

PHILADELPHIA WATER DEPARTMENT REBUTTAL TESTIMONY OUTLINE – LAFAYETTE MORGAN

Summary of Rebuttal Testimony – The Philadelphia Water Department (Department or PWD) will proffer rebuttal testimony addressing the following subject areas to rebut the contentions of the Public Advocate’s witness Lafayette Morgan indicating (1) the necessity of rate relief for the Department to continue to pay operating expenses, appropriately fund its capital program, meet escalating regulatory requirements and otherwise perform its mission; (2) the legal implications of Mr. Morgan's recommendations as set forth in Schedules LKM-1 through 3, (i.e., covenant default); (3) the future budgetary, financial and rate implications created by Mr. Morgan's recommendations; (4) the errors in Mr. Morgan's argument that the rate model is flawed; (5) the inconsistencies and failed application of the rate model by Mr. Morgan as presented in his schedules and testimony; and (6) the errors in Mr. Morgan’s over-stated recommendations artificially inflating projected revenues, eliminating all revenue adjustments and manipulating escalation factors and budget factors.

The Outline of Rebuttal Issues for Mr. Morgan is set forth below. PWD rebuttal witnesses include: Debra McCarty, Melissa LaBuda, Valarie Allen, Katherine Clupper, Jon Davis and Black & Veatch (B&V) witnesses, David Jagt, Prabha Kumar and Ann Bui. The subject area to be addressed by PWD witnesses is noted in the outline.

Outline of Rebuttal Issues

- I. Mr. Morgan's Contentions that the Rate Model Is Flawed Are Mistaken (B&V; LaBuda)
 - A. Integrity of Cost of Service Rate Model
 - B. Model is Mathematically Accurate
 - C. Model Used for Financial Plan and Cost of Service
 - D. Model Utilizes Reasonable Projections for the Study Period
 - E. Model Utilizes Industry Accepted Principles
 - F. Model Designed to Meet Water Fund Financial Requirements and Bond Covenants
 - G. Cost of Service Study Assumptions Are More Closely Aligned with the City's Five Year Plan at Present than in the Past
 - H. PWD Has Outperformed Cost of Service Study Assumptions in Past
 - I. Performance of Historical Revenue and Revenue Requirement Projections Impacted Fund Balances
 - J. PWD Has Revised Historical Forecasting Methods and Made Appropriate Changes

- II. Mr. Morgan's Testimony and Analysis Demonstrate Significant Inconsistencies and a Fundamental Misunderstanding of the Rate Model and PWD Account Structure. (B&V)
 - A. Projections Indicate a Covenant Default in FY 2018
 - B. Revenue Increase and Fund Balance Projections Are Based on Flawed Analysis and Misapplication of the Model
 - C. Narrative Testimony and Schedules LKM 1-3 Are Inconsistent
 - D. Analysis and Recommendations Based Upon Misapplication of Rate Model and Erroneous Presentation of Financial Consequences

- III. Mr. Morgan's Adjustments and Recommendations Flow From a Misunderstanding of the Rate Model and the Financial Plan (B&V; LaBuda)
 - A. Additional Costs
 1. Adverse Impact of Eliminating All Additional O&M Costs
 2. Operations, Infrastructure Integrity, Regulatory, Affordable Rates
 - B. Other Revenue Requirement Adjustments
 1. Risk of Adjusting Spend Factors, Escalation Factors and Liquidated Encumbrances
 - C. Revenue Projections
 1. Risk of Usage Factor and Billing Factor Adjustments

- D. Other Adjustments
 - 1. CIP Inflation Factor
 - 2. Indemnities
 - 3. Debt Interest Rates
 - 4. Debt Issuance Costs
- E. Future Rate Implications

IV. Mr. Morgan's Recommendations Have Significant Budgetary and Financial Implications (LaBuda; Clupper)

- A. Elimination of All O&M Claims Has Serious Budgetary and Financial Impacts
 - 1. \$105 Million Shortfall
 - 2. Debt Service Coverage Requirements
 - 3. FY 2018 Projections Not Speculative
- B. Erroneous Assumptions Underlie the Advocate's Proposal
 - 1. Class 100 and 500 Spend Factors
 - 2. Assumed Vacancy Rate (Budgeted Positions)
 - 3. Pension Expense and Obligations
 - 4. Liquidated Encumbrances
 - 5. Rate Case Amortization
 - 6. Bond Interest Rates
 - 7. Debt Issuance Costs
 - 8. Debt Service Coverage and Peer Data
 - 9. Pro Forma Adjustments
 - 10. Rate Stabilization Fund Utilization and Requirements
- C. Financial Plan Wholly Ignored by the Advocate's Recommendations
- D. Peer Data and Utility Best Practices Ignored
- E. Future Rate Impact Ignored

