Following this initial AVI assessment, such updated assessments became the baseline for future revaluations under the initiative. Under AVI, the total assessed value of all properties more accurately reflected the market in the City and the total assessment grew substantially. As a result, the Mayor and City Council significantly reduced the Real Estate Tax rate to ensure that, in its first year, the reassessment resulted in the collection of approximately the same amount of Real Estate Taxes as the prior year (tax year 2013).

In order to mitigate any hardship that could be created by the substantial increases in assessed value, the ordinance imposing the new Real Estate Tax rates included a Homestead Exemption of \$30,000 for all primary residential owner-occupants, which was subsequently increased to \$40,000 of assessed value in Fiscal Year 2019. In the adopted budget for Fiscal Year 2020, the Homestead Exemption was increased from \$40,000 to \$45,000 of assessed value. In the Fiscal Year 2023 Adopted Budget, the Homestead Exemption was increased from \$45,000 to \$80,000 of assessed value. In Fiscal Year 2025, the Homestead Exemption increased from \$80,000 to \$100,000 of assessed value.

In Fiscal Year 2025, the City also instituted several other property tax relief programs for taxpayers, including, among others, the Low-Income Tax Freeze, which permits a freeze in property tax increases for low-income homeowners. Under the Low-Income Tax Freeze, the dollar amount of property taxes owed is frozen, while the assessment value continues to change. Those enrolled in the Low-Income Tax Freeze program remain enrolled so long as they meet eligibility requirements.

In December 2019, City Council also passed legislation to modify the existing 10-year property tax abatement for new construction of residential properties. The program has been adjusted to exempt 100% of the improvement value in the first year with graduated 10% annual reductions in the exemption percentage each subsequent year. No changes were made to the existing property tax abatement programs for commercial buildings or substantial rehabilitation of residential structures. Due to the COVID-19 pandemic, this legislation was amended to delay its effective date and applies to exemption applications beginning on or after January 1, 2022.

The Real Estate Tax rates for tax years 2021-2025 are set forth in Table 6 below:

Table 6
Real Estate Tax Rates and Allocations

<u>Tax Year</u>	<u>City</u>	<u>School District</u>	<u>Total</u>
2021	0.6317%	0.7681%	1.3998%
2022	0.6317%	0.7681%	1.3998%
2023	0.6317%	0.7681%	1.3998%
2024	0.6317%	0.7681%	1.3998%
2025	0.6159%	0.7839%	1.3998%

For Fiscal Year 2023, the actual amount of Real Estate Tax revenue for the City was \$780.3 million (excluding delinquent collections). For Fiscal Year 2024, the budgeted amount of Real Estate Tax revenue for the City is \$817.2 million (excluding delinquent collections). For Fiscal Year 2024, the current estimate of Real Estate Tax revenue for the City is \$797.0 million (excluding delinquent collections). For Fiscal Year 2025, the budgeted amount of Real Estate Tax revenue for the City is \$896.8 million (excluding delinquent collections). See Table 3 above. For information on the process for appealing a property tax assessment, see the text before and after Table 7 below.

Table 7 shows certified property values for tax years 2024 and 2025.

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Table 7
Certified Property Values for Tax Years 2024 and 2025

Tax Year 2024

Category	Market Value⁽¹⁾	Exempt Assessed Value	Homestead	Taxable Assessed Value	# of Properties
Single Family Residential	\$102,589,419,957	\$8,736,034,040	\$17,661,660,823	\$76,191,725,094	464,384
Multi-Family Residential (Apartments) ⁽²⁾	32,445,423,233	8,030,525,563	653,870,858	23,761,026,812	42,595
Commercial ⁽³⁾	22,968,017,205	2,793,950,898	3,330,553 ⁽⁴⁾	20,170,735,754	8,631
Non-Residential ⁽⁵⁾	43,086,684,685	27,807,260,760	82,167,781 ⁽⁴⁾	15,197,256,144	24,866
Vacant Land	6,483,743,971	3,249,548,806	3,752,290	3,230,442,875	43,303
Total	\$207,573,289,051	\$50,617,320,067	\$18,404,782,305	\$138,551,186,679	583,779

¹ Assessment data current as of May 25, 2023.

² Apartments were split from the previous hotels and apartments category and are now reflected as multi-family residential.

³ Includes retail and office.

⁴ Values are estimated.

⁵ Includes industrial, store with dwelling, hotels, motels, governmental, and institutional.

Tax Year 2025

Category	Market Value⁽¹⁾	Exempt Assessed Value	Homestead	Taxable Assessed Value	# of Properties
Single Family Residential	\$122,718,187,566	\$10,267,003,210	\$22,329,404,447	\$90,121,779,909	463,981
Multi-Family Residential (Apartments) ⁽²⁾	26,711,333,970	4,446,836,837	822,813,876	21,441,683,257	40,870
Commercial ⁽³⁾	22,181,804,365	3,106,631,297	3,841,271	19,071,331,797	8,779
Non-Residential ⁽⁴⁾	52,715,955,855	31,587,981,806	105,253,877	21,022,720,172	26,790
Vacant Land	7,177,593,098	3,451,387,978	6,262,699	3,719,942,421	43,934
Total	\$231,504,874,854	\$52,859,841,128	\$23,267,576,171	\$155,377,457,555	584,354

¹ Assessment data current as of May 31, 2024.

² Apartments were split from the previous hotels and apartments category and are now reflected as multi-family residential.

³ Includes retail and office.

⁴ Includes industrial, store with dwelling, hotels, motels, governmental, and institutional.

Assessment and Appeals. OPA is responsible for property assessments, while the Board of Revision of Taxes (“BRT”), an independent, seven-member board appointed by the Board of Judges of the Philadelphia Common Pleas Court, is the property assessment appeals board.

OPA certifies the market values during the prior year (i.e., for tax year 2024, OPA certified the market values on March 31, 2023). Taxpayers base their appeals on the certified market values, and therefore, the assessed values are adjusted as the appeals are finalized. In some circumstances and for certain tax years, taxpayers are permitted, during the appeals process, to pay their property tax bills based on the certified market value of their properties from the prior assessment. For budgetary purposes, OPA provides updated assessment data to the Office of the Director of Finance each year, from which Real Estate Tax projections are made. Certified values can vary substantially from the amounts included in such data and, as such, Real Estate Tax collections can also vary from the amounts included in the City’s proposed annual operating budget.

Under AVI, OPA set up a new process called a first level review (“FLR”), where a taxpayer could request an administrative review of its assessment notice prior to launching a formal appeal with the BRT. The BRT has the authority, following a formal appeal, to either increase, decrease, or leave unchanged the property assessment. Some appeals are not resolved before bills are sent to taxpayers. As such, some property assessments are modified after taxpayers receive bills.

For tax year 2018 (as certified on March 31, 2017), OPA changed the assessed values of over 45,000 parcels (which included properties of all categories, including commercial and residential parcels) throughout the City as part of its reassessment. In September 2017, the owners of multiple commercial properties in the City filed a lawsuit against the City in the Court of Common Pleas. The plaintiffs in such matter alleged, based on a July 2017 Pennsylvania Supreme Court decision, that OPA violated the uniformity clause of the Pennsylvania Constitution in reassessing commercial properties and not residential properties for tax year 2018. The plaintiffs sought declaratory relief, a permanent injunction, and an order directing OPA to recertify their properties at tax year 2017 values. Subsequently, twelve additional cases were filed, asserting virtually the same claims. All of the cases, which encompassed approximately 600 plaintiffs and approximately 700 properties, were consolidated for management purposes. In a ruling handed down on July 18, 2019, the Common Pleas Court found that plaintiffs were owed refunds for overpayments equal to the difference between the plaintiffs’ Real Estate Taxes for tax year 2017 and tax year 2018. The City and School District appealed the ruling on October 22, 2019, and oral arguments on such appeal were heard in the Commonwealth Court in June 2021. On July 29, 2021, the Commonwealth Court issued a decision that upheld the ruling of the Common Pleas Court. The City and School District applied to the Commonwealth Court for reargument, which was denied on September 28, 2021. The City and School District petitioned the Pennsylvania Supreme Court for allowance of appeal, which was denied on June 8, 2022. No further appeals are available. City-wide reassessments were conducted for tax years 2019 and 2020 and the City does not expect the Real Estate Taxes for such tax years to be impacted by the final judgment on this matter. For more general information on judgments and settlements on claims against the City, see “LITIGATION.”

For tax year 2023 (as certified on April 30, 2022), OPA revised the assessed values of over 550,000 parcels throughout the City as part of its first citywide revaluation since tax year 2020. The International Association of Assessing Officers (“IAAO”) conducted a ratio study on the 2023 assessments for single-family homes and determined that OPA met industry standards for both uniformity and equity. As of September 27, 2024, OPA has received approximately 19,833 FLRs, with

approximately 1% that have yet to be decided. As of September 27, 2024, BRT has received 13,548 appeals, with approximately 1,227 that have yet to be decided.

For tax year 2024 (as certified on March 31, 2023), the City did not conduct a citywide revaluation so that OPA could focus on reviewing FLR applications submitted for tax year 2023. As such, the City carried forward the assessed values from tax year 2023, with the exception of properties that had new construction, expiring abatements, renovations, subdivisions, consolidations, or errors in prior year assessments. As of September 27, 2024, OPA has received approximately 210 FLRs, with approximately 10% that have yet to be decided. As of September 27, 2024, BRT has received 3,598 appeals, with approximately 2,445 that have yet to be decided.

For tax year 2025 (as certified on May 31, 2024), OPA revised the assessed values of over 550,000 parcels throughout the City as part of its first citywide revaluation since tax year 2023. OPA retained an outside firm to conduct a ratio study on the 2025 assessments for single-family homes, which determined that OPA met (and improved on) industry standards for uniformity, equity, and accuracy. Property owners have until November 18, 2024, to file an FLR for tax year 2025. Property owners also have the option to file a BRT appeal and the BRT deadline is October 7, 2024.

Review of Assessment Methodology. OPA continues to review its assessment methodology in order to improve the transparency and accuracy of its assessment activities and the quality of assessments. Such efforts include (i) implementing a computer-assisted mass appraisal system program, (ii) contracting with an outside vendor to improve the quality of OPA's data, (iii) strengthening OPA's modeling team, and (iv) providing more training to the sales validation team, which was created in 2019, to help ensure improved data. Additionally, OPA retained an outside firm to conduct an independent ratio study examining the uniformity, accuracy, and equity of OPA's tax year 2025 assessments for single family residential properties.

Real Estate Tax Tables. See Table 8 below for data with respect to Real Estate Taxes levied from 2019 to 2023 and collected by the City from January 1, 2019 to June 30, 2023. See Table 9 for the assessed property values of the City's principal taxable assessed parcels in 2025. See Table 10 for the 2025 market and assessed values of the ten highest valued taxable real properties in the City, as well as the amounts and duration of Real Estate Tax abatements with respect to such properties.

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Table 8
City of Philadelphia
Real Property Taxes Levied and Collected
For the Calendar Years 2019-2023
(Amounts in Millions of USD)^{(1), (2)}

Calendar Year	Taxes Levied Based on Original Assessment ⁽³⁾	Taxes Levied Based on Adjusted Assessment ⁽⁴⁾	Collections in the Calendar Year of Levy ⁽⁶⁾	Percentage Collected in the Calendar Year of Levy	Collections in Subsequent Years ^{(5), (6)}	Total Collections to Date: All Years ⁽⁶⁾	Percentage Collected to Date: All Years ⁽⁶⁾
2019	\$709.4	\$680.4	\$660.4	97.1%	\$15.6	\$676.0	99.4%
2020	\$722.7	\$701.0	\$672.3	95.9%	\$24.4	\$696.7	99.4%
2021	\$729.7	\$715.3	\$692.2	96.8%	\$19.9	\$712.1	99.6%
2022	\$732.2	\$723.2	\$705.7	97.6%	\$8.5	\$714.2	98.8%
2023	\$872.8	\$852.4	\$755.2	N/A	N/A	\$755.2	N/A

⁽¹⁾ Source: Fiscal Year 2023 ACFR.

⁽²⁾ Real Estate Taxes are levied by the City and the School District. While this table reflects City General Fund Real Estate Tax revenues exclusively, the School District Real Estate Tax collection rates are the same.

⁽³⁾ Taxes are levied on a calendar year basis. They are due on March 31.

⁽⁴⁾ Adjustments include assessment appeals, the senior citizen tax discount, and the tax increment financing return of tax paid. For more information on the reassessment appeal process, see “– Real Property Taxes – Assessment and Appeals.”

⁽⁵⁾ Includes payments from capitalized interest. This capitalization occurs only after the first year of the levy on any amount that remains unpaid at that time.

⁽⁶⁾ For calendar year 2023, the data shown reflects collections through June 30, 2023. For earlier calendar years, the data shown reflects collections through December 31 of the respective year.

Table 9
Principal Taxable Assessed Parcels – 2025
(Amounts in Millions of USD)⁽¹⁾

Taxpayer	2025	
	Assessment ⁽²⁾	Percentage of Total Assessments
EQC Nine Penn Center Prop	\$390.5	0.22%
Kim Sub Cira Square LP	370.6	0.21%
Liberty Property Phila(3)	357.6	0.20%
Phila Liberty Place LP	310.7	0.17%
PRU 1901 Market LLC	278.0	0.16%
Brandywine Cira LP	260.1	0.15%
NG 1500 Market St LLC	250.7	0.14%
Brandywine Operating	239.8	0.13%
411 N Broad Fee Inter	235.4	0.13%
Philadelphia Market	221.4	0.12%
Total	<u>\$2,914.8</u>	<u>1.63%</u>
Total Taxable Assessments⁽⁴⁾	<u>\$178,645.0</u>	

Source: City of Philadelphia, Office of Property Assessment.

⁽¹⁾ Figures may not sum due to rounding.

⁽²⁾ Assessment Values rounded to the nearest \$100,000 and only include the largest assessed property for each taxpayer, additional properties owned by the same taxpayer are not included.

⁽³⁾ Acquired by Prologis, Inc. in the first quarter of calendar year 2020.

⁽⁴⁾ Total 2025 Taxable Assessment as of May 31, 2024.

Table 10
Ten Largest Certified Market and Assessment Values of Tax-Abated Properties
Certified Values for 2025
(Amounts in Millions of USD)^{(1), (2)}

Location	2025 Certified Market Value	Total Assessment	Total Taxable Assessment	Total Exempt Assessment	Exempt Through Tax Year
900 Packer Ave	\$440.0	\$440.0	\$43.8	\$396.2	2031
1800 Arch St	\$319.8	\$319.8	\$32.0	\$287.8	2027
2201 Park Towne Pl	\$276.9	\$276.9	\$166.0	\$110.9	2028
401 N Broad St	\$260.3	\$260.3	\$235.4	\$25.0	2025
1001-99 N Delaware Ave	\$242.0	\$242.0	\$129.0	\$113.0	2026
170 S Independence W Mall	\$186.5	\$186.5	\$157.3	\$29.1	2028
200 N 16th St	\$157.9	\$157.9	\$53.0	\$104.9	2029
1441 Chestnut St	\$156.5	\$156.5	\$15.6	\$140.8	2031
2400 Market St	\$151.8	\$151.8	\$39.5	\$112.2	2028
1112 N Hancock St Unit 1	\$150.0	\$150.0	\$15.0	\$135.0	2033

Source: City of Philadelphia, Office of Property Assessment.

⁽¹⁾ Figures may not sum due to rounding.

⁽²⁾ Certified Values as of 05/31/2024.

Sales and Use Tax

Pursuant to the authorization granted by the Commonwealth under the PICA Act, the City adopted a 1% sales and use tax (the “City Sales Tax”) for City general revenue purposes effective beginning in Fiscal Year 1992. It is imposed in addition to, and on the same basis as, the Commonwealth’s sales and use tax. Vendors are required to pay City Sales Taxes to the Commonwealth Department of Revenue together with the Commonwealth sales and use tax. The State Treasurer deposits the collections of City Sales Taxes in a special fund and disburses the collections, including any investment income earned thereon, less administrative fees of the Commonwealth Department of Revenue, to the City on a monthly basis.

The City’s budgets for Fiscal Years 2010-2014 provided for an increase in the City Sales Tax rate to 2%, as authorized by the Commonwealth effective October 8, 2009, through June 30, 2014. In July 2013, the Commonwealth authorized the implementation of a new, permanent 1% increase in the City Sales Tax rate effective July 1, 2014, which was adopted by the City on June 12, 2014 and became effective on July 1, 2014. Under the reauthorized City Sales Tax, the first \$120 million collected from the additional 1% is distributed to the School District. For Fiscal Years 2015-2018, the General Assembly authorized the City to use the next \$15 million of City Sales Tax revenues from such additional 1% collected in such Fiscal Years for the payment of debt service on obligations issued by the City for the benefit of the School District. Following such debt service payments, that remaining portion of the City Sales Tax revenues from such additional 1% distributed to the City is required to be used exclusively in accordance with Act 205 (as defined herein) and deposited to the Municipal Pension Fund. Post Fiscal Year 2018, all of the revenues from such additional 1% are required to be deposited to the Municipal Pension Fund.

The following table sets forth the City Sales Taxes collected in Fiscal Years 2021-2023, the budgeted amount and current estimate for Fiscal Year 2024, and the budgeted amount for Fiscal Year 2025.

Table 11
Summary of City Sales Tax Collections
Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)
(Amounts in Millions of USD)⁽¹⁾

<u>Fiscal Year</u>	<u>City Sales Tax Collections</u>
2021 (Actual)	\$230.4 ⁽²⁾
2022 (Actual)	\$277.7 ⁽²⁾
2023 (Actual)	\$302.2 ⁽²⁾
2024 (Adopted Budget)	\$307.1 ⁽²⁾
2024 (Current Estimate)	\$300.5 ⁽²⁾
2025 (Adopted Budget)	\$316.9 ⁽²⁾

⁽¹⁾ Sources: For Fiscal Years 2021-2023, the City's ACFRs for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR, as applicable. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget.

⁽²⁾ Net collections estimated to be distributed to the City from the first 1% City Sales Tax and following the distribution of \$120 million of revenues from the second 1% City Sales Tax to the School District, as described above.

Real Property Transfer Tax

Real Property Transfer Taxes are collected in connection with the sale of real property in the City. The Real Property Transfer Tax rate in the City is 4.278%, 3.278% of which is imposed by the City and 1% of which is charged by the Commonwealth. In the Fiscal Year 2023 ACFR, the City reported that it collected approximately \$378.8 million in revenues from the Real Property Transfer Tax in Fiscal Year 2023.

In the Thirty-Third Five-Year Plan (or with respect to Fiscal Year 2024, the FY 2024 Fourth Quarter QCMR), the City currently estimates that it will collect approximately (i) \$271.8 million (Fiscal Year 2024) and (ii) \$305.8 million (Fiscal Year 2025) in revenues from the Real Property Transfer Tax in such Fiscal Years.

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Other Taxes

The City also collects a Parking Tax, an Amusement Tax, a Valet Parking Tax, an Outdoor Advertising Tax, a Smokeless Tobacco Tax, the Philadelphia Beverage Tax (see below), and other miscellaneous taxes. Starting in Fiscal Year 2024, the Parking Tax and the Valet Parking Tax revenues are no longer part of the General Fund. As described herein, such revenues have been reassigned to the Transportation Fund.

In June 2016, City Council passed the Philadelphia Beverage Tax (Chapter 19-4100 of the Philadelphia Code) (the “Philadelphia Beverage Tax”). On October 31, 2016, the Department of Revenue adopted regulations for the Philadelphia Beverage Tax. The Philadelphia Beverage Tax taxes the distribution of caloric and non-caloric sweetened beverages at 1.5 cents per ounce and became effective January 1, 2017.

The Philadelphia Beverage Tax is deposited into the General Fund, and with the additional revenue, the City has budgeted for pre-Kindergarten programs, community schools, and debt service for improvements to parks, playgrounds, recreation centers, and libraries, as contemplated by the City’s Rebuild program. In the Fiscal Year 2023 ACFR, the City reported that it collected approximately \$73.4 million in revenues from the Philadelphia Beverage Tax for Fiscal Year 2023.

In the Thirty-Third Five-Year Plan (or with respect to Fiscal Year 2024, the FY 2024 Fourth Quarter QCMR), the City currently estimates that it will collect approximately (i) \$70.3 million (Fiscal Year 2024) and (ii) \$71.2 million (Fiscal Year 2025) in revenues from the Philadelphia Beverage Tax in such Fiscal Years.

Collection Initiatives

The City pursues a multifaceted strategy designed to improve on-time collections of various taxes while decreasing delinquencies. Key compliance strategies continue to include revocation of commercial licenses and sequestration, among others.

In addition to compliance efforts, the City has completed multiple technology projects – one to implement technology solutions for its cashiering and payments processing systems and another to develop an integrated data warehouse and case management system. These projects were prior to the City’s launch of its new tax system of record and its public facing counterpart, the Philadelphia Tax Center, which was completed in October 2022. These initiatives improve operational efficiencies, customer service and compliance, and drive enforcement efforts by providing tools previously unavailable to the City.

As a result of economic disruptions from the COVID-19 pandemic, the City modified its regular collection strategies. Throughout the pandemic, the Department of Revenue continued to send bills and notifications and pursue outreach efforts to both businesses and vulnerable residents. Enforcement projects, and placements with collection agencies have resumed as economic conditions have improved, including the revocation of business licenses and performing tax sales. In July 2024, the City resumed the Sheriff’s sale of properties with delinquent property tax accounts. The City continues to evaluate and pursue long-time delinquent accounts and place liens on properties for property-based taxes and fees.

Along with existing flexible payment agreements for property tax and water fees, the City also launched new payment agreements for all business taxes to bring businesses affected by COVID-19 closures into compliance. Additionally, the Department of Revenue launched an “Offers in Compromise”

program, which allows certain taxpayers to submit a request to settle their tax obligations for a payment of less than the full amount owed. Such requests are determined based on the taxpayer's current and projected financial circumstances. The program is designed to bring long-time delinquent accounts into compliance.

Other Locally Generated Non-Tax Revenues

These revenues include license fees and permit sales, traffic fines and parking meter receipts, court related fees, certain stadium revenues, interest earnings and other miscellaneous charges and revenues of the City. Beginning with Fiscal Year 2024, some of these revenues are no longer part of the General Fund and have been reassigned to the newly created Transportation Fund, which supports transportation activities including paving, traffic, engineering, school crossing guards, right-of-way management, public safety enforcement officers, surveys, and street lighting.

Revenue from Other Governments

The following table presents revenues received from other governmental jurisdictions for Fiscal Years 2021-2023, the budgeted amount and current estimate for Fiscal Year 2024, the budgeted amount for Fiscal Year 2025, and the percentage such revenues represent in the General Fund. The table does not reflect substantial amounts of revenues from other governments received by the Grants Revenue Fund, Community Development Fund, and other operating and capital funds of the City.

Table 12
Revenue from Other Governmental Jurisdictions
Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)
(Dollar Amounts in Millions of USD)^{(1), (2), (3)}

Fiscal Year	Commonwealth ⁽⁴⁾	Federal Government	Other Governments ⁽⁵⁾	Total	Percentage of General Fund Revenues
2021 (Actual)	\$229.8	\$62.4 ⁽⁶⁾	\$35.4	\$327.6	7.0%
2022 (Actual)	\$228.9	\$84.6 ⁽⁶⁾	\$62.6	\$376.1	6.5%
2023 (Actual)	\$252.7	\$42.9	\$67.6	\$363.2 ⁽⁷⁾	6.0%
2024 (Adopted Budget)	\$256.9	\$29.3	\$64.0	\$350.2	5.8%
2024 (Current Estimate)	\$269.1	\$32.6	\$64.7	\$366.4	6.2%
2025 (Adopted Budget)	\$296.1	\$37.3	\$65.1	\$398.5	6.4%

⁽¹⁾ Sources: Derived from the applicable adopted budgets and five-year plans for the given Fiscal Year.

⁽²⁾ Figures may not sum due to rounding.

⁽³⁾ Does not include the PICA Tax.

⁽⁴⁾ Such revenues are for health, welfare, court, and various other specified purposes.

⁽⁵⁾ Such revenues primarily consist of payments from PGW, parking fines and fees from PPA, and other authorized adjustments.

⁽⁶⁾ Includes federal relief funding from the CARES Act.

⁽⁷⁾ Does not include other authorized adjustments of \$59.1 million.

Revenues from City-Owned Systems

In addition to taxes, the City realizes revenues through the operation of various City-owned systems, such as the Water and Wastewater Systems and PGW. The City has issued revenue bonds with respect to the Water and Wastewater Systems and PGW to be paid solely from and secured by a pledge of the respective revenues of these systems. The revenues of the Water and Wastewater Systems and PGW are not legally available for payment of other obligations of the City until, on an annual basis, all bond

debt service requirements and covenants relating to those bonds have been satisfied, and then only in a limited amount and upon satisfaction of certain other conditions.

Water Fund. The revenues of the Water Department are required to be segregated from other funds of the City. Under the City’s Restated General Water and Wastewater Revenue Bond Ordinance of 1989 (the “Water Ordinance”), an annual transfer may be made from the Water Fund to the City’s General Fund in an amount not to exceed the lesser of (i) all Net Reserve Earnings and (ii) \$4,994,000. “Net Reserve Earnings” means the amount of interest earnings during the Fiscal Year on amounts in the Debt Reserve Account and Subordinated Bond Fund, each as defined in the Water Ordinance.

The following table shows the amounts transferred from the Water Fund to the General Fund for Fiscal Years 2021-2023, the budgeted amount and current estimate for Fiscal Year 2024, and the budgeted amount for Fiscal Year 2025.

Table 13
Transfers from Water Fund to General Fund (Excess Interest on Sinking Fund Reserve)
Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)^{(1), (2)}

Fiscal Year	Amount Transferred
2021 (Actual)	\$2,586,100
2022 (Actual)	\$575,643
2023 (Actual)	\$0
2024 (Adopted Budget)	\$1,500,000
2024 (Current Estimate)	\$1,500,000
2025 (Adopted Budget)	\$1,500,000

⁽¹⁾ Sources: For Fiscal Years 2021-2023, the City’s Supplemental Report of Revenues & Obligations for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the Thirty-Third Five-Year Plan. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan.

⁽²⁾ The Water Department’s budgeted amount for such transfers is typically greater than the figure included in the City’s operating budget.

The City also budgets for certain transfers from the Water Fund to the General Fund related to services performed and costs borne by the General Fund. For Fiscal Year 2022, the amount of such transfers was approximately \$6.5 million. For Fiscal Year 2023, the amount of such transfers was approximately \$4.6 million. For Fiscal Year 2024, the budgeted amount of such transfers is approximately \$7.5 million, while the current estimate is \$5.4 million. For Fiscal Year 2025, the budgeted amount of such transfers is approximately \$5.7 million.

PGW. The revenues of PGW are required to be segregated from other funds of the City. Payments for debt service on PGW bonds are made directly by PGW. PGW is required to make an annual payment of \$18 million to the General Fund. The Fiscal Year 2025 Adopted Budget includes such \$18 million annual payment to the General Fund from PGW for such Fiscal Year. For more information on PGW, see “THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Government Services.”

Philadelphia Parking Authority Revenues

The PPA was established by City ordinance pursuant to the Pennsylvania Parking Authority Law (P.L. 458, No. 208 (June 5, 1947)). Various statutes, ordinances, and contracts authorize the PPA to plan, design, acquire, hold, construct, improve, maintain and operate, own or lease land and facilities for

parking in the City, including such facilities at PHL, and to administer the City’s on-street parking program.

The PPA owned and operated five parking garages and a number of surface parking lots at PHL (collectively, the “Improvements”). The land on which these garages and surface lots are located was previously leased from the City, acting through the Department of Aviation, pursuant to a lease originally expiring in 2030 (the “Lease Agreement”). On August 14, 2020, pursuant to the Lease Agreement and that certain Parking Services Contract, the City exercised its option to purchase the Improvements. As of the date of this Official Statement, the City has terminated the Lease Agreement and provided the requisite funds to redeem the debt issued and outstanding under the PPA’s bond indenture related to the Improvements. The PPA now manages the PHL parking facilities under a management agreement with the City.

The PPA’s administrative costs are a component of its operating expenses. In 1999, at the request of the Federal Aviation Administration (“FAA”), the PPA and the City entered into a letter agreement (the “FAA Letter Agreement”), which contained a formula for calculating the PPA’s administrative costs and capped such costs at 28% of the PPA’s total administrative costs for all of its cost centers. The PPA owns and/or operates parking facilities at a number of locations in the City in addition to those at PHL. The PPA parking facilities at PHL are cost centers for purposes of the FAA Letter Agreement.

On-street parking revenues are administered and collected, on behalf of the City, by the PPA. Pursuant to Pennsylvania law, the PPA transmits these revenues to the City, net of any actual expenses incurred in the administration of the on-street parking system in accordance with the PPA’s approved budget. If such net revenues exceed a designated threshold, then any excess above that threshold is to be transmitted to the School District by PPA. The current threshold is estimated to be \$42.3 million and includes a mandatory escalator to take into account increases in revenues.

The following table presents payments received by the City from PPA for on-street parking and parking at certain off-street parking lots for Fiscal Years 2021-2023, the budgeted amount and current estimate for Fiscal Year 2024, and the budgeted amount for Fiscal Year 2025.

Table 14
PPA Payments to the City
Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)^{(1), (2)}
(Amounts in Millions of USD)

Fiscal Year	Payments to the City
2021 (Actual)	\$25.6
2022 (Actual)	\$44.6
2023 (Actual)	\$48.7
2024 (Adopted Budget)	\$45.7
2024 (Current Estimate)	\$45.7
2025 (Adopted Budget)	\$46.7

⁽¹⁾ Sources: For Fiscal Years 2021-2023, the City’s Supplemental Report of Revenues & Obligations for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the Thirty-Third Five-Year Plan. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan.

⁽²⁾ Table 14 shows City revenues; none of such payments is transferred to the School District.

Other Tax Rates

The resident and non-resident Wage and Earnings Tax rates for Fiscal Years 2024-2029 are shown in the following table, which are maintained for the life of the Thirty-Third Five-Year Plan.

Table 15
Wage and Earnings Tax Rates⁽¹⁾

Fiscal Year	Thirty-Third Five-Year Plan	
	Resident Wage and Earnings Tax Rates ⁽²⁾	Non-Resident Wage and Earnings Tax Rates
2024	3.75%	3.44%
2025	3.75%	3.44%
2026	3.75%	3.44%
2027	3.75%	3.44%
2028	3.75%	3.44%
2029	3.75%	3.44%

⁽¹⁾ Source: The Thirty-Third Five-Year Plan.

⁽²⁾ Includes PICA Tax. See "DEBT OF THE CITY – PICA Bonds" for a description of the PICA Tax.

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EXPENDITURES OF THE CITY

Three of the principal City expenditures are for personal services (personnel) (including pensions and other employee benefits), purchase of services (including payments to SEPTA), and debt service. The expenditures for personal services (personnel) and purchase of services are addressed below under this caption; debt service is addressed below under “DEBT OF THE CITY.”

Personal Services (Personnel)

As of June 30, 2024, the City employed 27,119 full-time employees, representing approximately 3.8% of employees in Philadelphia (approximately 720,237 employees, according to preliminary, non-seasonally adjusted data from the Bureau of Labor Statistics). Of the 27,119 full-time employees, the salaries of 20,865 were paid from the General Fund. Additional sources of funding for full-time City employees include the Grants Revenue Fund, the Water Fund, and the Aviation Fund, as well as grants and contributions from other governments. Activities funded through such grants and contributions are not undertaken if funding is not received. The following table sets forth the number of filled, full-time positions of the City as of the dates indicated.

Table 16
Filled, Full-Time Positions^{(1), (2)}

	June 30, 2020	June 30, 2021	June 30, 2022	June 30, 2023	June 30, 2024
<u>General Fund</u>					
Police	7,175	6,869	6,651	6,351	6,204
Fire	2,628	2,678	2,667	2,794	2,815
Courts	1,825	1,773	1,686	1,685	1,707
Prisons	1,975	1,620	1,393	1,312	1,266
Streets	1,925	1,941	2,072	2,068	1,495
Public Health	739	716	689	690	730
Human Services ⁽³⁾	437	492	492	535	441
All Other	<u>5,718</u>	<u>5,541</u>	<u>5,405</u>	<u>5,836</u>	<u>6,207</u>
<u>Total – General Fund</u>	<u>22,422</u>	<u>21,630</u>	<u>21,055</u>	<u>21,271</u>	<u>20,865</u>
<u>Other Funds</u>	<u>5,917</u>	<u>5,579</u>	<u>5,377</u>	<u>5,321</u>	<u>6,254</u>
<u>Total – All Funds</u>	<u>28,339</u>	<u>27,209</u>	<u>26,432</u>	<u>26,592</u>	<u>27,119</u>

⁽¹⁾ Source: Table P-1 in the City’s Quarterly City Manager’s Reports.

⁽²⁾ Table 16 does not include part-time, seasonal, or temporary employees.

⁽³⁾ Positions have been transferred to the Grants Revenue Fund. Non-reimbursed expenditures will be transferred to the General Fund during the fiscal year.

Overview of City Employees

The wages and benefits of City employees vary not only by position, but also by whether the employees are represented by a union and, if so, which union. Employee wages and benefits may also be impacted by whether the employee is subject to the civil service system or exempt from those rules. Thus, City employees may be broken down into three major categories for purposes of understanding how their wages and benefits are determined: (i) employees who are not subject to the civil service system (“exempt employees”); (ii) employees who fall under the civil service system but are not represented by a union (“non-represented employees”); and (iii) employees who are subject to the civil service system and are represented by a union (“union employees”).

As of August 2024, the City had approximately 22,401 unionized employees, representing approximately 81% of the City's employees. Such employees were represented by the City's five municipal unions: (i) Fraternal Order of Police ("FOP") Lodge No. 5; (ii) International Association of Fire Fighters ("IAFF") Local 22; (iii) American Federation of State, County and Municipal Employees District Council 33 ("AFSCME DC 33"); (iv) American Federation of State, County and Municipal Employees District Council 47 ("AFSCME DC 47"); and (v) United Steelworkers Local 286 ("Steelworkers Local 286"). Table 18 below describes certain aspects of the collective bargaining agreements ("CBAs") or interest arbitration awards with the City's municipal unions.

In Fiscal Year 2022, the City received arbitration awards with the FOP and IAFF and reached CBAs with AFSCME DC 33 and AFSCME DC 47 covering the period July 1, 2022 through June 30, 2024. In Fiscal Year 2023, the City received an arbitration award with AFSCME DC 33, Local 159 Correctional Officers ("AFSCME DC 33 Local 159"). On August 12, 2022, the economic portion of the CBA with one new bargaining unit, Steelworkers Local 286, was resolved. The negotiations for the non-economic matters remain ongoing. During Fiscal Year 2024, the City reached a one-year extension with the FOP, IAFF, Deputy Sheriffs and Office of the Register of Wills, AFSCME DC 33, Local 159, and Steelworkers, Local 286 as noted in the sections below. During Fiscal Year 2025, the City reached a one-year extension with AFSCME DC 47, Locals 2186 and 2187, as noted in the sections below.

A brief description of certain terms of the current labor agreements is included below.

On September 3, 2021, a CBA, covering Fiscal Years 2022-2024, was reached with AFSCME DC 33 and provides for, among other things, (i) wages increases of 2.5%, 3.25%, and 3.25% in Fiscal Years 2022, 2023, and 2024, respectively, (ii) a one-time lump sum bonus for members (\$1,200 per member), and (iii) an increase to the City's monthly payments to the union health and welfare fund (item (iii) also applies to AFSCME DC 33 Local 159, which shares a common health fund with AFSCME DC 33, as described below). The CBA was ratified by AFSCME DC 33 members on September 24, 2021. Such agreement is expected to result in a projected aggregate cost to the City of approximately \$138.0 million over the course of Fiscal Years 2022-2024.

AFSCME DC 33 and AFSCME DC 33 Local 159 share a common health fund. Under prior CBAs, the cost of bonuses for such unions have been partially offset by reduced monthly City contributions to the health fund. Such reduced monthly contributions have been paused and the City is currently making full contributions to the health fund. It is not known at this time when or if the reduced monthly contributions may resume.

On November 15, 2023, the City and the FOP Lodge 5 (Police Department) entered into a one-year extension of the existing CBA, covering Fiscal Year 2025. It provides for (i) wage increases of 5%, (ii) a one-time lump sum bonus of \$1,800, (iii) a one-time lump sum payment of \$4.5 million dollars to the Joint Retiree Trust Fund, and (iv) a \$14 increase to current meal allowances, effective July 1, 2024. Such agreement is expected to result in a projected aggregate cost to the City of approximately \$51.7 million over the course of Fiscal Year 2025.

On December 19, 2023, the City and IAFF entered into a one-year extension of the existing CBA, covering Fiscal Year 2025. It provides for (i) wage increases of 5%; (ii) a one-time lump sum bonus of \$1,800; (iii) a one-time lump sum payment of \$3,050,000 to the Joint Retiree Trust Fund; and (iv) reimbursement to the union of reasonable and necessary funeral expenses associated with a line of duty death, up to a maximum of \$75,000. The extension was ratified by IAFF members on or about February

1, 2024. Such agreement is expected to result in a projected aggregate cost to the City of approximately \$22.2 million over the course of Fiscal Year 2025.

On December 8, 2023, the City and FOP Lodge No. 5 (Sheriff's Office and Register of Wills ("ROW")) entered into a one-year extension of the existing CBA, covering Fiscal Year 2025. It provides for (i) wage increases for Sheriffs of 4.5%; (ii) wage increases for ROW consistent with those negotiated with AFSCME District Council 33 (not yet negotiated); (iii) a one-time lump sum bonus for members (\$1,500 for the Sheriffs and, for ROW, the same bonus as negotiated with AFSCME District Council 33 (not yet negotiated)). Such agreement is expected to result in a projected aggregate cost to the City of approximately \$1.5 million over the course of Fiscal Year 2025.

The City and Steelworkers Local 286 agreed to the terms of a one-year extension (a 4.25% salary increase for Fiscal Year 2025, which will increase to 4.4%, and a \$1,300 bonus). Such agreement was ratified by the union members on June 1, 2024.

On June 17, 2024, an arbitration panel issued a one-year extension of the arbitration award for AFSCME DC 33 Local 159, which includes a 4.5% salary increase for Fiscal Year 2025 and a \$1,600 bonus.

On August 1, 2024, the City and AFSCME DC 47 agreed to the terms of a one-year extension (a 4.4% salary increase for Fiscal Year 2025 (and the last pay period of Fiscal Year 2024) and a \$1,400 bonus), which was ratified by the members on August 9, 2024.

On August 1, 2024, the City and AFSCME DC 47 Local 810 (representing professional rank and file employees at the First Judicial District) and Local 2186 (representing first-level supervisor at the First Judicial District) agreed to the terms of a one-year extension (a 4.4% salary increase for Fiscal Year 2025 (and the last pay period of Fiscal Year 2024) and a \$1,400 bonus), which was ratified by the members on August 19, 2024.

The City is currently negotiating with AFSCME DC 33.

Pension reforms that were agreed to in the 2017 labor agreements are maintained in the labor agreements described above.

The costs of the labor agreements discussed above have been included in the City's five-year plans, as applicable. See "DISCUSSION OF FINANCIAL OPERATIONS – Current Financial Information" herein).

For more information on the current status of the interest arbitration awards that have been issued for, and contract settlements reached with, the City's major labor organizations, as well as changes that have been made for non-represented employees, see Table 18.

Collective bargaining with respect to the wages, hours and other terms and conditions of employment of union employees, other than uniformed employees of the Police Department and the Fire Department, is governed by the Public Employee Relations Act (Pa. P.L. 563, No. 195 (1970)) ("PERA"). PERA requires the City and the unions to negotiate in good faith to attempt to reach agreement on new contract terms and, if an impasse exists after such negotiations, to mediate through the Commonwealth Bureau of Mediation. Once the mediation procedures have been satisfied, and if no CBA has been reached, most employees covered by PERA are permitted to strike. Certain employees, however,

including employees of the Sheriff's Office and the Register of Wills represented by the FOP, corrections officers represented by AFSCME DC 33, and employees of the First Judicial District represented by AFSCME DC 47, are not permitted to strike under PERA. These employees must submit any impasse to binding interest arbitration once the mediation procedures have been satisfied. PERA permits parties at an impasse, which are not required to submit to binding interest arbitration, to do so voluntarily. Provisions of an interest arbitration award issued under PERA that require legislative action are considered advisory only and the legislative body is permitted to meet, consider, and reject those provisions.

