

Philadelphia Water Department  
FY 2009-2012 Rate Hearings  
Department Response to Interrogatories

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- PA-MAB-81** a) Please provide a schedule similar to Table 11 for FY2009 only that would result in a 1.20x coverage ratio. Such a schedule should utilize the maximum amount allowable to be withdrawn from the Rate Stabilization Fund. Please state any other major assumptions utilized. The model should not incorporate any assumptions beyond FY2009 such as a \$45 million balance for the RSF at the end of FY2012.
- b) Please provide a schedule similar to Table 11 for FY2009 and FY2010 only that would result in a 1.20x coverage ratio. Such a schedule should utilize the maximum amount allowable to be withdrawn from the Rate Stabilization Fund. Please state any other major assumptions utilized. The model should not incorporate any assumptions beyond FY2010 such as a \$45 million balance for the RSF at the end of FY2012.

**Response Prepared By:** Black & Veatch

**Response:** See attachments.

**PROJECTED REVENUE AND REVENUE REQUIREMENTS**  
(in thousands of dollars)

Line		Fiscal Year Ending June 30,	
No.	Description	2008	2009
<b>OPERATING REVENUE</b>			
1	Water Service - Existing Rates	173,041	172,644
2	Wastewater Service - Existing Rates	299,070	300,181
3	Total Service Revenue - Existing Rates	472,111	472,825
<b>Additional Service Revenue Required</b>			
	<u>Year</u>	<u>Percent Increase</u>	<u>Months Effective</u>
4	FY 2009	0.90%	8
5	FY 2010		
6	FY 2011		
7	FY 2012		
8	FY 2013		
9	FY 2014		
10	Total Additional Service Revenue Required	0	2,837
11	Total Water & Wastewater Service Revenue	472,111	475,662
12	Transfer From/(To) Rate Stabilization Fund	35,420	51,585
<b>Other Income (a)</b>			
13	Other Operating Revenue (b)	19,475	19,378
14	Construction Fund Interest Income	2,329	3,554
15	Debt Reserve Fund Interest Income	0	0
16	Operating Fund Interest Income	1,187	1,080
17	Rate Stabilization Interest Income	3,381	2,502
18	Total Revenues	533,903	553,761
<b>OPERATING EXPENSES</b>			
19	Water & Wastewater Operations	272,294	291,266
20	Direct Interdepartmental Charges	52,991	55,857
21	Total Operating Expenses	325,285	347,123
22	<b>NET REVENUES AFTER OPERATIONS</b>	208,618	206,638
<b>DEBT SERVICE</b>			
<b>Senior Debt Service</b>			
<b>Revenue Bonds</b>			
23	Outstanding Bonds (c)	173,460	171,565
24	Pennvest Parity Bonds	384	384
25	Projected Future Bonds (d)	0	0
26	Total Senior Debt Service	173,844	171,949
27	<b>TOTAL SENIOR DEBT SERVICE COVERAGE (L22/L26)</b>	1.20 x	1.20 x
<b>Subordinate Debt Service</b>			
28	Outstanding General Obligation Bonds	0	0
29	Pennvest Subordinate Bonds	1,227	1,227
30	Total Subordinate Debt Service	1,227	1,227
31	Total Debt Service on Bonds	175,071	173,176
32	<b>CAPITAL ACCOUNT DEPOSIT</b>	17,788	18,179
33	<b>TOTAL COVERAGE (L22/(L31+L32))</b>	1.08 x	1.07 x
<b>RESIDUAL FUND</b>			
34	Beginning of Year Balance	11,341	12,100
Plus:			
35	End of Year Revenue Fund Balance	15,759	15,283
36	Deposit for Transfer to City General Fund (e)	2,355	2,568
Less:			
37	Transfer to Construction Fund	15,000	16,000
38	Transfer to City General Fund	2,355	2,568
39	End of Year Balance	12,100	11,383
<b>RATE STABILIZATION FUND</b>			
40	Beginning of Year Balance	185,069	149,649
41	Deposit From/(To) Revenue Fund	(35,420)	(51,585)
42	End of Year Balance	149,649	98,064

(a) Includes other operating and nonoperating income, including interest income on funds and accounts transferable to the Revenue Fund.