V. Mr. Morgan Erroneously Concludes that the Department Is Not Facing Financial Distress in View of His Recommendations (Allen)

- A. Covenant Default Indicated in FY 2018 (Schedule LKM-1)
- B. Rate and Insurance Covenants
 - 1. Prospective Analysis When Rates Are Being Set, Tested Prospectively
 - 2. Reasonable Belief Required that Rates Will Be Sufficient to Meet Covenants
 - 3. Ordinance Requires Review of At Least Rates Annually to Ensure Compliance
 - 4. Additional Testing of the Sufficiency of Rates Required to Issue New Bonds
- C. Covenant Default is a Default under the 1989 General Ordinance
 - 1. Default - If City Adopts Rates and Charges It Does Not Demonstrate Are Sufficient
 - 2. Default - If City Tests Actual Results and Fails to Meet Coverage
 - 3. In the Event of a Covenant Default the Fiscal Agent Must Notify the Bondholders within 30 days
- D. Remedies of Bondholders
 - 1. 25% of Bondholders May Appoint a Trustee to Pursue Remedies
 - 2. Trustee May (or if so requested by at least 25% of Bondholders must):
 - (a) by mandamus or other action, at law or in equity, enforce all rights of Bondholders;
 - (b) bring suit in equity to require the City to account, as if it were trustee of an express trust for Bondholders, for any Pledged Revenues;
 - (c) bring suit in equity to enjoin City from acts that may be unlawful or violate rights of Bondholders.

VI. Mr. Morgan Is Wrong in His Contentions that the Department Can Reasonably Sustain its Operations Without Rate Relief (McCarty; LaBuda; Davis)

- A. The Department Must Have Sufficient Resources to Operate
 - 1. Rate Filing Based Upon Reasonable Projections
 - 2. Advocate Has Overly Restrictive View of Municipal Ratemaking

- B. The Department Must Be Able to Make Infrastructure Improvements
- C. The Department Must Meet Its Regulatory Mandates
- D. The Department Must Provide Ratepayer Value
- E. The Department Must Meet Requirements of City Ordinances and Court Decisions