Uniformed employees of the Police Department and the Fire Department bargain under the Policemen and Firemen Collective Bargaining Act (Pa. P.L. 237, No. 111 (1968)) ("Act 111"), which provides for final and binding interest arbitration to resolve collective bargaining impasses and prohibits these employees from striking. Interest arbitration under Act 111 operates similarly to interest arbitration under PERA, but City Council is not permitted to reject the portions of an interest arbitration award that require legislative action. To the contrary, City Council is required to pass any legislation necessary to implement the award unless doing so would violate state or federal law. Thus, the arbitration panel has significant, although not limitless, power to issue an award on mandatory subjects of bargaining. As with interest arbitration under PERA, the arbitration panel cannot issue an award on a matter that is one of inherent managerial policy. In addition to the grounds available to challenge a PERA interest arbitration award on appeal, the PICA Act requires an Act 111 interest arbitration panel to, among other things, give substantial weight to the City's five-year plan and ability to pay for the cost of the award without negatively impacting services, and gives the City the right to appeal the award to the Court of Common Pleas if it believes the panel has failed to meet these responsibilities. If the arbitration panel fails to do so or, among other things, if it awards wages or benefits that exceed what is assumed in the most-recent five-year plan without substantial evidence in the record demonstrating that the City can afford these increases without adversely impacting service levels, the Court of Common Pleas is required to vacate the arbitration award and remand it to the arbitration panel.

Overview of Employee Benefits

The City provides various pension, life insurance, and health benefits for its employees. The benefits offered depend on the employee's union status and bargaining unit, if applicable. Health equity and tackling the social determinants of health are the top priorities for the City's health plans. The City participated in an 18-month project with the Center for Disease Control (CDC) to evaluate the effectiveness of benefits programming based upon established national standards. The City received the highest rating in this project and its participation created a road map for future health benefit improvements. General Fund employee benefit expenditures for Fiscal Years 2021 through 2025 are shown in the following table.

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Table 17
General Fund Employee Benefit Expenditures
Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)
(Amounts in Millions of USD)⁽¹⁾

	<u>Actual 2021</u>	<u>Actual 2022</u>	<u>Actual 2023</u>	<u>Adopted Budget 2024</u>	<u>Current Estimate 2024</u>	<u>Adopted Budget 2025</u>
Pension Costs ⁽²⁾	\$664.4 ⁽⁵⁾	\$1,031.4 ⁽⁶⁾	\$929.7 ⁽⁷⁾	\$868.2 ⁽⁸⁾	\$826.8 ⁽⁹⁾	\$833.1 ⁽¹⁰⁾
Health						
Payments under City-administered plan	81.2	91.9	90.3	120.6	126.5	152.9
Payments under union-administered plans	<u>358.8</u>	<u>392.4</u>	<u>409.5</u>	<u>456.1</u>	<u>456.1</u>	<u>455.1</u>
Total Health	440.0	484.3	499.8	576.7	582.6	608.0
Federal Insurance Contributions Act (FICA) Taxes ⁽³⁾	81.5	81.9	89.1	98.2	98.2	101.7
Other ⁽⁴⁾	<u>84.4</u>	<u>92.4</u>	<u>107.3</u>	<u>117.9</u>	<u>117.9</u>	<u>134.3</u>
Total	<u>\$1,270.3</u>	<u>\$1,690.0</u>	<u>\$1,625.9</u>	<u>\$1,661.0</u>	<u>\$1,625.5</u>	<u>\$1,677.1</u>

⁽¹⁾ Sources: The City's five-year financial plans and the City's Quarterly City Manager's Reports. "Payments under City-administered plan" and "Payments under union-administered plans" were provided by the City, Department of Human Resources and the Office of Budget and Program Evaluation. Figures may not sum due to rounding.

⁽²⁾ Includes debt service on Pension Bonds (as defined herein) and the Commonwealth contributions to the Municipal Pension Fund. See Tables 29 and 30.

⁽³⁾ Includes payments of social security and Medicare taxes.

⁽⁴⁾ Includes payments for unemployment compensation, employee disability, group life, group legal, tool allowance, and flex cash payments (and COVID-19 funeral expenses for Actual 2022 and Current Estimate 2023).

⁽⁵⁾ Includes \$55.2 million from City Sales Tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."

⁽⁶⁾ Includes \$78.8 million from City Sales Tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."

⁽⁷⁾ Includes \$92.1 million from City Sales Tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."

⁽⁸⁾ Assumes \$85.4 million from City Sales Tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."

⁽⁹⁾ Assumes \$90.2 million from City Sales Tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."

⁽¹⁰⁾ Assumes \$98.5 million from City Sales Tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."

Each of the City's four municipal unions sponsors its own health plan that provides medical, prescription, dental and optical benefits to participating employees and eligible retirees through trusts on which the City has varying degrees of minority representation. Exempt and non-represented employees, along with represented employees of the Register of Wills, certain employees represented by AFSCME DC 33, and employees represented by Steelworkers Local 286 who have chosen not to become members of the union's healthcare plan, receive health benefits through a plan sponsored and administered by the City. Each of the plans provides different benefits determined by the plan sponsor or through collective bargaining. To provide health care coverage, the City pays a negotiated monthly premium for employees covered by the union contract for AFSCME DC 33 and is self-insured for all other eligible employees. Aside from AFSCME DC 33, the City is responsible for the actual health care cost that is invoiced to the City's unions by their respective vendors. The actual cost can be a combination of self-insured claim expenses, premiums, ancillary services, and administrative expenses. In addition, employees who satisfy certain eligibility criteria receive five years of health benefits after their retirement. See "OTHER POST-EMPLOYMENT BENEFITS" below. Such benefits are determined and administered by the plan in which the employee participated at the time of his or her retirement. Other employee benefits, including life insurance and paid leave, are similarly determined by the respective CBAs, as well as City policies and Civil Service Regulations. Employees also participate in the Municipal Pension Plan. See "PENSION SYSTEM" below.

Overview of Current Labor Contract Settlements

Table 18 summarizes the current status of the contract settlements reached with the City’s major labor organizations, as well as changes that have been made for non-represented employees. It also provides a brief summary of pension reforms that have occurred since 2016, as part of previous labor contract settlements. The following table does not include exempt employees or employees from Steelworkers Local 286 (which as of August 31, 2024 totaled 4,043 and 664, respectively).

Table 18
Status of Arbitration Awards and Labor Contract Settlements

<u>Organization</u>	<u>Authorized Number of Full- Time Citywide Employees Represented⁽¹⁾</u>	<u>Status of Arbitration Award or Contract Settlement</u>	<u>Wage Increases</u>	<u>Pension Reforms⁽²⁾</u>
FOP Lodge No. 5 (Police Department)	5,560	One-year contract extension effective July 1, 2024	• 5.00% in Fiscal Year 2025	• Current employees in Plan 87 or Plan 10 will pay an additional .92% of salary effective 7/1/17, increasing by an additional .92% of salary effective 7/1/18 (total increase of 1.84%). These contributions are on top of the current 5% or 6% contribution rates in effect, varies by plan membership • Employees hired on or after 7/1/17 are required to pay an additional 2.5% of salary
FOP Lodge No. 5 (Sheriff’s Office and Register of Wills)	293	One-year contract extension effective July 1, 2024	<u>Sheriff’s Office employees:</u> • 4.50% in Fiscal Year 2025 <u>Register of Wills employees:</u> • 2.50% in Fiscal Year 2022 • 3.25% in Fiscal Year 2023 • 3.25% in Fiscal Year 2024 • <i>Fiscal Year 2025 to be negotiated</i>	• Tiered contribution system for current employees under which employees who have higher salaries pay a higher percent of their salaries as contributions to the pension fund • Mandatory stacked-hybrid plan for new hires under which employees receive a defined benefit pension for their first \$65,000 of earnings and a defined contribution pension for earnings above \$65,000 • Plan 10 is closed to new enrollment for members of Lodge 5 • DROP (as defined below) interest rate decreases from 4.5% to the rate on the one-year treasury effective January 1 of each year for participants not currently enrolled or eligible to enroll
IAFF Local 22	2,742	One-year contract effective July 1, 2024	• 5.00% in Fiscal Year 2025	• Current employees in Plan 87 or Plan 10 will pay an additional .92% of salary effective 7/1/17, increasing by an additional .92% of salary effective 7/1/18 (total increase of 1.84%). These contributions are on top of the current 5% or 6% contribution rates in effect; varies by plan membership • Employees hired on or after 7/1/17 are required to pay an additional 2.5% of salary
AFSCME DC 33	7,513	Three-year contract effective July 1, 2021 through June 30, 2024	• 2.50% in Fiscal Year 2022 • 3.25% in Fiscal Year 2023 • 3.25% in Fiscal Year 2024	• Tiered contribution system for current employees under which employees who have higher salaries pay a higher percent of their salaries as contributions to the pension fund • Mandatory stacked-hybrid plan for new hires under which employees receive a defined benefit pension for their first \$65,000 of earnings and a defined contribution pension for earnings above \$65,000 • Plan 10 is closed to new enrollment for members of DC 33 • DROP interest rate decreases from 4.5% to the rate on the one-year treasury effective January 1 of each year for participants not currently enrolled or eligible to enroll

⁽¹⁾ From data provided by the Department of Labor in August 31, 2024.

⁽²⁾ “Plan 87,” “Plan 10,” and “Plan 16” referenced in this column are described in Table 19.

<u>Organization</u>	<u>Authorized Number of Full-Time Citywide Employees Represented⁽¹⁾</u>	<u>Status of Arbitration Award or Contract Settlement</u>	<u>Wage Increases</u>	<u>Pension Reforms⁽²⁾</u>
AFSCME DC 33, Local 159 Correctional Officers	1,335	One-year contract extension effective July 1, 2024	• 2.75% in Fiscal Year 2022 • 3.25% in Fiscal Year 2023 • 3.25% in Fiscal Year 2024 • 4.50% in Fiscal Year 2025	• Tiered contribution system for current employees under which employees who have higher salaries pay a higher percent of their salaries as contributions to the pension fund • Mandatory stacked-hybrid plan for new hires under which employees receive a defined benefit pension for their first \$65,000 of earnings and a defined contribution pension for earnings above \$65,000 • Plan 10 is closed to new enrollment for members of DC 33 • DROP interest rate decreases from 4.5% to the rate on the one-year treasury effective January 1 of each year for participants not currently enrolled or eligible to enroll
AFSCME DC 47	3,881	One-year contract extension effective July 1, 2024	• 2.50% in Fiscal Year 2022 • 3.25% in Fiscal Year 2023 • 3.25% in Fiscal Year 2024 • 4.40% in Fiscal Year 2025	• Tiered contribution system for current employees under which employees who have higher salaries pay a higher percent of their salaries as contributions to the pension fund (effective January 1, 2019) • Mandatory stacked-hybrid plan for new hires under which employees receive a defined benefit pension for their first \$65,000 of earnings and a defined contribution pension for earnings above \$65,000 (effective January 1, 2019) • Plan 10 is closed to new enrollment for members of DC 47 (effective January 1, 2019)
AFSCME DC 47 Local 810 Court Employees	385	One-year contract extension effective July 1, 2024	• 2.50% in Fiscal Year 2022 (plus \$1,200 bonus) • 3.25% in Fiscal Year 2023 • 3.25% in Fiscal Year 2024 • 4.40% in Fiscal Year 2025	• Tiered contribution system for current employees under which employees who have higher salaries pay a higher percent of their salaries as contribution to the pension fund (effective January 1, 2019) • Mandatory stacked-hybrid plan for new hires under which employees receive a defined benefit pension for their first \$65,000 of earnings and a defined contribution pension for earnings above \$65,000 (effective January 1, 2019) • Plan 10 is closed to new enrollment for members of DC 47 (effective January 1, 2019)
Non-Represented Employees	1,229	Changes for non-represented employees	• 2.50% in Fiscal Year 2022 • 3.25% in Fiscal Year 2023 • 3.25% in Fiscal Year 2024 • 4.40% in Fiscal Year 2025	• Tiered contribution system for current employees under which employees who have higher salaries pay a higher percent of their salaries as contribution to the pension fund (effective January 1, 2019) • Mandatory stacked-hybrid plan for new hires under which employees receive a defined benefit pension for their first \$65,000 of earnings and a defined contribution pension for earnings above \$65,000 (effective January 1, 2019) • Previous 2011 reforms to DROP program remain in place; interest rate was decreased from 4.5% to the rate on the one-year treasury effective January 1 of each year for participants not currently enrolled or eligible to enroll and eligibility age remains increased by two years

⁽¹⁾ From data provided by the Department of Labor in August 31, 2024.

⁽²⁾ “Plan 87,” “Plan 10,” and “Plan 16” referenced in this column are described in Table 19.

Certain features of the 1987 Plan (“Plan 87”), the 2010 Plan (“Plan 10”), and the 2016 Plan (“Plan 16”) are summarized below. Plan 87 is solely a defined benefit plan. Plan 10 and Plan 16 are “hybrid” plans that include both defined benefit and defined contribution components. A more comprehensive summary of each plan is included as Appendix D of the July 1, 2022 Valuation (as defined herein). See “PENSION SYSTEM” below.

Table 19
Summary of Key Aspects of Plan 87, Plan 10, and Plan 16

Plan 87	Normal Retirement Eligibility	Average Final Compensation (“AFC”)	Defined Benefit – Retirement Benefits Multiplier
Municipal (Plan Y)	Age 60 and 10 years of credited service ⁽¹⁾	Average of three highest calendar or anniversary years	• (2.2% x AFC x years of service up to 10 years) plus (2.0% x AFC x numbers of years in excess of 10 years), subject to a maximum of 100% of AFC
Police and Fire	Age 50 and 10 years of credited service ⁽¹⁾	Average of two highest calendar or anniversary years	• (2.2% x AFC x years of service up to 20 years) plus (2.0% x AFC x numbers of years in excess of 20 years), subject to a maximum of 100% of AFC
Elected Official (Plan L)	Age 55 and 10 years of credited service ⁽²⁾	Average of three highest calendar or anniversary years	• 3.5% x AFC x years of service, subject to a maximum of 100% of AFC
Plan 10	Normal Retirement Eligibility	Average Final Compensation (“AFC”)	Defined Benefit – Retirement Benefits Multiplier
Municipal	Age 60 and 10 years of credited service	Average of five highest calendar or anniversary years	• 1.25% x AFC x years of service up to 20 years
Police and Fire ⁽³⁾	Age 50 and 10 years of credited service	Average of five highest calendar or anniversary years	• 1.75% x AFC x years of service up to 20 years

Defined Contribution			
• The City matches employee contributions at a 50% rate, with the total City match not to exceed 1.5% of compensation for each year. • After five years of credited service, the full amount in the account is distributed to the employee when he or she separates from City service. • The right to the portion of the account attributable to City contributions does not vest until the completion of five years of credited service.			
Plan 16	Normal Retirement Eligibility	Average Final Compensation (“AFC”)	Defined Benefit – Retirement Benefits Multiplier
Municipal	Age 60 and 10 years of credited service	Lesser of (i) AFC under Plan Y (of Plan 87) (which is the average of three highest calendar or anniversary years) or (ii) \$65,000	• (2.2% x AFC x years of service up to 10 years) plus (2.0% x AFC x numbers of years in excess of 10 years), subject to a maximum of 100% of AFC

Defined Contribution			
• Employees may voluntarily participate in the defined contribution portion; employee contributions vest immediately. • For employees with annual salaries above the cap, the City matches employee contributions at a 50% rate, with the total City match not to exceed 1.5% of compensation for each year (only if employee is contributing); the City’s matching contributions vest after five years of credited service. • The maximum annual employee contribution is \$20,500, excluding the City’s matching contributions.			

⁽¹⁾ Five years of credited service for those who make additional contributions. See “PENSION SYSTEM – Pension System; Pension Board – Membership.”

⁽²⁾ The lesser of two full terms or eight years of credited service for those elected officials who make additional contributions. See “PENSION SYSTEM – Pension System; Pension Board – Membership.”

⁽³⁾ Under Plan 10 (Police and Fire), pension contributions freeze after 20 years. At such time and for each subsequent year, the employee’s pension payments remain fixed and the employee may no longer make pension contributions.

Purchase of Services

The following table shows the City's major purchase of services, which represents one of the major classes of expenditures from the General Fund. Table 20 shows contracted costs of the City for Fiscal Years 2021-2023, the budgeted amounts and current estimates for Fiscal Year 2024, and the budgeted amounts for Fiscal Year 2025.

Table 20
Purchase of Services in the General Fund
Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)
(Amounts in Millions of USD)^{(1), (7)}

	Actual 2021	Actual 2022	Actual 2023	Adopted Budget 2024	Current Estimate 2024	Adopted Budget 2025
Human Services ⁽²⁾	\$123.4	\$138.8	\$151.0	\$180.5	\$180.5	\$182.6
Public Health	87.8	86.9	64.9	70.2	69.9	73.1
Public Property ⁽³⁾	165.0	162.0	215.7	226.7	227.7	248.6
Streets ⁽⁴⁾	67.2	60.4	70.7	60.6	57.4	62.4
First Judicial District	9.3	13.4	17.7	9.9	10.0	9.1
Licenses & Inspections	12.1	13.0	14.2	14.9	16.4	13.9
Homeless Services ⁽⁵⁾	36.8	45.8	69.8	69.5	81.4	77.7
Prisons	95.2	97.9	108.4	111.9	120.9	119.8
All Other ⁽⁶⁾	349.4	396.2	494.9	635.9	636.3	635.1
Total	<u>\$946.2</u>	<u>\$1,014.4</u>	<u>\$1,207.3</u>	<u>\$1,380.1</u>	<u>\$1,400.5</u>	<u>\$1,422.3</u>

⁽¹⁾ Sources: For Fiscal Years 2021-2023, the City's Supplemental Report of Revenues & Obligations for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the Fiscal Year 2025 Adopted Budget, as applicable. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget.

⁽²⁾ Includes payments for care of dependent and delinquent children.

⁽³⁾ Includes payments for SEPTA, space rentals, and utilities.

⁽⁴⁾ Includes solid waste disposal costs.

⁽⁵⁾ Includes homeless shelter and boarding home payments.

⁽⁶⁾ Includes the Convention Center subsidy, payments for vehicle leasing, and debt service on lease and service agreement financings, among other things.

⁽⁷⁾ Figures may not sum due to rounding.

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City Payments to School District

The following table presents the City's payments to the School District from the General Fund for Fiscal Years 2021-2023, the budgeted amount and current estimate for Fiscal Year 2024, and the budgeted amount for Fiscal Year 2025.

Table 21
City Payments to School District
Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)
(Amounts in Millions of USD)⁽¹⁾

	<u>Actual</u> <u>2021</u>	<u>Actual</u> <u>2022</u>	<u>Actual</u> <u>2023</u>	<u>Adopted</u> <u>Budget</u> <u>2024</u>	<u>Current</u> <u>Estimate</u> <u>2024</u>	<u>Adopted</u> <u>Budget</u> <u>2025</u>
City Payments to School District	\$252.6	\$256.0	\$270.0	\$282.1	\$282.1	\$284.1

⁽¹⁾ Sources: For Fiscal Years 2021-2023, the City's ACFRs for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan.

For more discussion of the School District, see "THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Local Government Agencies – *Mayoral-Appointed or Nominated Agencies* – The School District," above. For a discussion of changes in the funding provided by the City to the School District, see "REVENUES OF THE CITY – Sales and Use Tax." For a discussion of the transition to AVI and how such transition affects funding for the School District, see "REVENUES OF THE CITY – Real Property Taxes."

City Payments to Southeastern Pennsylvania Transportation Authority (SEPTA)

SEPTA operates a public transportation system within the City and Bucks, Chester, Delaware, and Montgomery counties. SEPTA's operating budget is supported by federal, Commonwealth, and local subsidies, including payments from the City. The following table presents the City's payments to SEPTA from the General Fund for Fiscal Years 2021-2023, the budgeted amount and current estimate for Fiscal Year 2024, and the budgeted amount for Fiscal Year 2025.

Table 22
City Payments to SEPTA
Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)
(Amounts in Millions of USD)⁽¹⁾

	<u>Actual</u> <u>2021</u>	<u>Actual</u> <u>2022</u>	<u>Actual</u> <u>2023</u>	<u>Adopted</u> <u>Budget</u> <u>2024</u>	<u>Current</u> <u>Estimate</u> <u>2024</u>	<u>Adopted</u> <u>Budget</u> <u>2025</u>
City Payment to SEPTA	\$84.6	\$91.2	\$100.7	\$109.6	\$109.6	\$133.3

⁽¹⁾ Sources: For Fiscal Years 2021-2023, the City's ACFRs for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan.

The City budgets operating subsidies each Fiscal Year to match the estimated operating subsidies of the Commonwealth under Act 89. The state operating subsidy is funded through the Pennsylvania Public Transportation Trust Fund as created by Act 44 of 2007, amended by Act 89 of 2013. The local match requirement is calculated to match state operating subsidies. In addition, local matching funds must be appropriated each Fiscal Year in which state funds are received in order for SEPTA to receive the full allocation of state funds. The Thirty-Third Five-Year Plan projects annual operating subsidy payments to SEPTA from the City will increase to approximately \$159.9 million by Fiscal Year 2029. For more information on SEPTA, see APPENDIX IV – “TRANSPORTATION – Southeastern Pennsylvania Transportation Authority (SEPTA).”

City Payments to Convention Center Authority

In connection with the financing of the expansion to the Pennsylvania Convention Center and the refinancing of debt for the original Pennsylvania Convention Center construction, the Commonwealth, the City, and the Convention Center Authority entered into an operating agreement in 2010 (the “Convention Center Operating Agreement”). The Convention Center Operating Agreement provides for the operation of the Convention Center by the Convention Center Authority and includes an annual subsidy of \$15,000,000 from the City to the Convention Center Authority in each Fiscal Year through Fiscal Year 2040.

As authorized by ordinance, the City has agreed to pay to the Convention Center Authority on a monthly basis a certain percentage of hotel room taxes and hospitality promotion taxes collected during the term of the Convention Center Operating Agreement. The remaining percentages of such taxes are paid to the City’s tourism and marketing agencies. The General Fund does not retain any portion of the proceeds of the hotel room rental tax or the hospitality promotion tax.

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PENSION SYSTEM

The amounts and percentages set forth under this heading relating to the City's pension system, including, for example, actuarial liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including the investment return rates, inflation rates, salary increase rates, post-retirement mortality, active member mortality, rates of retirement, etc. The reader should review and carefully consider the assumptions set forth in the documents that are cited as the sources for the information in this section. In addition, the reader is cautioned that such sources and the underlying assumptions are relevant as of their respective dates, and are subject to changes, any of which could cause a significant change in the unfunded actuarial liability.

Each year, an actuarial valuation report of the City's pension system is published in late March or early April. Such report includes, as of July 1 of a given Fiscal Year, an examination of the current financial condition of the pension system, key historical trends, and the projected financial outlook of the pension system, among other information. In addition, an annual report on the audited financial statements of the City's pension system is published in late December or early January. The information included under the caption "PENSION SYSTEM" is derived from the actuarial valuation reports or the annual reports on the audited financial statements of the City's pension system, unless otherwise noted herein.

Overview

The City faces significant ongoing financial challenges in meeting its pension obligations, including an unfunded actuarial liability ("UAL") of approximately \$4.84 billion as of July 1, 2023. In Fiscal Year 2023, the City's contribution to the Municipal Pension Fund was approximately \$1,165.0 million, of which the General Fund's share (including the Commonwealth contribution) was \$1,023.4 million. See Table 29. With respect to the General Fund budget, the City's aggregate pension costs (consisting of payments to the Municipal Pension Fund and debt service on the Pension Bonds (as defined herein)) have ranged from a low of approximately 12.44% to a high of approximately 17.74% in Fiscal Years 2014-2023. See Table 31.

The funded ratio of the Municipal Pension Plan was 76.7% on July 1, 1999 (at which time the UAL was approximately \$1.4 billion), and was 62.2% on July 1, 2023 (at which time the UAL was approximately \$4.84 billion). These metrics are the product of a number of factors, including the following:

- The City and its actuary monitor declines in the fixed income and equity markets, the potential negative investment returns for the Municipal Pension System's assets, and the related impact on future City contributions to the Municipal Pension System. The actual investment return rate for Fiscal Year 2023 is reflected in the July 1, 2023 Valuation.
- A reduction in the assumed rate of return, from 8.75% as of July 1, 2008, to 7.35% effective July 1, 2023 (i.e., Fiscal Year 2024). The City also approved a further reduction in the assumed rate of return from 7.35% to 7.30% effective July 1, 2024 (Fiscal Year 2025). Although the gradual reductions in the assumed rates of return reflected in Table 24 are considered a prudent response to market conditions and experience studies, by reducing the assumed return in the measurement of the actuarial liabilities, it serves to increase the UAL from what it otherwise would have been.
- Adopting more conservative mortality rates in response to experience studies performed by the Municipal Pension Plan actuary.

- The Municipal Pension Plan is a mature system, which means the number of members making contributions to the Municipal Pension Plan is less than the number of retirees and other beneficiaries receiving payments from the Municipal Pension Plan, by approximately 11,100. As a result, the aggregate of member contributions and the City's contributions would be less than the amount of benefits and refunds payable in most years, with the result that in such years investment income must be relied upon to meet such difference before such income can contribute to an increase in the Municipal Pension System's assets growth. See Table 26 (which reflects that in Fiscal Years 2019-2023, however, the aggregate of member contributions and the City's contribution exceeded the amount of benefits and refunds payable in such Fiscal Years).
- The determination by the City, commencing in Fiscal Year 2005, to fund in accordance with the "minimum municipal obligation" ("MMO"), as permitted and as defined by Pennsylvania law, in lieu of the City Funding Policy (as defined herein), resulted in the City contributing less than otherwise would have been contributed. See below, "– Funding Requirements; Funding Standards."
- Revising, in Fiscal Year 2009, in accordance with Pennsylvania law, the period over which the UAL was being amortized, such that the UAL as of July 1, 2009 was "fresh started" to be amortized over a 30-year period ending June 30, 2039. In addition, changes were made to the periods over which actuarial gains and losses and assumption changes were amortized under Pennsylvania law. See "– UAL and its Calculation – Actuarial Valuations."

The City has taken a number of steps to address the funding of the Municipal Pension Plan, including the following:

- Reducing the assumed rate of return on a gradual and consistent basis, which results in the City making larger annual contributions. See Table 24 below.
- Adopting more conservative mortality rates in response to experience studies performed by the Municipal Pension Plan actuary reducing the potential for future experience losses due to mortality experience.
- Changing from a level percent of pay amortization schedule to a level dollar amortization schedule, in conjunction with the revisions to the amortization periods that occurred in Fiscal Year 2009. This results in producing payments that ensure that a portion of principal on the UAL is paid each year.
- Funding consistently an amount greater than the MMO. See Table 29.
- Entering into CBAs by which additional contributions are being made (and will be made) by certain current (and future) members and by which benefits will be capped for certain future members of the Municipal Pension Plan. See Table 18.
- Securing additional funding, including funds required to be deposited by the City to the Municipal Pension Fund from its share of sales tax revenue.
- Adopting a Revenue Recognition Policy or RRP (as defined and described below), by which sources of anticipated additional revenue that will be received by the Municipal Retirement System are specifically dedicated toward paying down the unfunded pension liability and not to reducing future costs of the City. The additional revenue is tracked and accumulated in a notional

account, which is then deducted from the Actuarial Asset Value to determine the contribution under the Revenue Recognition Policy. As a result, such contribution is higher than the MMO.

- Changing the investment strategy to increase the use of passive investment vehicles, which has resulted in increased returns and decreased fees.

As a result of (i) pension reforms adopting a defined benefit plan capped at \$65,000 for new municipal employees, along with increased employee contributions, (ii) a portion of the sales tax dedicated to paying down the UAL, (iii) the various other reforms mentioned above, and (iv) the City making contributions in excess of MMO and in some years in excess of RRP, the funded ratio of the Municipal Pension Plan increased from 49.7% in Fiscal Year 2019 to 62.2% in Fiscal Year 2023. During Fiscal Years 2021, 2022, and 2023, the UAL decreased by 6.1%, 3.1%, and 8.2%, respectively. The Municipal Pension Fund had a positive cash flow, excluding investment returns, for Fiscal Years 2019-2023 (see “– Rates of Return; Asset Values; Changes in Plan Net Position – Changes in Plan Net Position” and Table 26).

This “Overview” is intended to highlight certain of the principal factors that led to the pension system’s current funded status, and significant steps the City and the Pension Board (as defined herein) have taken to address the underfunding. The reader is cautioned to review with care the more detailed information presented below under this caption, “PENSION SYSTEM.”

Pension System; Pension Board

The City maintains two defined-benefit pension programs: (i) the Municipal Pension Plan, a single employer plan, which provides benefits to police officers, firefighters, non-uniformed employees, and non-represented appointed and elected officials, and (ii) the PGW Pension Plan, a single employer plan, which provides benefits to PGW employees. The Municipal Pension Plan is administered through 9 benefit plans with 21 separate contribution rates, the funding for which is accounted for on a consolidated basis by the Municipal Pension Fund.

Such benefit structures establish for their respective members different contribution levels, retirement ages, etc., but all assets are available to pay benefits to all members of the Municipal Pension Plan. The Municipal Pension Plan is a mature plan, initially established in 1915, with net investment assets that totaled approximately \$7.8 billion as of June 30, 2023. The Municipal Pension Plan has approximately 26,600 members who make contributions to the plan and provides benefits to approximately 37,700 retirees and other beneficiaries including terminated vested members.

PGW is principally a gas distribution facility owned by the City. For accounting presentation purposes, PGW is a component unit of the City and follows accounting rules as they apply to proprietary fund-type activities. The PGW Pension Plan is funded with contributions by PGW to such plan, which are treated as an operating expense of PGW, and such plan is not otherwise addressed under the caption “PENSION SYSTEM.” See “PGW PENSION PLAN” below.

Contributions are made by the City to the Municipal Pension Fund from: (i) the City’s General Fund; (ii) funds that are received by the City from the Commonwealth for deposit into the Municipal Pension Fund; and (iii) various City inter-fund transfers, representing amounts contributed, or reimbursed, to the City’s General Fund for pensions from the City’s Water Fund, Aviation Fund, and certain other City funds or agencies. See Table 29. In addition to such City (employer) contribution, the other principal additions to the Municipal Pension Fund are: (i) member (employee) contributions; (ii) interest and dividend income; (iii) net appreciation in asset values; and (iv) net realized gains on the sale of investments. See Table 26 below. An additional source of funding is that portion of the 1% Sales Tax

rate increase that is required under Pennsylvania law to be deposited to the Municipal Pension Fund. See “REVENUES OF THE CITY – Sales and Use Tax.”

The City of Philadelphia Board of Pensions and Retirement (the “Pension Board”) was established by the City Charter to administer “a comprehensive, fair and actuarially sound pension and retirement system covering all officers and employees of the City.” The City Charter provides that the Pension Board “shall consist of the Director of Finance, who shall be its chairman, the Managing Director, the City Controller, the City Solicitor, the Personnel Director and four other persons who shall be elected to serve on the Board by the employees in the civil service in such manner as shall be determined by the Board.” In addition, there is one non-voting member on the Pension Board, who is appointed by the President of City Council. An Executive Director, together with a budgeted staff of 72 personnel, administers the day-to-day activities of the retirement system, providing services to approximately 64,400 members.

The Municipal Pension Plan, the Municipal Pension Fund, and the Pension Board are for convenience sometimes collectively referred to under this caption as the “Municipal Retirement System.”

Membership. The following table shows the membership totals for the Municipal Pension Plan, as of July 1, 2023 and as compared to July 1, 2022.

Table 23
Municipal Pension Plan – Membership Totals

	July 1, 2023	July 1, 2022	% Change
Actives	26,646	26,723	-0.3%
Terminated Vesteds	781	832	-6.1%
Disabled	3,758	3,757	0.0%
Retirees	22,409	22,392	0.1%
Beneficiaries	8,565	8,523	0.5%
Deferred Retirement Option Plan (“DROP”)	<u>2,210</u>	<u>1,921</u>	15.0%
Total City Members	64,369	64,148	0.3%
Annual Salaries	\$1,993,014,337	\$1,921,141,531	3.7%
Average Salary per Active Member	74,796	71,891	4.0%
Annual Retirement Allowances	\$848,128,541	\$828,187,638	2.4%
Average Retirement Allowance	\$24,419	\$23,886	2.2%

Source: July 1, 2023 Valuation.

As shown in Table 23, total membership in the Municipal Pension Plan increased by 0.3%, or from 64,148 to 64,369 members, from July 1, 2022 to July 1, 2023, including a decrease of 0.3% in active members from 26,723 to 26,646 (who were contributing to the Municipal Pension Fund). Of the 64,369 members as of July 1, 2023, 37,723 were retirees, beneficiaries, disabled, and other members (who were withdrawing from, or not contributing to, the Municipal Pension Fund).

Subject to the exceptions otherwise described in this paragraph, employees and officials become vested in the Municipal Pension Plan upon the completion of ten years of service. Employees and appointed officials who hold positions that are exempt from civil service and who are not entitled to be represented by a union, and who were hired before January 13, 1999, may elect accelerated vesting after five years of service in return for payment of a higher employee contribution than if the vesting period

were ten years. Such employees and officials become vested after five years of service if hired after January 13, 1999, or seven years of service if hired after January 1, 2019, and pay a higher employee contribution than if the vesting period were ten years. Elected officials become vested in the Municipal Pension Plan once they complete service equal to the lesser of two full terms in their elected office or eight years and pay a higher contribution than if the vesting period were ten years. Elected officials pay an additional employee contribution for the full cost of the additional benefits they may receive over those of general municipal employees. Upon retirement, employees and officials may receive up to 100% of their average final compensation depending upon their years of credited service and the plan in which they participate.

All City employees participate in the U.S. Social Security retirement system except for uniformed Police and uniformed Fire employees.

Certain membership information relating to the City's municipal retirement system provided by the Pension Board is set forth in Appendix A to the July 1, 2023 Actuarial Valuation Report (the "July 1, 2023 Valuation") and includes as of July 1, 2023, among other information, active and non-active member data by plan, age/service distribution for active participants and average salary for all plans, and age and benefit distributions for non-active member data.

Funding Requirements; Funding Standards

City Charter. The City Charter establishes the "actuarially sound" standard quoted above. Case law has interpreted "actuarially sound" as used in the City Charter to require the funding of two components: (i) "normal cost" (as defined below) and (ii) interest on the UAL. (*Dombrowski v. City of Philadelphia*, 431 Pa. 199, 245 A.2d 238 (1968)).

Pennsylvania Law. The Municipal Pension Plan Funding Standard and Recovery Act (Pa. P.L. 1005, No. 205 (1984)) ("Act 205"), applies to all municipal pension plans in Pennsylvania, "[n]otwithstanding any provision of law, municipal ordinance, municipal resolution, municipal charter, pension plan agreement or pension plan contract to the contrary" Act 205 provides that the annual financial requirements of the Municipal Pension Plan are: (i) the normal cost; (ii) administrative expense requirements; and (iii) an amortization contribution requirement. In addition, Act 205 requires that the MMO be payable to the Municipal Pension Fund from City revenues, and that the City shall provide for the full amount of the MMO in its annual budget. The MMO is defined as "the financial requirements of the pension plan reduced by . . . the amount of any member contributions anticipated as receivable for the following year." Act 205 further provides that the City has a "duty to fund its municipal pension plan," and the failure to provide for the MMO in its budget, or to pay the full amount of the MMO, may be remedied by the institution of legal proceedings for mandamus.

In accordance with Pennsylvania law and Act 205, the City uses the entry age normal actuarial funding method, whereby "normal cost" (associated with active employees only) is the present value of the benefits that the City expects to become payable in the future distributed evenly as a percent of expected payroll from the age of first entry into the plan to the expected age at retirement. The City's share of such normal cost (to which the City adds the Plan's administrative expenses) is reduced by member contributions. The term "level" means that the contribution rate for the normal cost, expressed as a percentage of active member payroll, is expected to remain relatively level over time.

The City has budgeted and paid at least the full MMO amount since such requirement was established. Prior to Fiscal Year 2005, the City had been contributing to the Municipal Pension Plan the greater amount as calculated pursuant to the City Funding Policy, which was implemented before Act 205 was effective, as described below. Beginning in Fiscal Year 2018, the City is contributing under the

Revenue Recognition Policy (defined below), which requires higher contribution amounts than under the MMO. Payment of the MMO is a condition for receipt of the Commonwealth contribution to the Municipal Pension Fund. See Table 29.

Act 205 was amended in 2009 by Pa. P.L. 396, No. 44 (“Act 44”) to authorize the City to: (i) “fresh start” the amortization of the UAL as of July 1, 2009 by a level annual dollar amount over 30 years ending June 30, 2039; and (ii) revise the amortization periods for actuarial gains and losses and assumption changes in accordance with Act 44, as described below under “UAL and its Calculation – Actuarial Valuations.” In addition, Act 44 authorized the City to defer, and the City did defer, \$150 million of the MMO otherwise payable in Fiscal Year 2010, and \$80 million of the MMO otherwise payable in Fiscal Year 2011, subject to repayment of the deferred amounts by June 30, 2014. The City repaid the aggregate deferred amount of \$230 million, together with interest at the then-assumed interest rate of 8.25%, in Fiscal Year 2013. Because the final amortization date is fixed, if all actuarial assumptions are achieved, the unfunded liability would decline to zero as of the final amortization date. To the extent future experience differs from the assumptions used to establish the 30-year fixed amortization payment schedule, new amortization bases attributable to a particular year’s difference would be established and amortized over their own 20-year schedule.

GASB; City Funding Policy. Governmental Accounting Standards Board (“GASB”) Statement No. 27, “Accounting for Pensions by State and Local Governmental Employers” (“GASB 27”), applied to the City for Fiscal Years beginning prior to July 1, 2014. For the Fiscal Year beginning July 1, 2014, GASB Statement No. 68 (“GASB 68”), which amends GASB 27 in several significant respects, applies. GASB 27 defined an “annual required contribution” (“ARC”) as that amount sufficient to pay (i) the normal cost and (ii) the amortization of UAL, and provides that the maximum acceptable amortization period is 30 years (for the initial 10 years of implementation, 1996-2006, a 40-year amortization period was permitted). GASB 27 did not establish funding requirements for the City but rather was an accounting and financial reporting standard. GASB 68 does not require the calculation of an ARC but does require the City to include as a liability on its balance sheet the City’s “net pension liability,” as defined by GASB 68. The City has been funding the Municipal Pension Fund since Fiscal Year 2003 based on the MMO (at a minimum), including the deferral permitted by Act 44. See Table 29 below.

The City, prior to Fiscal Year 2005, had been funding the Municipal Pension Fund in accordance with what the City referred to as the “City Funding Policy.” That reference was used and continues to be used in the Actuarial Reports. Under the City Funding Policy, the UAL as of July 1, 1985, was to be amortized over 34 years ending June 30, 2019, with payments increasing at 3.3% per year, the assumed payroll growth. This initial UAL base under the City’s Funding Policy has now been fully amortized. Other changes in the unfunded actuarial liability were amortized in level-dollar payments over various periods as prescribed in Act 205. In 1999, the City issued pension funding bonds, the proceeds of which were deposited directly into the Municipal Pension Fund to pay down its UAL. See “– Annual Contributions – *Annual Debt Service Payments on the Pension Bonds*” below.

Revenue Recognition Policy. The City follows a policy (the “Revenue Recognition Policy” or “RRP”) to contribute each year to the Municipal Pension Fund an amount in excess of the MMO. Aspects of such policy are mandated by City ordinance or labor agreements, as applicable. The determination for such additional funding is based on not including in the actuarial asset value when determining the annual contribution obligation, the following revenue sources: (i) the portion of the amounts generated by the increase in the Sales Tax rate that became effective on July 1, 2014 and are deposited to the Municipal Pension Fund (see “REVENUES OF THE CITY – Sales and Use Tax”), (ii) contributions to be made by City employees that are under Plan 16 (described above in the text that immediately follows Table 19), and (iii) additional member contributions for current and future members in Plan 87 Police, Plan 87 Fire, and all Municipal Plans.

The amounts projected by the City in the Thirty-Third Five-Year Plan (or with respect to Fiscal Year 2024, the FY 2024 Fourth Quarter QCMR) to be deposited from Sales Tax revenue into the Municipal Pension Fund, for Fiscal Years 2024-2029, respectively, are as follows: (i) \$90.2 million; (ii) \$98.5 million; (iii) \$107.3 million; (iv) \$115.7 million; (v) \$124.5 million; and (vi) \$133.2 million.

UAL and its Calculation

According to the July 1, 2023 Valuation, the funded ratio (the valuation of assets available for benefits to total actuarial liability) of the Municipal Pension Fund as of July 1, 2023 was 62.2% and the Municipal Pension Fund had an unfunded actuarial liability (“UAL”) of \$4.842 billion. The UAL is the difference between total actuarial liability (\$12.821 billion as of July 1, 2023) and the actuarial value of assets (\$7.979 billion as of July 1, 2023).

Key Actuarial Assumptions. In accordance with Act 205, the actuarial assumptions must be, in the judgment of both Cheiron (the independent consulting actuary for the Municipal Pension Fund) and the Pension Board, “the best available estimate of future occurrences in the case of each assumption.” The assumed investment return rate used in the July 1, 2023 Valuation was 7.35% a year (which includes an inflation assumption of 2.75%), net of administrative expenses, compounded annually. For the prior actuarial valuation, the assumed investment return rate was 7.40%. See Table 24 for the assumed rates of return for Fiscal Years 2014 to 2023. The 7.40% was used to establish the MMO payment for Fiscal Year 2024 and 7.35% will be used to establish the MMO payment for Fiscal Year 2025.