(b) Includes Residual Fund interest and interest earnings on Debt Service Reserve substitution funds deposited in the Special Water Infrastructure Account.

(c) Assumes a variable rate of 4.00% over the life of the Variable Rate Series 1997B Bonds.

(d) Assumes term of 30 years, level annual principal and interest payments, 5.00% interest for FY 2009 and 5.5% interest for FY 2012 & FY 2014.

(e) Transfer of interest earnings from the Bond Reserve Account must first go to the Residual Fund as shown in Line 36 to satisfy the requirements for the Transfer to the City General Fund, with the balance (if any) included in Line 15 going to the Revenue Fund.

**PROJECTED REVENUE AND REVENUE REQUIREMENTS**  
(in thousands of dollars)

Line No.	Description	Fiscal Year Ending June 30,		
		2008	2009	2010
<b>OPERATING REVENUE</b>				
1	Water Service - Existing Rates	173,041	172,644	170,768
2	Wastewater Service - Existing Rates	299,070	300,181	298,591
3	Total Service Revenue - Existing Rates	472,111	472,825	469,359
Additional Service Revenue Required				
	Year	Percent Increase	Months Effective	
4	FY 2009	0.90%	8	2,837
5	FY 2010	7.30%	12	34,572
6	FY 2011			
7	FY 2012			
8	FY 2013			
9	FY 2014			
10	Total Additional Service Revenue Required	0	2,837	38,796
11	Total Water & Wastewater Service Revenue	472,111	475,662	508,155
12	Transfer From/(To) Rate Stabilization Fund	35,420	51,585	57,926
Other Income (a)				
13	Other Operating Revenue (b)	19,475	19,378	19,286
14	Construction Fund Interest Income	2,329	3,554	4,738
15	Debt Reserve Fund Interest Income	0	0	0
16	Operating Fund Interest Income	1,187	1,080	621
17	Rate Stabilization Interest Income	3,381	2,502	1,396
18	Total Revenues	533,903	553,761	592,122
<b>OPERATING EXPENSES</b>				
19	Water & Wastewater Operations	272,294	291,266	302,625
20	Direct Interdepartmental Charges	52,991	55,857	57,470
21	Total Operating Expenses	325,285	347,123	360,095
22	<b>NET REVENUES AFTER OPERATIONS</b>	208,618	206,638	232,027
<b>DEBT SERVICE</b>				
Senior Debt Service				
Revenue Bonds				
23	Outstanding Bonds (c)	173,460	171,565	171,560
24	Pennvest Parity Bonds	384	384	384
25	Projected Future Bonds (d)	0	0	21,142
26	Total Senior Debt Service	173,844	171,949	193,086
27	<b>TOTAL SENIOR DEBT SERVICE COVERAGE (L22/L26)</b>	1.20 x	1.20 x	1.20 x
Subordinate Debt Service				
28	Outstanding General Obligation Bonds	0	0	0
29	Pennvest Subordinate Bonds	1,227	1,227	1,227
30	Total Subordinate Debt Service	1,227	1,227	1,227
31	Total Debt Service on Bonds	175,071	173,176	194,313
32	<b>CAPITAL ACCOUNT DEPOSIT</b>	17,788	18,179	18,570
33	<b>TOTAL COVERAGE (L22/(L31+L32))</b>	1.08 x	1.07 x	1.08 x
<b>RESIDUAL FUND</b>				
34	Beginning of Year Balance	11,341	12,100	11,383
Plus:				
35	End of Year Revenue Fund Balance	15,759	15,283	19,144
36	Deposit for Transfer to City General Fund (e)	2,355	2,568	2,782
Less:				
37	Transfer to Construction Fund	15,000	16,000	22,000
38	Transfer to City General Fund	2,355	2,568	2,782
39	End of Year Balance	12,100	11,383	8,527
<b>RATE STABILIZATION FUND</b>				
40	Beginning of Year Balance	185,069	149,649	98,064
41	Deposit From/(To) Revenue Fund	(35,420)	(51,585)	(57,926)
42	End of Year Balance	149,649	98,064	40,138

(a) Includes other operating and nonoperating income, including interest income on funds and accounts transferable to the Revenue Fund.