| Department | Class | Fiscal Year(s) | Additional Adjustment Amount | Purpose | Detailed Support of Each Adjustment | Responses in Information Requests Summary | | | | | | | | | | | | | | | | | | | | | |
|-------------------------|----------------|----------------|---|--|--|---|---|----------|-------------|-----------|-------|------------------|----------------|-----------|-----------|------------|----------------|-----------|-----------|--|--|--|-------------|----------|-------------|-----------|-------|
| Finance | 100 | 2017 to 2021 | \$56,000 to \$64,000 | Inclusion of an additional accountant position. | The PWD Finance Division requested additional staffing to support the Financial Planning and Analysis team. This position will help assist with conducting feasibility studies and research for long range planning for the Department. | The PWD Finance Division requested additional staffing to support the Financial Planning and Analysis team. This position will help assist with conducting feasibility studies and research for long range planning for the Department. | | | | | | | | | | | | | | | | | | | | | |
| | 200 | 2017 to 2021 | \$3.55 Million | Additional Stormwater Management Incentive Program (SMIP) and Green Area Retrofit Program (GARP) costs. | Regulatory compliance program established to help the Department meet the Consent Order and Agreement. | PF 1-8, PA EXE-156 (b). Based upon awarded and completed projects to date under the Stormwater Management Incentives Program (SMIP) and Green Acres Retrofit Program (GARP), the average cost for a private greened acre is \$90,000. The average public project cost per greened acre is \$300,000, based upon PWD construction/design contracts to date. Please also refer to the previously provided response to PA-EXE-156 (b). | | | | | | | | | | | | | | | | | | | | | |
| | 200 | 2016 to 2017 | \$4.0 Million | City Grants (contra revenue credits) based on historical experience. FY 2018 to FY 2021 projection reduced to reflect the elimination of the existing City Grant program upon the implementation of the Affordability Program. | See, PWD St.-8 - Direct Testimony and Exhibits of Raftelis Financial Consultants, Inc. | Existing WRAP City Grant Program. It is an adjustment (revenue reduction) as it was not previously accounted for in COS. | | | | | | | | | | | | | | | | | | | | | |
| | | 2018 to 2021 | \$1.27 Million | | | | City Grant will end with new affordable rates program, the FY18 adjustment reflects a proposed increase in UESF Funding to cover accounts that fall between 151% of FPL and 250% of FPL. | | | | | | | | | | | | | | | | | | | | |
| | 200 | 2017 | \$1.2 Million | Additional Basis2 support for the implementation and annual maintenance associated with the Affordability Program. | See, PWD St.-8 - Direct Testimony and Exhibits of Raftelis Financial Consultants, Inc. | PA-RDC 50, PA-RDC 51, & PA-ID#1. See response to PA-RDC-50 and PA-RDC-51. Table excerpt from PA-RDC-50: | | | | | | | | | | | | | | | | | | | | | |
| | | 2018 to 2021 | \$0.6 to \$0.7 Million | | | | <table border="1"> <thead> <tr> <th>Category</th> <th>Requirement</th> <th>Unit Cost</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Business Analyst</td> <td>2 person years</td> <td>\$225,000</td> <td>\$450,000</td> </tr> <tr> <td>Programmer</td> <td>3 person years</td> <td>\$225,000</td> <td>\$675,000</td> </tr> <tr> <td colspan="3"></td> <td>\$1,125,000</td> </tr> </tbody> </table> Table excerpt from PA-RDC-51: <table border="1"> <thead> <tr> <th>Category</th> <th>Requirement</th> <th>Unit Cost</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>IT Support Staff</td> <td>2.5 FTEs</td> <td>\$225,000</td> <td>\$562,500</td> </tr> </tbody> </table> | Category | Requirement | Unit Cost | Total | Business Analyst | 2 person years | \$225,000 | \$450,000 | Programmer | 3 person years | \$225,000 | \$675,000 | | | | \$1,125,000 | Category | Requirement | Unit Cost | Total |
| | Category | Requirement | Unit Cost | Total | | | | | | | | | | | | | | | | | | | | | | | |
| Business Analyst | 2 person years | \$225,000 | \$450,000 | | | | | | | | | | | | | | | | | | | | | | | | |
| Programmer | 3 person years | \$225,000 | \$675,000 | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | \$1,125,000 | | | | | | | | | | | | | | | | | | | | | | | | |
| Category | Requirement | Unit Cost | Total | | | | | | | | | | | | | | | | | | | | | | | | |
| IT Support Staff | 2.5 FTEs | \$225,000 | \$562,500 | | | | | | | | | | | | | | | | | | | | | | | | |
| 800 | 2017 | \$1.8 Million | Reimbursement to the General Fund for an upfront payment to construct a combined sewer outfall. | See, PWD St.-2 - Direct Testimony and Exhibits of Melissa LaBuda Exhibit ML-7, PWD Financial Statements, Note #19 | Under Section 10 of SugarHouse's (SH) tax settlement agreement with the City of Philadelphia, SH is entitled, to offset against its tax settlement payments the costs of its work on the former Laurel Street Combined Sewer Overflow (CSO). The offset occurs over 5 years and is estimated to be approximately \$3.5 million/year. The Water Department must make the General Fund whole for the amount of the offsets. This is because the Combined Sewer Overflow work benefits PWD. Not all of the reimbursement is capital eligible and as such must be paid from Water Operating. | | | | | | | | | | | | | | | | | | | | | | |
| | 2018 | \$3.5 Million | | | | | | | | | | | | | | | | | | | | | | | | | |
| Human Resources & Admin | 100 | 2017 to 2021 | \$0.4 Million | Additional staffing positions (Construction Projects Technician, Executive Assistant, Head of Security, and three security staff). | The PWD Human Resources Division requested additional staffing to support the Security team. Please the City of Philadelphia's Personnel webpage for Civil Service Job Specifications | The PWD Human Resources Division requested additional staffing to support the Security team. Please the City of Philadelphia's Personnel webpage for Civil Service Job Specifications | | | | | | | | | | | | | | | | | | | | | |
| | 200 | 2017 to 2021 | \$1.0 Million to \$1.1 Million | Facilities administration costs, which had been inadvertently dropped from the FY 2016 budget and need to be replaced. | See, attachment SI-16b Mayor's Operating Budget In Brief for FY 2016 to demonstrate how this cost was omitted in FY16 compared to FY15 | \$998,000 was inadvertently dropped from FY 2016 budget and has been added back to FY 2017. This budget line item covers the cost for repairs and maintenance at our facilities. | | | | | | | | | | | | | | | | | | | | | |