Other key actuarial assumptions in the July 1, 2023 Valuation include the following: (i) total annual payroll growth of 3.30%, (ii) annual administrative expenses assumed to increase 3.30% per year, (iii) to recognize the expense of the benefits payable under the Pension Adjustment Fund (as described below), actuarial liabilities were increased by 0.54%, based on the statistical average expected value of the benefits, (iv) a vested employee who terminates will elect a pension deferred to service retirement age so long as their age plus years of service at termination are greater than or equal to 55 (45 for police and fire employees in the 1967 Plan), (v) for municipal and elected members, 65% of all disabilities are ordinary and 35% are service-connected, and (vi) for police and fire members, 25% of all disabilities are ordinary and 75% are service-connected.

“Smoothing Methodology”. The Municipal Retirement System uses an actuarial value of assets to calculate its annual pension contribution, using an asset “smoothing method” to dampen the volatility in asset values that could occur because of fluctuations in market conditions. The Municipal Retirement System used a five-year smoothing prior to Fiscal Year 2009, and beginning with Fiscal Year 2009 began employing a ten-year smoothing. Using the ten-year smoothing methodology, investment returns in excess of or below the assumed rate are prospectively distributed in equal amounts over a ten-year period, subject to the requirement that the actuarial value of assets will be adjusted, if necessary, to ensure that the actuarial value of assets will never be less than 80% of the market value of the assets, nor greater than 120% of the market value of the assets. The actuarial value of assets as of July 1, 2023, was approximately 102.3% of the market value of the assets, as compared to 103.9% as of July 1, 2022.

Actuarial Valuations. The Pension Board engages an independent consulting actuary (currently Cheiron) to prepare annually an actuarial valuation report. Act 205, as amended by Act 44, establishes certain parameters for the actuarial valuation report, including: (i) use of the entry age normal actuarial cost method; (ii) that the report shall contain: (a) actuarial exhibits, financial exhibits, and demographic exhibits; (b) an exhibit of normal costs expressed as a percentage of the future covered payroll of the active membership in the Municipal Pension Plan; and (c) an exhibit of the actuarial liability of the Municipal Pension Plan; and (iii) that changes in the actuarial liability be amortized in level-dollar

payments as follows: (a) actuarial gains and losses be amortized over 20 years beginning July 1, 2009 (prior to July 1, 2009, gains and losses were amortized over 15 years); (b) assumption changes be amortized over 15 years beginning July 1, 2010 (prior to July 1, 2010, assumption changes were amortized over 20 years); (c) plan changes for active members be amortized over 10 years; (d) plan changes for inactive members be amortized over one year; and (e) plan changes mandated by the Commonwealth be amortized over 20 years.

Act 205 further requires that an experience study be conducted at least every four years, and cover the five-year period ending as of the end of the plan year preceding the plan year for which the actuarial valuation report is filed. An experience study was prepared by Cheiron in March 2022 for the period July 1, 2016 – June 30, 2021 (the “Experience Study”). The actuarial and demographic assumptions that were adopted by the Pension Board in response to such Experience Study were employed for the July 1, 2022 Valuation and remained in effect for the July 1, 2023 Valuation (which was used to determine the June 30, 2025 fiscal year end MMO, City Funding Policy, and Revenue Recognition Policy contributions). Details of the assumption changes and the experience of the Municipal Pension Plan can be found in the *City of Philadelphia Municipal Retirement System Experience Study Results for the period covering July 1, 2016 – June 30, 2021*. Such Experience Study can be found on the City’s website under the section for the Board of Pensions and Retirement and the reports included therein.

Pension Adjustment Fund

Pursuant to § 22-311 of the Philadelphia Code, the City directed the Pension Board to establish a Pension Adjustment Fund (“PAF”) on July 1, 1999, and further directed the Pension Board to determine, effective June 30, 2000, and each Fiscal Year thereafter, whether there are “excess earnings” (as defined therein) available to be credited to the PAF. The Pension Board’s determination is to be based upon the actuary’s certification using the “adjusted market value of assets valuation method” as defined in § 22-311. Although the portion of the assets attributed to the PAF is not segregated from the assets of the Municipal Pension Fund, the Philadelphia Code provides that the “purpose of the Pension Adjustment Fund is for the distribution of benefits as determined by the Board for retirees, beneficiaries or survivors [and] [t]he Board shall make timely, regular and sufficient distributions from the Pension Adjustment Fund in order to maximize the benefits of retirees, beneficiaries or survivors.” Distributions are to be made “without delay” no later than six months after the end of each Fiscal Year. The PAF was established, in part, because the Municipal Retirement System does not provide annual cost-of-living increases to retirees or beneficiaries. At the time the PAF was established, distributions from the PAF were subject to the restriction that the actuarial funded ratio using the “adjusted market value of assets” be not less than such ratio as of July 1, 1999 (76.7%). That restriction was deleted in 2007.

The amount to be credited to the PAF is 50% of the “excess earnings” that are between one percent (1%) and six percent (6%) above the actuarial assumed investment rate. Earnings in excess of six percent (6%) of the actuarial assumed investment rate remain in the Municipal Pension Fund. Although the Pension Board utilizes a ten-year smoothing methodology, as explained above, for the actuarial valuation of assets for funding and determination of the MMO, § 22-311 provides for a five-year smoothing to determine the amount to be credited to the PAF.

The actuary determined that for the Fiscal Year ended June 30, 2023, there were no “excess earnings” as defined to be credited to the PAF. The Pension Board transfers to the PAF the full amount calculated by the actuary as being available in any year for transfer within six months of the Pension Board designating the amount to be transferred.

Transfers to the PAF and the resultant additional distributions to retirees result in removing assets from the Municipal Pension Plan. To account for the possibility of such transfers, and as an alternative to adjusting the assumed investment return rate to reflect such possibility, the actuary applies a load of 0.54% to the calculated actuarial liability as part of the funding requirement and MMO. Such calculation was utilized for the first time in the July 1, 2013 actuarial valuation.

The market value of assets as used under this caption, "PENSION SYSTEM," represents the value of the assets if they were liquidated on the valuation date and this value includes the PAF (except as otherwise indicated in certain tables), although the PAF is not available for funding purposes. The actuarial value of assets does not include the PAF.

Rates of Return; Asset Values; Changes in Plan Net Position

Rates of Return. The following table sets forth for the Fiscal Years 2014-2023 the market value of assets internal rate of return and actuarial value of assets internal rate of return experienced by the Municipal Pension Fund, and the assumed rate of return. The 5-year and 10-year annual average returns as of June 30, 2023, were 6.85% and 6.79% respectively, on a market value basis.

Table 24
Municipal Pension Fund
Annual Rates of Return

<u>Year Ending</u> <u>June 30,</u>	<u>Market Value</u>	<u>Actuarial Value⁽¹⁾</u>	<u>Assumed Rate of Return</u>
2014	15.7%	4.8%	7.85%
2015	0.3%	5.8%	7.80%
2016	-3.2%	4.5%	7.75%
2017	13.1%	4.4%	7.70%
2018	9.0%	5.1%	7.65%
2019	5.7%	7.6%	7.60%
2020	1.5%	6.5%	7.55%
2021	28.4%	6.3%	7.50%
2022	-6.5%	7.7%	7.45%
2023	8.1%	6.5%	7.40%

Source: July 1, 2023 Valuation.

⁽¹⁾ Net of PAF. See "Pension Adjustment Fund" above. The actuarial values reflect a ten-year smoothing.

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Asset Values. The following table sets forth, as of the July 1 actuarial valuation date for the years 2014-2023, the actuarial and market values of assets in the Municipal Pension Fund and the actuarial value as a percentage of market value.

Table 25
Actuarial Value of Assets vs. Market Value of Net Assets
(Dollar Amounts in Millions of USD)

Actuarial Valuation Date (July 1)	Actuarial Value of Assets ⁽¹⁾	Market Value of Net Assets ⁽¹⁾	Actuarial Value as a Percentage of Market Value
2014	\$4,814.9	\$4,854.3	99.2%
2015	\$4,863.4	\$4,636.1	104.9%
2016	\$4,936.0	\$4,350.8	113.5%
2017	\$5,108.6	\$4,873.0	104.8%
2018	\$5,397.4	\$5,340.1	101.1%
2019	\$5,852.5	\$5,687.2	102.9%
2020	\$6,242.7	\$5,781.6	108.0%
2021	\$6,633.1	\$7,348.5	90.3%
2022	\$7,176.1	\$6,905.5	103.9%
2023	\$7,979.2	\$7,800.9	102.3%

Source: July 1, 2023 Valuation for Actuarial Value of Assets; 2014-2023 Actuarial Reports for Market Value of Net Assets.

⁽¹⁾ For purposes of this table, the Market Value of Net Assets excludes the PAF, which as of June 30, 2023 equaled \$7.2 million. The Actuarial Value of Assets excludes that portion of the Municipal Pension Fund that is allocated to the PAF. The actuarial values reflect a ten-year smoothing.

Changes in Plan Net Position. The following table sets forth, for Fiscal Years 2019-2023, the additions, including employee (member) contributions, City contributions (including contributions from the Commonwealth), investment income and miscellaneous income, and deductions, including benefit payments and administration expenses, for the Municipal Pension Fund. Debt service payments on pension funding bonds (as described below at “Annual Contributions – *Annual Debt Service Payments on the Pension Bonds*”) are made from the City’s General Fund, Water Operating Fund, and Aviation Operating Fund, but are not made from the Municipal Pension Fund, and therefore are not included in Table 26. In those years in which the investment income is less than anticipated, the Municipal Pension Fund may experience negative changes (total deductions greater than total additions). If unrealized gains are excluded from the calculation, resulting in a comparison of cash actually received against actual cash outlays, it could result in a negative cash flow in some Fiscal Years, which is typical of a mature retirement system. However, in Fiscal Years 2019-2023, there was a positive cash flow.

Contributions from the Commonwealth are provided pursuant to the provisions of Act 205. Any such contributions are required to be used to defray the cost of the City’s pension system. The amounts contributed by the Commonwealth for each of the last ten Fiscal Years are set forth in Table 29 below. The contributions from the Commonwealth are capped pursuant to Act 205, which provides that “[n]o municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount greater than 25% of the total amount of the general municipal pension system State aid available.”

Employee (member) contribution amounts reflect contribution rates as a percent of pay, which for the plan year beginning July 1, 2023, vary from 6.00% to 8.50% for police and fire employees, and from 2.60% to 7.00% for municipal employees excluding elected officials. These rates include the increases

for police employees effective July 1, 2017, resulting from the FOP Lodge No. 5 and IAFF Local No. 22 Labor Contracts. Such contracts increased member contributions for current police officers in Plan 87 and Plan 10 by 0.92% effective July 1, 2017, and an additional 0.92% effective July 1, 2018. For new police officers and fire fighters hired or rehired on or after July 1, 2017, the member contribution rate is increased by 2.5% over the rate which would otherwise be in effect as of July 1, 2017. The rates also include the increases in contributions for certain municipal employees and elected officials currently in Plans 67, 87 and 87 Prime and elected officials as required by legislation. This legislation called for employees in these groups to pay an additional 0.5% of compensation from January 1, 2015 to December 31, 2015 and an additional 1.0% from January 1, 2016 onwards. New employees in these groups entering Plan 87 Municipal Prime will pay an additional 1.0% of compensation, which is included in the table below. Finally, these rates do not include the additional tiered contributions paid by current and future municipal employees based on their level of compensation.

Table 26
Changes in Net Position of the Municipal Pension Fund
Fiscal Years 2019-2023
(Amounts in Thousands of USD)

	2019	2020	2021	2022	2023
Beginning Net Assets (Market Value) ⁽¹⁾	\$5,341,286	\$5,688,383	\$5,782,891	\$7,424,983	\$6,939,834
Additions					
- Member Contributions	99,180	111,825	111,273	110,447	120,691
- City Contributions ⁽²⁾	797,806	768,721	788,483	859,787	1,164,974
- Investment Income ⁽³⁾	301,749	85,228	1,642,217	(480,676)	568,995
- Miscellaneous Income ⁽⁴⁾	1,987	1,923	1,273	913	1,962
Total	\$1,200,721	\$967,697	\$2,543,246	\$490,471	\$1,856,622
Deductions					
- Benefits and Refunds	(842,469)	(862,198)	(891,445)	(966,686)	(979,429)
- Administration	(11,155)	(10,991)	(9,709)	(8,933)	(8,938)
Total	\$(853,624)	\$(873,189)	\$(901,154)	\$(975,619)	\$(988,367)
Ending Net Assets (Market Value)	\$5,688,383	\$5,782,891	\$7,424,983	\$6,939,834	\$7,808,089

Source: Municipal Pension Fund's audited financial statements.

(1) Includes the PAF, which is not available for funding purposes.

(2) City Contributions include pension contributions from the Commonwealth. See Table 29.

(3) Investment income is shown net of fees and expenses, and includes interest and dividend income, net appreciation (depreciation) in fair value of investments, and net gains realized upon the sale of investments.

(4) Miscellaneous income includes securities lending and other miscellaneous revenues.

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Funded Status of the Municipal Pension Fund

The following two tables set forth, as of the July 1 actuarial valuation date for the years 2014-2023, the asset value, the actuarial liability, the UAL, the funded ratio, covered payroll and UAL, as a percentage of covered payroll for the Municipal Pension Fund on actuarial and market value bases, respectively.

Table 27
Schedule of Funding Progress (Actuarial Value)
(Dollar Amounts in Millions of USD)

Actuarial Valuation Date (July 1)	Actuarial Value of Assets (a)	Actuarial Liability (b)	UAL (Actuarial Value) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a % of Covered Payroll [(b-a)/c]
2014	\$4,814.9	\$10,521.8	\$5,706.9	45.8%	\$1,495.4	381.6%
2015	\$4,863.4	\$10,800.4	\$5,937.0	45.0%	\$1,597.8	371.6%
2016	\$4,936.0	\$11,024.8	\$6,088.8	44.8%	\$1,676.5	363.2%
2017	\$5,108.6	\$11,275.7	\$6,167.1	45.3%	\$1,744.7	353.5%
2018	\$5,397.4	\$11,521.0	\$6,123.5	46.8%	\$1,805.4	339.2%
2019	\$5,852.5	\$11,783.1	\$5,930.6	49.7%	\$1,842.6	321.9%
2020	\$6,242.7	\$12,038.1	\$5,795.4	51.9%	\$1,921.2	301.7%
2021	\$6,633.1	\$12,074.0	\$5,441.0	54.9%	\$1,886.5	288.4%
2022	\$7,176.1	\$12,448.4	\$5,272.3	57.6%	\$1,921.1	274.4%
2023	\$7,979.2	\$12,821.4	\$4,842.2	62.2%	\$1,993.0	243.0%

Source: July 1, 2023 Valuation.

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Table 28
Schedule of Funding Progress (Market Value)
(Dollar Amounts in Millions of USD)

Actuarial Valuation Date (July 1)	Market Value of Net Assets (a)	Actuarial Liability (b)	UAL (Market Value) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a % of Covered Payroll [(b-a)/c]
2014	\$4,854.3	\$10,521.8	\$5,667.6	46.1%	\$1,495.4	379.0%
2015	\$4,636.1 ⁽¹⁾	\$10,800.4	\$6,164.3	42.9%	\$1,597.8	385.8%
2016	\$4,350.8 ⁽¹⁾	\$11,024.8	\$6,674.0	39.5%	\$1,676.5	398.1%
2017	\$4,873.0 ⁽¹⁾	\$11,275.7	\$6,402.7	43.2%	\$1,744.7	367.0%
2018	\$5,340.1 ⁽¹⁾	\$11,521.0	\$6,180.9	46.4%	\$1,805.4	342.4%
2019	\$5,687.2 ⁽¹⁾	\$11,783.1	\$6,095.9	48.3%	\$1,842.6	330.8%
2020	\$5,781.6 ⁽¹⁾	\$12,038.1	\$6,256.5	48.0%	\$1,921.2	325.7%
2021	\$7,348.5 ⁽¹⁾	\$12,074.0	\$4,725.5	60.9%	\$1,886.5	250.5%
2022	\$6,905.5 ⁽¹⁾	\$12,448.4	\$5,542.9	55.5%	\$1,921.1	288.5%
2023	\$7,800.9 ⁽¹⁾	\$12,821.4	\$5,020.5	60.8%	\$1,993.0	251.9%

Source: 2014-2023 Actuarial Valuation Reports.

⁽¹⁾ For purposes of this table, the Market Value of Net Assets excludes the PAF, which as of June 30, 2015 equaled \$38,198,762; as of June 30, 2016 equaled \$7,222,828; as of June 30, 2017 equaled \$1,097,499; as of June 30, 2018 equaled \$1,160,247; as of June 30, 2019 equaled \$1,225,114; as June 30, 2020 equaled \$1,243,871; as June 30, 2021 equaled \$76,471,047; as June 30, 2022 equaled \$34,340,630; and as June 30, 2023 equaled \$7,221,239.

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Annual Contributions

Annual Municipal Pension Contributions

Table 29 shows the components of the City's annual pension contributions to the Municipal Pension Fund for the Fiscal Years 2014-2023.

Table 29
Total Contribution to Municipal Pension Fund
(Dollar Amounts in Millions of USD)

Fiscal Year	General Fund Contribution (A)	Commonwealth Contribution (B)	Aggregate General Fund Contribution (A+B)	Water Fund Contribution	Aviation Fund Contribution	Grants Funding and Other Funds Contribution ⁽¹⁾	Contributions from Quasi-governmental Agencies	Pension Bond Proceeds	Total Contribution (C)	MMO (D)	MMO (Deferred) Makeup Payments	% of MMO Contributed (C/D)
2014	\$365.8	\$69.6	\$435.4	\$45.5	\$22.5	\$30.0	\$19.8	\$0.0	\$553.2	\$523.4	-	105.7%
2015	\$388.5	\$62.0	\$450.5	\$48.3	\$23.9	\$33.4	\$21.1	\$0.0	\$577.2	\$556.0	-	103.8%
2016	\$449.6	\$62.6	\$512.2	\$55.1	\$27.1	\$34.8	\$31.0	\$0.0	\$660.2	\$595.0	-	111.0%
2017	\$487.0	\$68.7	\$555.7	\$61.0	\$28.8	\$33.3	\$27.4	\$0.0	\$706.2	\$629.6	-	112.2%
2018	\$559.7	\$72.4	\$632.1	\$62.7	\$28.8	\$32.5	\$25.9	\$0.0	\$782.0	\$661.3	-	118.3%
2019	\$567.7	\$74.8	\$642.5	\$64.7	\$31.6	\$33.8	\$25.2	\$0.0	\$797.8	\$668.3	-	119.4%
2020	\$545.1	\$82.0	\$627.1	\$71.6	\$34.0	\$14.6	\$21.4	\$0.0	\$768.7	\$675.8	-	113.7%
2021	\$558.5	\$81.3	\$639.8	\$81.2	\$34.7	\$12.5	\$20.3	\$0.0	\$788.5	\$673.9	-	117.0%
2022	\$671.9	\$79.3	\$751.2	\$59.0	\$21.8	\$12.6	\$15.2	\$0.0	\$859.8	\$678.2	-	126.8%
2023	\$939.2	\$84.2	\$1,023.4	\$57.8	\$22.2	\$44.4	\$17.2	\$0.0	\$1,165.0	\$664.1	-	175.4%

⁽¹⁾ Other Funds Contributions represents contributions to the Municipal Pension Fund from the City's Special Gasoline Tax Fund, Community Development Block Grant Fund, Municipal Pension Fund, and Housing Trust Fund.

Annual Debt Service Payments on the Pension Bonds

Pension funding bonds (“Pension Bonds”) were initially issued in Fiscal Year 1999 (the “1999 Pension Bonds”), at the request of the City, by PAID. Debt service on the Pension Bonds is payable pursuant to a Service Agreement between the City and PAID. The Service Agreement provides that the City is obligated to pay a service fee from its current revenues and the City covenanted in the agreement to include the annual amount in its operating budget and to make appropriations in such amounts as are required. If the City’s revenues are insufficient to pay the full service fee in any Fiscal Year as the same becomes due and payable, the City has covenanted to include amounts not so paid in its operating budget for the ensuing Fiscal Year.

The 1999 Pension Bonds were issued in the principal amount of \$1.3 billion, and the net proceeds were used, together with other funds of the City, to make a contribution in Fiscal Year 1999 to the Municipal Pension Fund in the amount of approximately \$1.5 billion.

In October 2012, PAID, at the request of the City, issued Pension Bonds in the principal amount of \$231.2 million, the proceeds of which were used principally to make the \$230 million repayment of deferred contributions to the Municipal Pension Fund reflected in Table 29 above. These bonds had maturities of April 1, 2013 and 2014, and have been repaid.

In December 2012, PAID, at the request of the City, issued Pension Bonds in the approximate principal amount of \$300 million (the “2012 Pension Bonds”), the proceeds of which were used to currently refund a portion of the 1999 Pension Bonds. The refunding generated savings of approximately \$22.6 million, which the City deposited into the Municipal Pension Fund.

In April 2021, PAID, at the request of the City, issued bonds in the approximate principal amount of \$137 million, the proceeds of which were used, among other things, to refund a portion of the 1999 Pension Bonds and the 2012 Pension Bonds. Such refunding restructured debt service to provide the City with budgetary relief in Fiscal Years 2021 and 2022. No proceeds of the bonds were used to make a deposit to the Municipal Retirement System.

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Table 30 shows the components of the City’s annual debt service payments on the Pension Bonds for the Fiscal Years 2014-2023.

Table 30
Total Debt Service Payments on Pension Bonds
(Amounts in Millions of USD)

Fiscal Year	General Fund Payment	Water Fund Payment	Aviation Fund Payment	Other Funds Payment ⁽¹⁾	Grants Funding	Total Payment
2014 ⁽²⁾	\$211.0	\$23.6	\$11.2	\$1.4	\$3.7	\$250.9
2015	\$107.7	\$12.6	\$5.9	\$0.8	\$4.0	\$131.0
2016	\$109.9	\$13.7	\$6.4	\$0.9	\$3.8	\$134.7
2017	\$109.5	\$14.5	\$6.6	\$0.9	\$3.3	\$134.8
2018	\$110.1	\$14.3	\$6.3	\$0.9	\$3.1	\$134.7
2019	\$109.8	\$14.2	\$6.6	\$1.1	\$3.0	\$134.7
2020	\$110.1	\$15.7	\$7.1	\$1.2	\$0.6	\$134.7
2021 ⁽²⁾	\$28.4	\$4.5	\$1.9	\$0.3	\$0.5	\$35.6
2022 ⁽²⁾	\$91.7	\$8.5	\$3.1	\$0.5	\$0.9	\$104.7
2023	\$111.0	\$10.8	\$4.1	\$0.7	\$7.5	\$134.1

⁽¹⁾ Other Funds Payments represents the allocable portion of debt service payments on the City’s Pension Bonds from the City’s Community Development Block Grant Fund and Municipal Pension Fund.

⁽²⁾ For more information on debt service payments on Pension Bonds issued in October 2012, which increased debt service in 2014, and in April 2021, which decreased debt service in 2021 and 2022, see “– *Annual Debt Service Payments on the Pension Bonds*” above.

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Annual Pension Costs of the General Fund

Table 31 shows the annual pension costs of the General Fund for the Fiscal Years 2014-2023, being the sum of the General Fund Contribution to the Municipal Pension Fund (column (A) in Table 29 above) and the General Fund debt service payments on Pension Bonds (Table 30 above).

Table 31
Annual Pension Costs of the General Fund
(Amounts in Millions of USD)

Fiscal Year	General Fund Pension Fund Contribution (A) ⁽¹⁾	General Fund Pension Bond Debt Service Payment (B)	Annual Pension Costs (A+B)	Total General Fund Expenditures (C)	General Fund portion of Annual Pension Costs as % of Total General Fund Expenditures $\frac{(A+B)}{C}$
2014	\$365.8	\$211.0	\$576.8	\$3,886.6	14.84%
2015	\$388.5	\$107.7	\$496.2	\$3,831.5	12.95%
2016	\$449.6	\$109.9	\$559.5	\$4,015.8	13.93%
2017	\$487.0	\$109.5	\$596.5	\$4,139.8	14.41%
2018	\$559.7	\$110.1	\$669.8	\$4,402.9	15.21%
2019	\$567.7	\$109.8	\$677.5	\$4,772.4	14.20%
2020	\$545.1	\$110.1	\$655.2	\$5,036.5	13.01%
2021	\$558.5	\$28.4	\$586.9	\$4,717.8	12.44%
2022	\$671.9	\$91.7	\$763.6	\$5,338.5	14.30%
2023	\$939.2	\$111.0	\$1,050.2	\$5,918.4	17.74%

⁽¹⁾ Does not include Commonwealth contribution. See Table 29.

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The following table shows the annual City contribution to the Municipal Pension Fund as a percentage of the covered employee payroll.

Table 32
Annual City Contribution (“ACC”) as % of Covered Employee Payroll
(Dollar Amounts in Thousands of USD)

Fiscal Year	Annual City Contribution	Fiscal Year Covered Employee Payroll ⁽¹⁾	ACC as % of Payroll
2014	\$553,179	\$1,495,421	36.99%
2015	\$577,195	\$1,597,849	36.12%
2016	\$660,247	\$1,676,549	39.38%
2017	\$706,237	\$1,744,728	40.48%
2018	\$781,984	\$1,805,400	43.31%
2019	\$797,806	\$1,842,555	43.30%
2020	\$768,721	\$1,921,217	40.01%
2021	\$788,483	\$1,886,512	41.80%
2022	\$859,787	\$1,921,142	44.75%
2023	\$1,164,974	\$2,025,114	57.53%

Source: Municipal Pension Fund Financial Statements, June 30, 2023.

(1) The definition of “covered-employee payroll” in GASB 68 differs slightly from the “covered payroll” definition in GASB 27. See “PENSION SYSTEM – Funding Requirements; Funding Standards – *GASB; City Funding Policy.*”

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Actuarial Projections of Funded Status

Cautionary Note. The information under this subheading, “Actuarial Projections of Funded Status,” was prepared by Cheiron. The table below shows a five-year projection of RRP payments, Actuarial Value of Assets, Actuarial Liability, UAL, and Funded Ratio. The charts below show projections of funded ratios and City contributions based on the RRP through Fiscal Year 2043. All projections, whether for five years or for twenty years, are subject to actual experience deviating from the underlying assumptions and methods, and that is particularly the case for the charts below for the periods beyond the projections in the five-year table. **Projections and actuarial assessments are “forward looking” statements and are based on assumptions which may not be fully realized in the future and are subject to change, including changes based on the future experience of the City’s Municipal Pension Fund and Municipal Pension Plan.**

The projections are on the basis that all assumptions as reflected in the July 1, 2023 Valuation are exactly realized and the City makes all future RRP payments on schedule as required by the RRP funding policy, and must be understood in the context of the assumptions, methods and benefits in effect as described in the July 1, 2023 Valuation. Included among such assumptions are: (i) the rates of return for the Municipal Pension Fund over the projection period will equal 7.35% in Fiscal Year 2024 and 7.30% annually thereafter, (ii) RRP contributions will be made each year, (iii) the provisions of Act 205 as amended by Act 44 will remain in force during the projection period, and (iv) the future population changes of the participants in the pension plan will follow the demographic actuarial assumptions with the active population remaining constant in the future.

The July 1, 2023 Valuation includes charts reflecting the contributions based on MMO (Baseline projection set 1), and charts reflecting the additional contributions in accordance with the RRP (Baseline projection set 2). The charts provided below reflect the RRP contributions, which are higher than the MMO required under Pennsylvania law. Using the RRP, the Municipal Retirement System is projected to be 80% funded by 2028 and 100% funded by 2033, three years earlier than under the MMO projections. By the end of the projection period, the Municipal Retirement System is expected to be funded at 130.0% compared to 115.4% when MMO contributions are made. See the July 1, 2023 Valuation for further discussion of the assumptions and methodologies used by the Actuary in preparing the July 1, 2023 Valuation and the following projections, all of which should be carefully considered in reviewing the projections. The July 1, 2023 Valuation is available for review on the website of the City’s Board of Pensions. The table and charts below separately set forth estimates of Sales Tax revenues that will be deposited by the City into the Municipal Pension Fund, which were provided by the City to Cheiron based on current estimates or budgeted amounts of such revenues as included in the Thirty-Third Five-Year Plan. Cheiron has not analyzed and makes no representation regarding the validity of the sales tax revenue assumptions and estimates provided by the City. See “REVENUES OF THE CITY – Sales and Use Tax.”

Each of the tables and graphs that follow are shown in Appendix E of the July 1, 2023 Valuation and such report should be referenced regarding the underlying benefits, methods, and assumptions utilized in the production of these values.

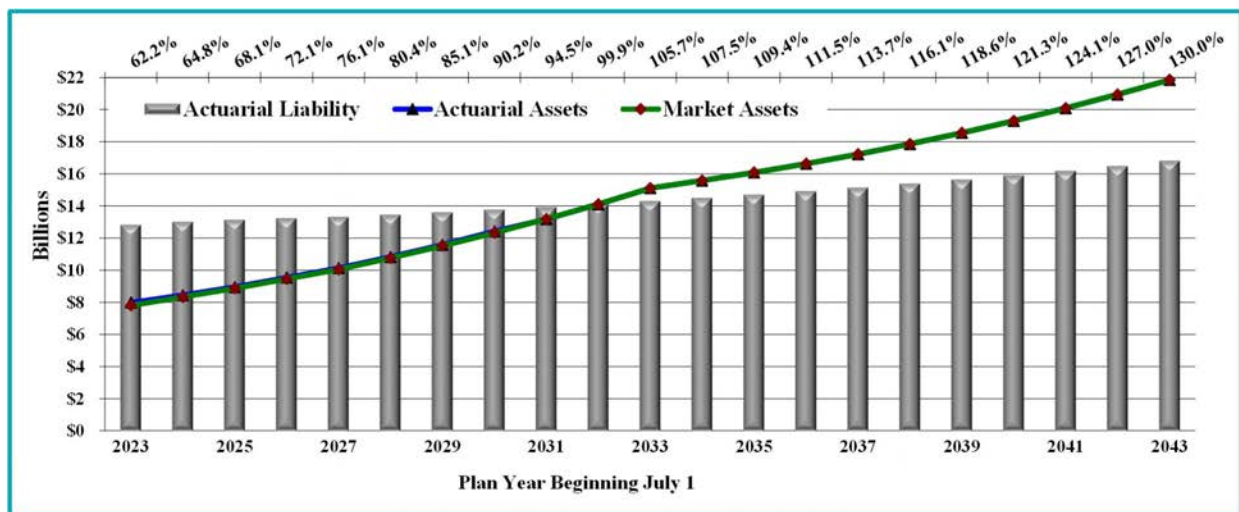
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Five-Year Projection. The following chart provides dollar amounts in millions of USD.

Table E-1 (\$ millions)							
Fiscal Year	RRP	Sales Tax	Actuarial	Actuarial	Unfunded	Funded	
End	Contributions	Contributions	Value of Assets	Liability	Actuarial Liability	Ratio	Ratio
2024	\$ 742.8	\$ 96.1	\$ 7,979.2	\$ 12,821.4	\$ 4,842.2	62.2%	
2025	741.5	104.6	8,439.3	13,020.1	4,580.8	64.8%	
2026	760.7	113.7	8,947.8	13,139.4	4,191.6	68.1%	
2027	755.5	122.4	9,544.7	13,238.9	3,694.2	72.1%	
2028	755.2	131.4	10,134.4	13,317.4	3,183.1	76.1%	
2029	750.6	140.4	10,824.5	13,458.5	2,634.0	80.4%	

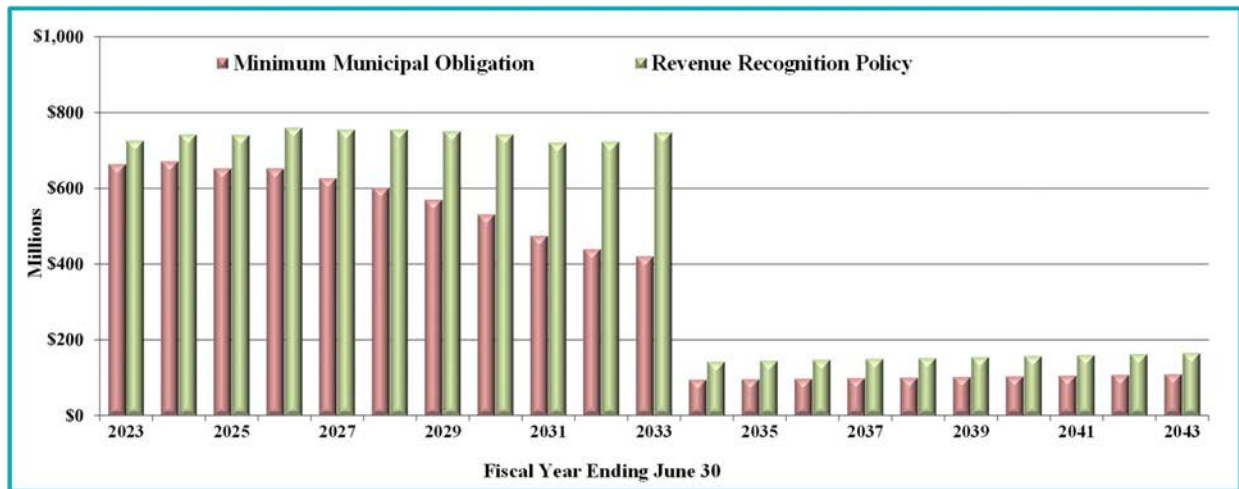
Twenty-Year Projections.

Funded Ratio Chart based on the RRP:



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Expected City Contribution Chart based on the RRP:



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OTHER POST-EMPLOYMENT BENEFITS

The City self-administers a single employer, defined benefit plan for post-employment benefits other than pension benefits (“OPEB”), and funds such plan on a pay-as-you-go basis. The City’s OPEB plan provides for those persons who retire from the City and are participants in the Municipal Pension Plan: (i) post-employment healthcare benefits for a period of five years following the date of retirement and (ii) lifetime life insurance coverage (\$7,500 for firefighters who retired before July 1, 1990; \$6,000 for all other retirees). In general, retirees eligible for OPEB are those who terminate their employment after ten years of continuous service to immediately become pensioned under the Municipal Pension Plan.

To provide health care coverage, the City pays a negotiated monthly premium for retirees covered by the union contract for AFSCME DC 33 and is self-insured for all other eligible pre-Medicare retirees. Aside from AFSCME DC 33, the City is responsible for the actual health care cost that is invoiced to the City’s unions by their respective vendors. The actual cost can be a combination of self-insured claim expenses, premiums, ancillary services, and administrative expenses. Eligible union represented employees receive five years of coverage through their union’s health fund. The City’s funding obligation for pre-Medicare retiree benefits is the same as for active employees. Union represented and non-union employees may defer their retiree health coverage until a later date. For some groups, the amount that the City pays for their deferred health care is based on the value of the health benefits at the time the retiree claims the benefits, but for police and fire retirees who retired after an established date, the City pays the cost of five years of coverage when the retiree claims the benefits.

The annual payments made by the City for OPEB for Fiscal Years 2019-2023 are shown in Table 33 below.

Table 33
Annual OPEB Payment
(Amounts in Thousands of USD)

<u>Fiscal Year ended June 30,</u>	<u>Annual OPEB Payment</u>
2019	\$96,900
2020	\$104,600
2021	\$97,800
2022	\$118,300
2023	\$101,100

Source: See Note IV.3 to the City’s ACFRs for such Fiscal Years.

For financial reporting purposes, although the City funds OPEB on a pay-as-you-go basis, it is required to include in its financial statements (in accordance with GASB Statement No. 75) a calculation similar to that performed to calculate its pension liability. Pursuant to GASB 75, an annual required contribution is calculated which, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liability over a period not to exceed 30 years. The City’s total OPEB liability reported as of June 30, 2023 of \$1.785 billion, was measured as of June 30, 2022 based on an actuarial valuation as of July 1, 2022. See Note IV.3 to the Fiscal Year 2023 ACFR.

PGW PENSION PLAN

General

PGW consists of all the real and personal property owned by the City and used for the acquisition, manufacture, storage, processing, and distribution of gas within the City, and all property, books, and records employed and maintained in connection with the operation, maintenance, and administration of PGW. The City Charter provides for a Gas Commission (the “Gas Commission”) to be constituted and appointed in accordance with the provisions of contracts between the City and the operator of PGW as may from time to time be in effect, or, in the absence of a contract, as may be provided by ordinance. The Gas Commission consists of the City Controller, two members appointed by City Council and two members appointed by the Mayor.

PGW is operated by PFMC, pursuant to an agreement between the City and PFMC dated December 29, 1972, as amended, authorized by ordinances of City Council (the “Management Agreement”). Under the Management Agreement, various aspects of PFMC’s management of PGW are subject to review and approval by the Gas Commission. The Pennsylvania Public Utility Commission (the “PUC”) has the regulatory responsibility for PGW with regard to rates, safety, and customer service.

The City sponsors the Philadelphia Gas Works Pension Plan (the “PGW Pension Plan”), a single employer defined benefit plan, to provide pension benefits for certain current and former PGW employees and other eligible class employees of PFMC and the Gas Commission. As plan sponsor, the City, through its General Fund, could be responsible for plan liabilities if the PGW Pension Plan does not satisfy its payment obligations to PGW retirees. At June 30, 2024, the PGW Pension Plan membership total was 3,700, comprised of: (i) 2,548 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them; and (ii) 1,152 participants, of which 816 were vested and 336 were nonvested.

PGW Pension Plan

The PGW Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after five years of credited service. Retirement payments for vested employees commence: (i) at age 65 and five years of credited service; (ii) age 55 and 15 years of credited service; or (iii) without regard to age, after 30 years of credited service. For covered employees hired prior to May 21, 2011 (union employees) or prior to December 21, 2011 (non-union employees), PGW pays the entire cost of the PGW Pension Plan. Union employees hired on or after May 21, 2011 and non-union employees hired on or after December 21, 2011 have the option to participate in the PGW Pension Plan and contribute 6% of applicable wages or participate in a plan established in compliance with Section 401(a) of the Internal Revenue Code (defined contribution plan) and have PGW contribute 5.5% of applicable wages.

PGW is required by statute to contribute the amounts necessary to fund the PGW Pension Plan. The PGW Pension Plan is funded with (i) contributions by PGW, (ii) contributions from the Sinking Fund Commission of the City (the “Sinking Fund Commission”), (iii) investment earnings, and (iv) employee contributions required for new hires after December 2011 who elect to participate in the PGW Pension Plan. Each month, the Sinking Fund Commission sends, in two separate payments, (i) approximately \$2.5 million and (ii) one-twelfth of PGW’s annual contribution to the applicable bank account for processing and payment to PGW pensioners.

Benefit and contribution provisions are established by City ordinance and may be amended only as allowed by City ordinance. The pension payments are treated as an operating expense of PGW and are

included as a component of PGW's base rate. The PUC approves all items that are to be included in PGW's base rates.

Pension Costs and Funding

PGW pays an annual amount that is projected to be sufficient to cover its normal cost and an amortization of the PGW Pension Plan's UAL. The following table shows the normal cost, the amortization payment, and the resulting annual required contribution as of the last five actuarial valuation dates for the PGW Pension Plan. Prior to fiscal year 2016, PGW had been using a 20-year open amortization period (and the payments in Table 34 are on the basis of a 20-year open amortization). Commencing in PGW's fiscal year 2016, PGW calculated an annual required contribution on the basis of both a 20-year open amortization period and a 30-year closed amortization period and contributed the higher of the two amounts. An open amortization period is one that begins again or is recalculated at each actuarial valuation date. With a closed amortization period, the unfunded liability is amortized over a specific number of years to produce a level annual payment. Because the final amortization date is fixed, if all actuarial assumptions are achieved, the unfunded liability would decline to zero as of the final amortization date. To the extent future experience differs from the assumptions used to establish the 30-year fixed amortization payment schedule, new amortization bases attributable to a particular year's difference would be established and amortized over their own 30-year schedule. Commencing in PGW's fiscal year 2021, PGW's annual contribution is required to be at least \$30,000,000 annually unless changed by written directive of the Finance Director. The contribution amount exceeds the suggested level of funding in the Actuarial Valuation Report (Funding) for the Plan Year July 1, 2024 – June 30, 2025 for the PGW Pension Plan and is consistent with the contribution amount in PGW's base rates (i.e., rates PGW charges for services).

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Table 34
PGW Pension – Annual Required Contributions (“ARC”)
(Dollar Amounts in Thousands of USD)

Calculation of ARC for the 12- month period ended:	Normal Cost⁽¹⁾ (A)	Amortization Payment⁽¹⁾ (B)	ARC^{(1), (2)} (A + B)	Payments to Beneficiaries⁽³⁾
7/1/2020	\$6,161	\$16,504	\$22,665	\$55,061
7/1/2021	\$7,892	\$17,375	\$25,267	\$56,647
7/1/2022	\$7,732	\$17,470	\$25,202	\$58,502
7/1/2023	\$7,754	\$17,306	\$25,060	\$60,312
7/1/2024	\$7,772	\$16,256	\$24,028	\$60,928

⁽¹⁾ Source: The Actuarial Valuation Report (Funding) for the Plan Year July 1, 2024 – June 30, 2025 for the PGW Pension Plan.

⁽²⁾ Each ARC is the sum reflected in this table, but the “Calculated Mid-Year Contribution” in Tables 36 and 37 more closely approximates the actual pension contributions made by PGW.

⁽³⁾ Sources: For 2020, the audited financial statements for PGW for the fiscal years ended August 31, 2020 and 2019. For 2021, the audited financial statements for PGW for fiscal years ended August 31, 2021 and 2020. For 2022, the audited financial statements for PGW for fiscal years ended August 31, 2022 and 2021. For 2023, the audited financial statements for PGW for fiscal years ended August 31, 2023 and 2022. For 2024, the Actuarial Valuation Report (Funding) for the Plan Year July 1, 2024 – June 30, 2025 for the PGW Pension Plan.

Although PGW has paid its annual required contribution each year, the market value of assets for the PGW Pension Plan is less than the actuarial accrued liability, as shown in the next table. Table 35 shows such values as of the applicable actuarial valuation dates (July 1, 2020 through July 1, 2024).

Table 35
Schedule of Pension Funding Progress
(Dollar Amounts in Thousands of USD)⁽¹⁾

Actuarial Valuation Date	Market Value of Assets	Actuarial Liability	UAL (Market Value)	Funded Ratio
7/1/2020	\$543,230	\$741,279	\$198,049	73.28%
7/1/2021	\$673,542	\$792,325	\$118,783	85.01%
7/1/2022	\$565,748	\$806,257	\$240,509	70.17%
7/1/2023	\$604,133	\$812,231	\$208,098	74.38%
7/1/2024	\$654,984	\$819,095	\$164,111	79.96%

⁽¹⁾ Source: The Actuarial Valuation Report (Funding) for the Plan Year July 1, 2024 – June 30, 2025 for the PGW Pension Plan.

The current significant actuarial assumptions for the PGW Pension Plan are: (i) investment return rate of 7.00% compounded annually; (ii) salaries are assumed to increase by an amount based on years of service, see table 3 in The Actuarial Valuation Report (Funding) for the Plan Year July 1, 2024 – June 30, 2025 for the PGW Pension Plan; and (iii) retirements that are assumed to occur at the ages detailed in The Actuarial Valuation Report (Funding) for the Plan Year July 1, 2024 – June 30, 2025 for the PGW Pension Plan.

The Actuarial Valuation Report (Funding) for the Plan Year July 1, 2024 – June 30, 2025 for the PGW Pension Plan includes certain changes to the actuarial assumptions, including (i) modifications to mortality tables, turnover rates, disability rates, retirement rates, and salary scales, (ii) increases to assumed participant compensation in the final year of employment prior to retirement, and (iii) modifications to the optional payment form election percentages and the surviving spouse benefit assumptions.

PGW uses a September 1 – August 31 fiscal year, while the PGW Pension Plan uses a July 1 – June 30 fiscal year (the same as the City’s fiscal year). The last five actuarial valuation reports for the PGW Pension Plan utilized a plan year of July 1 to June 30. This is reflected in Table 35 above.

The PGW Pension Plan actuary prepared a separate actuarial valuation report (“GASB 67 Report”) for the fiscal year ending June 30, 2024, for purposes of plan reporting information under Governmental Accounting Standards Board Statement No. 67, “Financial Reporting for Pension Plans.” The GASB 67 Report shows for the fiscal year ending June 30, 2024, an unfunded liability of approximately \$186.7 million (rather than the approximately \$164.1 million reflected in Table 35), which results in a funded ratio of 77.82%. In addition, that report provides an interest rate sensitivity, which shows that were the investment rate to be 6.00% (1% lower than the assumed investment rate of 7.00%), the unfunded liability would be approximately \$276.4 million.

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Projections of Funded Status

The information under this subheading, “Projections of Funded Status,” is extracted from tables prepared by Aon, as actuary to the PGW Pension Plan, which were included in their “Philadelphia Gas Works Pension Plan – Funding Alternative Funding Schedules July 1, 2024-June 30, 2025”. The charts show projections, using both the current amortization method (20-year, open) and the alternative amortization method (30-year, fixed). See “– Pension Costs and Funding” above. Projections are subject to actual experience deviating from the underlying assumptions and methods. **Projections and actuarial assessments are “forward looking” statements and are based upon assumptions that may not be fully realized in the future and are subject to change, including changes based upon the future experience of the PGW Pension Plan.**

Table 36
Schedule of Prospective Funded Status (20-Year Open Amortization)
(Dollar Amounts in Thousands of USD)

Actuarial Valuation Date (July 1)	Actuarial Value of Assets	Actuarial Accrued Liability	UAL (Actuarial Value)	Calculated Mid-Year Contribution^{(1), (2)}	Funded Ratio
2024	\$634,818	\$819,095	\$184,277	\$24,841	77.50%
2025	655,153	821,803	166,650	23,221	79.72%
2026	650,523	824,215	173,692	23,866	78.93%
2027	672,073	826,333	154,260	22,129	81.33%
2028	686,690	828,569	141,879	21,079	82.88%
2029	693,104	831,128	138,024	20,820	83.39%
2030	699,788	834,037	134,249	20,561	83.90%
2031	706,373	836,943	130,570	20,285	84.40%
2032	713,191	840,194	127,003	20,048	84.88%
2033	720,395	843,925	123,531	19,765	85.36%

⁽¹⁾ Source: The Actuarial Valuation Report (Funding) for the Plan Year July 1, 2024 – June 30, 2025 for the PGW Pension Plan.

⁽²⁾ PGW makes monthly contributions to the PGW Retirement Reserve Fund. The actuary’s report assumes contributions at the beginning, middle, and end of the plan year. PGW utilizes the mid-year contribution level to approximate the actual funding methodology.

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Table 37
Schedule of Prospective Funded Status (30-Year Closed Amortization)
(Dollar Amounts in Thousands of USD)

Actuarial Valuation Date (July 1)	Actuarial Value of Assets	Actuarial Accrued Liability	UAL (Actuarial Value)	Calculated Mid-Year Contribution^{(1), (2)}	Funded Ratio
2024	\$634,818	\$819,095	\$184,277	\$24,514	77.50%
2025	654,814	821,803	166,989	23,479	79.68%
2026	650,427	824,215	173,788	24,346	78.91%
2027	672,467	826,333	153,866	23,199	81.38%
2028	688,219	828,569	140,350	22,606	83.06%
2029	696,320	831,128	134,808	22,668	83.78%
2030	705,143	834,037	128,895	22,722	84.55%
2031	714,339	836,943	122,604	22,749	85.35%
2032	724,265	840,194	115,929	22,809	86.20%
2033	735,101	843,925	108,824	22,813	87.11%

⁽¹⁾ Source: The Actuarial Valuation Report (Funding) for the Plan Year July 1, 2024 – June 30, 2025 for the PGW Pension Plan.

⁽²⁾ PGW makes monthly contributions to the PGW Retirement Reserve Fund. The actuary's report assumes contributions at the beginning, middle, and end of the plan year. PGW utilizes the mid-year contribution level to approximate the actual funding methodology.

Additional Information

The City issues a publicly available financial report that includes financial statements and required supplementary information for the PGW Pension Plan. The report is not incorporated into this Official Statement by reference. The report may be obtained by writing to the Office of the Director of Finance of the City.

Further information on the PGW Pension Plan, including with respect to its membership, plan description, funding policy, actuarial assumptions and funded status is contained in the Fiscal Year 2023 ACFR.

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PGW OTHER POST-EMPLOYMENT BENEFITS

PGW provides post-employment healthcare and life insurance benefits to its participating retirees and their beneficiaries and dependents. The City, through its General Fund, could be responsible for costs associated with post-employment healthcare and life insurance benefits if PGW fails to satisfy its post-employment benefit obligations.

PGW pays the full cost of medical, basic dental, and prescription coverage for employees who retired prior to December 1, 2001. Employees who retire after December 1, 2001 are provided a choice of three plans at PGW's expense and can elect to pay toward a more expensive plan. Union employees hired prior to May 21, 2011 and non-union employees hired prior to December 21, 2011 who retire from active service to immediately begin receiving pension benefits are entitled to receive lifetime post-retirement medical, prescription, and dental benefits for themselves and, depending on their retirement plan elections, their dependents. Employees hired on or after those dates are entitled to receive only five years of post-retirement benefits. Currently, PGW provides for the cost of healthcare and life insurance benefits for retirees and their beneficiaries on a pay-as-you-go-basis.

As part of a July 29, 2010 rate case settlement (the "Rate Settlement"), which provided for the establishment of an irrevocable trust for the deposit of funds derived through a rider from all customer classes to fund OPEB liabilities (the "OPEB Surcharge"), PGW established the trust in July 2010, and began funding the trust in accordance with the Rate Settlement in September 2010. The Rate Settlement provided that PGW was to deposit \$15.0 million annually for an initial five-year period towards the ARC, and an additional \$3.5 million annually, which represented a 30-year amortization of the OPEB liability at August 31, 2010. These deposits were funded primarily through increased rates of \$16.0 million granted in the Rate Settlement. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period of 30 years. In PGW's 2015-2016 Gas Cost Rate ("GCR") proceeding, PGW proposed to continue its OPEB Surcharge. The parties to the GCR proceeding submitted a settlement agreement continuing the OPEB Surcharge at the same level of revenue (\$16.0 million annually) and funding (\$18.5 million annually). Such settlement agreement was approved by the PUC.

The current significant actuarial assumptions for the PGW OPEB Plan are: (i) investment return rate of 7.00% compounded annually; (ii) salaries assumed to increase by an amount based on years of service, and (iii) retirements assumed to occur at the ages detailed in The Actuarial Valuation Report – Retiree Health Insurance Program GASB 74 (Valuation Date: December 31, 2023).

PGW uses a September 1 – August 31 fiscal year, while the PGW OPEB Plan uses a January 1 – December 31 calendar year. The last seven actuarial valuation reports for the PGW OPEB Plan utilized a plan year of January 1 – December 31. This is reflected in Table 39 below.

In Table 39, the PGW OPEB Plan shows an unfunded liability of approximately \$113.7 million, which results in a funded ratio of 77.9%. In addition, The Actuarial Valuation Report – Retiree Health Insurance Program GASB 74 report provides an interest rate sensitivity, which shows that if the investment rate were to be 6.00% (1% lower than the assumed investment rate of 7.00%), the unfunded liability would be approximately \$183.3 million.

Table 38 provides detail of actual PGW OPEB payments for PGW Fiscal Years 2019-2023 and projected PGW OPEB payments for PGW Fiscal Years 2024-2028. **Projections and actuarial assessments are "forward looking" statements and are based upon assumptions that may not be fully realized in the future and are subject to change, including changes based upon the future experience.**

Table 38
PGW OPEB Payments
(Amounts in Thousands of USD)

Calculation of OPEB Payment for the 12-month period ended:	Healthcare	Life Insurance	OPEB Trust	Total
<u>Actual</u> ⁽¹⁾				
8/31/2019	\$27,419	\$1,629	\$18,500	\$47,548
8/31/2020	\$26,944	\$1,661	\$18,500	\$47,105
8/31/2021	\$24,655	\$1,725	\$18,500	\$44,880
8/31/2022	\$21,970	\$1,778	\$18,500	\$42,248
8/31/2023	\$24,746	\$1,797	\$18,500	\$45,043
<u>Projections</u> ⁽²⁾				
12/31/2024	\$27,681	\$1,700	\$18,500	\$47,881
12/31/2025	\$28,573	\$1,700	\$18,500	\$48,773
12/31/2026	\$29,512	\$1,700	\$18,500	\$49,712
12/31/2027	\$30,422	\$1,700	\$18,500	\$50,622
12/31/2028	\$31,565	\$1,700	\$18,500	\$51,765

⁽¹⁾ Source: PGW audited financial statements for fiscal year ended August 31, 2023.

⁽²⁾ The Actuarial Valuation Report for the PGW Health and Life Insurance Plan GASB 75 Projected Costs – Discount Rate = 7.0%.

Table 39 is the schedule of PGW OPEB funding progress.

Table 39
Schedule of OPEB Funding Progress
(Dollar Amounts in Thousands of USD)

Actuarial valuation date	Actuarial value of assets	Actuarial liability	Unfunded actuarial liability	Funded ratio
12/31/2017 ⁽¹⁾	\$180,743	\$559,631	\$378,888	32.3%
12/31/2018 ⁽¹⁾	\$184,455	\$520,533	\$336,078	35.4%
12/31/2019 ⁽¹⁾	\$245,361	\$493,570	\$248,209	49.7%
12/31/2020 ⁽¹⁾	\$306,079	\$507,667	\$201,588	60.3%
12/31/2021 ⁽¹⁾	\$365,944	\$515,175	\$149,231	71.0%
12/31/2022 ⁽¹⁾	\$320,635	\$529,342	\$208,707	60.6%
12/31/2023 ⁽²⁾	\$393,913	\$507,620	\$113,707	77.6%

⁽¹⁾ The Actuarial Valuation Report for the PGW Health and Life Insurance Plan for Retired Employees GASB 75 Financial Disclosure Report for the Fiscal Year Ended August 31, 2023.

⁽²⁾ The Actuarial Valuation Report – Retiree Health Insurance Program GASB 74.

CITY CASH MANAGEMENT AND INVESTMENT POLICIES

General Fund Cash Flow

Because the receipt of revenues into the General Fund generally lags behind expenditures from the General Fund during each Fiscal Year, the City issues notes in anticipation of General Fund revenues and makes payments from the Consolidated Cash Account (described below) to finance its on-going operations.

The timing imbalance referred to above results from several factors, principally the following: (i) Real Estate Taxes, BIRT, and Net Profits Taxes are not due until the latter part of the Fiscal Year; and (ii) the City experiences lags in reimbursement from other governmental entities for expenditures initially made by the City in connection with programs funded by other governments.

From time to time, the City issues, or PICA has issued on behalf of the City, tax and revenue anticipation notes. Each issue was repaid when due, prior to the end of the particular Fiscal Year. The City did not issue tax and revenue anticipation notes in Fiscal Year 2023 or Fiscal Year 2024. The City does not expect to issue tax and revenue anticipation notes in Fiscal Year 2025.

The repayment of the tax and revenue anticipation notes is funded through cash available in the General Fund.

Consolidated Cash

The Act of the General Assembly of June 25, 1919 (Pa. P.L. 581, No. 274, Art. XVII, § 6) authorizes the City to make temporary inter-fund loans between certain operating and capital funds. The City maintains a Consolidated Cash Account for the purpose of pooling the cash and investments of all City funds, except those which, for legal or contractual reasons, cannot be commingled (e.g., the Municipal Pension Fund, sinking funds, sinking fund reserves, funds of PGW, the Aviation Fund, the Water Fund, and certain other restricted purpose funds). A separate accounting is maintained to record the equity of each member fund that participates in the Consolidated Cash Account. The City manages the Consolidated Cash Account pursuant to the procedures described below.

To the extent that any member fund temporarily experiences the equivalent of a cash deficiency, an advance is made from the Consolidated Cash Account, in an amount necessary to result in a zero balance in the cash equivalent account of the borrowing fund. All subsequent net receipts of a member fund that has negative equity are applied in repayment of the advance.

All advances are made within the budgetary constraints of the borrowing funds. Within the General Fund, this system of inter-fund advances has historically resulted in the temporary use of tax revenues or other operating revenues for capital purposes and the temporary use of capital funds for operating purposes. With the movement of the reimbursable component of DHS activities from the General Fund to the Grants Revenue Fund, a similar system of advances has resulted in the use of tax revenues or other operating revenues in the General Fund to make expenditures from the Grants Revenue Fund, which advances may be outstanding for multiple Fiscal Years, but which are expected to be reimbursed by the Commonwealth.

The City maintains an ongoing cash reconciliation process, which, in short, reconciles the account balance and activity shown on the records of the bank at which the cash balance of the Consolidated Cash Account is maintained to that shown on the City's records. The City periodically reviews its internal policies to improve the cash reconciliation process and resolve any variances.

Procedures governing the City's cash management operations require the General Fund-related operating fund to borrow initially from the General Fund-related capital fund, and only to the extent there is a deficiency in such fund may the General Fund-related operating fund borrow money from any other funds in the Consolidated Cash Account.

Investment Practices

Cash balances in each of the City's funds are managed to maintain daily liquidity to pay expenses, and to make investments that preserve principal while striving to obtain the maximum rate of return. Pursuant to the City Charter, the City Treasurer is the City official responsible for managing cash collected into the City Treasury. The available cash balances in excess of daily expenses are placed in demand accounts, swept into money market mutual funds, or used to make investments directed by professional investment managers. These investments are held in segregated trust accounts at a separate financial institution. Cash balances related to revenue bonds for water and sewer and the airport are directly deposited and held separately in trust. A fiscal agent manages these cash balances in accordance with the applicable bond documents and the investment practice is guided by administrative direction of the City Treasurer per the Investment Committee and the Investment Policy (as described below). In addition, certain operating cash deposits (such as Community Behavioral Health, Special Gas/County Liquid and "911" surcharge) of the City are restricted by purpose and required to be segregated into accounts in compliance with federal or Commonwealth reporting.

Investment guidelines for the City are embodied in Section 19-202 of the Philadelphia Code. In furtherance of these guidelines, as well as Commonwealth and federal legislative guidelines, the Director of Finance adopted a written Investment Policy (the "Policy") that went into effect in August 1994 and was most recently revised in January 2023. The Policy supplements other legal requirements and establishes guiding principles for the overall administration and effective management of all of the City's monetary funds (except the Municipal Pension Fund, the PGW Retirement Reserve Fund, the PGW OPEB Trust and the PGW Workers' Compensation Reserve Fund).

The Policy delineates permitted investments as authorized by the Philadelphia Code and the funds to which the Policy applies. Investment managers may invest in the instruments expressly listed in the Policy, which states that investments in instruments not listed as authorized investments are prohibited. The authorized investments include U.S. government securities, U.S. treasuries, U.S. agencies, repurchase agreements, commercial paper, corporate bonds, money market mutual funds, obligations of the Commonwealth, collateralized banker's acceptances and certificates of deposit, and collateralized mortgage obligations and pass-through securities directly issued by a U.S. agency or instrumentality, all of investment grade rating or better and with maturity limitations.

U.S. government treasury and agency securities carry no limitation as to the percent of the total portfolio. Commercial paper and corporate bonds are limited to investment of no more than 30% of the total portfolio. Repurchase agreements and money market mutual funds are limited to investment of no more than 25% of the total portfolio. Obligations of the Commonwealth and collateralized banker's acceptances and certificates of deposit are limited to no more than 15% of the total portfolio. Collateralized mortgage obligations and pass-through securities directly issued by a U.S. agency or instrumentality are limited to no more than 5% of the total portfolio.

U.S. government securities carry no limitation as to the percent of the total portfolio per issuer. U.S. agency securities are limited to no more than 33% of the total portfolio per issuer. Repurchase agreements and money market mutual funds are limited to no more than 10% of the total portfolio per issuer. Commercial paper, corporate bonds, obligations of the Commonwealth, collateralized banker's acceptances and certificates of deposit, and collateralized mortgage obligations and pass-through

securities directly issued by a U.S. agency or instrumentality are limited to no more than 3% of the total portfolio per issuer.

The Policy provides for an ad hoc Investment Committee consisting of the Director of Finance, the City Treasurer and one representative each from the Water Department, the Department of Aviation, and PGW. The Investment Committee meets quarterly with each of the investment managers to review each manager's performance to date and to plan for the next quarter. Investment managers are given any changes in investment instructions at these meetings. The Investment Committee approves all modifications to the Policy. The Investment Committee may from time to time review and revise the Policy and may approve temporary waivers of the restrictions on assets based on cash management needs and recommendations of investment managers.

Investment managers provide monthly compliance reports to the Investment Committee, which certify that the manager has received, read, and established control measures for ensuring compliance with the Policy, and that the applicable City accounts are in compliance with the Policy. Such reports must include instances of non-compliance, if any, and indicate corrective action taken, gains or losses, and the timeframe, to bring the account into compliance.

The Policy expressly forbids the use of any derivative investment product as well as investments in any security whose yield or market value does not follow the normal swings in interest rates. Examples of these types of securities include, but are not limited to, structured notes, floating rate (excluding U.S. Treasury and U.S. agency floating rate securities) or inverse floating rate instruments, securities that could result in zero interest accrual if held to maturity, and mortgage derived interest and principal only strips. The City currently makes no investments in derivatives.

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DEBT OF THE CITY

General

Section 12 of Article IX of the Constitution of the Commonwealth provides that the authorized debt of the City “may be increased in such amount that the total debt of [the] City shall not exceed 13.5% of the average of the annual assessed valuations of the taxable realty therein, during the ten years immediately preceding the year in which such increase is made, but [the] City shall not increase its indebtedness to an amount exceeding 3.0% upon such average assessed valuation of realty, without the consent of the electors thereof at a public election held in such manner as shall be provided by law.” The Supreme Court of Pennsylvania has held that bond authorizations once approved by the voters need not be reduced as a result of a subsequent decline in the average assessed value of City property. The general obligation debt subject to the limitation described in this paragraph is referred to herein as “Tax-Supported Debt.”

The Constitution of the Commonwealth further provides that there shall be excluded from the computation of debt for purposes of the Constitutional debt limit, debt (herein called “Self-Supporting Debt”) incurred for revenue-producing capital improvements that may reasonably be expected to yield revenue in excess of operating expenses sufficient to pay interest and sinking fund charges thereon. In the case of general obligation debt, the amount of such Self-Supporting Debt to be so excluded must be determined by the Court of Common Pleas of Philadelphia County upon petition by the City. Self-Supporting Debt is general obligation debt of the City, with the only distinction from Tax-Supported Debt being that it is not used in the calculation of the Constitutional debt limit. Self-Supporting Debt has no lien on any particular revenues.

For purposes of this Official Statement, Tax-Supported Debt and Self-Supporting Debt are referred to collectively as “General Obligation Debt.” The term “General Fund-Supported Debt” is comprised of: (i) General Obligation Debt; and (ii) PAID, PMA, PPA, PEA, and PRA bonds, which are secured by agreements with the City to appropriate and pay amounts sufficient to pay principal, interest, or redemption price when due on the bonds.

Using the methodology described above, as of September 30, 2024, the Constitutional debt limitation for Tax-Supported Debt was \$18,336,884,508. The total amount of authorized debt applicable to the debt limit was \$2,399,992,000, including \$1,265,981,000 of authorized but unissued debt, leaving a legal debt margin of 15,936,892,508. Based on the foregoing figures, the calculation of the legal debt margin is as follows:

Table 40
General Obligation Debt Limit
As of September 30, 2024
(Amounts in Thousands of USD)

Authorized, issued and outstanding	\$1,521,940
Authorized and unissued	1,265,981
Total	<u>\$2,787,921</u>
Less: Self-Supporting Debt	(\$352,614)
Less: Serial bonds maturing within a year	(35,315)
Total amount of authorized debt applicable to debt limit	<u>2,399,992</u>
Legal debt limit	18,336,885
Legal debt margin	<u>\$15,936,893</u>

As a result of the implementation of the City's AVI, the assessed value of taxable real estate within the City has increased substantially. See "REVENUES OF THE CITY – Real Property Taxes." The \$18.337 billion Constitutional debt limit calculation includes ten years of property values certified under the City's AVI program. Assuming no increase or decrease in property values used to calculate the Constitutional debt limit in Table 40, the Constitutional debt limit is estimated to be \$26.357 billion by 2033.

The City is also empowered by statute to issue revenue bonds and, as of September 30, 2024, had outstanding \$3.15 billion aggregate principal amount of Water and Wastewater Revenue Bonds ("Water and Wastewater Bonds"), \$1.19 billion aggregate principal amount of Gas Works Revenue Bonds, and \$1.37 billion aggregate principal amount of Airport Revenue Bonds. As of September 30, 2024, the City has also enacted ordinances authorizing the issuance of (i) up to \$500 million aggregate principal amount in Airport Revenue Commercial Paper Notes for the Department of Aviation, (ii) up to \$1 billion of Airport Revenue Bonds to finance capital projects for the Department of Aviation (of which approximately \$179.6 million has been issued), (iii) up to \$270 million of Gas Works Revenue Notes to finance working capital and capital projects for PGW, (iv) up to \$300 million of Gas Works Revenue Bonds to finance capital projects for PGW, of which approximately \$92.0 million has been issued, (v) up to \$400 million of Water and Wastewater Commercial Paper Notes for the Philadelphia Water Department, and (vi) up to \$1.9 billion of Water and Wastewater Revenue Bonds for the Philadelphia Water Department, of which approximately \$1.0 billion has been issued. For information on recent and upcoming financings, see "OTHER FINANCING RELATED MATTERS – Recent and Upcoming Financings."

The PICA Bonds reached final maturity on June 15, 2023, and there are no PICA Bonds outstanding as of September 30, 2024. For more information on PICA Bonds, see "– PICA Bonds" below.

Short-Term Debt

As provided in the PICA Act, the City's tax and revenue anticipation notes are general obligations of the City but do not constitute debt of the City subject to the limitations of the Constitutional debt limit. The City did not issue tax and revenue anticipation notes in Fiscal Year 2023 or Fiscal Year 2024. The City does not expect to issue tax and revenue anticipation notes in Fiscal Year 2025. See "OTHER FINANCING RELATED MATTERS – Recent and Upcoming Financings" and "CITY CASH MANAGEMENT AND INVESTMENT POLICIES – General Fund Cash Flow."

Long-Term Debt

The following table presents a synopsis of the bonded debt of the City and its component units as of the date indicated. Of the total balance of the City's General Fund-Supported Debt issued and outstanding as of September 30, 2024, approximately 45% is scheduled to mature within five Fiscal Years and approximately 72% is scheduled to mature within ten Fiscal Years.

Table 41
Bonded Debt
as of September 30, 2024
(Amounts in Thousands of USD)^{(1), (2)}

General Obligation Debt and PICA Bonds		
General Obligation Bonds	\$1,521,940	
PICA Bonds	<u>0</u>	
Subtotal: General Obligation Debt and PICA Bonds		\$1,521,940
Other General Fund-Supported Debt⁽³⁾		
Philadelphia Municipal Authority		
Juvenile Justice Center	\$67,225	
Public Safety Campus	54,635	
Energy Conservation	<u>4,160</u>	
	\$126,020	
Philadelphia Authority for Industrial Development		
Pension capital appreciation bonds	\$52,241	
Pension fixed rate bonds	715,405	
Stadiums	149,430	
Library	795	
Cultural and Commercial Corridor	55,620	
One Parkway	10,455	
Affordable Housing	41,165	
400 N. Broad ⁽⁴⁾	214,971	
Art Museum	8,115	
Rebuild	<u>155,600</u>	
	1,403,796	
Philadelphia Redevelopment Authority		
Neighborhood Transformation Initiative	100,900	
Home Repair Program	32,840	
Neighborhood Preservation Initiative	<u>182,575</u>	
	316,315	
Philadelphia Energy Authority		
Streetlight Improvement Project	83,525	
	83,525	
Philadelphia Parking Authority	<u>5,680</u>	
Subtotal: Other General Fund-Supported Debt		\$1,935,336
Revenue Bonds		
Water Fund ⁽⁵⁾	\$3,152,899	
Aviation Fund ⁽⁵⁾	1,370,385	
Gas Works ⁽⁵⁾	<u>1,188,640</u>	
Subtotal: Revenue Bonds		\$5,711,924
Grand Total		<u>\$9,169,200</u>

⁽¹⁾ Unaudited; figures may not sum due to rounding.

⁽²⁾ For tables setting forth a ten-year historical summary of Tax-Supported Debt of the City and the School District and the debt service requirements to maturity of the City's outstanding bonded indebtedness as of June 30, 2023, see the Fiscal Year 2023 ACFR.

⁽³⁾ The principal amount outstanding relating to the PAID 1999 Pension Obligation Bonds, Series B (capital appreciation bonds) is reflected as the accreted value thereon as of September 30, 2024.

⁽⁴⁾ Includes (i) sublease payments of approximately \$15.2 million annually for the police headquarters renovation; and (ii) an assumption that the City issues approximately \$200 million in bonds in 2026 to acquire the project at an assumed interest rate of 5% over the next 20 years.

⁽⁵⁾ Does not include any outstanding commercial paper or short-term note issuances for the Department of Aviation, the Water Department, or PGW, as applicable.

Table 42
Annual Debt Service on General Fund-Supported Debt
(as of September 30, 2024)
(Amounts in Millions of USD)⁽¹⁾

Fiscal Year	<u>General Obligation Debt⁽²⁾</u>			<u>Other General Fund-Supported Debt^{(4), (5)}</u>			<u>Aggregate General Fund-Supported Debt</u>		
	Principal	Interest ⁽³⁾	Total	Principal	Interest ^{(6), (7)}	Total	Principal	Interest	Total
2025	\$21.21	\$39.77	\$60.97	\$151.67	\$107.47	\$259.14	\$172.87	\$147.24	\$320.11
2026	116.58	64.25	180.83	177.19	101.85	279.04	293.77	166.09	459.86
2027	121.81	58.73	180.53	199.28	75.98	275.26	321.09	134.71	455.80
2028	127.90	53.02	180.92	209.76	68.40	278.16	337.66	121.42	459.08
2029	104.04	47.98	152.02	284.78	49.84	334.62	388.82	97.82	486.64
2030	121.06	43.17	164.23	84.89	39.30	124.19	205.95	82.47	288.41
2031	127.22	37.77	164.99	88.99	35.18	124.17	216.21	72.95	289.16
2032	132.98	32.09	165.07	49.93	31.45	81.38	182.91	63.53	246.44
2033	101.58	26.98	128.56	50.09	29.23	79.32	151.67	56.21	207.87
2034	91.43	22.80	114.22	66.79	26.94	93.72	158.21	49.74	207.95
2035	80.37	19.02	99.39	84.42	24.11	108.53	164.79	43.13	207.91
2036	84.03	15.35	99.37	50.31	20.65	70.96	134.34	36.00	170.34
2037	72.71	11.80	84.51	52.74	18.23	70.96	125.45	30.03	155.48
2038	76.04	8.55	84.59	55.28	15.68	70.95	131.32	24.23	155.55
2039	59.09	5.69	64.77	45.93	13.10	59.03	105.02	18.79	123.80
2040	26.83	3.37	30.19	38.26	10.95	49.21	65.09	14.32	79.40
2041	27.95	2.25	30.19	40.10	9.11	49.21	68.05	11.35	79.40
2042	29.16	1.04	30.20	42.02	7.18	49.20	71.18	8.22	79.40
2043	0.00	0.00	0.00	37.08	5.30	42.37	37.08	5.30	42.37
2044	0.00	0.00	0.00	38.94	3.44	42.37	38.94	3.44	42.37
2045	0.00	0.00	0.00	14.04	1.86	15.90	14.04	1.86	15.90
2046	0.00	0.00	0.00	14.76	1.14	15.90	14.76	1.14	15.90
2047	0.00	0.00	0.00	15.52	0.39	15.90	15.52	0.39	15.90
2048	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	\$1,521.94	\$493.63	\$2,015.57	\$1,892.72	\$696.77	\$2,589.48	\$3,414.66	\$1,190.40	\$4,605.05

⁽¹⁾ Does not include letter of credit fees. Figures may not sum due to rounding.

⁽²⁾ Includes both Tax-Supported Debt and Self-Supporting Debt. See “-- General.” Does not include PICA Bonds (no PICA Bonds are currently outstanding).

⁽³⁾ Assumes interest rate on hedged variable rate bonds to be the associated fixed swap rate.

⁽⁴⁾ Includes PAID, PMA, PPA, PEA, and PRA bonds, which are secured by agreements with the City to appropriate and pay amounts sufficient to pay principal, interest, or redemption price when due on such bonds, with capital appreciation bonds including only actual amounts payable. The original issuance amount of such capital appreciation bonds is included under the “Principal” column in the Fiscal Year such bonds mature and the full accretion amount at maturity less the original issuance amount is included in the “Interest” column in the Fiscal Year such bonds mature.

⁽⁵⁾ Includes (i) sublease payments of approximately \$15.2 million annually for the police headquarters renovation; and (ii) an assumption that the City issues approximately \$200 million in bonds in 2026 to acquire the project at an assumed interest rate of 5% over the next 20 years.

⁽⁶⁾ Assumes interest rate on hedged variable rate bonds to be the associated fixed swap rate.

⁽⁷⁾ Net of capitalized interest, if any.

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Other Long-Term Debt Related Obligations

The City has entered into other contracts and leases to support the issuance of debt by public authorities related to the City pursuant to which the City is required to budget and appropriate tax or other general revenues to satisfy such obligations, as shown in Table 41. The City budgets all other long-term debt-related obligations as a single budget item with the exception of PPA.

The Hospitals Authority and the State Public School Building Authority have issued bonds on behalf of the Community College of Philadelphia (“CCP”). Under the Community College Act (Pa. P.L. 103, No. 31 (1985)), each community college must have a local sponsor, which for CCP is the City. As the local sponsor, the City is obligated to pay up to 50% of the annual capital expenses of CCP, which includes debt service. The remaining 50% is paid by the Commonwealth. Additionally, the City annually appropriates funds for a portion of CCP’s operating costs (less tuition and less the Commonwealth’s payment), as well as certain scholarship programs. The amount paid by the City in Fiscal Year 2023 was \$67.1 million. The budgeted amount for Fiscal Year 2024 is \$51.0 million. The current estimate for Fiscal Year 2024 is \$61.0 million. The budgeted amount for Fiscal Year 2025 is \$56.0 million.

PICA Bonds

PICA issued several series of bonds at the request of, or for the benefit of, the City (the “PICA Bonds”). Under the PICA Act (both before and after the recent amendments thereto), PICA no longer has authority to issue bonds to finance cash flow deficits but may refund bonds previously issued. The proceeds of the PICA Bonds were used to: (i) make grants to the City to fund its General Fund deficits, to fund all or a portion of the costs of certain City capital projects, to provide other financial assistance to the City to enhance operational productivity, and to defease certain of the City’s general obligation bonds; (ii) refund other PICA Bonds; and (iii) pay costs of issuance. The PICA Bonds reached final maturity on June 15, 2023, and there are no PICA Bonds outstanding as of September 30, 2024.

The PICA Act authorizes the City to impose a tax for the sole and exclusive purposes of PICA. In connection with the adoption of the Fiscal Year 1992 budget and the execution of the PICA Agreement, as so authorized by the PICA Act, the City reduced the wage, earnings, and net profits taxes on City residents by 1.5% and enacted a new tax of 1.5% on wages, earnings, and net profits of City residents (the “PICA Tax”), which continues in effect. When outstanding, the PICA Tax secures the PICA Bonds. There are currently no PICA Bonds outstanding.

Pursuant to amendments to the PICA Act in 2022, PICA may, at the request of the City, issue bonds to finance capital projects from time to time in accordance with the timelines set forth therein. Further, the amendments to the PICA Act provide that the PICA Tax will continue to be authorized and dedicated for so long as PICA remains in existence (regardless of whether any PICA Bonds are outstanding). As amended, the PICA Act provides that PICA will remain in existence until the later of January 2, 2047 or one year after all its liabilities are met or, in the case of PICA Bonds, one year after provision for such payment shall have been made or provided for in the applicable bond indenture. In June 2023, City Council passed, and the Mayor signed, an amendment to the PICA Tax ordinance to extend its duration in response to the continued authorization of the PICA Tax pursuant to the amendments to the PICA Act. In addition, the City and PICA approved and entered into the 2023 PICA Agreement that reflects and implements the PICA Act as amended, and replaces the expired 1992 PICA Agreement.

At any time, the City is authorized to increase for its own use its various taxes, including its wage, earnings, and net profits taxes on City residents and could do so upon the expiration of the PICA

Tax. Certain taxes, such as sales, liquor, and hotel taxes, among others, cannot be increased by the City without Commonwealth approval.

The PICA Tax is collected by the City’s Department of Revenue, as agent of the State Treasurer, and deposited in the Pennsylvania Intergovernmental Cooperation Authority Tax Fund (the “PICA Tax Fund”) of which the State Treasurer is custodian. The PICA Tax Fund is not subject to appropriation by City Council or the General Assembly. See “THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Local Government Agencies – *Non-Mayoral-Appointed or Nominated Agencies – PICA.*”

The PICA Act authorizes PICA to pledge the PICA Tax to secure its bonds and prohibits the Commonwealth and the City from repealing the PICA Tax or reducing its rate while PICA remains in existence. PICA Bonds are payable from PICA revenues, including the PICA Tax, pledged to secure PICA’s bonds, the Bond Payment Account (as described below) and any debt service reserve fund established for such bonds and have no claim on any revenues of the Commonwealth or the City.

The PICA Act establishes a “Bond Payment Account” for PICA as a trust fund for the benefit of PICA bondholders and authorizes the creation of a debt service reserve fund for bonds issued by PICA. The State Treasurer is required to pay the proceeds of the PICA Tax held in the PICA Tax Fund directly to the Bond Payment Account. The proceeds of the PICA Tax in excess of amounts required for: (i) debt service; (ii) replenishment of any debt service reserve fund for bonds issued by PICA; and (iii) certain PICA operating expenses, are required to be deposited in a trust fund established exclusively to benefit the City and designated the “City Account.” Amounts in the City Account are required to be remitted to the City not less often than monthly, unless PICA certifies the City’s non-compliance with the then-current five-year financial plan.

The total amount of PICA Tax remitted by the State Treasurer to PICA (which is net of the costs of the State Treasurer in collecting the PICA Tax), PICA annual debt service and investment expenses, and net PICA tax revenue remitted to the City for Fiscal Years 2021-2023, the budgeted amounts and current estimates for Fiscal Year 2024, and the budgeted amounts for Fiscal Year 2025 are set forth below.

Table 43
Summary of PICA Tax Remitted by the State Treasurer to PICA
and Net Taxes Remitted by PICA to the City
(Amounts in Millions of USD)^{(1), (2)}

Fiscal Year	PICA Tax⁽³⁾	PICA Annual Debt Service and Expenses⁽³⁾	Net taxes remitted to the City⁽³⁾
2021 (Actual)	\$524.2	\$15.2	\$509.0
2022 (Actual)	\$585.6	\$30.5	\$555.1
2023 (Actual)	\$674.3	\$0.0	\$674.3
2024 (Adopted Budget)	\$675.1	\$0.0	\$675.1
2024 (Current Estimate)	\$707.0	\$0.0	\$707.0
2025 (Adopted Budget)	\$739.4	\$0.0	\$739.4

⁽¹⁾ Figures may not sum due to rounding.

⁽²⁾ As of the date of this Official Statement, there are no PICA Bonds outstanding.

⁽³⁾ Source: For Fiscal Years 2021-2024, the Fourth Quarter QCMR for such Fiscal Years. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan, as applicable.

OTHER FINANCING RELATED MATTERS

Swap Information

The City is a party to various swaps related to its outstanding General Fund-Supported Debt as detailed in the table below.

Table 44
Summary of Swap Information
for General Fund-Supported Debt (as of September 30, 2024)

City Entity	City GO	City Lease PAID	City Lease PAID
Related Bond Series	2009B ⁽¹⁾	2007B-2 (Stadium) ⁽³⁾	2007B-2 (Stadium) ⁽⁴⁾
Initial Notional Amount	\$313,505,000	\$217,275,000	\$72,400,000
Current Notional Amount	\$100,000,000	\$34,934,341	\$11,640,659
Termination Date	8/1/2031	10/1/2030	10/1/2030
Product	Fixed Payer Swap	Fixed Payer Swap	Fixed Payer Swap
Rate Paid by Dealer	SIFMA	SIFMA	SIFMA
Rate Paid by City Entity	3.829%	3.9713%	3.9713%
Dealer	Royal Bank of Canada	JPMorgan Chase Bank, N.A.	Merrill Lynch Capital Services, Inc.
Fair Value⁽²⁾	(\$5,984,998)	(\$2,110,642)	(\$703,337)
Additional Termination Events	<u>For Dealer:</u> Rating change below BBB- or Baa3 <u>For City:</u> Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3)	<u>For Dealer:</u> Rating change below BBB- or Baa3 <u>For PAID:</u> Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3)	<u>For Dealer:</u> Rating change below BBB- or Baa3 <u>For PAID:</u> Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3)

⁽¹⁾ On July 28, 2009, the City terminated a portion of the swap in the amount of \$213,505,000 in conjunction with the refunding of its Series 2007B bonds with the Series 2009A fixed rate bonds and the Series 2009B variable rate bonds. The City made a termination payment of \$15,450,000.

⁽²⁾ Fair values are as of September 30, 2024, and are shown from the City's perspective and include accrued interest.