| Department | Class | Fiscal Year(s) | Additional Adjustment Amount | Purpose | Detailed Support of Each Adjustment | Responses in Information Requests Summary |
|------------|---------------|--------------------------------|---|---|---|---|
| Operations | 200 | 2017 | \$1.3 Million | Additional costs for one-time maintenance requirements. | BRC increase in Insurance payments; NEWPCP increase in Drydocking Recycler for 6 year inspection; Digester Cleaning;Chiller Rental;Increase cost of CoGen Maintenance; SWWPCP Increase in Digester and Flocculation cleaning, paving and emergency HVAC Repair | ID #4 Some of our plants and facility equipment require a high rate of maintenance. One time maintenance cost included in the cost of service study for 2017, 2018 and 2019 for the operations division include BRC increase in insurance payments; NEWPCP increase in drydocking recycler for 6 year inspection; digester cleaning; chiller rental; increase cost of CoGen Maintenance; SWWPCP increase in digester and flocculation cleaning, paving and emergency HVAC repair. These costs are based off of historical experience and will reoccur each fiscal year as equipment is old and other equipment requires a higher rate of maintenance. |
| | | 2018 | \$1.2 million | | | |
| | | 2019 | \$0.1 Million | | | |
| | 200 | 2017 and 2021 | \$0.5 Million to \$0.6 Million | Additional costs for additional abatements. | Please see response to PA-EXE-26 | <p>a. Any of the following are examples of what is being abated:</p> <ul style="list-style-type: none"> • If there is a water main break which floods a property, PWD will replace damaged hot water heaters and house heaters through Abatement plumbers on contract with PWD (other damages are handled through the claims process). Cleanup of properties damaged as a result of a water main break is also paid for through abatement. • If there is a sewer blockage which causes sewage to back up into a property, PWD will replace damaged hot water heaters and house heaters through Abatement plumbers on contract with PWD (other damages are handled through the claims process). Cleanup of properties damaged as a result of sewer blockage is also paid for through abatement. • If we have issued a Notice of Defect to a property for a defective lateral or main house drain or a leak on the supply or service and the property owner does not address it in a timely matter and it is causing an unacceptable health and/or safety condition, PWD will assign an Abatement plumber on contract to correct the defect. The property is lien to recover the cost but that cannot occur until if and when the property is sold. • If a private sewer is defective causing sewage to back up in properties and the property owners connected to the private sewer are not able to address the issue amongst themselves, PWD will assign an Abatement plumber to correct whatever is causing the back up. The invoice is divided amongst those connected and the properties are lien if the bill is not paid. • If a private water main is leaking and causing damage to public or private property or loss of water to properties and the property owners connected to the private water main are not able to address the issue amongst themselves, PWD will assign an Abatement plumber to replace the leaking pipe. The invoice is divided amongst those connected and the properties are lien if the bill is not paid. |
| 300 | 2017 and 2021 | \$0.5 Million to \$0.6 Million | Costs for phosphoric acid and parts for equipment repair. | NEWPCP Increase use of Phosphoric Acid for Secondary Process; Increase in quantity and cost of repair parts for aging equipment; SWWPCP equipment for Plant wide valves, pump repair part and actuators | ID #5 The Northeast Water Pollution Control Plant has been experiencing some problems with the microbiological health of the secondary treatment system during cold weather conditions. This problem has occurred at varying levels over the last 4 to 5 years. Phosphorus is necessary to maintain satisfactory microbiological health. Maintaining the correct microbiological populations in the secondary treatment system is necessary for good performance by the facility and in meeting PADEP permit requirements. The request was made to add additional phosphorous (phosphoric acid) to the treatment process during colder weather to increase the low concentrations of phosphorous and strengthen microbiological health in the secondary system. This increase is needed to insure good plant performance in cold weather. | |
| 400 | 2017 and 2021 | \$0.1 Million | Additional equipment costs. | SWPCP increase for Purchase of LED light fixtures and replacement of air conditioning systems | PA-ID #7. The additional Class 400 equipment of \$0.1 million will be used at the SWWPCP for the purchase of LED light fixtures and replacement of air conditioning systems. | |