⁽³⁾ On July 15, 2014, PAID terminated a portion of the swap in the amount of \$41,555,000 in conjunction with the refunding of a portion of its Series 2007B bonds with the Series 2014B fixed rate bonds. PAID made a termination payment of \$4,171,000 to JPMorgan. On September 11, 2019, PAID terminated a portion of the swap in the amount of \$33,455,654 in conjunction with the refunding of a portion of its Series 2007B bonds with the Series 2019 fixed rate bonds. PAID made a termination payment of \$6,051,000 to JPMorgan.

⁽⁴⁾ On July 15, 2014, PAID terminated a portion of the swap in the amount of \$13,840,000 in conjunction with the refunding of a portion of its Series 2007B bonds with the Series 2014B fixed rate bonds. PAID made a termination payment of \$1,391,800 to Merrill Lynch. On September 11, 2019, PAID terminated a portion of the swap in the amount of \$11,149,346 in conjunction with the refunding of a portion of its Series 2007B bonds with the Series 2019 fixed rate bonds. PAID made a termination payment of \$1,998,000 to Merrill Lynch.

While the City is party to several interest rate swap agreements, for which there is General Fund exposure and on which the swaps currently have a negative mark against the City, the City has no obligation to post collateral on these swaps while the City's underlying ratings are investment grade.

For more information related to certain swaps entered into in connection with revenue bonds issued for PGW, the Water Department, and the Department of Aviation, see the Fiscal Year 2023 ACFR.

Swap Policy

The City has adopted a swap policy for the use of swaps, caps, floors, collars and other derivative financial products (collectively, "swaps") in conjunction with the City's debt management. The swap program managed by the City includes swaps related to the City's general obligation bonds, tax-supported service contract debt issued by related authorities, debt of the Water Department, Department of Aviation, and debt of PGW. When outstanding, swaps related to debt of PICA, the School District, and the PPA are managed by those governmental entities, respectively.

The Director of Finance has overall responsibility for entering into swaps. Day-to-day management of swaps is the responsibility of the City Treasurer, and the Executive Director of the Sinking Fund Commission is responsible for making swap payments. The Office of the City Treasurer and the Law Department coordinate their activities to ensure that all swaps that are entered into are in compliance with applicable federal, state, and local laws.

The swap policy addresses the circumstances when swaps can be used, the risks that need to be evaluated prior to entering into swaps and on an ongoing basis after swaps have been executed, the guidelines to be employed when swaps are used, and how swap counterparties will be chosen. The swap policy is used in conjunction with the City's Debt Management Policy, reviewed annually, and updated as needed.

Under the swap policy, permitted uses of swaps include: (i) managing the City's exposure to floating interest rates through interest rate swaps, caps, floors and collars; (ii) locking in fixed rates in current markets for use at a later date through the use of forward starting swaps and rate locks; (iii) reducing the cost of fixed or floating rate debt through swaps and related products to create "synthetic" fixed or floating rate debt; and (iv) managing the City's credit exposure to financial institutions and other entities through the use of offsetting swaps.

Since swaps can create exposure to the creditworthiness of financial institutions that serve as the City's counterparties on swap transactions, the City has established standards for swap counterparties. As a general rule, the City enters into transactions with counterparties whose obligations are rated in the A rated category or better from two nationally recognized rating agencies. If the counterparty's credit rating is below the double-A rating category, the swap policy requires that the City's exposure be collateralized. If a counterparty's credit is downgraded below the A category, even with collateralization, the swap policy requires a provision in the swap permitting the City to exercise a right to terminate the transaction prior to its scheduled termination date.

LIBOR Phase-Out

Since June 30, 2023, the 1-month, 3-month, and 6-month US dollar LIBOR settings have permanently ceased. The City does not have any outstanding bonds or notes with interest rates determined by any tenor of LIBOR.

Letter of Credit Agreements

The City has entered into various letter of credit agreements related to its General Fund-Supported Debt as detailed in the table below. Under the terms of such letter of credit agreements, following a purchase of the applicable bonds, the City may be required to amortize such bonds more quickly than as originally scheduled at issuance.

Table 45
Summary of Letter of Credit Agreements
for General Fund-Supported Debt
as of September 30, 2024

Variable Rate Bond Series	Amount Outstanding	Bond Maturity Date	Provider	Expiration Date	Rating Thresholds ⁽¹⁾
General Obligation Multi-Modal Refunding Bonds, Series 2009B	\$100,000,000	August 1, 2031	Barclays Bank PLC	May 23, 2025	The long-term rating assigned by any one of the rating agencies to any unenhanced long-term parity debt of the City is (i) withdrawn or suspended for credit-related reasons or (ii) reduced below investment grade.
PAID Multi-Modal Lease Revenue Refunding Bonds, Series 2007B-2	\$46,575,000	October 1, 2030	TD Bank	October 1, 2030 ⁽²⁾	The long-term ratings assigned by at least two of the rating agencies to any unenhanced general obligation bonds of the City is (i) withdrawn or suspended for credit-related reasons, or (ii) reduced below investment grade.

-
- (1) The occurrence of a Rating Threshold event would result in an event of default under the reimbursement agreement with the related bank.
(2) The stated Expiration Date may be advanced at the option of the Provider to a date that is one hundred eighty days after the date the Provider gives notice of its exercise of such option (the "Option Notification Date"). Such Option Notification Date may occur between February 26, 2027 and August 26, 2027.

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Recent and Upcoming Financings

Recent Financings. The following is a list of financings that the City has entered into in Fiscal Year 2024.

- In July 2023, PEA issued \$83,525,000 in City Service Agreement Revenue Bonds for the benefit of the City.
- In September 2023, the City issued \$564,835,000 in Water and Wastewater Revenue Bonds.
- In June 2024, PAID issued \$91,750,000 in City Service Agreement Revenue Bonds for the benefit of the City.
- In September 2024, the City issued \$424,250,000 in Gas Works Revenue Bonds.

Upcoming Financings. In addition to the financing contemplated by this Official Statement, the following is a list of financings that the City expects to enter into in calendar year 2024.

- PRA expects to issue approximately \$150 million in City Service Agreement Revenue Bonds for the benefit of the City.

CITY CAPITAL PROGRAM

As part of the annual budget process, the Mayor submits for approval a six-year capital program to City Council, together with the proposed operating budget. For more information on the City's budget process, see "DISCUSSION OF FINANCIAL OPERATIONS – Budget Procedure."

Certain Historical Capital Expenditures

Table 46 shows the City's historical expenditures for Fiscal Years 2020-2024 for certain capital purposes, including expenditures for projects related to transit, streets and sanitation, municipal buildings, recreation, parks, museums, and stadia, and economic and community development. The source of funds used for such expenditures are primarily general obligation bond proceeds, but also include federal, state, private, and other government funds and operating revenue. Figures in the table below are generated after the Fiscal Year closes and may not sum due to rounding.

Table 46
Historical Expenditures for Certain Capital Purposes
Fiscal Years 2020-2024

Purpose Category	2020	2021	2022	2023	2024
Transit	\$ 2,118,190	\$ 275,524	\$ 7,391,397	\$ 2,252,818	\$ 1,403,503
Streets & Sanitation	55,819,152	74,069,852	49,505,218	79,721,589	94,759,334
Municipal Buildings	113,997,857	88,706,617	89,560,752	75,369,416	80,029,033
Recreation, Parks, Museums & Stadia	23,488,384	28,727,639	26,443,401	44,565,539	141,339,977
Economic & Community Development	<u>19,160,053</u>	<u>10,219,384</u>	<u>12,952,262</u>	<u>15,135,822</u>	<u>11,408,633</u>
Total	<u>\$214,583,636</u>	<u>\$201,999,016</u>	<u>\$185,853,030</u>	<u>\$217,045,184</u>	<u>\$328,940,480</u>

Table 47 shows the City’s historical expenditures for Fiscal Years 2020-2024 for certain capital purposes from general obligation bond proceeds only and the percentage of the total costs covered by such proceeds in such Fiscal Years. Figures in the table below are generated after the Fiscal Year closes and may not sum due to rounding.

Table 47
Historical Expenditures for Certain Capital Purposes
(General Obligation Bond Proceeds Only)
Fiscal Years 2020-2024

Purpose Category	2020	2021	2022	2023	2024
Transit	\$ 2,115,963	\$ 274,336	\$ 7,391,397	\$ 2,252,818	\$ 1,403,503
Streets & Sanitation	30,392,324	27,389,047	20,984,230	26,035,836	38,118,666
Municipal Buildings	86,218,008	60,609,517	62,468,532	60,607,214	64,204,573
Recreation, Parks, Museums & Stadia	10,870,133	23,396,808	21,981,840	42,672,209	85,038,878
Economic & Community Development	<u>19,160,053</u>	<u>9,934,028</u>	<u>11,301,908</u>	<u>12,392,809</u>	<u>11,040,070</u>
<u>Total</u>	<u>\$148,756,480</u>	<u>\$121,603,736</u>	<u>\$124,127,907</u>	<u>\$143,960,886</u>	<u>\$199,805,690</u>
Percentage of Total Costs	69%	60%	67%	66%	61%

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Fiscal Year 2025-2030 Adopted Capital Program

The Fiscal Year 2025-2030 Adopted Capital Program contemplates a total budget of \$16.21 billion (compared to \$13.3 billion as budgeted in the Fiscal Year 2024-2029 Adopted Capital Program). In the Fiscal Year 2025-2030 Adopted Capital Program, approximately \$5.86 billion is expected to be provided from federal, Commonwealth, and other sources and approximately \$10.36 billion through City funding. For Fiscal Year 2025, the City has budgeted \$6.09 billion for capital projects (compared to \$4.75 billion in Fiscal Year 2024). The following table shows the amounts budgeted each year from various sources of funds for capital projects in the Fiscal Year 2025-2030 Adopted Capital Program.

Table 48
Fiscal Year 2025-2030 Adopted Capital Program
(Amounts in Thousands of USD)

Funding Source	2025	2026	2027	2028	2029	2030	2025-2030
<u>City Funds--Tax Supported</u>							
Carried-Forward Loans	587,332	-	-	-	-	-	587,332
Operating Revenue	496,052	7,250	7,250	7,250	7,250	7,250	532,302
New Loans	328,472	214,785	224,953	224,848	229,867	220,011	1,442,936
Prefinanced Loans	13,597	-	-	-	-	-	13,597
PICA Prefinanced Loans	557	-	-	-	-	-	557
Tax Supported Subtotal	\$1,426,010	\$222,035	\$232,203	\$232,098	\$237,117	\$227,261	\$2,576,724
<u>City Funds--Self Sustaining</u>							
Self-Sustaining Carried Forward Loans	1,201,542	-	-	-	-	-	1,201,542
Self-Sustaining Operating Revenue	146,945	61,642	86,376	102,049	116,412	117,000	630,424
Self-Sustaining New Loans	1,096,055	1,139,278	964,364	795,111	946,258	774,634	5,715,700
Self-Sustaining Subtotal	\$2,444,542	\$1,200,920	\$1,050,740	\$897,160	\$1,062,670	\$891,634	\$7,547,666
<u>Other City Funds</u>							
Revolving Funds	55,000	55,000	32,000	32,000	32,000	22,000	228,000
<u>Other Than City Funds</u>							
Carried-Forward Other Government	36,459	-	-	-	-	-	36,459
Other Government Off Budget	173,353	76,193	155,942	117,716	222,743	196,376	942,323
Other Governments/Agencies	1,600	100	100	100	100	100	2,100
Carried-Forward State	336,765	-	-	-	-	-	336,765
State Off Budget	265,936	333,479	335,353	296,147	267,912	220,715	1,719,542
State	71,904	68,354	66,354	57,104	56,854	52,254	372,824
Carried-Forward Private	139,017	-	-	-	-	-	139,017
Private	14,995	10,220	9,220	9,220	9,220	9,020	61,895
Carried-Forward Federal	672,295	-	-	-	-	-	672,295
Federal Off-Budget	186,393	143,369	116,419	98,734	73,879	77,217	696,011
Federal	263,216	172,516	128,516	108,516	103,516	99,916	876,196
Other Than City Funds Subtotal	\$2,161,933	\$804,231	\$811,904	\$687,537	\$734,224	\$655,598	\$5,855,427
<u>TOTAL</u>	<u>\$6,087,485</u>	<u>\$2,282,186</u>	<u>\$2,126,847</u>	<u>\$1,848,795</u>	<u>\$2,066,011</u>	<u>\$1,796,493</u>	<u>\$16,207,817</u>

LITIGATION

Generally, judgments and settlements on claims against the City are payable from the General Fund, except for claims against the Water Department, the Department of Aviation, and PGW, which are paid out of their respective funds or revenues and only secondarily out of the General Fund.

The Act of October 5, 1980, P.L. 693, No. 142, known as the “Political Subdivision Tort Claims Act,” (the “Tort Claims Act”) established a \$500,000 aggregate limitation on damages for injury to a person or property arising from the same cause of action or transaction or occurrence or series of causes of action, transactions or occurrences with respect to governmental units in the Commonwealth such as the City. The constitutionality of that aggregate limitation on damages was upheld by the Pennsylvania Supreme Court in *Zauflik v. Pennsbury School District*, 104 A.3d 1096 (Pa. 2014). Under Pennsylvania Rule of Civil Procedure 238, delay damages are not subject to the \$500,000 limitation. The limit on damages is inapplicable to any suit against the City that does not arise under state tort law, such as claims made against the City under federal civil rights laws.

General Fund

The following table presents the City’s aggregate losses from settlements and judgments paid out of the General Fund for Fiscal Years 2021-2023 and the budgeted amounts for Fiscal Years 2024-2025.

Table 49
Aggregate Losses – General and Special Litigation Claims (General Fund)
Fiscal Years 2021-2023 (Actual) and 2024-2025 (Budget)
(Amounts in Millions of USD)

	Actual 2021	Actual 2022	Actual 2023	Budget 2024	Budget 2025
Aggregate Losses	\$47.7	\$48.0	\$68.9	\$73.9	\$61.2

Sources: The City, Budget Office, Indemnity Account, Status Reports.

The current estimate of settlements and judgments from the General Fund for Fiscal Year 2024 is \$73.9 million. This estimate is based on internal calculations using (i) the “Probable Costs” listed in its Quarterly Litigation Reports, (ii) the 3-year average cost for closed cases, and (iii) current year-to-date spending reports. Current year spending includes payments made for settled cases pursuant to payment plans over multiple years. Such payments are generally made at the start of a Fiscal Year, which can result in the current estimate being skewed higher during the early part of such Fiscal Year.

In budgeting for settlements and judgments in the annual operating budget and projecting settlements and judgments for each five-year plan, the City bases its estimates on past experience and on an analysis of estimated potential liabilities and the timing of outcomes, to the extent a proceeding is sufficiently advanced to permit a projection of the timing of a result. General and special litigation claims are budgeted separately from back-pay awards and similar settlements relating to labor disputes. Usually, some of the costs arising from labor litigation are reported as part of current payroll expenses.

In addition to routine litigation incidental to performance of the City’s governmental functions and litigation arising in the ordinary course relating to contract and tort claims and alleged violations of law, certain special litigation matters are currently being litigated and/or appealed and adverse final outcomes of such litigation could have a substantial or long-term adverse effect on the General Fund. These proceedings involve: (i) environmental-related actions and proceedings in which it has been or may

be alleged that the City is liable for damages, including but not limited to property damage and bodily injury, or that the City should pay fines or penalties or the costs of response or remediation, because of the alleged generation, transport, or disposal of toxic or otherwise hazardous substances by the City, or the alleged disposal of such substances on or to City-owned property; (ii) contract disputes and other commercial litigation; (iii) union arbitrations and other employment-related litigation; (iv) potential and certified class action suits; and (v) civil rights litigation. The ultimate outcome and fiscal impact, if any, on the General Fund of the claims and proceedings described in this paragraph are not currently predictable.

In August 2024, there was a notable development in one of the City’s litigation matters. The case involves a class action arising out of the conditions of confinement at the Philadelphia Department of Prisons (“PDP”). In April 2022, the City entered into a settlement agreement, which was approved by the U.S. District Court for the Eastern District of Pennsylvania and entered as a court order in July 2022. The plaintiffs in this case filed a motion requesting the court find the City in contempt because of its alleged failure to meet the provisions of the settlement agreement. In August 2024, the U.S. District Court issued the contempt order, pursuant to which the City is ordered to spend \$25 million, approximately equal to the amount of unspent money from the PDP budget over the four years of the litigation, on specific remediation measures at the prisons as set forth in the settlement agreement. The \$25 million was paid out of the City’s Indemnity Account in October 2024.

For more information on City litigation, see Note IV.8 to the Fiscal Year 2023 ACFR, “Contingencies – Primary Government – Claims and Litigation.” In addition, see “REVENUES OF THE CITY – Real Property Taxes” for a discussion of litigation relating to the reassessment of commercial property in tax year 2018.

Water Fund

Various claims have been asserted against the Water Department and in some cases lawsuits have been instituted. Many of these Water Department claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Water Department. The following table presents the Water Department’s aggregate losses from settlements and judgments paid out of the Water Fund for Fiscal Years 2021-2023 and the budgeted amounts for Fiscal Years 2024-2025. The current estimate for Fiscal Year 2024 is \$5.9 million. The Water Fund is the first source of payment for any of the claims against the Water Department.

Table 50
Aggregate Losses – General and Special Litigation Claims (Water Fund)
Fiscal Years 2021-2023 (Actual) and 2024-2025 (Budget)
(Amounts in Millions of USD)

	Actual 2021	Actual 2022	Actual 2023	Budget 2024	Budget 2025
Aggregate Losses	\$2.5	\$5.8	\$5.9	\$6.0	\$6.5

Sources: The City, Budget Office, Indemnity Account, Status Reports.

Aviation Fund

Various claims have been asserted against the Department of Aviation and in some cases lawsuits have been instituted. Many of these Department of Aviation claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Department of Aviation. The following table presents the Department of Aviation's aggregate losses from settlements and judgments paid out of the Aviation Fund for Fiscal Years 2021-2023 and the budgeted amount for Fiscal Year 2024-2025. The current estimate for Fiscal Year 2024 is \$1.1 million. The Aviation Fund is the first source of payment for any of the claims against the Department of Aviation.

Table 51
Aggregate Losses – General and Special Litigation Claims (Aviation Fund)
Fiscal Years 2021-2023 (Actual) and 2024-2025 (Budget)
(Amounts in Millions of USD)

	Actual 2021	Actual 2022	Actual 2023	Budget 2024	Budget 2025
Aggregate Losses	\$1.2	\$1.0	\$1.8	\$2.5	\$2.5

Sources: The City, Budget Office, Indemnity Account, Status Reports.

PGW

Various claims have been asserted against PGW and in some cases lawsuits have been instituted. Many of these PGW claims have been reduced to judgment or otherwise settled in a manner requiring payment by PGW. The following table presents PGW's settlements and judgments paid out of PGW revenues, with accompanying reserve information, in PGW Fiscal Years 2019 through 2024. PGW revenues are the first source of payment for any of the claims against PGW. PGW currently estimates approximately \$2.8 million and \$2.4 million in settlements and judgments for PGW Fiscal Years 2025 and 2026, respectively.

Table 52
Claims and Settlement Activity (PGW)
PGW Fiscal Years 2019-2024
(Amounts in Thousands of USD)

Fiscal Year (ending August 31)	Beginning of Year Reserve	Current Year Claims and Adjustments	Claims Settled	End of Year Reserve	Current Liability Amount (due within one year)
2019	\$14,064	(\$1,582)	(\$2,922)	\$9,560	\$3,925
2020	\$9,560	\$1,973	(\$2,091)	\$9,442	\$5,435
2021	\$9,442	\$2,384	(\$1,845)	\$9,981	\$4,584
2022	\$9,981	\$808	(\$2,535)	\$8,253	\$3,917
2023	\$8,253	\$1,207	(\$2,671)	\$6,789	\$3,769
2024 ⁽¹⁾	\$6,789	\$4,785	(\$3,300)	\$8,274	\$3,318

Sources: For fiscal years ended August 31, 2019, through August 31, 2023, PGW's audited financial statements.

⁽¹⁾ Unaudited Period – September 1, 2023, through August 31, 2024.

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APPENDIX IV

CITY OF PHILADELPHIA SOCIOECONOMIC INFORMATION

The Bonds are payable solely from Project Revenues and monies deposited in the Water and Wastewater Funds. The Bonds are special obligations of the City and do not pledge the full faith, credit or taxing power of the City, or create any debt or charge against the tax or general revenues of the City, or create any lien or charge against any property of the City other than against the Project Revenues and amounts, if any, at any time on deposit in the water and wastewater funds. This APPENDIX IV is included for purposes of providing general socioeconomic information regarding the City.

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This APPENDIX IV includes historical demographic and socioeconomic information regarding the City of Philadelphia (the “City” or “Philadelphia”), some of which describes periods of time prior to the outbreak of the COVID-19 pandemic in early 2020. The reader is cautioned that this APPENDIX IV may not fully reflect the impact of COVID-19 on the City’s demographic and socioeconomic conditions. Historical data points included under this caption should be viewed in the proper context. For more information on the City’s response to COVID-19 and the related financial impact on the City, see the forepart of this Official Statement and “INTRODUCTION – COVID-19 Response” and APPENDIX III – “OVERVIEW – Fiscal Health of the City – COVID-19.”

INTRODUCTION

The City is the sixth largest city in the nation, second largest on the East Coast, and located at the center of the United States’ seventh largest metropolitan statistical area. The Philadelphia MSA (further described below) includes a substantial retail sales market, as well as a diverse network of business suppliers and complementary industries. Some of the City’s top priorities include growing quality jobs, increasing educational attainment and employment skills among Philadelphians, equitable neighborhood revitalization, promoting Philadelphia as a desirable location for business, and fostering inclusive growth.

According to the U.S. Census data, the City increased its population by 5.2% to 1.593 million residents from 2011 to 2022. While longer-term population growth trends have been positive, single year population estimates have shown modest decreases in City population figures (with a slight decrease to 1.55 million residents estimated for 2023).

Given the City’s strategic geographical location, relative affordability, diversified economy, cultural and recreational amenities, and its growing strength in key industries, such as health care, life sciences, and higher education, among others, Philadelphia is well-positioned to attract new businesses and investment over the coming years. For more information on the fiscal strategies of the City and related challenges, see APPENDIX III – “OVERVIEW – Fiscal Health of the City.”

Geography

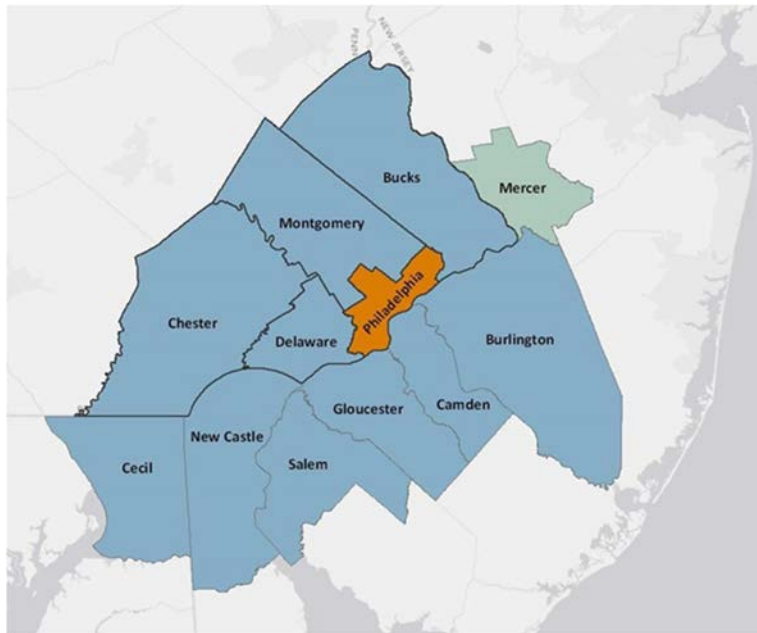
The City has an area of approximately 134 square miles and is located along the southeastern border of the Commonwealth of Pennsylvania (the “Commonwealth”), at the confluence of the Delaware and Schuylkill Rivers. The City, highlighted in orange in Figure 1, lies at the geographical and economic center of the MSA and PMSA (described below). Philadelphia is both the largest city and the only city of the first class in the Commonwealth, and is coterminous with the County of Philadelphia.

Philadelphia Metropolitan Statistical Area (the “MSA”), highlighted in blue in Figure 1, is the eleven-county area named the Philadelphia-Camden-Wilmington metropolitan statistical area, representing an area of over 5,100 square miles with approximately 6.2 million residents.¹

Philadelphia Primary Metropolitan Statistical Area (the “PMSA”), highlighted with bold black outlines, in Figure 1, is a five-county area within the MSA that lies in the Commonwealth and is sometimes called the Philadelphia Metropolitan Division. The counties of Bucks, Chester, Delaware, and Montgomery are referred to as the Suburban PMSA herein.

¹ Due to its close proximity and impact on the region’s economy, Mercer County, New Jersey, highlighted in green in Figure 1, is included in the MSA by many regional agencies, although it is not officially part of the MSA.

Figure 1
Map of Philadelphia Region including the MSA, PMSA, and Mercer County, NJ



Source: 2009 TIGER County Shapefiles

Several key areas across the City have been instrumental to the economic and commercial development of Philadelphia over the past 25 years. In particular, concentrated development has occurred in key commercial districts such as Philadelphia's Historic District, Center City, University City, North Broad Street, Avenue of the Arts, Benjamin Franklin Parkway, and the Navy Yard. Center City is Philadelphia's central business and office region, as well as the strongest employment center within the City, with access to retail, dining, arts and culture, entertainment, and mass transportation services. Opened in 1929, the Benjamin Franklin Parkway (also called the "Parkway" or the "Museum Mile") runs from City Hall to the Philadelphia Museum of Art and serves as a central public space for art, museums, and other tourist attractions. West of Center City is University City – a hub for the health care, life sciences, and higher education sectors. East of Center City is Philadelphia's Historic District in Old City, which remains a major tourist destination year-round. The North Broad Street corridor is the City's main thoroughfare, spanning four miles from City Hall to Germantown Avenue. In South Philadelphia, the Navy Yard is a 1,200-acre former military facility that has been redeveloped into a mixed-use campus with over 150 companies in office, retail, research and development (R&D), life sciences, and industrial/manufacturing sectors. Many industry observers, including the Urban Land Institute, have recognized the Navy Yard as a leading model for repurposing military and industrial assets for a diversified modern economy.

Strategic Location

Philadelphia is at the center of the third largest MSA on the East Coast, and is served by a robust transportation infrastructure, including: the Philadelphia International Airport, Amtrak's Northeast Corridor rail service, major interstate highway access, regional train service provided by Southeastern Pennsylvania Transportation Authority ("SEPTA") and New Jersey's PATCO (as defined herein), and the Port of Philadelphia. Due to the transportation infrastructure centered in the City, Philadelphia is accessible to regional and international markets, and is within a day's drive of 50% of the nation's population. Philadelphia's central location along the East Coast, an hour from New York City and less than two hours

from Washington, D.C. by high-speed rail, also allows for convenient access to these significant economic centers.

Population and Demographics

As the sixth largest city in the nation, Philadelphia has seen population growth over the last 15 years. While the City’s population reached its nadir in 2006 with 1.45 million residents, the City has increased its population by 5.2% to 1.593 million residents from 2011 to 2022. Longer-term population growth trends have been positive. Recent, single year population estimates have shown modest decreases in City population figures.

Compared to the rest of the region and the state, Philadelphia’s population is both younger and more diverse. In 2022, 26% of Philadelphia’s population was comprised of “millennials,” or those within the 25- to 39-year-old age bracket. This demographic group tends to be better educated than the City’s and the nation’s adult population as a whole. In 2022, 49.7% of 25- to 34-year-olds in Philadelphia held a bachelor’s degree or higher, while only 38.1% of 25- to 34-year-olds in the United States held a bachelor’s degree or higher. The City’s many universities, diverse employment opportunities, and relative affordability are likely reasons for Philadelphia’s large millennial population.

Philadelphia is also a highly diverse city in terms of race and ethnicity. In 2022, 40.1% of the population identified as Black or African American, 37.1% identified as white, 7.6% identified as Asian, and 6.7% identified as some other race. Additionally, 15.7% of the population identified as Hispanic or Latino.

Table 1
Population: City, MSA, Pennsylvania & Nation

	2011	2022	Percent Change 2011 - 2022
Philadelphia	1,514,456	1,593,208	5.2%
Philadelphia-Camden-Wilmington MSA	5,938,918	6,232,894	5.0%
Pennsylvania	12,660,739	12,989,208	2.6%
United States	306,603,772	331,097,593	8.0%

Source: U.S. Census Bureau, Population Estimates, Census 2022, Census 2011

Table 2
Population: Millennials, Non-White, and Foreign-Born

	2013	2020	2022	2-Year Change	Change 2013-2022
Millennials (age 25-39)	23.0%	20.5%	27.0%	6.5%	4.0%
Foreign-Born	12.2%	14.3%	14.6%	0.3%	2.4%
Minority (non-white)	58.5%	60.7%	62.9%	2.2%	4.4%

Source: 2013, 2020, and 2022 American Community Survey, 5-Year Estimates.

Family and Household Income

Table 3 shows median family income, which includes related people living together, and Table 4 shows median household income, which includes unrelated individuals living together, for Philadelphia, the MSA, the Commonwealth and the United States. Over the period 2013-2022, median family income

for Philadelphia increased by 50.6% (see Table 3), while median household income increased by 56.3% over the period 2013-2022 as a result of an influx of higher income households (see Table 4).

Table 3
Median Family Income* for Selected Geographical Areas, 2013-2022
(Dollar Amounts in Thousands)

Year	Philadelphia	Philadelphia- Camden- Wilmington MSA	Pennsylvania	United States	Philadelphia as a percentage of the US
2013	\$44.60	\$78.20	\$66.50	\$64.00	69.7%
2014	\$47.00	\$80.60	\$67.90	\$65.90	71.3%
2015	\$49.30	\$83.00	\$70.20	\$68.30	72.2%
2016	\$50.30	\$84.80	\$72.30	\$71.10	70.7%
2017	\$50.40	\$86.20	\$72.70	\$70.90	71.1%
2018	\$55.10	\$90.43	\$77.49	\$76.40	72.1%
2019	\$54.78	\$94.79	\$81.08	\$80.94	67.7%
2020	\$58.09	\$95.37	\$81.00	\$80.07	72.5%
2021	\$61.65	\$100.85	\$86.14	\$85.28	72.3%
2022	\$67.17	\$108.97	\$93.03	\$92.64	72.5%
Change 2013-2022	50.6%	39.3%	39.9%	44.8%	

* Includes related people living together.

Source: 2022 American Community Survey 5-Year Estimates.

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Table 4
Median Household Income* for Selected Geographical Areas, 2013-2022
(Dollar Amounts in Thousands)

Year	Philadelphia	Philadelphia- Camden- Wilmington MSA	Pennsylvania	United States	Philadelphia as a percentage of the US
2013	\$36.80	\$60.50	\$52.00	\$52.30	70.4%
2014	\$39.00	\$62.20	\$53.20	\$53.70	72.6%
2015	\$41.20	\$65.10	\$55.70	\$55.80	73.8%
2016	\$41.40	\$66.00	\$56.90	\$57.60	71.9%
2017	\$41.00	\$66.30	\$57.00	\$57.70	71.1%
2018	\$46.12	\$70.75	\$60.91	\$61.94	74.5%
2019	\$47.47	\$74.53	\$63.46	\$65.71	72.2%
2020	\$49.13	\$74.83	\$63.63	\$64.99	75.6%
2021	\$52.65	\$79.07	\$67.58	\$69.02	76.3%
2022	\$57.53	\$85.55	\$73.17	\$75.14	76.6%
Change 2013-2022	56.3%	41.4%	40.7%	43.7%	

* Includes unrelated people living together.

Source: 2022 American Community Survey 5-Year Estimates.

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Cost of Living and Affordability

Philadelphia has a lower cost of living compared to other major urban areas in the Northeast, as shown in Table 5 below. For example, approximately \$5,845 per month in Philadelphia maintains the same standard of living as \$9,100 per month in New York City. Additionally, the City's Wage, Earnings, and Net Profits Tax rates have decreased in recent Fiscal Years. See "REVENUES OF THE CITY – Wages, Earnings, and Net Profits Taxes" in APPENDIX III for this Official Statement.

Table 5
Cost of Living Index, 2023
(Other cities compared to Philadelphia)

Urban Area	Cost of Living Index
Detroit	87.21
Pittsburgh	90.60
Baltimore	96.92
Atlanta	96.92
Philadelphia	100.00
Dallas	100.92
Denver	106.32
Chicago	106.47
Austin	107.70
Los Angeles	117.87
Washington, D.C.	118.18
Boston	123.73
Seattle	124.81
San Francisco	148.07
New York- Manhattan	154.08
Average of Listed Locations	111.99

Source: Numbeo.com 2023

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ECONOMIC BASE AND EMPLOYMENT

The Philadelphia Economy

The City's economy is composed of diverse industries, with virtually all classes of industrial and commercial businesses represented. The City is a major regional business and personal services center with strengths in insurance, law, finance, health, education, utilities, and the arts. Philadelphia's anchor institutions – including the City's renowned universities, hospitals, and Fortune 500 companies – play an integral role in boosting the City's quality of life and investing in the local economy. The City also provides a destination for entertainment, arts, dining and sports for residents of the suburban counties, as well as for those residents of the counties comprising the MSA plus Mercer County, New Jersey.

As shown in Table 5, the cost of living in the City is relatively moderate and affordable compared to other major metropolitan areas along the East Coast. The City, as the commercial center of an MSA of approximately 6.2 million people, offers its business community access to a large, diverse, and industrious labor pool. As one of the country's education centers, these businesses also enjoy access to a large pool of recent graduates from the institutions of higher education in the MSA.

Key Industries

Table 6 provides location quotients for Philadelphia's most concentrated industry sectors. Location quotients quantify how concentrated a particular industry is in a region as compared to a base reference area, usually the nation. A location quotient greater than 1.00 indicates an industry with a greater share of the local area employment than is the case in the reference area.

As shown in Table 6, compared to the nation, Philadelphia County has higher concentrations in six sectors: 1. Educational Services; 2. Health Care and Social Assistance; 3. Professional and Technical Services; 4. Other Services, Except Public Administration; 5. Management of Companies and Enterprises; and 6. Arts, Entertainment, and Recreation.² Of these six sectors, the City has a higher concentration of employment than the Commonwealth in three sectors: Educational Services; Health Care and Social Assistance; Professional and Technical Services.

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² The Bureau of Labor Statistics ("BLS") defines the "Other Services" (except Public Administration) sector as establishments engaged in providing services not specifically provided for elsewhere in the BLS classification system, such as equipment and machinery repairing, promoting or administering religious activities, grant making, advocacy, providing dry cleaning and laundry services, personal care services, death care services, pet care services, photofinishing services, temporary parking services, and dating services.

Table 6
Ratio of Philadelphia County and Pennsylvania Industry Concentrations
Compared to the United States

Industry	Philadelphia County to the US	Pennsylvania to the US
Educational Services	4.03	1.52
Health Care and Social Assistance	1.87	1.29
Professional and Technical Services	1.22	0.94
Other Services, Except Public Administration	1.14	1.14
Management of Companies and Enterprises	1.13	1.48
Arts, Entertainment, and Recreation	1.12	1.12
Finance and Insurance	0.94	1.11
Transportation and Warehousing	0.80	1.18

Source: Bureau of Labor Statistics - June 2023 Employment Location Quotient, Quarterly Census of Employment and Wages

The concentration of Educational Services not only provides stable support to the local economy, but also generates a steady and educated workforce, fueling the City’s professional services and healthcare industries. Data from the Bureau of Labor Statistics show that in 2023, the Education and Health Services; Professional and Business Services; and Trade, Transportation and Utilities sectors collectively represented 54.9% of total employment in the City for the year. From 2014 to 2023, Philadelphia gained 171,700 private sector jobs.

Educational Institutions

The Philadelphia region has one of the largest concentrations of undergraduate and graduate students on the East Coast, with approximately 100 degree-granting institutions. Included among these institutions are the University of Pennsylvania, Temple University, Drexel University, St. Joseph’s University, LaSalle University, and the Community College of Philadelphia. Within a short drive from the city center are schools that include Princeton University, Villanova University, Bryn Mawr College, Haverford College, Swarthmore College, Lincoln University, and the Camden Campus of Rutgers University.

University of Pennsylvania (“Penn”). Founded in 1740, Penn is the first university in the United States and a prominent Ivy League institution located in West Philadelphia. Combined with its health system, Penn is the largest private sector employer in Philadelphia. Penn is also consistently one of the largest annual recipients of funding from the National Institutes of Health (NIH).

Penn has undergone a significant expansion in the last decade. In 2016, Penn opened Pennovation Works, a 55,000 square foot business incubator and laboratory that houses researchers, innovators, and entrepreneurs for the commercialization of research discoveries. In 2022, Penn selected Longfellow Real Estate Partners, the nation’s largest private developer of life sciences buildings, to lead construction worth \$365 million for three new buildings covering 484,000 square feet. The new life sciences facility will be segmented into 387,000 square feet of research and development space and 68,000 square feet of biomanufacturing space, with rooftop terraces offering views of Philadelphia’s skyline. The main complex will have two adjoining six-story buildings with flexible lab and office space for tenants. The facilities are the latest piece of the university’s master plan for Pennovation Works, which saw the completion of the Inventor Office Building in 2018 and Pennovation Lab in 2021.

Currently, Penn has \$1.3 billion in construction underway and \$440 million more in the pipeline. The projects under construction include \$772 million of new development, \$388 million of reinvestment and renovations, and \$133 million in projects underway by third-party developers. Projects include a \$36 million expansion for the Graduate School of Education, a new \$173 million Vagelos Laboratory for Energy Science and Technology, \$69 million for a new Ott Center for Track and Field, \$363 million to add seven floors to the Perelman School of Medicine.

Drexel University (“Drexel”). Founded in 1891, Drexel is one of Philadelphia’s largest employers, and a major engine for economic development in the region. Drexel is known for its technical innovation and civic engagement. Drexel is unique in that it provides its students with a co-op work experience every six months throughout the four-year college experience. Over the last decade, Drexel has undergone significant expansion and has major plans for future development. Most recently in 2022, Drexel opened a new 460,000-square-foot, 12-story building that will bring together the College of Nursing and Health Professions, College of Medicine, and Graduate School of Biomedical Sciences and Professional Studies in University City, enhancing collaboration, research, and practice opportunities.

Temple University (“Temple”). Founded in 1884, Temple has undergone a significant transformation over the past three decades from a university with a mostly commuter-based enrollment to one in which on and near-campus housing is now in high demand. As the largest university and fourth largest employer in Philadelphia, Temple features 17 schools and colleges, nine campuses, and hundreds of degree programs. Temple continues to implement key elements of “Visualize Temple,” the university’s master plan by renovating its current buildings, adding new amenities, and new constructions. In 2019, Temple opened the new Charles Library, a four-story, 225,000-square-foot facility on main campus. In 2023, Temple broke ground on a 160,000-square-foot expansion and 150,000-square-foot renovation of Paley Hall. Formerly known as Paley Library, the building will become the new home of Temple’s College of Public Health (CPH) upon completion. The project is budgeted at almost \$130 million. In March 2024, Temple opened the Innovation Nest, which provides office, work, and collaboration spaces for start-up businesses.

Thomas Jefferson University (“Jefferson”). In 2017, Thomas Jefferson University and Philadelphia University merged to create the fourth largest university in the City. With this merger, Jefferson creates a national comprehensive university designed to deliver high-impact education and value for students in medicine, science, architecture, design, fashion, textiles, health, business, engineering, and other disciplines. In addition to ten colleges and three schools from both universities, the formation of the Philadelphia University Honors Institute and the Philadelphia University Design Institute are key components of the combined university’s educational ecosystem. Jefferson has campuses in the Center City and the East Falls neighborhood of Philadelphia, Montgomery County, Bucks County, and Atlantic County, New Jersey.

Community College of Philadelphia (“CCP” or the “College”). Founded in 1964, CCP serves over 19,000 students in Associate’s degree and certificate programs. The College operates four campuses: its main Campus in Center City Philadelphia and three regional campuses in West Philadelphia, Northeast Philadelphia, and Northwest Philadelphia. The College offers a total of more than 100 Associate degrees, academic and proficiency certificates, and workforce programs. The College has several transfer agreements and partnerships with other higher education institutions, which assist students who seek a seamless transition to a bachelor’s degree program.

In August 2022, the College opened a new \$40 million Advanced Technology Center in West Philadelphia to offer short-term certificate and associate degree programs in the Automotive, Advanced Manufacturing, Health Care, and Transportation Technology fields. It will also serve as a hub supporting the region’s small businesses and as a resource connecting the community to technology-rich spaces. The

College is one of 30 community colleges in the nation to undertake a new Career Pathways model under which it has expanded its dual enrollment programs, including establishing the first Middle College in the Commonwealth, with the School District of Philadelphia. Upon completion of high school, enrolled students will receive both a high school degree and an Associate's degree. In 2021, the College launched the Octavius Catto Scholarship (the "Catto Scholarship"), which is a new anti-poverty initiative funded by the City of Philadelphia designed to make education available to students by providing funding and support for tuition and fees, costs associated with books, food, transportation, benefits, childcare, and housing. The Catto Scholarship is available to Philadelphia residents who also meet income eligibility.

Saint Joseph's University ("St. Joe's"). Saint Joseph's University (also called St. Joe's) was established in 1821. It is a private Jesuit university in Philadelphia and Lower Merion, Pennsylvania. In 2022, it merged with the University of the Sciences ("USciences") another well-established Philadelphia college with an emphasis on science oriented higher education. USciences was originally founded as the Philadelphia College of Pharmacy in 1821. The combined school is now the fifth largest university in Philadelphia and will serve over 9,000 students between two campuses. With the acquisition of additional academic programs, St. Joe's now offers hundreds of programs to undergraduate, graduate, and adult learners. The merger allows St. Joe's to add former USciences programs in areas such as pharmacy, neuroscience, and occupational therapy, in addition to established business and education offerings.

Hospitals and Medical Centers

The City is a center for health, education, research, and science facilities with the nation's largest concentration of healthcare resources within a 100-mile radius. Philadelphia is home to several world-class medical systems and the first FDA-approved cell and gene therapies. There are presently more than 30 hospitals, five medical schools, two dental schools, two pharmacy schools, as well as schools of optometry, podiatry, and veterinary medicine located in the City. The City is one of the largest health care and health care education centers in the world, and several of the nation's largest pharmaceutical companies are located in the Philadelphia area. Major research facilities are also located in the City, including those located at its universities and medical schools: Children's Hospital of Philadelphia ("CHOP"), the Hospital of the University of Pennsylvania, The Wistar Institute, the Fox Chase Cancer Center, and the University City Science Center. Philadelphia is home to two of the nation's 71 National Cancer Institute ("NCI")-designated Comprehensive Cancer Centers: the Abramson Cancer Center at the University of Pennsylvania and Fox Chase Cancer Center, which is part of the Temple University Health System. Additionally, Philadelphia is also home to two NCI-designated Cancer Centers: Kimmel Cancer Center and The Wistar Institute Cancer Center.

Penn Medicine University of Pennsylvania Health System ("Penn Medicine"). Penn Medicine includes Pennsylvania Hospital, the nation's first hospital and the nation's first medical school, the University of Pennsylvania School of Medicine. In addition, the Hospital of the University of Pennsylvania was established in 1874 as the nation's first teaching hospital. Penn Medicine's hospitals are consistently ranked among the top ten hospitals in the country with the combined University of Pennsylvania and Penn Presbyterian Medical Center among the top-ranked in the region by *U.S. News and World Report*. In 2021, Penn Medicine completed construction on a new 1.5 million square foot Patient Pavilion, one of the largest hospital projects in the nation and the largest capital project in Penn's history. Combined, the University of Pennsylvania and its health system is the largest private sector employer in Philadelphia. Recently, Penn Medicine entered into a non-binding letter of intent with Doylestown Hospital in Bucks County in the first quarter of 2024 to pursue an integration of Doylestown Hospital as part of Penn Medicine

Children's Hospital of Philadelphia Expansion ("CHOP"). CHOP is the oldest children's hospital in the nation and one of the largest in the world. Beyond its pediatric medical care, it is known for its research and innovative medical breakthroughs. Over the past two decades, CHOP has invested billions in

its expansion in Philadelphia. In late 2022, CHOP opened a new Center for Advanced Behavioral Healthcare in West Philadelphia, with 47,000 square feet dedicated to patient care, including consultation rooms, group therapy rooms, and calming areas.

Temple University Health System (“TUS”). Temple Health comprises the health, education and research activities carried out by the affiliates of Temple University Health System and the Lewis Katz School of Medicine at Temple University. TUS is one of the region’s most respected academic medical centers. The 732-bed Philadelphia hospital is also the chief clinical training site for the Lewis Katz School of Medicine at Temple University. TUS is regularly ranked among the “Best Regional Hospitals” in various specialties by *U.S. News & World Report* regional rankings. A \$30 million project to turn the former Cancer Treatment Center of America’s Philadelphia campus into the Women & Families campus was completed in the spring of 2023.

Thomas Jefferson University and Jefferson Health (“TJUH”). TJUH is consistently at the top of the list of hospitals in Pennsylvania and the Philadelphia metro area in *U.S. News & World Report*’s annual listing of the best hospitals and specialties. Jefferson Health has recently participated in several significant mergers, integrating Magee Hospital, Kennedy Health System (located in New Jersey), the Aria Health system, and Abington Hospital into its system. In 2017, Thomas Jefferson University acquired Philadelphia University and is now the ninth largest educational institution in Philadelphia. In 2021, Einstein Healthcare Network merged with Thomas Jefferson University, creating an integrated 18-hospital health system. Einstein Healthcare Network’s facilities and outpatient centers have been in existence for over 150 years.

In August 2024, TJUH and Lehigh Valley Health Network merged. The combined system is now among the top 15 not-for-profit health systems in the U.S. with 32 hospitals, more than 700 sites of care, and approximately 65,000 employees, along with a health plan and further clinical research programs.

Life Sciences

The City has capitalized on the region’s assets to become a leader in life science research and development generated by the City’s healthcare and educational institutions. The Greater Philadelphia region is recognized worldwide as a leader in cell therapy, gene therapy, and gene editing. More than 50 cell and gene therapy development firms have been established in the Philadelphia region and investment is at an all-time high. Approximately 80% of all pharmaceutical and biotech companies in the U.S. have offices in Greater Philadelphia. The City has over 2,000 medical technology companies and numerous research labs. In 2022, Philadelphia received over \$1.2 billion in NIH funding.

Several sites now foster life science incubator facilities, including the Cambridge Innovation Center (CIC); Biolabs in the Curtis Center; B+ Labs in the Cira Center; University of Pennsylvania’s Pennovation Works; and Temple University’s Innovation Nest (I-Nest). Developers at Wexford and Brandywine Realty Trust have several million square feet of laboratory space in various stages of development in Philadelphia. Other developers, such as Gattuso Development Partners, are actively developing research facilities including 500,000 square feet of laboratory space at 3201 Cuthbert Street.

Over the last few years, there has been a significant geographic shift in laboratory development. Prior to 2020, lab space was almost exclusively relegated to University City and the Navy Yard. Presently, there are completed and planned developments in the Gray’s Ferry, Allegheny West, Kensington, and South Philadelphia neighborhoods. Significant developments are also planned in the traditional Navy Yard and University City hubs, including 40 acres of the Lower Schuylkill Biotech Campus. These developments accommodate all stages of life science company growth. With several million square feet of lab space in

development and an approximate vacancy rate of 14% (compared to 1.4% in 2019), there is tremendous room for continued growth.

Technology and Innovation

With over 5,100 tech businesses, Philadelphia's Tech and Innovation industry is growing and evolving in the post pandemic world. From 2020-2021, the City's share of the nation's startups rose 1.7% according to the Brookings Institute. The City is poised to continue to expand its share of both startups and maturing tech firms as companies search for more affordable locales. Philadelphia's tech ecosystem will continue to benefit from the diffusion of firms in known traditional tech hubs. In addition to growing attraction efforts, Philadelphia's "eds and meds" along with media communications companies like Comcast/ NBC Universal have created sizable opportunities for investment in technology, robotics, and automation startups.

The traditional technology industry was once centered in the Old City section of Philadelphia. However, as the industry continues to evolve, co-working and lab spaces housing emerging tech startups have gone through a geographic shift. Biotech and robotics companies such as Ghost Robotics are more likely to be found in University City, on North Broad Street, or Spring Garden sections of the City.

The City's Most Diverse Tech Hub paired with The Enterprise Center's Innovate Capital, Benjamin Franklin Technology Partners, Comcast Lift Labs, Philly Startup Leaders, Coded by Kid's 1Philadelphia, and Venture Café, encourage growth and investment across the tech ecosystem. The Most Diverse Tech Hub manages a fund of \$750,000 to support tech pipelines. Innovate Capital is growing an equity fund valued at \$19 million to encourage participation by black, indigenous, and people of color (BIPOC) in the industry.

Hospitality and Leisure

Prior to the pandemic, the hospitality and leisure sector historically demonstrated consistent growth, setting a record-high for room revenue generated for lodging in 2019 until contracting in 2020. The City is regularly listed as a top domestic and international destination in tourism publications and was one of only three U.S. destinations to make Condé Nast Traveler's 2021 Gold List. Tourism Economics projects that it will take until 2023-2024 for Philadelphia's tourism and hospitality sector to fully rebound. In fact, Visit Philadelphia and the Philadelphia Convention and Visitors Bureau (PHLCVB) hosted the Philadelphia 2024 Tourism Outlook. During this event, it was announced that nearly 43 million people visited the 5-County Philadelphia region in 2023, a 6% increase over 2022. Those visitors spent \$7.6 billion in the greater Philadelphia market, and as those funds cycled through the regional economy, they generated an economic impact of \$12.4 billion. Across all tourism industry Key Performance Indicators (KPIs), year-over-year gains were achieved showing continued post-pandemic recovery, either meeting or beating 2019 benchmarks in all categories except visitation.

Philadelphia has seen an influx in hotel development in recent years, with numerous new developments recently completed and underway, including the Four Seasons, Pod Philly, LIVE Hotel & Casino, Element Hotel, Hyatt Centric, W Hotel, Guild House, and Delta Hotel. These hotels added 777 rooms and bringing the total downtown room inventory to 13,375. Additional projects are under construction, including Mainstay Suites/Ascend Hotel Collection and Comfort Inn. Proposed downtown hotels include AC Hotel by Marriott and Blue Ivy Hotel. Three downtown hotels – Rittenhouse Hotel, Four Seasons Philadelphia at the Comcast Center, and Kimpton Hotel Monaco – are rated by U.S. News and World Report as among the best in the nation.

Looking at recent statistics for the County of Philadelphia, all key metrics show growth in the hotel industry. Hotels reached 62.3% occupancy in 2023, a 7.0% increase over 2022. Average daily rate was \$202.05, a 2.0% increase over 2022. Revenue per available room was \$125.95, a 9.0% increase over 2022. Hotel supply was 6.8 million room nights available, a 2.0% increase over 2022. Hotel demand was 4.25 million room nights sold, a 9.0% increase over 2022. Hotel revenue was \$859 million, an 11% increase over 2022. Hotel supply and average daily rate both surpassed 2019 levels.

In recent years, Philadelphia's global tourism has also had a strong recovery with more visitors choosing to travel to the City from overseas. The top overseas markets for Philadelphia were United Kingdom, India, Germany, France, and Ireland.

Visitation to Philadelphia (and the greater metropolitan area) is projected to exceed prior levels as the City commemorates the nation's 250th birthday in 2026. The City has recently hosted, or will host, several major sporting events, including six NCAA Championships, WrestleMania 40, the PGA Championship, and Major League Baseball All-Star Game. In 2022, Philadelphia was named one of 11 cities chosen to host the 2026 FIFA World Cup, an event expected to bring thousands of soccer fans and hundreds of millions of dollars in spending to the region. Philadelphia has also been a regular host of medical conferences and the Army-Navy Game, which will return in 2027.

Creative Economy

The Creative Economy is one of the most dynamic areas of economic development. The sector stimulates innovation and promotes Philadelphia cultural diversity. The creative sector includes the people and the products that make up the for-profit and nonprofit arts-related creative industries, such as visual and performing arts, graphic design, music, fashion, public relations, and architecture.

The Arts, Culture, and Creative Economy's impact is profound, generating a total of \$4.1 billion in total economic impact, 55,000 full-time equivalent jobs, \$1.3 billion in household income, and \$224.3 million in state and local taxes. Annual visitors who attend craft events in the City spend approximately \$10.2 million. According to Forbes, the fashion and garment industry is a growing market with a global valuation of over \$2 trillion dollars annually. The Philadelphia Fashion Week attracts over 10,000 industry leaders and consumers to the City.

Looking forward, Philadelphia is well-positioned as a national leader in the craft and maker sector. The City has a wide array of craft organizations, maker spaces, cultural non-profits, and art schools. It is home to some of the nation's leading gallerists, artists, and collectors of craft. Furthermore, in 2024, the Mayor added a cabinet position, the Director of Arts and Culture, which is expected to focus on the creative sector of the economy in the City, among other artistic and cultural endeavors.

Manufacturing

The manufacturing industry has been a major contributor to Philadelphia's economy, particularly after the COVID-19 pandemic. Philadelphia's strategic location, skilled workforce, and diverse manufacturing base in various fields such as chemicals, pharmaceuticals, food and beverage, machinery, eCommerce, transportation equipment, 3D printing, and artisanal manufacturing have made it a hub for manufacturing and production. The industry has been a significant driver of job creation, innovation, and economic growth, providing employment to thousands of workers in the City and contributing significantly to the City's tax base. Additionally, Philadelphia's industrial research and development centers have been at the forefront of innovation and technological advancements in various fields, such as biotechnology, energy, and materials science. Overall, manufacturing remains a crucial industry for the growth and prosperity of Philadelphia's economy.

Principal Private Sector Employers in the City

Table 7 lists the 20 largest private employers that are based in Philadelphia. Penn and Thomas Jefferson University and Jefferson Health top this list.

Table 7
Largest Private Employers Based in Philadelphia
Ranked by Number of Local Employees, 2023

Employer	Local Employees
University of Pennsylvania and Health System	51,309
Thomas Jefferson University and Jefferson Health	42,000
Children's Hospital of Philadelphia	29,103
Temple University Health System	18,991
Comcast Corp	16,264
Independence Health Group	8,642
Drexel University	5,177
Wells Fargo Bank	4,593
Deloitte	2,175
Ernst & Young LLP	1,610
KPMG	1,362
Rivers Casino	1,125
AON	1,100
Burns' Family Neighborhood Markets	997
American Heritage Credit Union	720
Fox Rothschild LLP	694
Cozen O'Connor	673
Duane Morris LLP	661
Pennoni	652
Aecom	648
Total	188,496

Source: Philadelphia Business Journal, 2021 Book of Lists (Revised in November 2023)

Office Market

In the fourth quarter of 2023, most commercial leasing activity followed common patterns, including renewals or moves to higher-quality spaces, impacting certain properties positively while increasing vacancies in other properties. There were no major deals that significantly changed occupancy rates in specific buildings. However, there is noticeable investment in the Central Business District (“CBD”), with construction projects, new residential openings, and restaurant announcements. Economic indicators, like foot traffic, are showing positive trends. The CBD has 438,000 square feet under construction according to Jones Lang LaSalle’s (“JLL”) statistics for the fourth quarter of 2023.

The average direct asking rental rates in the City’s CBD rose to \$34.09 per square foot in the fourth quarter of 2023, with a vacancy rate of 19.1%.

Table 8 shows comparative overall fourth quarter 2022 office vacancy rates for selected office markets.

Table 8
Total Office Vacancy Rates of Selected Office Markets
Fourth Quarter 2022

Market	Vacancy Rate
Houston	25.7%
San Francisco	25.1%
Dallas	24.6%
Phoenix	23.1%
Los Angeles	22.5%
Chicago	22.5%
Atlanta	21.4%
Washington, DC	20.7%
United States CBD, All Markets	19.6%
Detroit	19.2%
Charlotte	18.9%
San Antonio	18.8%
Philadelphia	18.5%
Boston	18.1%
Austin	18.1%
Baltimore	18.0%
Seattle	16.7%
Cleveland	16.0%
New York	15.9%
San Diego	12.1%

Source: JLL, National CBD Data, Fourth Quarter 2022

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Major Projects

Over the last two decades, the City's economic development agencies and others have spurred significant economic revitalization throughout the City. In particular, a number of geographic areas have experienced concentrated developments: Center City, University City, Philadelphia's Historic District, Avenue of the Arts, North Broad Street, the Navy Yard, and the Benjamin Franklin Parkway. Many of these developments, such as a significant increase to Philadelphia's hotel room inventory in Center City and expansion of the Pennsylvania Convention Center, have been key to the growth of Philadelphia's leisure and hospitality sector. Several key areas within the City have been instrumental in the economic and commercial development of Philadelphia over the past 25 years.

Taking advantage of the City's major waterways, the Schuylkill and the Delaware Rivers, the City is redeveloping its waterfronts to accommodate a variety of developments, including mixed-use projects, housing, parks, recreational trails, and hotels. These projects improve quality of life for residents and enhance the visitor experience. In addition, they serve as the impetus for environmental remediation, job creation and private development of former industrial properties within the City.

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Table 9
Projects Under Construction in the Key Commercial Districts

Project Name, by Neighborhood	Project Type	Cost in Millions	Est. Completion Date
CENTER CITY			
Jefferson Health Specialty Care Pavilion (1100 Chestnut Street)	Medical	\$762	2024
204 S. 12th Street	Residential	\$180	2024
123 S. 12th Street	Residential	\$225	2024
Toll Brothers Apartments (Broad & Noble St)	Residential	\$150	2024
1001 South Broad Street	Retail/Residential	\$500	2024
OLD CITY			
I-95 Overcap Park (Penn's Landing)	Public	\$329	2026
702 Samson St	Retail/Residential	\$100	2027
OTHER NEIGHBORHOODS			
650 Fairmount Avenue	Retail/Residential	\$100	2025
200 Spring Garden	Retail/Residential	\$76	2024
300 N. Christopher Columbus Ave	Retail/Residential	\$200	2024
Festival Pier (501 N. Christopher Columbus)	Retail/Residential	\$250	2024
418 Spring Garden Street	Retail/Residential	\$200	2024
1130 N Delaware Avenue	Residential	\$55	2024
1001 S Broad Street	Mixed	\$306	2024 (First building) 2026 (Fully completed)
918-80 N Delaware Avenue	Mixed	\$30	2024
Reading Viaduct Expansion	Public	\$30	2025
1000 Spring Garden Avenue	Mixed	\$225	2024
817-21 N 3rd Street	Mixed	\$105	2024
1705-41 N American Street (The Luxe Fishtown)	Residential	\$15	2024
1518-28 N Broad Street (Legacy on Broad)	Mixed	\$20	2027
UNIVERSITY CITY			
3151 Market St (Schuylkill Yards)	Office/Medical	\$3,500	2024
CHOP Schuylkill Ave Expansion (Phase 2)	Medical	\$600	2024
TOTAL		\$7,958	

Source: Philadelphia Department of Planning and Development.

Housing

Philadelphia's housing market has undergone a significant revitalization over the last two decades. The period between the 2000 and 2010 censuses was the first wherein Philadelphia experienced a net population increase since 1940 to 1950, due both to rapid growth in the number of higher income households in these core neighborhoods and to a significant influx in the foreign-born population in more peripheral neighborhoods of the City.

The City's population growth has driven significant new construction and investment in many of its neighborhoods resulting in increases in the value of the City's housing stock. Most housing indicators for Philadelphia indicate an upward outlook, in terms of prices and construction, for the near future. Nevertheless, the City continues to face significant challenges caused by the persistent problems of poverty, crime, underperforming schools, and lack of employment opportunities in some sectors.

The total housing stock, measured by the number of units, increased by 13.5% from 2012-2022, for a total of 757,656 in 2022.³ This increase of 89,410 units is the result of a net increase of 48,832 multifamily units, 38,999 single-family homes, and 1,578 "other" units (such as mobile homes and boats).

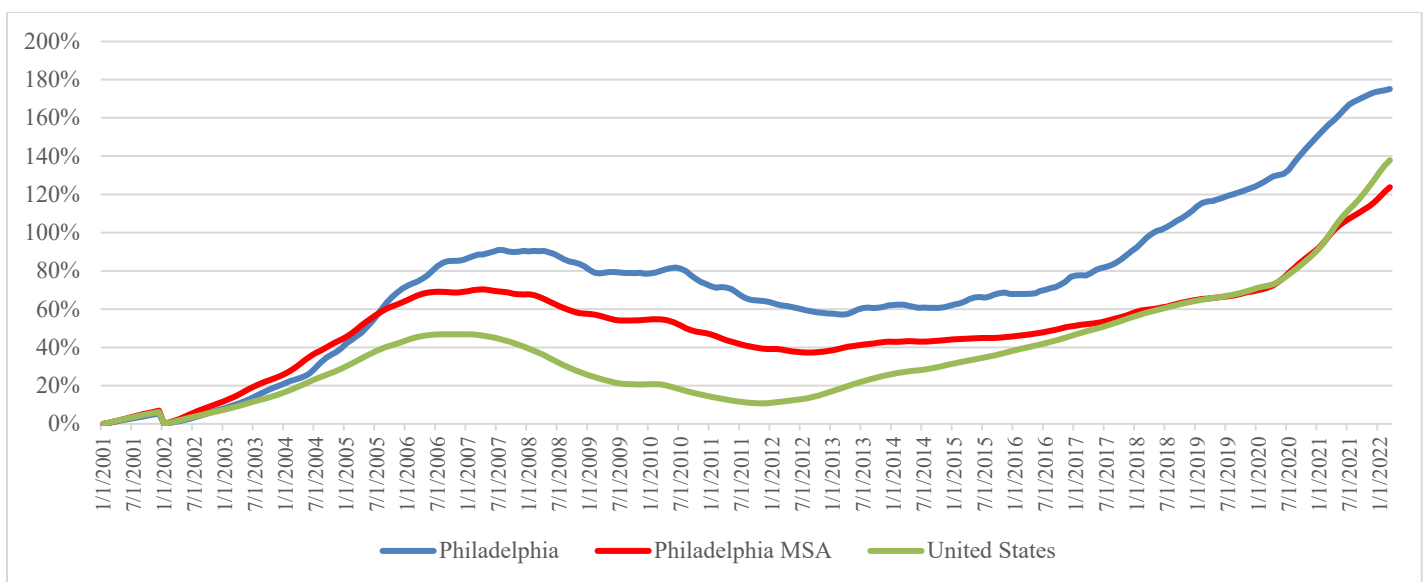
³ US Census Bureau, American Communities Survey, 1-Year Survey

The homeownership rate in the City in 2022 was 50.8%, which represents a decline from 52.2% in 2012.³ Accordingly, properties in the City have continued to command higher rents, with the median monthly rent in April 2024 equal to \$1,788, representing a 21.0% increase over the prior five-year period.⁴

Home Prices

As shown in the chart below, after eight years of moderate house price deflation following the peak of the 2007 recession, Philadelphia's housing market began posting rapid increases in prices, citywide, starting in 2013. In late 2017, home values in Philadelphia recovered to their pre-recession peak and have continued to climb to 43% above that peak as of March 2022. The following chart uses the Home Value Index to chart changes in home values in Philadelphia, the Philadelphia region, and the U.S. as a whole over the 20-year period from January 2001 through March 2022.⁵

Percent Change in Median Nominal Home Value (Zillow Home Value Index), 2001-2021



Source: Zillow Research, ZHVI Time Series

Over this entire period, Philadelphia's median home prices have been lower than that of the region or the country as a whole. However, because the rate of growth in the City's home values matched or outpaced these comparison regions and the housing market in Philadelphia retained a much greater share of its pre-recession gains, it has significantly closed that gap. Whereas the median home value in Philadelphia was 56% that of the US in 2002, it was 71% of the national average by 2021.

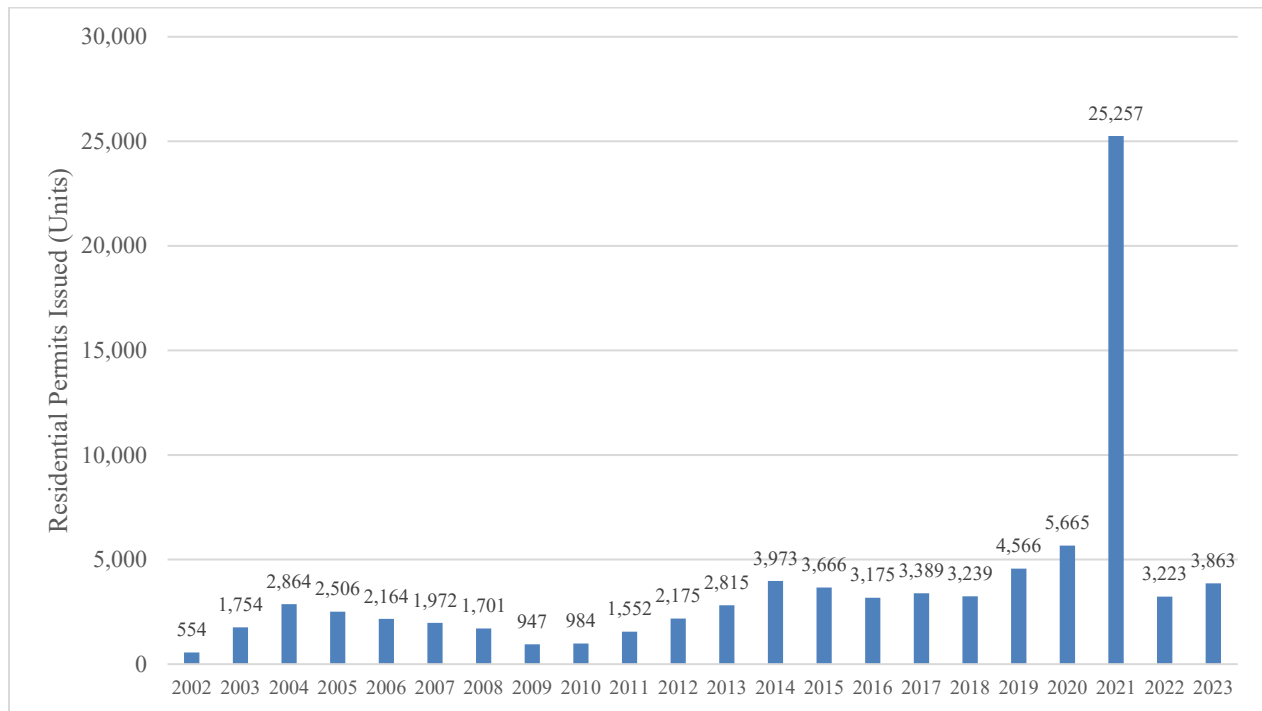
Home Construction

Home building activity in Philadelphia has also made significant progress since hitting its recessionary low in 2009. The following chart shows the number of newly constructed units being added to Philadelphia's housing stock, as represented by the number of building permits issued for such units, from 2002 through 2023.

⁴ Zillow Research, ZORI Time Series

⁵ Zillow Research, ZHVI Time Series

Building Permits Issued in Philadelphia, New Construction Only (Number of Units), 2002-2023



Source: US Census, Building Permits Survey

The number of building permits for new residential units issued significantly increased in 2021, with a 361% increase over the previous calendar year. The large increase coincided with changes to the City’s 10-year tax abatement, which had been set to expire at the end of 2020, to be replaced by a modified version. The original abatement was extended by a year because of the pandemic. The City’s new tax-abatement program went into effect in January 2022. For more information on the new tax-abatement program, see APPENDIX III – “REVENUES OF THE CITY – Real Property Taxes.”

Historically, construction of new housing units in Philadelphia was low by both absolute and relative measures, averaging only 507 units per year in the decade from 1990 through 1999. However, since 2003, permits for new construction have not been for less than 947 units in any single year, including during the nadir of the 2007 recession. Notably, these data do not include additions or substantial alterations to existing buildings, which together account for nearly a third of all new housing units in Philadelphia.

Despite rising income levels and the relative affordability of home prices in Philadelphia, the City seeks to address housing inequities that can be exacerbated by a strong real estate market. To further increase the supply of affordable housing, the City launched the Neighborhood Preservation Initiative (“NPI”) in 2021. NPI supports the production and preservation of affordable housing units, home repair and tangled title programs, eviction diversion services, and other innovative programs relating to neighborhood and small business corridor investments. In October 2021 and May 2023, the Philadelphia Redevelopment Authority (“PRA”) issued \$98,560,000 and \$99,455,000 in City Service Agreement Revenue Bonds, respectively, to finance certain costs of the NPI program. Data on all NPI funded programs, including funds expended by program and households served, is available on the City’s website through the NPI dashboard, which is updated quarterly. NPI funds leverage federal and state Low Income Housing Tax Credit projects and local, long term funding through the Housing Trust Fund.

Additionally, the City used its American Rescue Plan Act of 2021 funding to operate rental assistance programs during the COVID-19 pandemic. Along with multiple rounds of funding from both the Commonwealth and federal direct allocation, the City released over \$299 million in over 46,000 payments to landlords and tenants to secure their housing needs. Data on this program is also available on the City’s website through the PHLRentAssist dashboard, which shows rental and utility assistance for residents affected by COVID-19 and funds dispersed and the households served.

TALENT AND HUMAN CAPITAL

Workforce Development

Higher Education

According to Campus Philly, over the last twenty years, the young adult population in Greater Philadelphia has experienced significant growth, surpassing national demographic trends and driving overall population expansion in the region. Notably, the increase in young adults with bachelor’s degrees in Philadelphia has outpaced similar growth in comparable peer cities. This trend reflects the effectiveness of Greater Philadelphia’s colleges and universities. The City retains 50% of the graduates of local colleges and universities. In 2022, 32.5% of Philadelphia’s population age 25+ had an Associate Degree or higher. Because the Philadelphia region has one of the largest concentrations of students and degree-granting institutions, the City consistently produces an abundant workforce of highly qualified workers for tech and life science companies.

In 2022, Philadelphia exceeded many selected peer cities in its share of students who are enrolled in an undergraduate, graduate or professional education program. Selected peer cities (as shown in Table 10) reflect characteristics consistent with Philadelphia, such as geography, socio-economic statistics, industrial legacies, or port facilities.

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Table 10

**2022 Total Number of Students - Percent of Total Population of Selected Cities,
Ranked by Total Number of Students Enrolled in Higher Education**

	Total Number of Students Enrolled in School (all years)	Total Number of Students Enrolled in Higher Education	Percent of All Students Enrolled in Higher Education	Percent of Total Population Enrolled in Higher Education
United States	80,425,705	21,985,950	27.3%	6.9%
Los Angeles, CA	934,487	324,054	34.7%	8.6%
Chicago, IL	632,447	204,284	32.3%	7.8%
Houston, TX	579,933	155,383	26.8%	7.1%
San Diego, CA	346,859	141,150	40.7%	10.5%
Philadelphia, PA	397,505	132,204	33.3%	8.6%
San Antonio, TX	379,156	103,402	27.3%	7.4%
Boston, MA	183,215	100,326	54.8%	15.5%
Phoenix, AZ	398,394	95,939	24.1%	6.2%
Washington, D.C.	156,326	58,937	37.7%	9.1%
Baltimore, MD	141,438	51,798	36.6%	9.2%
Milwaukee, WI	159,144	43,425	27.3%	7.9%
Memphis, TN	151,808	36,419	24.0%	6.0%
Detroit, MI	152,587	33,355	21.9%	5.5%
Cleveland, OH	87,096	24,379	28.0%	6.8%

Source: 2022 American Community Survey, 5-Year Estimates.

Workforce Professionals Alliance (“WPA”)

The WPA is a partnership of 30+ (and counting) workforce development organizations committed to increasing access to career readiness programs for Philadelphians. The WPA works to connect, advocate, and drive the impact of workforce development services in Philadelphia. The WPA works collaboratively amongst its members and City government to lead strategy and vision for how partners can work together to bridge programs, industries and respond to the demands of employers and residents. WPA member organizations are used as a first point of contact to connect employers that are looking for talent in the region to hire directly from the workforce ecosystem.

Fair Chance Hiring Initiative (“FCHI”)

FCHI supports local businesses by referring Philadelphia job seekers returning from incarceration as well as those that are on probation or parole for open positions and providing financial incentives to businesses in the form of wage reimbursements and employment retention grants. About 300,000 Philadelphians have had contact with the criminal justice system. Integrating these individuals into the workforce is a priority. This program was introduced as an alternative to the Philadelphia Re-Entry Program (PREP) Tax Credit. Since the program’s inception in 2017, FCHI has distributed over \$69,000 in grant money to residents, and over \$400,000 to FCHI small business employers.

PHL Taking Care of Business Clean Corridors Program (“TCB”)

TCB is a \$10 million program that funds community-based nonprofits to sweep sidewalks and remove litter across low-moderate income neighborhood commercial corridors. PHL TCB invests in people and small businesses by creating employment opportunities for residents and keeping Philadelphia’s neighborhood commercial corridors clean. TCB cleaning is carried out by small crews of uniformed Cleaning Ambassadors. TCB currently funds 39 organizations to clean 116 total commercial corridors, employing approximately 240 Cleaning Ambassadors.

Participating organizations are encouraged to hire neighborhood residents, including formerly incarcerated individuals. Cleaning Ambassadors earn a minimum of \$15.71 per hour and are offered paid workforce training opportunities to equip them to perform their jobs and help them advance in their careers. Trainings include an OSHA 10 certification course for basic workplace safety, as well as digital literacy, workplace readiness, tree-tending and landscaping trainings and Mental Health First Aid trainings. Previous work experience and a high school diploma are not required.

Career Connected Learning (“C2L”)

Career Connected Learning (C2L-PHL) is the system of connections that is currently being built between youth-serving partners such as the School District of Philadelphia, City of Philadelphia, Philadelphia Works, and JEVS Human Services, among many others. The premise is to embed career awareness and exposure into City schools, curriculum and programming offered to all students. C2L-PHL offers year-round work-based learning opportunities, during the summer and school year, for Philadelphia residents ages 12-24 to explore different career paths, gain hands-on experience, and develop essential skills. Paid summer and school year work and learning experiences are part of C2L-PHL. JEVS Human Services is contracted to oversee a network of organizations to provide this service. The programs under the C2L currently aim to engage roughly 10,000 students a year, and this system aims to expand programmatic opportunities to be available to any student in the School District.

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Employment

Table 11 shows non-farm payroll employment in the City over the last decade by industry sectors. In the past 10 years, growth has occurred in several sectors including Mining, Logging, and Construction; Professional and Business Services; Education and Health Services; Financial Activities; and Information. These sectors continue to provide stability to the City's overall economy. As of March 2023, employer demand remains strong, with City employers creating more new job postings than ever before. Regional employers in the Professional Services, Education and Health Services and Transportation sectors have added more than 36,700 jobs since 2020. Overall, total employment in the City is at an all-time high.

Table 11
Philadelphia Non-Farm Payroll Employment⁽¹⁾
(Amounts in Thousands)

Sector	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Change 2014-23	% Change 2014-23
Leisure and hospitality	66.9	68.5	70.8	73.1	74.3	76.2	47.2	55.0	68.7	73.5	6.6	9.87%
Mining, logging, and construction	11.0	11.5	12.0	12.1	12.6	12.4	10.8	11.7	12.5	12.7	1.7	15.45%
Professional and business services	88.6	91.2	95.2	97.4	99.6	104.2	98.8	102.2	110.3	115.6	27.0	30.47%
Education and health services	213.2	217.3	223.8	230.2	238.2	242.8	232.7	234.1	247.0	258.0	44.8	21.01%
Other services	26.8	27.1	27.8	27.8	28.3	28.6	24.1	25.4	27.9	29.0	2.2	8.21%
Trade, transportation, and utilities	90.9	92.1	92.5	92.3	92.8	93.8	85.6	88.4	90.3	87.5	-3.4	-3.74%
Financial activities	41.7	42.3	42.4	41.6	42.5	43.1	41.8	42.5	46.9	49.8	8.1	19.42%
Information	11.5	11.8	11.8	12.5	13.4	14.9	15.3	12.3	16.5	16.0	4.5	39.13%
Manufacturing	21.5	21.0	20.5	20.2	19.9	19.4	17.4	18.2	19.1	19.4	-2.1	-9.77%
<i>Private Sector Total</i>	<i>572.1</i>	<i>582.8</i>	<i>596.8</i>	<i>607.2</i>	<i>621.6</i>	<i>635.4</i>	<i>573.7</i>	<i>589.8</i>	<i>639.2</i>	<i>661.5</i>	<i>89.4</i>	<i>15.63%</i>
Government	102.2	101.6	101.3	102.2	103.7	105.2	105.5	103.4	102.6	104.0	1.8	1.76%
Total	674.3	684.4	698.1	709.4	725.3	740.6	679.2	693.2	741.8	765.5	91.2	13.53%

Source: Bureau of Labor Statistics, 2023 annual average totals may not sum due to rounding.

⁽¹⁾ Includes person employed within the City, without regard to residency.

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Table 12
Philadelphia Change in Share of Employment Sectors⁽¹⁾

Sector	Share of Total Employment 2014	Share of Total Employment 2023	Change 2014-2023
Leisure and hospitality	9.9%	9.9%	0.0%
Mining, logging, and construction	1.6	1.7	0.1
Professional and business services	13.1	14.6	1.5
Education and health services	31.6	34.0	2.4
Other services	4.0	3.8	-0.2
Trade, transportation, and utilities	13.5	11.8	-1.7
Financial activities	6.2	6.2	0.0
Information	1.7	2.2	0.5
Manufacturing	3.2	2.5	-0.7
Government	15.2	13.3	-1.8
Total	100.0%	100.0%	0.0%

Source: Bureau of Labor Statistics, 2023 annual average; totals may not sum due to rounding.

⁽¹⁾ Includes persons employed within the City, without regard to residency.

Unemployment

Philadelphia has recently narrowed the gap between its unemployment levels and the national unemployment levels. As shown in Table 13, with the exception of the COVID-19 pandemic, employment gains in 2014 through 2023 resulted in a decline in Philadelphia's unemployment rate from an annual average high of 8.2% in 2013 to 4.5% in 2023.

Table 13 below shows unemployment information for Philadelphia, the MSA, the Commonwealth, and the United States.

Table 13
Unemployment Rate in Selected Geographical Areas
(Annual Average 2014-2023)

Geographical Area	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Change in rate from 2014-2023
United States	6.20	5.30	4.90	4.40	3.90	3.70	8.10	5.40	3.60	3.70	-2.5
Pennsylvania	5.90	5.30	5.40	5.00	4.50	4.50	9.10	6.60	4.40	3.80	-2.1
Philadelphia-Camden-Wilmington MSA	6.30	5.50	5.00	4.70	4.30	4.10	9.20	6.30	4.10	3.70	-2.6
Philadelphia	8.20	7.20	6.70	6.40	5.70	5.60	12.30	8.90	5.90	4.50	-3.7

Source: Local Area Unemployment Statistics, Bureau of Labor Statistics, 2023.

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ECONOMIC DEVELOPMENT STRATEGIES AND IMPLEMENTATION

City of Philadelphia Economic Development Mission and Goals

The City's economic development strategy is to (i) grow quality jobs by fostering an improved business environment; (ii) increase the City's population and visitation; (iii) boost Philadelphia's competitiveness through strategic and sectoral investments; and (iv) enable inclusive growth and neighborhood revitalization. The City partners with numerous quasi-city and private agencies to accomplish these objectives.

Economic Competitiveness

In addition to the Mayor's initiatives of a safer, cleaner, and greener Philadelphia, which are part of a broader economic development strategy, the City utilizes several place-based economic development strategies to spur development in Philadelphia. These strategies include: (i) a 10-year real estate tax abatement on all new construction, as well as on improvements to existing properties (legislative changes to this program are described in APPENDIX III – "REVENUES OF THE CITY – Real Property Taxes – Assessment and Collection"); (ii) Commonwealth-designated Keystone Opportunity Zones in which eligible businesses may be exempt from all Commonwealth and local business taxes until a specified date; (iii) Commonwealth-designated Keystone Innovation Zones in which energy, defense, technology, and life-sciences companies may be eligible for saleable tax credits worth up to \$100,000 annually for the first eight years of operations; (iv) tax increment financing; and (v) neighborhood revitalization investments including staffing and physical improvements to facilitate commercial corridors that are attractive places for people to work, shop, and live.

The City and its partners work to attract and retain businesses through business resources, strategic investments, and marketing. Philadelphia offers a suite of additional incentives to businesses, including, but not limited to, the Quality Jobs Grant, Job Creation Tax Credit, Fair Chance Hiring Initiative, Boost Your Business! Fund, and Philadelphia Business Lending Network Incentive Grant. The City provides financial support to a number of nonprofit partners to provide business planning, technical assistance, and access to capital. The City also convenes workforce development organizations and provides financial support for workforce solutions initiatives to train and connect the City's population to career opportunities in the business community.

International Business & Global Strategy

The City actively works to raise its profile in the international business community. In pre-COVID years, the City hosted delegations of business leaders and officials on trade missions to the United States, reaching a high of 156 delegations in 2019, and participated in business missions to Germany, France, Portugal, China, South Korea, Canada, Denmark, Sweden, Chile, and Israel. These efforts have resulted in new business attraction leads, enhanced cooperation, support to international air route development, and opening of foreign government offices (Quebec Office, South Korean Consulate, Canada Trade Commissioner, Chilean trade and investment office).