| Department | Class | Fiscal Year(s) | Additional Adjustment Amount | Purpose | Detailed Support of Each Adjustment | Responses in Information Requests Summary |
|-----------------------------------|-------|----------------|--------------------------------|---|---|--|
| Planning & Environmental Services | 100 | 2017 to 2021 | \$0.8 Million to \$1.4 Million | Additional staffing costs for the Office of Watersheds. | The PWD Environmental Services requested additional staffing to support the Office of Watersheds. Please the City of Philadelphia's Personnel webpage for Civil Service Job Specifications | PA-ID #8. The three new positions are in the customer field service unit and will be water operations repair helpers. Also, note that the Department made a decision in January 2016 to realign its staffing needs and increase the staffing of the customer field service unit instead of the office of watersheds for FY 2017. This additional staff is needed to enhance customer service. |
| | 200 | 2017 to 2021 | \$0.6 Million to \$1.0 Million | Additional stormwater facilities maintenance. | Additional cost related to maintaining bio retention basins, bio swales, infiltration trenches, curb bump outs and other green infrastructure | PA-ID#9. The components and the related costs of the additional stormwater facilities maintenance include both inspection and maintenance of the increased number of stormwater management practices required by the Consent Order and Agreement. |
| Planning & Engineering | 100 | 2017 to 2021 | \$0.5 Million to \$0.6 Million | Additional staffing costs for the sewer lateral inspection program. | The PWD Planning & Engineering Division requested additional staffing to support the Engineering division. Please the City of Philadelphia's Personnel webpage for Civil Service Job Specifications | PA-ID#10. The Philadelphia Water Department has been working with Licensing and Inspection as well as the Streets Department to review, inspect, and enforce all sewer repairs, connections, and backfills. The Joint Plumbing Issues Committee has been developing Sewer Connection Regulations and a Sewer Connection Manual. These documents will allow the Department to enforce sound sewer connections which ultimately will reduce sewer cave-ins and damage to the city infrastructure. An average of 1500 permits are applied for annually and are expected to be inspected from start to finish by a newly created inspection division within Projects Control. This group will comprise of six construction projects technicians, one for each streets department district, and one graduate civil engineer supervisor. |
| | 200 | 2017 to 2021 | \$0.6 Million to \$0.7 Million | Costs for mark-out of water & sewer infrastructure prior to excavation. | Cost related to properly identifying PWD infrastructure in the right of way | PA Act 287 was created to the public health and safety by preventing excavation or demolition work from damaging underground lines PWD is required to philliscally mark the location of all PWD underground assets within three working days of notice. Out of the 63,275 on call notices that PWD received in 2014, 10,800 required marking. Currently, PWD survey unit crews preform this task as well as preforming survey services to close out the Capital Public Works Projects. The goal of this add packaged is to explore the service levels that could be achieved through a one call contract to free up the survey crews to work on providing data to construction to close out project in a more timely manner. |
| Public Affairs | 100 | 2017 to 2021 | \$0.1 Million | Additional staffing costs for Creative Affairs Director. | The PWD Public Affairs Division requested additional staffing to support the Public Affairs division. Please the City of Philadelphia's Personnel webpage for Civil Service Job Specifications | The PWD Public Affairs Division requested additional staffing to support the Public Affairs division. Please the City of Philadelphia's Personnel webpage for Civil Service Job Specifications |
| City Finance | 100 | 2017 to 2021 | \$2.3 Million to \$3.6 Million | Additional costs for pension, pension obligation, and benefits as a result of staffing additions. | The additional hiring detail that requires additional costs for pension, pension obligation, and benefits is supported in the class 100 items in this table. | Please refer to Response Attachment PA-EXE-143 EXE-145 EXE-146 (Response Attachment) for the detailed work papers supporting the derivation of the \$2.3 to \$3.6 million of pension, pension obligation, and benefits costs related to each additional staffing positions. The pension, pension obligation, and benefit costs for the additional staffing position are based on the ratios of the projected annual Total Water Fund pension, pension obligation, and benefits costs to the projected annual Total Water Fund Class 100 Costs (Salaries and Wages) |

| Department | Class | Fiscal Year(s) | Additional Adjustment Amount | Purpose | Detailed Support of Each Adjustment | Responses in Information Requests Summary | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|-------------------------|----------------|------------------------------|---|--|---|----------------|---------------|----------|--|-------------|------------------------------------|--------|------|---|---------|--------------------------------------|--------|-----|---|--------|-----------------------------|--------|-----|---|---------|----------------------------------|--|--|--|----------------|----------------|-------------------------|----|--|----------|------------------------------------|---------|----------|---|---------|--------------------------------------|--------|----------|---|--------|-----------------------------|---------|----------|---|--------|------------------------------------|--|--|--|----------------|----------------|--------------|----|--|-----|------------------------------------|---------|----------|---|---------|--------------------------------------|--------|----------|---|--------|-----------------------------|---------|----------|---|--------|-----------------------------------|--|--|--|----------------|----------------|------------------|----------|--|-----------------|--|-------|------|---|--------|--------------------------------------|-------|-----|---|-------|--|--|--|--|---------------|--|--|--|--|
| Water Revenue Bureau | 100 | 2017 to 2021 | \$0.9 to \$1.3 Million | Additional staffing to support the Affordability Program. | See, PWD St.-8 - Direct Testimony and Exhibits of Raftelis Financial Consultants, Inc. | Response Provided in PA-ID #13 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 200 | 2017 to 2021 | \$0.10 | Additional space requirements to support the Affordability Program. | See, PWD St.-8 - Direct Testimony and Exhibits of Raftelis Financial Consultants, Inc. | <table border="1"> <thead> <tr> <th>Position Title</th> <th>Annual Salary</th> <th># of Pos</th> <th></th> <th>Salary Cost</th> </tr> </thead> <tbody> <tr> <td>Collection Customer Representative</td> <td>38,767</td> <td>x 16</td> <td>=</td> <td>620,272</td> </tr> <tr> <td>Collection Representative Supervisor</td> <td>48,312</td> <td>x 2</td> <td>=</td> <td>96,624</td> </tr> <tr> <td>Data Services Support Clerk</td> <td>35,265</td> <td>x 4</td> <td>=</td> <td>141,060</td> </tr> <tr> <td colspan="4">Total Salary Annual Cost:</td> <td>857,956</td> </tr> <tr> <th>Position Title</th> <th>Total Salary (All Empl)</th> <th>%*</th> <th></th> <th>Benefits</th> </tr> <tr> <td>Collection Customer Representative</td> <td>620,272</td> <td>x 42.97%</td> <td>=</td> <td>266,531</td> </tr> <tr> <td>Collection Representative Supervisor</td> <td>96,624</td> <td>x 42.97%</td> <td>=</td> <td>41,519</td> </tr> <tr> <td>Data Services Support Clerk</td> <td>141,060</td> <td>x 42.97%</td> <td>=</td> <td>60,613</td> </tr> <tr> <td colspan="4">Total Benefits Annual Cost:</td> <td>368,664</td> </tr> <tr> <th>Position Title</th> <th>Total Salary</th> <th>%*</th> <th></th> <th>CAP</th> </tr> <tr> <td>Collection Customer Representative</td> <td>620,272</td> <td>x 56.00%</td> <td>=</td> <td>347,352</td> </tr> <tr> <td>Collection Representative Supervisor</td> <td>96,624</td> <td>x 56.00%</td> <td>=</td> <td>54,109</td> </tr> <tr> <td>Data Services Support Clerk</td> <td>141,060</td> <td>x 56.00%</td> <td>=</td> <td>78,994</td> </tr> <tr> <td colspan="4">Total Indirect (CAP) Cost:</td> <td>480,455</td> </tr> <tr> <th>Position Title</th> <th>Cubicle Avg Cost</th> <th>Avg Cost</th> <th></th> <th>Cubicle Charges</th> </tr> <tr> <td>Coll Cust Rep/Data Services Supp Clerk</td> <td>4,000</td> <td>x 