Despite the pandemic and closing of the U.S. borders to most foreign markets until late 2021, the City continues to engage with foreign businesses and partners to strengthen exchanges, resulting in delegations and visits for new business attraction projects in 2022 and 2023 (189 foreign businesses engaged within calendar year 2022 and over 235 in calendar year 2023). In particular, primarily out of European markets, several life sciences projects came to fruition in 2021 and 2022, as well as tech companies opening operations in 2022 and 2023 once borders reopened. As most Asian countries lifted

travel restrictions at the end of 2022, the City has seen the beginning of a rebound in delegations and business visits from those markets in 2023, and expects this trend to continue. Foreign companies increasingly leverage Philadelphia's assets of talent availability, academics, hospitals, relatively low costs, and connectivity, along with City and State support.

A definite rebound of foreign visitors has been observed in the City. European tourists have been returning to the City since 2022, which has helped rebuild international flight routes between PHL International Airport and Europe – along with increased domestic tourism. PHL has consequently seen an increase in passengers of 12.6% over 2023, which includes a 20% increase for international passengers. The City, Visit Philadelphia, PHLCVB, PHL and other partners closely collaborate on messaging and marketing efforts to support those trends. Asian markets show signs of potential growth and rebound, but partially remain hampered by lengthy visa timelines, and limited flight timeslots between China and the U.S.

The City also started to support trade opportunities considering the global supply chain shifts, centered around export initiatives, to connect Philadelphia businesses, particularly minority-owned businesses, with market intelligence, and export-readiness programs and service providers. In 2023, Philadelphia was designated as “Certified Welcoming” by the nonprofit organization Welcoming America, a formal designation given to cities that have policies and programs in place that reflect their values and commitment to immigrant inclusion. Beyond the recognition of the City's efforts to support immigrants coming to Philadelphia, the designation helps solidify the policies around immigrant inclusion with positive economic impacts on the City (population growth, business creation, etc.) and the messaging that Philadelphia is a globally welcoming city. The City also supported local universities gathering a coalition to identify shared efforts to improve Philadelphia's perception as a global education hub, in an attempt to counter COVID impacts on international student recruitment and the negative perception of the U.S. in terms of safety.

Industry Partnerships

Industry partnerships bring together multiple employers in the same industry, along with workforce development and community partners. These public-private partnerships convene to align workforce planning with the needs of employers in order to create industry-specific solutions. The Philadelphia region has several industry partnerships in the following industries: Advanced Manufacturing; Logistics, Transportation, and Distribution; Hospitality and Entertainment; Technology; and Life Sciences/Cell and Gene Therapy.

Neighborhood Revitalization

The City drives inclusive growth and neighborhood revitalization through strategic investments and place-based economic development strategies. These strategies include (i) providing direct support and investing in businesses and entrepreneurs; (ii) investing in the capacity of community organizations and business associations; and (iii) investing in physical environment and infrastructure of neighborhood commercial districts.

The Planning Commission has identified approximately 300 commercial corridors in the City. While the City's Department of Commerce supports all businesses throughout the City, there are approximately 80 corridors that are targeted for support and investment. These 80 areas are neighborhood based, pedestrian and transit oriented, and have a high density of commercial spaces (average 100 businesses in a 3-4 block area). Examples of vibrant commercial corridors include 2nd Street in Old City,

52nd Street in West Philadelphia, Main Street in Manayunk, North 5th Street in Olney, and Woodland Avenue in Southwest Philadelphia.

The City's Commerce Department employs a three-prong corridor strategy. First, it provides direct support to the businesses through its Business Services Managers, through grant programs like the InStore Forgivable Loan and Storefront Improvement Program, and through referrals to partner agencies funded to provide technical assistance, training, and lending, such as The Enterprise Center and PIDC. Commerce also funds two firms as Business Coaches to be matched with individual minority businesses with an assessment and one-on-one help to position such businesses for a grant or loan. Commerce also supports the Philadelphia Business Lending Network (PBLN), which simplifies the process for businesses applying for loans. This service provides access to nonprofit and for-profit lenders with one form.

Second, the City drives commercial corridor revitalization through support of local management organizations such as business improvement districts (BIDs), community development corporations (CDCs), and business associations. More information about BIDs and CDCs can be found in the following section. The City currently provides funding to 48 organizations through corridor management, a CDC Tax Credit Program, and/or CDC Economic Development Support Grants. These community-based staff help neighborhood businesses take advantage of programs and resources, as well as attract new businesses to vacant properties and storefronts. For the targeted corridors that do not have a caretaker, the Commerce Department provides Business Services Managers that perform that role and work to build local capacity so the City has a partner to support businesses. The City also provides funding to neighborhood nonprofits for acquisition and construction of commercial and mixed-use properties to remove blight and encourage commercial development.

Third, the City invests in the public environment. It supports Business Improvement Districts (BIDs) and manages the \$10 million PHL Taking Care of Business (PHL TCB) Clean Corridors Program, which provides sidewalk cleaning on 85 corridors around the City. The City provides funding and design support to reimburse businesses for improvements to their storefronts, including lighting, signage, windows, and for installation of security camera systems. Lastly, the City manages streetscape improvement projects and funds other capital investments like bus shelters, Bigbelly waste control, and police cameras.

City and Quasi-City Economic Development Agencies

City of Philadelphia - Department of Commerce ("Commerce")

The mission of the Department of Commerce is to help all businesses thrive by growing quality jobs, building capacity in under-resourced communities, and making it easier to start and run a successful business in Philadelphia. Commerce focuses on the following strategic priorities and investments:

- Provide trusted guidance and a simplified process to establish, grow, and operate a business;
- Drive equitable neighborhood revitalization that contributes to vibrant commercial corridors;
- Attract and retain businesses through business resources and strategic investments;
- Connect talent to growth industries and to jobs that pay family-sustaining wages;
- Bolster equitable access to capital and contracting opportunities for people who have been historically underserved; and

- Leverage partnerships and research to drive policy and strategy.

City of Philadelphia - Department of Planning and Development (“DPD”)

The Department of Planning and Development aligns the City’s agencies whose missions relate to regulating the built environment and allocating resources to support the development of housing and investment into communities. DPD works in collaboration with communities to promote, plan, preserve, and develop successful neighborhoods. DPD includes the Division of Housing and Community Development (DHCD); Division of Planning and Zoning (DPZ); and Division of Development Services (DS). DPD works closely with the Philadelphia Housing Development Corporation (PHDC), the City’s full-service community development organization. DS guides ambitious development projects from concept to completion. DPZ promotes development of healthy, equitable, and resilient communities through its boards and commissions: Philadelphia City Planning Commission (PCPC), Philadelphia Historical Commission (PHC), Philadelphia Art Commission (AC), and Zoning Board of Adjustment (ZBA). DHCD leads the City’s efforts to address the ongoing national housing crisis in Philadelphia by financing and facilitating housing construction and housing renovation, improving and adapting individual homes and advancing neighborhood quality of life improvements. DHCD, formerly known as the Office of Housing and Community Development and now part of DPD, manages planning, policy, and investment in low-income housing through several assistance programs. Most significantly, the DHCD creates and manages implementation of the Consolidated Plan, a federally-mandated plan and budget that must be updated yearly in order to receive federal Community Development Block Grant funding.

Philadelphia Housing Authority (“PHA”)

PHA is funded primarily by the federal government and is the largest landlord in Pennsylvania. PHA develops, acquires, leases, and operates affordable housing for City residents with limited incomes. PHA works in partnership with the City and Commonwealth governments, as well as private investors. Over 93% of PHA’s annual budget is funded directly or indirectly by the U.S. Department of Housing and Urban Development, and most of the balance of PHA’s budget is derived from resident rent payments. Neither PHA’s funds nor its assets are available to pay City expenses, debts, or other obligations, and the City has no power to tax PHA or its property. Neither the City’s funds nor its assets are subject to claims for the expenses, debts, or other obligations of PHA.

Philadelphia Housing Development Corporation (“PHDC”)

PHDC is a 30-year-old, full-service community, and economic development entity with an annual program budget of more than \$60 million and \$23 million for operations. It works to build stronger communities by creating and preserving affordable housing, supporting economic development projects, and redeveloping vacant land and properties throughout the City.

PHDC staffs the PLB (as defined herein) and the PRA boards and functions. All land management, community investment functions, and housing improvement programs now operate under one leadership team at PHDC. PHDC’s Home Improvement programs serve approximately 5,000 people annually and help to stabilize over 100 small businesses. Under a contract with the DPD, from Fiscal Years 2020 through 2022, \$65.5 million in PHDC financing leveraged funding for 1,313 units at 26 developments.

PHDC also supports the Philly First Home Program, providing grants of up to \$10,000 to low and middle-income first-time home buyers. To date, such program has supported over 3,700 residents in home purchases and has led to approximately \$600 million in mortgages from banking institutions. PHDC is continuing to expand homeownership opportunities by leveraging the land acquired by the PLB to support private developers to build 100 new homes on these parcels. In Fiscal Year 2022, PLB disposed of 70

parcels, on which 203 housing units were built and title to 27 side yards/gardens was transferred. Such parcels also support four economic development projects.

Philadelphia Land Bank (“PLB”)

Established in 2013, the PLB is an institutional partner in land use. The aim of the PLB is to consolidate many of the land acquisition and disposition processes of the City under one umbrella, making it easier for private individuals and organizations to acquire properties that otherwise contribute to neighborhood disinvestment and turn them into assets for the community in which they are located. The PLB can: (i) consolidate properties owned by multiple public agencies into single ownership to speed property transfers to new, private owners; (ii) acquire tax-delinquent properties through purchase or by bidding the City’s lien interests at a tax foreclosure; (iii) with consent of the City, clear the title to those properties so new owners are not burdened by old liens; and (iv) assist in the assemblage and disposition of land for community, non-profit, and for-profit uses.

Another PLB responsibility is to develop a strategic plan for vacant land in Philadelphia. In the PLB’s 2019 update to its strategic plan, certain key achievements were highlighted, including, among other things, (i) an increase in acquisitions (up from 21 in Fiscal Year 2017 to 276 in Fiscal Year 2018 and 463 through the second quarter of Fiscal Year 2019); (ii) an increase in dispositions (up from 18 properties conveyed in Fiscal Year 2017 to 78 conveyed in Fiscal Year 2018 and 132 properties conveyed through the second quarter of Fiscal Year 2019); and (iii) formalizing the process for executing license agreements.

Philadelphia Industrial Development Corporation (“PIDC”)

Established as a public-private partnership in 1958 by the City and the business community, PIDC is a non-profit organization that offers flexible financing tools, a targeted portfolio of industrial and commercial real estate, and expertise to help clients invest, develop, and grow in Philadelphia. PIDC also structures and invests in public-private partnerships for key City policy areas and development priorities. Over the past 65+ years, PIDC and its affiliates have settled over 13,000 transactions, including more than \$19 billion in financing that has leveraged tens of billions of dollars of total investment and assisted in creating and retaining hundreds of thousands of jobs in Philadelphia. Its direct loan and managed third-party portfolio at year-end 2023 were more than \$407 million, representing 598 loans.

PIDC is in the process of selecting a development partner to shape the next phase of growth and development on Philadelphia’s Schuylkill River with a landmark development opportunity for up to one million square feet of state-of-the-art cell and gene therapy manufacturing. The development opportunity, marketed as the Lower Schuylkill Biotech Campus, is offering exclusive development rights across approximately 40 riverfront acres between two riverfront sites. The Lower Schuylkill Biotech Campus will be an integral component of the Lower Schuylkill Innovation District, which was an outcome of a City-led master planning process to transform a deteriorating 3,700-acre industrial corridor into modern business campuses for innovation. The district consists of a total of 75 acres of sites suitable for biotech companies at every stage of development. The district also provides streamlined connections to I-95, I-76 and the Philadelphia International Airport. Once completed, the Lower Schuylkill Biotech Campus development is poised to create up to 2,800 jobs, including positions across the economic ladder accessible to area residents and offering family-sustaining wages.

In 2023 (and continuing in 2024), PIDC and its developer partners continued to implement the updated Navy Yard master plan released in summer 2022, which details a comprehensive vision for the Navy Yard that incorporates development that has occurred to date, integrates and refines future development plans, and charts an innovative course for public realm, transportation, infrastructure, and sustainability in the Navy Yard’s next stage of growth. The plan calls for a total of over 4.3 million square

feet of new construction and adaptive reuse supporting commercial and life sciences development, complemented with retail, hospitality, additional welcoming open spaces, expanded transit options, and – for the first time since the military base closure – residential units. In fall 2023, PIDC broke ground on the \$285 million Chapel Block residential project which will bring 614 units (including 91 affordable units) and residents to the Navy Yard for the first time in decades. This project includes a \$100 million MBE-led equity investment by Basis Investment Group. Also, the Navy Yard Skills Initiative, a workforce training and development partnership between PIDC and the West Philadelphia Skills Initiative, marked a milestone in 2023 by connecting the 100th Philadelphian to full-time employment. This program continues to create equitable access to meaningful career opportunities in one of the region’s fastest growing sectors by lowering the barrier of entry.

After a \$22 million reconstruction project to rebuild Broad Street at the Navy Yard, improvements will continue throughout 2024 with enhancements to a two-way bike lane, a new scenic pedestrian plaza overlooking the Reserve Basin, and new street landscaping to beautify the space. This project was a critical step in restoring safe, multimodal access to the Navy Yard for its 150 companies, more than 15,000 employees, and thousands of annual visitors, while also advancing PIDC’s \$6 billion equitable redevelopment partnership that, at full buildout, is expected to generate over 12,000 additional quality jobs over the next 20 years. PIDC continues to work on this long-term plan for the Navy Yard, which has a comprehensive approach to equity in all aspects of the plan.

Philadelphia Redevelopment Authority (“PRA”)

In 1945, the Commonwealth enacted the Urban Renewal Law and created the PRA as the City’s urban renewal agency. Today, the PRA continues its role as a key financier, project manager, leader, and expert of developing and maintaining land in the City. The PRA is one of five municipal land holding agencies. Its Real Estate Division facilitates the redevelopment of PRA assets, and it provides project management and analysis for real estate sales, acquisitions, redeveloper agreements, developer submissions, and required approvals. PHDC leads the underwriting and loan closing process for all affordable housing projects within the City and works primarily with non-profit and for-profit developers as a lender.

Philadelphia Works, Inc. (“PhilaWorks”)

PhilaWorks is the City of Philadelphia’s designated workforce development board and a 501(c)(3) non-profit organization. PhilaWorks invests in solutions and services that support the growth of Philadelphia’s economy by connecting employers to workforce talent and career seekers to employment and training opportunities. Additionally, PhilaWorks influences the public policies that support economic growth throughout the region and optimizes funding and resources to invest in solutions that build a skilled and thriving workforce.

PhilaWorks manages the City’s public workforce system, PA CareerLink® Philadelphia, and a network of youth workforce providers. The system offers skills gap training/upskilling, long-term career planning, and tech talent solutions for career seekers and talent pipeline development, subsidized wage programs, and tax incentives for employers. Annually, PhilaWorks engages approximately 60,000 local career seekers through in-person and online services, another 200,000 via direct outreach, and more than 2,000 businesses. PhilaWorks receives approximately \$70 million in state and federal investments to administer these services. This money is divided between WIOA (Workforce Innovation and Opportunity Act) and TANF (Temporary Assistance for Needy Families) funds.

In 2022, PhilaWorks secured \$22.7 million from the Economic Development Administration's (EDA) Good Jobs Challenge to accelerate equitable recovery and targeted growth in Healthcare & Life Sciences, Energy, and Infrastructure over the next 24-36 months.

Rebuilding Community Infrastructure Program ("Rebuild")

The Rebuild program, using funds from the Philadelphia Beverage Tax (see "REVENUES OF THE CITY – Other Taxes"), will invest hundreds of millions of dollars in Philadelphia's parks, recreation centers, and libraries over a seven-year period. Rebuild prioritizes sites in high-need neighborhoods, as well as sites that are in extremely poor condition. This program is intended to catalyze economic development in some of Philadelphia's most impoverished communities and neighborhoods. Rebuild is not only committed to making transformative capital improvements in neighborhood public and shared spaces but will also strive to build capacity and opportunities for minority and women-owned businesses and job opportunities for local residents. The Rebuild initiative will complete 72 playground and rec center projects. In 2024, the Rebuild program will have \$100 million of construction underway, with over 20 groundbreakings and ribbon cuttings planned.

Private and Nonprofit Economic Development Agencies

Local Chambers of Commerce ("Chambers")

The City of Philadelphia partners with multiple chambers representing the county and region. In 2021, a collective of local diverse chambers of commerce announced the Diverse Chambers Coalition of Philadelphia as a formal partnership to collaboratively facilitate entrepreneurship and growth, advocate on shared issues, and increase each member's organizational efficiency. The Diverse Chambers Coalition comprises the African American Chamber of Commerce of Pennsylvania, New Jersey, and Delaware; the Asian American Chamber of Commerce of Greater Philadelphia; the Greater Philadelphia Hispanic Chamber of Commerce; and the Independence Business Alliance (Greater Philadelphia's LGBTQ+ chamber of commerce). A similar partnership, called the Inclusive Growth Coalition, comprises these organizations as well as the Greater Philadelphia Chamber of Commerce. The Greater Philadelphia Chamber of Commerce leads the region's business advocacy and business and talent attraction efforts, which include Select Greater Philadelphia.

Additional chambers in Philadelphia include the Greater Northeast Philadelphia Chamber of Commerce, British American Business Council, French American Chamber of Commerce, German American Chamber of Commerce, Irish American Business Chamber & Network, Philadelphia Israel Chamber of Commerce, and the Center City Business Association.

Business Improvement Districts ("BIDs")

Since the founding of the Center City District (CCD) in 1990, BIDs have been important partners in the economic development of Philadelphia. BIDs are local organizations that are organized by property owners and businesses to cooperatively fund services within their local area. BIDs are formed when these stakeholders create a plan and secure approval through City Council which enables BIDs to collect a mandatory annual BID assessment from property owners in the area receiving the BID services. Philadelphia has 15 BIDs, including the North Broad Business Improvement District which was approved in November 2022. BIDs typically provide cleaning and beautification services, and market their districts and host special events to attract shoppers to the area. BIDs are important advocates for the businesses located in their areas. BID staff are important partners to the City in making sure that neighborhood businesses are aware of local programs and other business development resources.

The Philadelphia BID Alliance, formed in 2020, is a citywide association of the 15 BIDs and aligned organizations. It is a venue for sharing best practices among BID staff and advocates for BIDs and the interests of the businesses their organizations support.

Community Development Corporations (“CDCs”)

Philadelphia has more than 40 non-profit CDCs, that invest resources in managing a neighborhood commercial corridor. CDCs work to keep commercial areas safe, free of litter, and attractive. They strive to bring visitors and shoppers to support local economies and create opportunities for local entrepreneurs and small businesses that seek a brick-and-mortar space from which to operate. CDC staff, including the position of “commercial corridor manager” or “business district manager,” are often the most visible faces working to build trust with business owners, respond to their concerns, and help them grow and succeed in business.

Philadelphia offers various grant and partnership programs to support the work of these important community partners, including the CDC Tax Credit and Economic Development Support grants, the Targeted Commercial Corridor Management Program, and partnership with the Philadelphia Association of CDCs and Local Initiatives Support Corporation (LISC) Philadelphia for capacity-building and staff training programs. The City also has a CDC Tax Credit program that allows businesses to support local CDCs in exchange for a one-to-one tax credit. Through this program and its accompanying CDC Economic Development Support Grant, the City provides operating support to 47 community based nonprofit organizations that perform economic development activities.

Within these programs, economic development activities are defined as business support services such as assistance in navigating City business processes, accessing grants and financing, connecting to technical assistance providers, and supporting business associations, as well as undertaking planning and commercial development projects that improve access to high-quality, culturally relevant goods and services in all neighborhoods of the City.

Visit Philadelphia

Established in 1996, Visit Philadelphia markets Philadelphia domestically, as well as in Canada and Mexico, to promote leisure travel. The organization utilizes robust campaigns, media relations, advertising, websites, and social media to promote tourism. According to the Visit Philly 2021 Annual Report, of the 2 million rooms consumed, demand was greatest among leisure visitors, who were projected to lead the travel industry’s recovery. Center City hotels saw actuals above projections in all key metrics: occupancy, average daily rate, RevPAR, supply and demand, and revenue, putting them on track to make an even greater recovery in 2023. Tourism Economics projects that both Center City and Philadelphia County broadly are expected to surpass pre-pandemic hotel revenue in 2023.

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Philadelphia Convention & Visitors Bureau (“PHLCVB”)

Established in 1941, the Philadelphia Convention and Visitors Bureau (PHLCVB) is a private, nonprofit corporation that serves as the official tourism promotion agency for the City to overseas markets, as well as the primary sales and marketing agency for the Pennsylvania Convention Center. PHLCVB also books domestic group tours. PHLCVB markets Philadelphia broadly to attract overnight visitors through innovative content such as advertising, marketing, public relations, and digital campaigns. In 2023, PHLCVB had 20 citywide events on the books – gatherings that generate 2,000 or more hotel room stays on its peak night.

The Philadelphia Convention Center (the “Convention Center”) was completed in 1993, providing a total of 624,000 square feet of saleable space across its four exhibit halls, ballroom and banquet spaces. In 2023, the Pennsylvania Convention Center held 264 events with 550,136 attendees.

Pennsylvania Community Development Financial Institution Network (“PA CDFI Network”)

Founded in 1997, the PA CDFI Network is a statewide collective of mission-driven community development financial institutions (CDFI) that provide affordable loans and technical advisory services to companies unable to access financing through traditional channels. Most financing services are directed to small businesses serving lower-income neighborhoods. The network seeks to build the capacity and expand the reach of its CDFI members, individually and collectively, to serve all people and places across Pennsylvania. In order to do this, the Network educates Pennsylvania residents, businesses and legislators about the purpose and function of CDFIs in promoting equitable community development. In 2022, local CDFIs also secured a \$100 million commitment through an emerging bank-led Greater Philadelphia Financial Services Leadership Coalition to further support Philadelphia’s Black and Latino(a)-owned businesses. These collaborations present a promising model to create systematic supports for the City’s small businesses and showcase the potential for future collaborations across the entrepreneurship ecosystem.

CDFIs are certified by the Community Development Financial Institutions Fund at the U.S. Department of the Treasury, which provides funds to CDFIs through a variety of programs.

Entrepreneurship Ecosystem

Philadelphia has a legacy of community and small business development supported by many nonprofit organizations and government-supported endeavors. The City was the original headquarters of the Opportunity Finance Network and is home to unique public-private partnerships like PIDC and Ben Franklin Technology Partners. In 2021, United Way of Greater Philadelphia and Southern New Jersey, in partnership with the City and PIDC, issued an Equitable Entrepreneurship Ecosystem Assessment and Strategy that is guiding future investments. The strategy reflects the multitude of nonprofits actively supporting entrepreneurs in Philadelphia. These organizations continue to convene and collaborate in quarterly meetings. The Business Resource Convening brings together business service nonprofit organizations to network and tackle barriers to equitable entrepreneurship. The Philadelphia Business Lending Network also convenes private banks and nonprofit lenders that collaborate around improved access to capital.

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CULTURE, TOURISM, AND AMENITIES

Museum and Attractions

Crucial to tourism is the City's robust arts and culture sector. One in three tourists who come to Center City cites museums and cultural events as the primary reason for their visit. Top attractions include Independence National Park, the Philadelphia Museum of Art, the Philadelphia Zoo, Reading Terminal Market, the Franklin Institute, Eastern State Penitentiary, and Franklin Square, among others.

Philadelphia is considered the "mural capital of the world" and provides the largest collection of public art in the U.S. The Benjamin Franklin Parkway (also called the "Parkway" or the "Museum Mile") alone comprises renowned art and cultural sites, such as Love Park, the Philadelphia Museum of Art, the Rodin Museum, the Franklin Institute, The Barnes Foundation, the Free Library of Philadelphia, the Academy of Natural Sciences, and numerous pieces of public art. In 2021, over \$230 million in renovations were completed at the Philadelphia Museum of Art, opening 90,000 square feet of new public space. The Franklin Institute's space exhibit is currently under construction to expand to about 7,000 square feet, which is almost three times its current size. The \$8 million project was opened in November 2023. In addition, a new \$70 million museum, Calder Gardens, is being constructed and is scheduled to open in 2025. Over the next several years, the African American Museum in Philadelphia is also expected to move to a new location on the Parkway.

Organizations like the Philadelphia Museum of Art, the Kimmel Center, Pennsylvania Academy of the Fine Arts, Fringe Arts, and more than 490 smaller cultural organizations throughout the City help improve the quality of life for residents and visitors. Philadelphia's downtown arts and cultural organizations, the second largest concentration in the country, were challenged by the pandemic, but adapted with virtual programming and outdoor performances, and are now rapidly recovering. Philadelphia was recently named one of 11 cities around the world that are home to "Must-See Public Art," per Travel + Leisure's 2022 list, which cites iconic sculptures such as LOVE and Rocky, as well as the work done by Mural Arts Philadelphia and the Association for Public Art.

Sports

Another key element of Philadelphia's hospitality industry is professional sports. Philadelphia is the only city to have a professional hockey, basketball, baseball, and football team playing in a single district, the Sports Complex Special Services District, created by the City in 2000. Over the next five years, Philadelphia will host several of the world's biggest sporting events, including six NCAA Championships and WrestleMania 40 in 2024, as well as the PGA Championship (to be held within the greater metropolitan area), Major League Baseball All-Star Game, FIFA World Cup in 2026, the Penn Relays, and Big 5 Basketball (University of Pennsylvania, La Salle University, Saint Joseph's University, Temple University, Villanova University, and Drexel University (added 2023-2024)). The Army-Navy Game will return in 2027.

Within the greater metropolitan area, the Philadelphia Union of Major League Soccer play their home games (at Subaru Park in Chester, Pennsylvania, next to the Commodore Barry Bridge on the waterfront along the Delaware River).

The South Philadelphia Sports Complex houses three professional sports facilities: The Wells Fargo Center opened in 1996 and is home to the Philadelphia Flyers (National Hockey League) and Philadelphia 76ers (National Basketball Association); Lincoln Financial Field opened in 2003 and is home to the Philadelphia Eagles (National Football League); and Citizens Bank Park opened in 2004 and is home to the Philadelphia Phillies (Major League Baseball). The Phillies and the Eagles are contractually obligated

to play in Philadelphia until 2033 and 2034, respectively. The 76ers have announced plans for a new arena in Center City on the site of Fashion District Philadelphia. Early plans indicate that the arena is expected to be privately funded by team owners and development partners and open in 2031 (assuming timely receipt of all necessary zoning and any other approvals). Within the South Philadelphia Sports Complex is Xfinity Live!, a sports entertainment and dining complex. For information on casino development in the City and in the area near Xfinity Live!, see “ECONOMIC DEVELOPMENT STRATEGIES AND IMPLEMENTATION – Casinos” herein.

The Phillies and Comcast Spectacor, which owns the Philadelphia Flyers, have announced joint efforts to transform the South Philadelphia Sports Complex. The plans include two phases – (i) phase one would include upgrades to Xfinity Live!, and the addition of a mid-sized concert venue, a hotel, new retail shops, and an outdoor plaza to the South Philadelphia Sports Complex between Pattison Avenue and the Wells Fargo Center, and (ii) phase two would include additional development around the Wells Fargo Center, expand the outdoor plaza to Citizens Bank Park, and add another hotel, residential units, an office space, and additional restaurants, retail shops, and green space.

In 2021, Philadelphia opened The Block, the nation’s first esports campus spanning 40,000 square feet. Located in Center City, The Block is also home to Localhost, a dedicated esports arena, which is accessible to the public for hourly gameplay and hosts local and national, amateur and professional esports events.

Music, Theater, and Dance

Considered to be one of the top theater cities in the U.S. with the oldest theater in America built in 1809, Philadelphia continues to entertain audiences centuries later with theatre, musicals, shows, orchestras and operas. Theaters and performing arts institutions include the Philadelphia Orchestra, Opera Philadelphia, Kimmel Center for Performing Arts, Walnut Street Theater, Philadelphia Ballet, Penn Live Arts, Philadelphia Theater Company, Curtis Institute of Music, Academy of Music, and more.

As aforementioned, music is key to Philadelphia’s creative economy. Prominent concert venues include the Met, the Fillmore, Theater of the Living Arts (TLA), Wells Fargo Center, Union Transfer, Franklin Music Hall, World Café Live, the Pennsylvania Convention Center, in addition to numerous local music bars, clubs, coffee houses, and smaller live music venues. Philadelphia has hosted multiple annual music festivals such as Jay Z’s Made in America, the Roots Picnic, the Philadelphia Folk Festival, and HiJinx. Millennials cite the Philadelphia music scene as one of their primary reasons for permanently moving into the City and making it their home.

Philadelphia Ballet broke ground in September 2022 to expand its home on North Broad Street, the Philadelphia Ballet Center for Dance. The five-story center will feature, among other things, new rehearsal studios, administrative offices, a black box performance space, innovation and rehearsal space, new spaces for community programs and events. The transformative renovation and expansion will add 43,000 square feet to the company’s existing building.

Historic District

Key to the City’s leisure and hospitality growth is the maintenance and investment in the City’s extraordinary historic assets. Philadelphia has 67 National Historical Landmarks in what’s called the nation’s “most historic square mile.” As the birthplace of the country, Philadelphia remains a major tourist destination year-round, particularly the City’s Historic District in Old City, which includes various museums and cultural centers, as well as such national treasures as the Liberty Bell, Independence Hall,

Carpenters' Hall, the Betsy Ross House and Elfreth's Alley, the oldest residential street in the U.S. The City continues to invest in the maintenance and expansion of the Historic District's tourist experience.

Old City is home to some of the country's oldest historical assets. Independence National Historical Park is an international destination, attracting 4.8 million visitors annually. Important culturally and economically, Old City is also home to world-class museums, theaters and art galleries. The neighborhood offers excellent hotels, a wide range of dining and nightlife establishments, independent retailers, public parks, and a diverse mix of technology, media, professional, and service organizations. Some 5,200 residents live in Old City's historic townhouses, industrial loft apartments, and new condominium properties. Old City is located within a Keystone Innovation Zone, meaning that technology, energy, and life sciences businesses may be eligible for up to \$100,000 in Commonwealth tax credits.

Old City District ("OCD") is a business improvement district that promotes the area and fosters economic development locally. OCD helps companies find suitable real estate and actively promotes the sector to attract businesses. Over the last few years, technology and creative businesses have established an increasingly important presence in the area.

Retail Market

For two decades, Philadelphia has steadily diversified downtown land use creating a broad retail customer base that includes workers, tourists, regional customers and a downtown population that is the third largest in the U.S. Staple downtown shopping destinations include Rittenhouse Square, Shops at Liberty Place, University Square, and Fashion District in Market East. During the winter holidays, Center City also opens Christmas Village and the Made in Philadelphia Holiday Market.

Center City's vibrant sidewalks offer customers the ability to discover a mix of local and regional retailers and restaurants. Downtown foot traffic recovery also outpaced other large cities including New York, Boston, and San Francisco. Downtown retail has proven resilient, with vacancy declining and brokers reporting an uptick in tenant interest and leasing activity. More than 235 new retailers, restaurants and service-oriented businesses have opened in Center City since 2020, with 80 signed leases in 2023. In 2023, Center City's occupancy rate was 84.5%, nearing the pre-pandemic level of 89%. Retail brokers have also reported continued tenant inquiries, tours, and active lease negotiations.

Market East, an important commercial area between City Hall and the City's Historic District is experiencing significant development. In late 2019, Fashion District Philadelphia (formerly the Gallery mall) opened to the public. A \$420 million redevelopment project, the Fashion District is a unique retail development offering fashion, dining, entertainment, and arts and culture. The revitalization of this section of the City, also considered a major transport hub, is expected to be transformative. As of 2023, the Philadelphia 76ers propose to build a brand-new basketball arena in the Fashion District after the lease of the current South Philadelphia location expires in 2031. The new arena, to be called 76 Place at Market East, would also host concerts. It is being developed by 76 Devcorp and Mosaic Development Partners, a Philadelphia-based real estate development company and certified MBE (Minority Business Enterprise). The team launched a website (76place.com) explaining the proposal.

Philadelphia's more than 300 commercial corridors are vibrant retail hubs in neighborhoods like Old City, the Gayborhood, Midtown Village, Fishtown, Northern Liberties, Germantown, Manayunk, Chinatown, as well as throughout Philadelphia. The City's retail market generates more than \$1 billion in annual retail demand, and such figure is expected to increase as more retail space is currently under construction.

Restaurants and Nightlife

Complementing the rise of retail, the City has experienced a revival of restaurant establishments downtown and in neighborhoods, indicating an improved quality of life and cultural vibrancy in those areas. Center City alone has 422 full-service restaurants and almost a thousand food establishments concentrated downtown. Philadelphia has a nationally recognized dining scene known for international cuisine, over 300 bring-your-own-bottle (BYOB) restaurants, and famous food destinations like Chinatown, the Italian Market, the Southeast Asian Market at FDR Park, and Reading Terminal Market. The latter recently completed a \$1 million “festival street” leveraging 15,000 square feet of public space to add outdoor dining, pop-up retail kiosks, and capacity to hold events. The market is currently open for indoor dining and shopping. In 2023, Philadelphia received the designation of being the city with the most James Beard Award-winning restaurants, including Friday/Saturday/Sunday, Kayla, and Fork.

One of the silver linings of the COVID-19 pandemic was the growth of “streeteries” that added new vitality to Center City and neighborhood commercial districts, keeping many restaurants active during the most challenging months. During the COVID-19 pandemic, the City offered emergency outdoor dining permits and implemented an open streets initiative in Center City. Parts of certain streets were closed off to traffic and parking to allow restaurants to expand outdoor seating options. In 2022, the City established a permanent outdoor dining program where eligible businesses can apply for a Streeteries or Sidewalk Café license. In 2023, there was a 14% increase in sidewalk café seating, as compared to 2022.

Philadelphia also has a vibrant bar and nightlife scene, known for world class bars and clubs. In 2022, recognizing the need to build Philadelphia’s after dark economy, the City hired a full time Director of the Nighttime Economy. This role is tasked with building Philadelphia into a 24-hour city. The Director of Nighttime Economy conducted a citywide listening tour, resulting in a year in review report on Philadelphia’s night economy. The year in review report assisted in designing programs and provided guidance for opportunities to engage the business community to create a stronger night economy in the City. The Department of Commerce will commission an impact study to provide data of the overall economic impact the City’s night economy has on the City and regional landscape.

Casinos

Rivers Casino

Philadelphia’s first casino, Rivers (formerly SugarHouse), originally opened in September 2010 and underwent a \$15 million rebrand in 2019. One of Philadelphia’s largest employers, Rivers Casino sits on the Delaware River waterfront offering an array of slot machines, table games and dining options. Its operations also include a multi-purpose event space with waterfront views, restaurants, live entertainment, and a parking garage.

Cordish Live! Casino

Live! Casino & Hotel Philadelphia, which opened in January 2021, is a \$700 million world-class hotel, gaming, dining and entertainment destination featuring 2,000+ slot machines and 150+ live action table games, an upscale 200+ room hotel, a new 2,700-space parking garage, locally and nationally-recognized restaurants and live entertainment venues. The project is located in the heart of the Stadium District in South Philadelphia, immediately proximate to Xfinity Live!, The Cordish Companies’ premier dining and entertainment district. The project creates the first comprehensive gaming, resort, entertainment, and sports destination in the United States, making it a true regional destination.

Waterfront Developments

Taking advantage of the City's geographic assets, the Schuylkill River and the Delaware River, the City is redeveloping its waterfront to accommodate a variety of developments, including mixed-use projects and housing, parks and recreational trails, and hotels. These projects improve quality of life for residents and improve the visitor experience, but also are an impetus for environmental remediation and private development of former industrial property within the City.

Delaware River Waterfront Corporation ("DRWC")

The Delaware River has historically been a center of activity, industry, and commerce, bounded at its north and south ends by active port facilities. The City adopted a Master Plan for the central Delaware River in 2011. DRWC, in partnership with the City, is a nonprofit corporation that works to transform the central Delaware River waterfront into a vibrant destination for recreational, cultural, and commercial activities. Over the last 10 years, DRWC has successfully opened four adaptive reuse park projects built on former pier structures, including the expansive Delaware River Trail in 2022 and the newly renovated Cherry Street Pier in 2018. DRWC has several development projects underway, such as Graffiti Pier, the South Wetlands Park, and the Park at Penn's Landing, which will include the creation of a cap over I-95 and connect Old City Philadelphia with the Delaware River. The proposed 11-acre, multimillion-dollar park project is in the planning stages. Construction of the park began in early 2023 and is scheduled to be completed in 2028. DRWC, the City, and the Commonwealth have also partnered to redevelop Penn's Landing, a major public space along the Delaware River waterfront. The resulting civic space will leverage investment from private sources for the redevelopment of the adjoining parcels. The City's contribution to this project is \$80 million (\$60 million toward the park/topside amenities and \$20 million toward the Schuylkill River Trail). The project is expected to generate approximately \$1.6 billion of new revenues benefiting the City, School District, and Commonwealth. Potential future development includes two parcels that could bring 1,500 new housing units, 500 hotel rooms, and over 100,000 square feet of retail, dining, and entertainment to the waterfront.

Schuylkill River Development Corporation ("SRDC")

Redevelopment along the Schuylkill River is managed by a partnership among SRDC, the Department of Parks & Recreation, and the Department of Commerce. SRDC works with federal, Commonwealth, City, and private agencies to coordinate, plan and implement economic, recreational, environmental and cultural improvements, and tourism initiatives on the Schuylkill River. From 1992 to 2017, \$70 million was invested by SRDC, the City, and partners along the tidal Schuylkill to create 3.65 miles of riverfront trails within 30 acres of premiere park space in the heart of the City, and has added amenities to the Schuylkill River Park such as floating docks, fishing piers, a composting toilet, and architectural bridge lighting. SRDC continues to work towards meeting its goal of creating and maintaining trails and green space along the tidal Schuylkill River in Philadelphia, such as the Christian to Crescent Connection. This trail section will connect neighborhoods on both sides of the Schuylkill River to a vast existing network of parks and trails, including the Schuylkill River trail, Fairmount Park, and the regional network of recreational trails and related facilities known as the Circuit. It will also provide those neighborhoods with a direct pedestrian and bicycle route to Center City's jobs and services. In addition, it will help complete Philadelphia's segment of the East Coast Greenway.

SRDC also worked with the City to extend Schuylkill Banks to 61st Street. The project included the construction of approximately 1,800 feet of trail, shoreline stabilization, constructing stormwater infiltration basins, planting approximately 125 trees, restoring approximately 1.6 acres of degraded industrial land, as well as constructing an overlook, and a fishing plaza. This project is the first phase of a larger trail extension project. Bartram's to 61st Street was completed in 2021. Bartram's Mile Fishing Pier

was also rehabilitated in 2022. Work is underway on the Schuylkill Crossing at Grays Ferry and the Christian to Crescent Connector trail segment. Plans continue for the 61st Street to Passyunk trail segment, bringing the City closer to installing a trail and greenway with vital riverfront access along the entire tidal Schuylkill. Since 2005, Philadelphia has benefitted from more than \$1 billion in development along the Schuylkill River, with more planned by private developers, universities, and healthcare institutions.

TRANSPORTATION

Public Transportation

COVID. The COVID-19 pandemic has had an unprecedented impact on the City's transit system. On an average day before COVID-19, people in the Philadelphia region made over a million trips on public transit to access jobs, shopping, medical appointments, school, and many other destinations. During the pandemic, transit ridership hit historically low levels in the City.

Transit ridership in Philadelphia is recovering, with ridership back to approximately 55% of its pre-COVID-19 levels. Investment in transit has recovered since the pandemic and the Bipartisan Infrastructure Law (described below) is expected to also increase spending on transit and transportation.

Bipartisan Infrastructure Law. The federal Bipartisan Infrastructure Law, as enacted in the Infrastructure Investment and Jobs Act, provides unprecedented funding levels for infrastructure upgrades to not only the City, but also SEPTA, PennDOT, AMTRAK, and the Port of Philadelphia. The City estimates over \$700 million in federal funding to be available through this program, in addition to approximately \$180 million in State funds for infrastructure projects. The City has already been awarded over \$300 million in formula and discretionary funding as of April of 2024.

General. The residents of the City and surrounding counties are served by a commuter transportation system operated by SEPTA. This system includes two subway lines, a network of buses and trolleys, and a commuter rail network joining Center City and other areas of the City to PHL (as defined herein) and to the surrounding counties. For more information on SEPTA, see “– Southeastern Pennsylvania Transportation Authority” and APPENDIX III – “EXPENDITURES OF THE CITY – City Payments to Southeastern Pennsylvania Transportation Authority (SEPTA).”

A high-speed train line runs from southern New Jersey to Center City and is operated by the Port Authority Transit Corporation (“PATCO”), a subsidiary of the Delaware River Port Authority. On the average pre-COVID-19 weekday, PATCO brings approximately 30,000 riders to Philadelphia.

New Jersey Transit operates 16 different bus routes that serve Philadelphia, as well as the Atlantic City Train Line, which terminates in Philadelphia. In Fiscal Year 2023, there were almost 3 million passenger trips on these bus lines. There were also 500,000 passenger trips on the Atlantic City Line in the same period.