20</td> <td>=</td> <td>80,000</td> </tr> <tr> <td>Collection Representative Supervisor</td> <td>4,500</td> <td>x 2</td> <td>=</td> <td>9,000</td> </tr> <tr> <td colspan="4"></td> <td>89,000</td> </tr> <tr> <td colspan="4">Total Salary, Benefits, Indirect and Cubicle Costs:</td> <td>1,796,075</td> </tr> </tbody> </table> <p><i>*Benefits and Cap Rates (Indirect Charges) Per Finance</i></p> | Position Title | Annual Salary | # of Pos | | Salary Cost | Collection Customer Representative | 38,767 | x 16 | = | 620,272 | Collection Representative Supervisor | 48,312 | x 2 | = | 96,624 | Data Services Support Clerk | 35,265 | x 4 | = | 141,060 | Total Salary Annual Cost: | | | | 857,956 | Position Title | Total Salary (All Empl) | %* | | Benefits | Collection Customer Representative | 620,272 | x 42.97% | = | 266,531 | Collection Representative Supervisor | 96,624 | x 42.97% | = | 41,519 | Data Services Support Clerk | 141,060 | x 42.97% | = | 60,613 | Total Benefits Annual Cost: | | | | 368,664 | Position Title | Total Salary | %* | | CAP | Collection Customer Representative | 620,272 | x 56.00% | = | 347,352 | Collection Representative Supervisor | 96,624 | x 56.00% | = | 54,109 | Data Services Support Clerk | 141,060 | x 56.00% | = | 78,994 | Total Indirect (CAP) Cost: | | | | 480,455 | Position Title | Cubicle Avg Cost | Avg Cost | | Cubicle Charges | Coll Cust Rep/Data Services Supp Clerk | 4,000 | x 20 | = | 80,000 | Collection Representative Supervisor | 4,500 | x 2 | = | 9,000 | | | | | 89,000 | Total Salary, Benefits, Indirect and Cubicle Costs: | | | |
| Position Title | Annual Salary | # of Pos | | Salary Cost | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Collection Customer Representative | 38,767 | x 16 | = | 620,272 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Collection Representative Supervisor | 48,312 | x 2 | = | 96,624 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Data Services Support Clerk | 35,265 | x 4 | = | 141,060 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Salary Annual Cost: | | | | 857,956 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Position Title | Total Salary (All Empl) | %* | | Benefits | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Collection Customer Representative | 620,272 | x 42.97% | = | 266,531 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Collection Representative Supervisor | 96,624 | x 42.97% | = | 41,519 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Data Services Support Clerk | 141,060 | x 42.97% | = | 60,613 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Benefits Annual Cost: | | | | 368,664 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Position Title | Total Salary | %* | | CAP | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Collection Customer Representative | 620,272 | x 56.00% | = | 347,352 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Collection Representative Supervisor | 96,624 | x 56.00% | = | 54,109 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Data Services Support Clerk | 141,060 | x 56.00% | = | 78,994 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Indirect (CAP) Cost: | | | | 480,455 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Position Title | Cubicle Avg Cost | Avg Cost | | Cubicle Charges | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Coll Cust Rep/Data Services Supp Clerk | 4,000 | x 20 | = | 80,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Collection Representative Supervisor | 4,500 | x 2 | = | 9,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | 89,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Salary, Benefits, Indirect and Cubicle Costs: | | | | 1,796,075 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

TABLE 1 - ANALYTICAL EXCEPTIONS BETWEEN LKM'S REVISED MODEL CASHFLOW (TABLE C-1) AND TESTIMONY SCHEDULE (LKM-1)

| LKM Cash Flow TABLE C-1 | | | | LKM Testimony Schedule LKM-1 | | | | |
|-------------------------|--|----------------|----------------|------------------------------|--|----------------|----------------|-----------------------------|
| # | LKM's Analysis | FY 2017 Amount | FY 2018 Amount | TABLE C-1 Line # | LKM's Analysis | FY 2017 Amount | FY 2018 Amount | LKM-1 Line # |
| 1 | Increased: Revenue Under Existing Rates a. Adjusted Usage & Billing Safety Factor | 649,049 | 647,905 | Line 3 | | 649,049 | 647,905 | Line 4 |
| 2 | Retained: BV Proposed Revenue Increases | 35,183 | 72,146 | Line 10 | Excluded Revenue Increases in the Summary Table | | | Sum of Lines 9 and 10 |
| 3 | Increased: Other Revenues a. Primarily due to increase in Operating Fund Interest Income resulting from increased year end balance | 23,397 | 7,163 | Sum of Lines 12 thru 15 | Inaccurately stated in LKM-1; The exclusion of the revenue increases should have reduced the interest income, and consequently the total amount of the "Other Revenues" should be lower in Schedule LKM-1, and not the same as Cashflow TABLE C-1. | 23,397 | 7,163 | Sum of Lines 14, 18, and 19 |
| 4 | Reduced: O&M Costs a. Eliminated Additional Costs b. Reduced Rate Case costs c. Adjusted Escalation Factors; Spend Factors d. Adjusted Liquidated Encumbrance | (418,918) | (429,682) | Line 19 | | (418,918) | (429,682) | Line 24 |
| 5 | Retained: BV proposed Transfer from RSF | 19,300 | 39,000 | Line 20 | | 19,300 | 39,000 | Line 25 |
| 6 | Net Revenues after Operations | 308,011 | 336,532 | Line 21 | | 272,827 | 264,387 | Line 26 |
| 7 | Retained: BV Proposed Debt Service | (207,715) | (222,986) | Line 28 | | (207,715) | (222,986) | Line 33 |
| 8 | Retained: BV proposed Capital Account Deposit Transfer | (21,745) | (22,289) | Line 29 | | (21,745) | (22,289) | Line 34 |

| LKM Cash Flow TABLE C-1 | | | | LKM Testimony Schedule LKM-1 | | | | |
|-------------------------|---|----------------|----------------|------------------------------|--|----------------|----------------|--------------|
| # | LKM's Analysis | FY 2017 Amount | FY 2018 Amount | TABLE C-1 Line # | LKM's Analysis | FY 2017 Amount | FY 2018 Amount | LKM-1 Line # |
| 9 | Increased: Beginning Residual Fund Balance a. Due to the cumulative effect in increasing revenues and decreasing expenditures | 42,004 | 90,393 | Line 31 | Inaccurately stated in LKM-1; The exclusion of the revenue increases in FY 2017, in Schedule LKM-1, reduces the available ending balance in FY 2017; consequently, the <u>beginning balance in FY 2018</u> should be lower in Schedule LKM-1, and not the same as Cashflow TABLE C-1. | 42,004 | 90,393 | Line 37 |
| 10 | Increased: Interest Income a. Effect of LKM reducing expenses and increasing revenues | 238 | 425 | Line 32 | Inaccurately stated in LKM-1; The exclusion of the revenue increases in FY 2017, in Schedule LKM-1, reduces the available Year-End Revenue Fund Balance and consequently the interest income should be lower in Schedule LKM-1, and not the same as Cashflow TABLE C-1. | 238 | 425 | Line 38 |
| 11 | Year-End Revenue Fund Balance | 78,551 | 91,257 | Line 33 | Inaccurately stated in LKM-1; The <u>Cash Flow TABLE C-1 includes</u> BV proposed revenue increases, and consequently the Year-End Revenue Fund Balance will be higher; The <u>Schedule LKM-1 excludes</u> the BV proposed revenue increases, and hence the Year-End Revenue Fund Balance should be lower in Schedule LKM-1, and not the same as Cashflow TABLE C-1. | 78,551 | 91,257 | Line 40 |
| 12 | Retained: Deposits/Transfers to City & Construction Funds | (30,400) | (35,900) | Line 35 | | (30,400) | (35,900) | Line 43 |
| 13 | End of Year Balance | 90,393 | 146,175 | Line 38 | Inaccurately stated in LKM-1; The <u>Cashflow TABLE C-1 includes</u> proposed revenue increases, and consequently the End of Year Balance will be higher; The <u>Schedule LKM-1 excludes</u> the BV proposed revenue increases, and hence the End of Year Balance should be lower in Schedule LKM-1, and not the same as Cashflow TABLE C-1. | 90,393 | 146,175 | Line 46 |