AMTRAK, SEPTA, Norfolk Southern, CSX Transportation, Conrail and the Canadian Pacific provide inter-city commuter and freight rail services connecting the City to other major cities and markets in the United States. According to Amtrak, Philadelphia's 30th Street Station is the third busiest station in the United States. Amtrak provides direct service along the Northeast corridor to destinations such as New York, Trenton, Wilmington, Baltimore, and DC, as well as service along the Keystone line to Harrisburg and Lancaster, plus several long-distance routes to other national locations.

Philadelphia's 30th Street Station is undergoing a large-scale restoration and renovation project, which is expected to enhance the station's functionality and improve the customer experience for Amtrak,

SEPTA, and NJ TRANSIT customers. Improvements at the Market Street Plaza, with expanded retail offerings and other benefits to the local community, are part of the project. The project is also part of a larger development project and part of the Philadelphia 30th Street Station District Plan.

Center City, the City's downtown core, is one of the most accessible downtown areas in the nation with respect to highway transportation by virtue of Interstate 95 ("I-95"); Interstate 676 (the "Vine Street Expressway"), running east-to-west through the CBD between Interstate 76 (the "Schuylkill Expressway") and I-95; and Interstate 476 (the "Blue Route") in suburban Delaware and Montgomery Counties, which connects the Pennsylvania Turnpike and I-95 and connects to the Schuylkill Expressway, which runs to Center City. In addition, more than 100 truck lines serve the Philadelphia area.

The City is served within City limits by numerous private buses and shuttles. These buses and shuttles are operated by apartment complexes, universities, and private companies. These buses and shuttles connect Philadelphians to transit hubs, employment, and residences. A rail line reaches PHL in less than 20 minutes from the City's central business district and connects directly with the commuter rail network and the Pennsylvania Convention Center.

Philadelphia launched the Indego bike share program, sponsored by Independence Blue Cross, in April 2015. The system launched with 600 bicycles and 70 stations in central Philadelphia and the surrounding neighborhoods. Since that time, it has more than doubled in size to a network of 200 stations spanning from East Falls to the Navy Yard, and from the Delaware River to 53rd street. Indego was launched with racial and economic equity as a core value. The program has led the nation in a number of key metrics on social equity – first system with an integrated low-income pass option, first to develop connections with communities through its Indego Community Ambassador program, and as a core member of the Better Bike Share Partnership, a national initiative aimed at understanding and eliminating barriers to use of bike share by underserved populations.

Ridership continues to grow and, as of March 2024, ridership was at 80,000 trips made (a 30% year-over-year increase in ridership over March 2023). This growth is an effect of the concession contract for the operations of Indego. Bicycle Transit Systems, a Philadelphia-based company, which began a 10-year agreement in January 2021 and will fund significant expansion over the coming years. When complete, the system will include more than 350 stations and 3,500 bicycles with a fleet of approximately 50% electric assist bicycles. In 2024, the Indego system has expanded to over 250 stations and 2,000 bikes.

Southeastern Pennsylvania Transportation Authority

SEPTA operates facilities across the PMSA, encompassing approximately 2,200 square miles and serving approximately 4.1 million inhabitants. SEPTA operates service 24 hours a day, seven days a week, 365 days a year. A significant segment of the region relies on SEPTA for public transportation and annual SEPTA ridership totaled more than 292.9 million in Fiscal Year 2019, which dropped to 146.9 million in Fiscal Year 2022.

SEPTA's operations are accounted for in three separate divisions: City Transit; Regional Rail; and Suburban Transit. The City Transit Division serves the City with a network of 89 subway-elevated, light rail, trackless trolley and bus routes, providing approximately 852,000 pre-COVID-19 unlinked passengers trips per weekday. The Regional Rail Division serves the City and the local counties with a network of 13 commuter rail lines providing approximately 120,000 pre-COVID-19 passenger trips per weekday.

SEPTA continues to rehabilitate and replace critical infrastructure and systems, such as substations, bridges, and stations. Its long-term capital program includes (i) safety and security enhancements, (ii) modernization of communication, signal equipment, and fare collection systems, (iii) replacement of rail

vehicles that have exceeded their useful life, (iv) enhancing accessibility, (v) expanding capacity to address ridership growth on applicable lines, (vi) expanding its fleet of hybrid buses, and (vii) performing vehicle overhauls to optimize vehicle performance. SEPTA's capital budget for Fiscal Year 2023 is the largest in its history at over \$1 billion dollars. The coordinated SEPTA Forward initiative is guiding the capital spending to ensure strategic alignment, along with bus and regional rail planning initiatives to increase ridership. SEPTA has been aggressive at pursuing federal and State funding for state-of-good-repair and strategic investments.

As part of a two-year pilot program, the City has partnered with SEPTA to provide free SEPTA passes to eligible City employees through the SEPTA Key Advantage Program. All permanent full-time, part-time and provisional City employees are eligible to participate in this program, which gives them access to travel on all modes of SEPTA transit at no cost.

For more information on SEPTA funding, see APPENDIX III – EXPENDITURES OF THE CITY – City Payments to Southeastern Pennsylvania Transportation Authority (SEPTA)."

Airport System

The Airport System serves residents and visitors from a broad geographic area that includes 11 counties within four states: Pennsylvania, New Jersey, Delaware, and Maryland. The Airport System consists of the Philadelphia International Airport ("PHL" or the "Airport") and Northeast Philadelphia Airport ("PNE").

Philadelphia International Airport

PHL is classified by the Federal Aviation Administration as a large air traffic hub (enplaning 1.0% or more of the total passengers enplaned in the United States). According to data reported by Airports Council International – North America, PHL was ranked the twenty-second busiest airport in the United States, serving 25.2 million passengers in calendar year 2022. The Airport serves as a primary hub in American Airlines' route system. PHL is located approximately seven miles from Center City on approximately 2,598 acres.

PHL has four runways, consisting of two parallel runways, a crosswind runway, and a commuter runway, as well as interconnecting taxiways. PHL also has six active cargo facilities, various support buildings, training areas, an air traffic control tower, a fixed-base operator, corporate hangars, a fueling supply facility, and two American Airlines aircraft maintenance hangars.

PHL's terminal facilities consist of seven terminal units, totaling approximately 3.2 million square feet, which include ticketing areas, passenger and baggage screening areas, passenger hold rooms, baggage claim areas, a variety of food, retail and service establishments, and other support areas. PHL has a 14-story hotel, seven rental car facilities, a cell-phone lot, employee parking lots, five public parking garages, and a first-class office complex.

PHL's three-year Airport-Airline Use and Lease Agreement (the "Airline Agreement") with its signatory airlines took effect on July 1, 2023, and includes options for two one-year extensions. The Airline Agreement includes pre-approval of \$935 million in new capital funding to support operations at both PHL and PNE during its term. Funding is expected to be used for state of good repair work, upgrades throughout PHL's terminals, cargo program projects, as well as initial funding to support aviation-related development within the former economy parking lot.

Capital Development. The Airport System’s long-term capital program includes (i) terminal and landside improvements, (ii) airfield improvements, (iii) security and information technology improvements, and (iv) land acquisition and ground transportation improvements, among other things.

PHL Passenger and Other Traffic Activity. The total number of passengers served by the Airport in Calendar Year 2023 was 28.1 million, which is an increase of approximately 13% from Calendar Year 2022 passengers of 25.0 million. Domestic passenger traffic increased to 85% of 2019 levels in 2023, a 12% increase from 2022. International passenger traffic continued its steady return as 2023 activity increased by 20% when compared to 2022, bringing international passengers to 89% of 2019 levels. The table below provides key metrics for activity at PHL for Calendar Year 2023 versus Calendar Year 2022.

Activity	Calendar Year		% Change
	through December 2023	through December 2022	
Landed Weight - Revenue (000 lbs.)	18,905,908	17,887,233	5.7%
Operations	294,716	284,141	3.7%
Enplaned Passengers	14,018,006	12,517,464	12.0%
Cargo (Mail + Freight) (Tons)	523,915	625,261	(16.2%) ⁽¹⁾

⁽¹⁾ Global cargo tonnage continues to decrease. PHL also recently had two cargo operators either reduce service or leave PHL entirely. The United States Postal Service has also announced its reduction in the use of air mail, opting for truck use instead.

Northeast Philadelphia Airport

PNE is located approximately ten miles northeast of Center City on approximately 1,118 acres. PNE serves as a reliever airport for PHL and provides for general aviation, air taxi, corporate, and occasional military use. PNE currently has no scheduled commercial service. There are a variety of hangars (corporate and general aviation) at PNE. The Airport System’s long-term capital program includes PNE improvement projects.

Port of Philadelphia

The Port of Philadelphia (the “Port”) is located on the Delaware River within the City limits. The Philadelphia Regional Port Authority, recently rebranded as PhilaPort, is an independent Commonwealth of Pennsylvania agency that manages port infrastructure. The Port’s facilities are serviced by two Class I railroads (CSX and Norfolk Southern) and provide service to major eastern Canadian points, as well as Midwestern, southern and southeastern U.S. destinations. Over 1,600 local general freight trucking companies operate in the MSA.

The Port has 11 marine terminal leases and 14 deep water berths. The Port’s facilities encompass four million square feet of warehousing capacity and are located in close proximity to Interstate 95 and Interstate 76.

From 2020 to 2023, the Port has seen vessel and barge traffic increase 15%. During the same period, total cargo has increased 8% to \$6.9 million metric tons. Breakbulk tonnage (cocoa bean bags, paper rolls) has increased 4% to 1.1 million metric tons. Container volumes have increased 16% to 743,891 TEUs (Twenty Foot Equivalent Units).

In recent years, PhilaPort, along with the U.S. Army Corps of Engineers, completed the Delaware River Main Channel Deepening Project, a long-term project to deepen the main channel of the Delaware River from 40 to 45 feet. To take advantage of the channel deepening project PhilaPort programmed over \$500 million in capital funding to increase port capacity and competitiveness for containers, automobiles and breakbulk cargo.

KEY CITY-RELATED SERVICES AND BUSINESSES

Municipal services provided by the City include: (i) police and fire protection; (ii) health care; (iii) certain welfare programs; (iv) construction and maintenance of local streets, highways, and bridges; (v) trash collection, disposal, and recycling; (vi) provision for recreational programs and facilities; (vii) maintenance and operation of the Water and Wastewater Systems; (viii) acquisition and maintenance of City real and personal property, including vehicles; (ix) maintenance of building codes and regulation of licenses and permits; (x) maintenance of records; (xi) collection of taxes and revenues; (xii) purchase of supplies and equipment; (xiii) construction and maintenance of the Airport System (see “TRANSPORTATION – Airport System”); and (xiv) maintenance of a prison system. Certain of these services are described in more detail below.

Water and Wastewater

The water and wastewater systems of the City are owned by the City and operated by the City’s Water Department (the “Water Department”). The water and wastewater systems are referred to herein individually as the “Water System” and “Wastewater System”, respectively.

The Water System service area includes the City and has one wholesale water service contract. Based on the 2022 U.S. Census Bureau estimate, the Water System served 1,567,258 individuals. As of June 30, 2023, the Water System served approximately 511,000 active customer accounts using approximately 3,200 miles of mains and approximately 25,000 fire hydrants.

The City obtains approximately 56.8% of its water from the Delaware River and the balance from the Schuylkill River. The City is authorized by the Pennsylvania Department of Environmental Protection (the “PaDEP”) to withdraw up to 423 million gallons per day (“MGD”) from the Delaware River and up to 258 MGD from the Schuylkill River.

Water treatment is provided by the Samuel S. Baxter Water Treatment Plant on the Delaware River and by the Belmont and Queen Lane Water Treatment Plants on the Schuylkill River. The combined rated treatment capacity of these plants under the Water Department’s Partnership for Safe Water procedures is 546 MGD. The combined maximum source water withdrawal capacity from the two rivers that supply these plants is 680 MGD. The excess source water capacity enables higher than normal withdrawal from either river should conditions limit withdrawals from one.

The Wastewater System’s service area includes the City and ten wholesale wastewater service contracts. Based on the 2022 U.S. Census Bureau estimate, the Wastewater System served 1,567,258 individuals that live in the City and ten wholesale contracts.

As of June 30, 2023, the Wastewater System served approximately 542,000 accounts, including approximately 46,000 stormwater-only accounts and ten wholesale contracts with neighboring municipalities, authorities and one corporation.

The Wastewater System consists of three water pollution control plants, the Northeast, Southwest and Southeast water pollution control plants (the “WPCPs”), 29 wastewater pumping stations,

approximately 3,700 miles of sewers, and a privately managed centralized biosolids handling facility. It includes approximately 1,850 miles of combined sewers, 770 miles of sanitary sewers, 750 miles of stormwater sewers, 16 miles of force mains (sanitary and storm), and 330 miles of appurtenant piping. The three WPCPs processed a combined average of 522 MGD of wastewater in Fiscal Year 2022, have a 783 MGD combined average daily design capacity and a peak capacity of 1,059 MGD.

Gas Works

The City owns the assets that comprise the Philadelphia Gas Works (“PGW” or the “Gas Works”). PGW is (i) the largest municipally-owned gas utility in the nation, (ii) responsible for the acquisition and storage of natural gas, and (iii) the sole distributor of natural gas within the limits of the City. Such limits also define the service area of PGW which, being the corporate limits of the City, is a mostly dense urban area of 143 square miles located in southeast Pennsylvania along the Delaware River and within the smallest county of the Commonwealth.

PGW is principally a gas distribution utility, with a distribution system of approximately 3,041 miles of gas mains and 476,605 service lines. In addition, PGW operates facilities for the liquefaction, storage, and vaporization of natural gas to supplement gas supply taken directly from interstate pipeline and storage companies. The principal PGW natural gas supply facilities include nine City gate stations, owned in large part by the interstate natural gas pipeline companies serving PGW, and two liquefied natural gas plants owned by the City and operated by PGW.

The City Charter provides for a Gas Commission (the “Gas Commission”) to be constituted and appointed in accordance with the provisions of contracts between the City and the operator of PGW as may from time to time be in effect, or, in the absence of a contract, as may be provided by ordinance. The Gas Commission consists of the City Controller, two members appointed by City Council and two members appointed by the Mayor.

PGW’s operations are managed by the Philadelphia Facilities Management Corporation (“PFMC”), a Pennsylvania non-profit corporation specifically organized to manage and operate PGW for the benefit of the City. PFMC’s responsibilities are set forth in a Management Agreement between the City and PFMC dated December 29, 1972, as subsequently amended (“Management Agreement”), which delegates responsibility for PGW’s operation to an executive management team provided by PFMC. Under the Management Agreement, those responsibilities that are not specifically granted to PFMC are the responsibilities of the Gas Commission, except to the extent preempted by the Pennsylvania Public Utility Commission (the “PUC”) pursuant to the Pennsylvania Natural Gas Choice and Competition Act (the “Gas Choice Act”). The Gas Choice Act made PGW subject to regulation by the PUC effective July 1, 2000, and provides that choice among natural gas suppliers will be provided to PGW’s customers.

For more information on PGW, see APPENDIX III – “THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Government Services, “PGW PENSION PLAN,” “PGW OTHER POST-EMPLOYMENT BENEFITS,” “EXPENDITURES OF THE CITY – PGW Annual Payments,” and “LITIGATION – PGW.”

Libraries

The Free Library of Philadelphia, the City’s public library system, comprises 54 branches (with a variety of digital, computer-based services at certain locations) and an extensive online resource system.

Streets and Sanitation

The Philadelphia Streets Department (the “Streets Department”) and the divisions within it are responsible for the City’s large network of streets and roadways. The City’s pavement condition is considered to be in “Fair” pavement condition. In order for the City to maintain its pavement in a state of good repair, local streets should be repaved once every 20 years and arterials should be repaved once every 10 years. This requires approximately 131 miles of paving every year, but, over the years, this pavement program has accumulated a backlog. The Streets Department has invested in critical equipment replacements and implemented a strategy to address recurring state of good repair needs. The Streets Department is also emphasizing an objective, data-oriented approach towards strategically addressing roadway conditions throughout the City. New geographical information system (GIS) and global position system (GPS) technology and systems are being used, along with objective assessment tools, to rate and monitor the quality and condition of streets and roadways to prioritize paving plans.

The Streets Department is also responsible for the ongoing collection and disposal of residential trash and recyclables, the overall cleanliness of City streets, the construction and maintenance of City streets roadways, bridges and street lighting system and management and engineering of the City’s local traffic network. The streets system in Philadelphia totals 2,575 miles – 2,180 miles of City streets, 35 miles of Fairmount Park roads, and 360 miles of state highways. The Sanitation Division annually collects and disposes of over 620,000 tons of rubbish and 80,000 tons of recycling and works to combat illegal dumping.

Sustainability and Green Initiatives

Mayor Parker has committed to make Philadelphia the safest, cleanest, and greenest big city in the nation with economic opportunity for everyone. To aid in achieving this goal, the Philadelphia Energy Authority has been tasked with improving energy sustainability and affordability in the City and with educating consumers on their energy choices. Certain energy savings financing has also been undertaken by the Philadelphia Energy Authority, Philadelphia Municipal Authority, and the Philadelphia Authority for Industrial Development. The City is investing in and evaluating additional options and investing in both green and traditional infrastructure to better manage storm water reclamation and reduce pollution of the City’s public waters. There has been extensive investment in creating more and better public spaces, such as Love Park in Center City, as well as green spaces along both the Delaware and Schuylkill Rivers. Finally, the City has been taking steps to further reduce automobile traffic, congestion and pollution by making Philadelphia’s streets increasingly friendly to bicyclists. The City introduced its bicycle sharing system, Indego, in 2015, as further described in “TRANSPORTATION.”

In furtherance of sustainability and environmental issues that affect the health and wellbeing of Philadelphians, in 2022, the City launched Philadelphia’s first Environmental Justice Advisory Commission (PEJAC), a historic step in the City’s commitment to supporting the leadership of frontline communities in addressing environmental harms. Alongside the launch, the City announced the establishment of a community resilience and environmental justice grant fund and interagency Environmental Justice and Climate Resilience Committee (EJCRC) to affirm the City’s commitment to pursuing environmental justice and climate resilience for all Philadelphians. The City has begun looking beyond risks posed to municipal government and is in the process of updating its citywide resilience plan. Collaboration and coordination through the EJCRC will ensure climate resilience is incorporated throughout City operations and planning. The Office of Sustainability, in coordination with the EJCRC is updating citywide vulnerability assessments and developing tools to better understand neighborhood-level vulnerability to climate change. Another inter-agency working group, the Flood Risk Management Task Force, focuses specifically on flood mitigation. The Office of Sustainability also runs a Place-Based resilience initiative that engages regional, state, and federal partners to address flood risk along the Lower

Schuylkill, in concert with the Eastwick community and other stakeholders. This group will collaborate to define short-, medium- and long-term solutions to flooding that center community input. Other planning activities are underway that will identify strategic actions and funding sources to advance resilience citywide. The City is developing a strategy to pursue benefits from the Biden Administration’s Justice40 commitment and Inflation Reduction Act grants, with the potential to secure significant federal funding for climate resilience and mitigation efforts. Upon its successful completion of a strategic planning process for the urban forest, Philadelphia Parks and Recreation is increasing tree canopy in neighborhoods vulnerable to the effects of extreme heat since trees cool the air and reduce heat islands. Parks and Recreation and partners are also working to implement the City’s Urban Agriculture Plan which will play an important role in increasing local food production and climate resilience and addressing hunger and food apartheid, biodiversity loss, soil degradation and waste. The Philadelphia Office of Emergency Management is integrating climate change and climate adaptation strategies in the update of the Hazard Mitigation Plan, which will assist with both local and statewide planning aimed at increasing community resilience. The Philadelphia Energy Authority’s Philly Streetlight Improvement Project will convert approximately 130,000 high pressure sodium streetlights into a network of more efficient, longer-lasting LED lights. By upgrading to higher performing streetlights with a new lighting management system, the project is expected to: (i) foster public safety improvements for pedestrians, cyclists, and motorists; (ii) reduce energy consumption and operating costs associated with such system; and (iii) benefit local, diverse businesses.

For more information on climate change in the City, see APPENDIX III – “THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Climate Change.”

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APPENDIX V

FORM OF APPROVING OPINION OF CO-BOND COUNSEL

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APPENDIX V

FORM OF APPROVING OPINION OF CO-BOND COUNSEL

Re: \$595,780,000 City of Philadelphia, Pennsylvania Water and Wastewater Revenue Bonds, Series 2024C

We have acted as Co-Bond Counsel to The City of Philadelphia, Pennsylvania (the “City”) in connection with the issuance by the City of \$595,780,000 aggregate principal amount of its Water and Wastewater Revenue Bonds, Series 2024C (the “Bonds”). The Bonds are issued under and pursuant to (a) The First Class City Revenue Bond Act, P.L. 955, Act No. 234 of the General Assembly of the Commonwealth of Pennsylvania, approved October 18, 1972 (the “Act”); (b) the City’s Restated General Water and Wastewater Revenue Bond Ordinance of 1989 approved June 24, 1993, as amended by an Ordinance approved on January 23, 2007 and the Twenty-First Supplemental Ordinance dated April 24, 2018 (as so amended, the “General Ordinance”), and as supplemented, including by the Eighteenth Supplemental Ordinance, approved by the Mayor on December 8, 2015 (the “Eighteenth Supplemental Ordinance”), the Twenty-Third Supplemental Ordinance, approved by the Mayor on June 26, 2020 (the “Twenty-Third Supplemental Ordinance”), and the Twenty-Seventh Supplemental Ordinance, approved by the Mayor on March 29, 2023 (the “Twenty-Seventh Supplemental Ordinance” and, together with the Eighteenth Supplemental Ordinance and the Twenty-Third Supplemental Ordinance, the “Supplemental Ordinances”), authorizing the issuance of the Bonds; and (c) the Bond Committee Determination dated October 30, 2024 (the “Bond Committee Determination”). Capitalized terms used but not defined herein have the meanings assigned to such terms in the General Ordinance.

The Bonds are being issued for the purpose of providing funds that will be used to finance (i) capital improvements to the City’s Water System and Wastewater System (collectively, the “System”), (ii) a deposit to the Debt Reserve Account of the Sinking Fund, (iii) the refunding through purchase and cancellation of a portion of the City’s outstanding Water and Wastewater Revenue Bonds and (iv) the costs of issuing the Bonds.

The City previously has issued, pursuant to the General Ordinance, and there are outstanding Water and Wastewater Revenue and Revenue Refunding Bonds, consisting of the Series 2009B (Pennvest), the Series 2009C (Pennvest), the Series 2009D (Pennvest), the Series 2010B (Pennvest), the Series 2014A, the Series 2015B, the Series 2016A, the Series 2017A, the Series 2017B, the Series 2018A, the Series 2019A, the Series 2019B, the Series 2020 (Forward Delivery), the Series 2020A, the Series 2020B, the Series 2021A (Pennvest), the Series 2021B, the Series 2021C, the Series 2021D (Pennvest), the Series 2022A (Pennvest), the Series 2022B (Pennvest), the Series 2022C, the Series 2022D (Pennvest), the Series 2022E (Pennvest), the Series 2022F (Pennvest), the Series 2023 (WIFIA), the Series 2023A (Pennvest), the Series 2023B, the Series 2024A (Pennvest)* and the Series 2024B (Pennvest)* (collectively with any of the City’s Water and Wastewater Revenue Commercial Paper Notes Series A, Series B, or Series C currently outstanding, the “Outstanding Bonds”). The Outstanding Bonds, the Bonds and all other Water and Wastewater Revenue Bonds hereafter issued by the City under the General Ordinance are and will be equally and ratably secured to the extent provided in the General Ordinance and the Act by the pledge of, and the security interest

* The City has informed us that no proceeds of the Series 2024A (Pennvest) Bond or the Series 2024B (Pennvest) Bond have been drawn as of the date hereof and, therefore, there is no principal amount outstanding.

created in, all Project Revenues derived from the System and all amounts on deposit in or standing to the credit of the funds and accounts (other than the Rebate Fund) established pursuant to the General Ordinance.

The City has covenanted in the Supplemental Ordinances and the Bond Committee Determination that it will make or permit no investment or other use of the proceeds of the Bonds that would cause the Bonds to be “arbitrage bonds” under Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”), and the rules promulgated thereunder, and that it will comply with the requirements of said Section throughout the term of the Bonds. The City has further covenanted that it will comply with the requirements of the Code that must be met after the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. An officer of the City has executed a certificate stating the reasonable expectations of the City on the date of issue of the Bonds as to future events that are material for purposes of Section 148 of the Code pertaining to arbitrage bonds. We have reviewed this certificate, and in our opinion the Bonds are not arbitrage bonds. The City is filing with the Internal Revenue Service a report of the issuance of the Bonds as required by Section 149(e) of the Code as a condition of the exclusion from gross income of the interest on the Bonds for federal income tax purposes. We have not undertaken to monitor compliance with respect to the aforesaid covenants or to advise any party as to changes in the law that may affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

We have examined such proceedings, documents, statutes and decisions, as we consider necessary as the basis for this opinion, including, *inter alia*, the Act, the General Ordinance, the Supplemental Ordinances, the Bond Committee Determination, and an executed and authenticated Bond. We assume that all other Bonds have been similarly executed and authenticated. We also assume that all documents, records, certifications and other instruments examined by us are genuine (including the signatures thereon), accurate and complete and we have not undertaken, by independent investigation, to verify the factual matters set forth in any such documents, records, certifications or other instruments.

Based on the foregoing, it is our opinion that:

1. The City has the power under the Constitution and the laws of the Commonwealth of Pennsylvania (the “Commonwealth”) to perform its obligations under the General Ordinance, the Supplemental Ordinances, the Bond Committee Determination and the Bonds.
2. Under the Constitution and the laws of the Commonwealth, including the Act, the City is authorized to issue the Bonds, and the terms of the Bonds comply with the requirements of the Act, the General Ordinance, the Supplemental Ordinances and the Bond Committee Determination.
3. The purposes for which the Bonds have been issued are lawful purposes under the Act and the General Ordinance.
4. The General Ordinance and the Supplemental Ordinances have been duly enacted, and the Bond Committee Determination has been duly authorized, executed and delivered by the City; and each is a legal, valid and binding obligation of the City enforceable in accordance with its terms, except as the rights created thereunder and the enforcement thereof may be limited by bankruptcy, insolvency, moratorium or other laws or legal or equitable principles affecting the enforcement of creditors’ rights.
5. The Bonds have been duly authorized, executed, authenticated, issued and delivered and are legal, valid and binding obligations of the City, enforceable in accordance with their terms, except as enforcement may be limited as described in paragraph 4 above.

6. Under the Act and the General Ordinance, the Bonds constitute special obligations of the City payable solely from Project Revenues and all amounts on deposit in or standing to the credit of the funds and accounts (other than the Rebate Fund) established pursuant to the General Ordinance, together with interest earnings, if any, on amounts in such funds and accounts (other than the Rebate Fund). The Bonds do not pledge the credit or taxing power or create any debt or charge against the tax or general revenues of the City or create any lien against property of the City other than all amounts on deposit in or standing to the credit of the funds and accounts (other than the Rebate Fund) established pursuant to the General Ordinance, together with interest earnings on amounts in such funds and accounts (other than the Rebate Fund).

7. Interest on the Bonds is excludable from gross income for purposes of federal income tax under existing laws as enacted and construed on the date of initial delivery of the Bonds, assuming the accuracy of the certifications of the City and continuing compliance by the City with the requirements of the Code. Interest on the Bonds is not an item of tax preference for purposes of federal alternative minimum tax imposed on individuals; however, such interest is taken into account in determining the adjusted financial statement income of applicable corporations, as provided in the Code, for purposes of computing the alternative minimum tax imposed on such corporations. We express no opinion regarding federal tax consequences relating to ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

8. Under the laws of the Commonwealth, as enacted and construed on the date of the issuance of the Bonds, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax. We express no opinion regarding other state or local tax consequences with respect to the Bonds, including whether or not interest on the Bonds is taxable under the laws of any jurisdiction other than the Commonwealth.

In rendering the opinion set forth in paragraph 7, we have assumed compliance by the City with the covenants contained in the General Ordinance, the Supplemental Ordinances and the Bond Committee Determination that are intended to comply with the requirements in the Code relating to actions to be taken by the City in respect of the Bonds after the issuance thereof to the extent necessary to effect or maintain the federal exclusion from gross income of the interest on the Bonds. Failure to comply with such covenants could cause the interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds.

We render this opinion as of the date hereof on the basis of federal law and the laws of the Commonwealth as enacted and construed on the date hereof. We express no opinion as to any matter not set forth in the numbered paragraphs herein, including, without limitation, the accuracy or completeness of the preliminary or final official statement or other documents prepared or statements made in connection with the offering and sale of the Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

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APPENDIX VI

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated November 13, 2024, is entered into and by and between the City of Philadelphia, Pennsylvania (the “City”) and Digital Assurance Certification, L.L.C., as dissemination agent (“Dissemination Agent”) in connection with the issuance and sale by the City of \$595,780,000 aggregate principal amount of its Water and Wastewater Revenue Bonds, Series 2024C (the “Bonds”). The Bonds are being issued pursuant to the Act and the General Ordinance. Capitalized terms used in this Agreement but not defined herein shall have the meanings ascribed to such terms in the Official Statement, including Appendix II thereto.

In consideration of the mutual covenants, promises and agreements contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I

The Undertaking

Section 1.1. Purpose. This Agreement is authorized to be executed and delivered by the City pursuant to the General Ordinance and Section 7 of the Bond Committee Determination in order to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 1.2. Annual Financial Information. (a) Commencing with the fiscal year ending June 30, 2024, the Disclosure Representative shall deliver to the Dissemination Agent no later than February 28, 2025, and no later than each succeeding February 28 thereafter, Annual Financial Information with respect to each fiscal year of the City. The Dissemination Agent shall promptly upon receipt thereof file the Annual Financial Information with EMMA (as defined herein).

(b) The Dissemination Agent shall provide, in a timely manner, notice of any failure of the City to provide the Annual Financial Information by the date specified in subsection (a) hereof.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the Disclosure Representative shall provide Audited Financial Statements, when and if available, to the Dissemination Agent. The Dissemination Agent shall promptly upon receipt thereof file such Audited Financial Statements with EMMA.

Section 1.4. Notice Events. (a) If a Notice Event occurs, the Disclosure Representative shall provide through the Dissemination Agent, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, notice of such Notice Event to EMMA.

(b) Any notice of a defeasance of the Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) Each Notice Event notice relating to the Bonds shall include the CUSIP numbers of the Bonds to which such Notice Event notice relates or, if the Notice Event notice relates to all bond issues of the City including the Bonds, such Notice Event notice need only include the CUSIP number of the City.

(d) The Dissemination Agent shall promptly advise the City whenever, in the course of performing its duties as Dissemination Agent under this Agreement, the Dissemination Agent has actual notice of an occurrence which, if material, would require the City to provide notice of a Notice Event hereunder; provided, however, that the failure of the Dissemination Agent so to advise the City shall not

constitute a breach by the Dissemination Agent of any of its duties and responsibilities under this Agreement.

Section 1.5. Additional Information. Nothing in this Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Notice Event hereunder, in addition to that which is required by this Agreement. If the City chooses to do so, the City shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Notice Event hereunder.

Section 1.6. Additional Disclosure Obligations. The City acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the City under such laws.

ARTICLE II

Operating Rules

Section 2.1. Reference to Other Filed Documents. It shall be sufficient for purposes of Section 1.2 hereof if the City provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB internet web site (currently, www.emma.msrb.org) or (ii) filed with the SEC. The provisions of this Section shall not apply to notices of Notice Events pursuant to Section 1.4 hereof.

Section 2.2. Submission of Information. Annual Financial Information may be set forth or provided in one document or a set of documents, and at one time or in part from time to time.

Section 2.3. Dissemination Agent. The City has designated the Dissemination Agent as its agent to act on its behalf in providing or filing notices, documents and information as required of the City under this Agreement. The City may revoke or modify such designation. Upon any revocation of such designation, the City shall comply with its obligation to provide or file notices, documents and information as required under this Agreement or may designate another agent to act on its behalf.

Section 2.4. Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access ("EMMA") system, the current internet web address of which is www.emma.msrb.org.

(b) All notices, documents and information provided on EMMA shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 2.5. Fiscal Year. (a) The City's current fiscal year begins July 1, and the City shall promptly file a notification on EMMA, through the Dissemination Agent, of any change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than twelve (12) calendar months.

ARTICLE III

Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date; Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The City's and the Dissemination Agent's obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the City shall have delivered to the Dissemination Agent an opinion of Counsel, addressed to the City and the Dissemination Agent, to the same effect as set forth in clause (2) above, (4) either (i) the City shall have delivered to the Dissemination Agent an opinion of Counsel or a determination by an entity, in each case unaffiliated with the City (such as Counsel or the Dissemination Agent), addressed to the City and the Dissemination Agent, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the General Ordinance with consent of holders of Bonds pursuant to the General Ordinance as in effect at the time of the amendment, and (5) the Disclosure Representative shall have delivered copies of such opinion(s) and amendment to the Dissemination Agent. The items provided in clause (5) shall be promptly filed by the Dissemination Agent on EMMA and sent to each Registered Owner.

(b) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the City shall have delivered to the Dissemination Agent an opinion of Counsel, addressed to the City and the Dissemination Agent, to the effect that performance by the City and the Dissemination Agent under this Agreement as so amended will not result in a violation of the Rule and (3) the Disclosure Representative shall have delivered copies of such opinion and amendment to the Dissemination Agent. The items provided in clause (3) shall be promptly filed by the Dissemination Agent on EMMA and sent to each Registered Owner.

(c) This Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) the City shall have delivered to the Dissemination Agent an opinion of Counsel, addressed to the City and the Dissemination Agent, to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of Staff, of the SEC, and (2) the Disclosure Representative shall have delivered copies of such opinion and amendment to the Dissemination Agent. The items provided in clause (2) shall be promptly filed by the Dissemination Agent on EMMA and sent to each Registered Owner.

(d) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information

provided thereafter shall include a narrative explanation of the reasons for the amendment and its effect on the type of operating data or financial information being provided.

(e) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the City in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and in subsection (b) of this Section.

(b) The obligations of the City to comply with the provisions of this Agreement shall be enforceable by any holder of Outstanding Bonds. The holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the City's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the City or the Dissemination Agent to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the General Ordinance, and the rights and remedies provided by the General Ordinance upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the Commonwealth, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the Commonwealth; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV

Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) "Act" means The First Class City Revenue Bond Act, P.L. 955, Act No. 234 of the General Assembly of the Commonwealth of Pennsylvania, approved October 18, 1972.

(2) "Annual Financial Information" means, collectively, (i) the Annual Financial Report-Philadelphia Water Department for the most recently ended fiscal year and, if not included or able to be derived from information presented therein, updates to the information presented in the Official Statement under the headings and in the Tables enumerated in the schedule annexed hereto as Exhibit A and made a part hereof, (ii) financial information or operating data with respect to the City, substantially similar to the type set forth in Appendices III and IV of the Official Statement, delivered at least annually pursuant to

Section 1.2(a) hereof and in accordance with the Rule and (iii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(d) and (e) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

In connection with Section 4.1(2)(ii), it is the City's intention to satisfy all or a portion of the obligations set forth therein by submitting to EMMA (A) its "Annual Report of Bonded Indebtedness and Other Long Term Obligations" in substantially the same format as such report for the fiscal year ended June 30, 2023, and (B) with respect to financial information or operating data regarding the Pension System, either (i) the annual audited financial statements of the Municipal Pension Fund, (ii) an Official Statement of the City that updates the financial information and operating data under the heading "Pension System," as included in the Official Statement, or (iii) updated financial information and operating data under the heading "Pension System," as included in the Official Statement.

The descriptions contained in Section 4.1(2)(i) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(3) "Audited Financial Statements" means the annual financial statements, if any, of the City, which includes the financial statements of the Water Fund, audited by such auditor as shall then be required or permitted by Commonwealth law. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Sections 3.2(a) and (e) hereof, the City may from time to time, if required by federal or Commonwealth legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific federal or Commonwealth law a regulation describing such accounting principles, or other description thereof.

(4) "Bond Committee Determination" means the Bond Committee Determinations for the Bonds adopted by the Bond Committee (consisting of the Mayor, the City Solicitor and the City Controller and acting by a majority thereof) on October 15, 2024 and October 30, 2024.

(5) "Commonwealth" means the Commonwealth of Pennsylvania.

(6) "Counsel" means any nationally recognized bond counsel or counsel expert in federal securities laws.

(7) "Disclosure Representative" means the Director of Finance of the City, the City Treasurer or such other official or employee of the City as the Director of Finance or the City Treasurer shall designate in writing to the Dissemination Agent.

(8) "Financial Obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

(9) "Fiscal Agent" means U.S. Bank Trust Company National Association, as fiscal agent and registrar for the Bonds.

(10) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(11) “General Ordinance” means the City’s Restated General Water and Wastewater Revenue Bond Ordinance of 1989, approved June 24, 1993, as supplemented and amended by twenty-seven (27) supplemental ordinances, as further supplemented or amended from time to time.

(12) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Agreement.

(13) “Notice Event” means any of the following events with respect to the Bonds, whether relating to the City or otherwise:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) modifications to rights of Bondholders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the City;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) appointment of a successor or additional paying agent, or the change of name of a paying agent, if material;

(xv) the incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect securities holders, if material; and

(xvi) a default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

(14) “Official Statement” means the Official Statement dated October 30, 2024, of the City relating to the Bonds.

(15) “Registered Owner” or “Registered Owners” means the person or persons in whose name a Bond is registered on the books of the City maintained by the Fiscal Agent in accordance with the General Ordinance. For so long as the Bonds shall be registered in the name of the Securities Depository or its nominee, the term “Registered Owner” or “Registered Owners” also means and includes, for the purposes of this Agreement, the owners of book-entry credits in the Bonds evidencing an interest in the Bonds; provided, however, that the Dissemination Agent shall have no obligation to provide notice hereunder to owners of book-entry credits in the Bonds except those who have filed their names and addresses with the Dissemination Agent for the purposes of receiving notices or giving direction under this Agreement.

(16) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as amended, as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(17) “SEC” means the United States Securities and Exchange Commission.

(18) “Securities Depository” shall mean The Depository Trust Company, New York, New York, or its nominee, Cede & Co., or successor thereto appointed pursuant to the General Ordinance.

(19) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

(20) “Underwriters” means the financial institutions named on the cover of the Official Statement.

ARTICLE V

Miscellaneous

Section 5.1. Duties, Immunities and Liabilities of the Dissemination Agent. The Dissemination Agent shall have only such duties under the Agreement as are specifically set forth in this Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys’ fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent’s negligence or willful misconduct in the performance of its duties hereunder. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 5.2. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, THE CITY OF PHILADELPHIA, PENNSYLVANIA, has caused this Disclosure Agreement to be executed by the Director of Finance and DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Dissemination Agent, has caused this Disclosure Agreement to be executed by one of its authorized officers, all as of the day and year first above written.

THE CITY OF PHILADELPHIA, PENNSYLVANIA

By: _____

Name: Rob Dubow

Title: Director of Finance

DIGITAL ASSURANCE CERTIFICATION, L.L.C.,
as Dissemination Agent

By: _____

Name:

Title:

EXHIBIT A

Table 1 – Debt Service Requirements

Table 2 – Outstanding Indebtedness

Table 3 – Top 10 Customers

Table 4 – Wholesale Water and Wastewater Customer Revenues and Contract Terms

Table 5 – Capital Improvement Program and COA Budget

Table 8 – Condensed Statement of Net Position

Table 9 – Historical Operating Results

Table 10 – Rate Covenant Compliance

APPENDIX VII

BOOK-ENTRY ONLY SYSTEM

DTC will act as securities depository for the Bonds. The Bonds will be initially issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount thereof, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an S&P rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

THE CITY AND THE FISCAL AGENT WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE ACCURACY OF THE RECORDS OF DTC, ITS NOMINEE OR ANY DTC PARTICIPANT WITH RESPECT TO ANY OWNERSHIP INTEREST IN THE BONDS, OR PAYMENTS TO, OR THE PROVIDING OF NOTICE FOR, DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof, or the absence of materially adverse changes in such information subsequent to the date hereof. For further information, Beneficial Owners should contact DTC in New York, New York.

APPENDIX VIII

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY INC. ("AG"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AG, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AG shall have received Notice of Nonpayment, AG will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AG, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AG. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AG is incomplete, it shall be deemed not to have been received by AG for purposes of the preceding sentence and AG shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AG shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AG hereunder. Payment by AG to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AG under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AG shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AG which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AG may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AG pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AG and shall not be deemed received until received by both and (b) all payments required to be made by AG under this Policy may be made directly by AG or by the Insurer's Fiscal Agent on behalf of AG. The Insurer's Fiscal Agent is the agent of AG only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AG to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AG agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AG to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AG, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY INC.

By _____
Authorized Officer

1633 Broadway, New York, N.Y. 10019

(212) 974-0100

Form 500 (8/24)