(b) Includes Residual Fund interest and interest earnings on Debt Service Reserve substitution funds deposited in the Special Water Infrastructure Account.

(c) Assumes a variable rate of 4.00% over the life of the Variable Rate Series 1997B Bonds.

(d) Assumes term of 30 years, level annual principal and interest payments, 5.00% interest for FY 2009 and 5.5% interest for FY 2012 & FY 2014.

(e) Transfer of interest earnings from the Bond Reserve Account must first go to the Residual Fund as shown in Line 36 to satisfy the requirements for the Transfer to the City General Fund, with the balance (if any) included in Line 15 going to the Revenue Fund.

**TABLE 11**  
**PROJECTED REVENUE AND REVENUE REQUIREMENTS**  
(in thousands of dollars)

Line No.	Description	Fiscal Year Ending June 30,		
		2008	2009	2010
<b>OPERATING REVENUE</b>				
1	Water Service - Existing Rates	173,819	173,413	171,527
2	Wastewater Service - Existing Rates	300,397	301,500	299,900
3	Total Service Revenue - Existing Rates	474,216	474,913	471,427
Additional Service Revenue Required				
	Year	Percent Increase	Months Effective	
4	FY 2009	0.00%	8	0
5	FY 2010	2.30%	12	10,843
6	FY 2011			
7	FY 2012			
8	FY 2013			
9	FY 2014			
10	Total Additional Service Revenue Required	0	0	10,843
11	Total Water & Wastewater Service Revenue	474,216	474,913	482,270
12	Transfer From/(To) Rate Stabilization Fund	20,415	38,250	57,926
Other Income (a)				
13	Other Operating Revenue (b)	19,475	19,378	19,286
14	Construction Fund Interest Income	2,329	3,554	4,738
15	Debt Reserve Fund Interest Income	2,356	2,569	2,782
16	Operating Fund Interest Income	1,163	1,048	581
17	Rate Stabilization Interest Income	3,533	2,940	1,968
18	Total Revenues	523,487	542,652	569,551
<b>OPERATING EXPENSES</b>				
19	Water & Wastewater Operations	261,882	280,152	281,023
20	Direct Interdepartmental Charges	52,991	56,160	56,542
21	Total Operating Expenses	314,873	336,312	337,565
22	<b>NET REVENUES AFTER OPERATIONS</b>	208,614	206,340	231,986
<b>DEBT SERVICE</b>				
Senior Debt Service				
Revenue Bonds				
23	Outstanding Bonds (c)	173,460	171,565	171,560
24	Pennvest Parity Bonds	384	384	384
25	Projected Future Bonds (d)	0	0	21,142
26	Total Senior Debt Service	173,844	171,949	193,086
27	<b>TOTAL SENIOR DEBT SERVICE COVERAGE (L22/L26)</b>	1.20 x	1.20 x	1.20 x
Subordinate Debt Service				
28	Outstanding General Obligation Bonds	0	0	0
29	Pennvest Subordinate Bonds	1,227	1,227	1,227
30	Total Subordinate Debt Service	1,227	1,227	1,227
31	Total Debt Service on Bonds	175,071	173,176	194,313
32	<b>CAPITAL ACCOUNT DEPOSIT</b>	17,788	18,179	18,570
33	<b>TOTAL COVERAGE (L22/(L31+L32))</b>	1.08 x	1.07 x	1.08 x
<b>RESIDUAL FUND</b>				
34	Beginning of Year Balance	11,341	12,096	11,081
Plus:				
35	End of Year Revenue Fund Balance	15,755	14,985	19,103
36	Deposit for Transfer to City General Fund (e)	0	0	0
Less:				
37	Transfer to Construction Fund	15,000	16,000	22,000
38	Transfer to City General Fund	0	0	0
39	End of Year Balance	12,096	11,081	8,184
<b>RATE STABILIZATION FUND</b>				
40	Beginning of Year Balance	185,069	164,654	126,404
41	Deposit From/(To) Revenue Fund	(20,415)	(38,250)	(57,926)
42	End of Year Balance	164,654	126,404	68,478

(a) Includes other operating and nonoperating income, including interest income on funds and accounts transferable to the Revenue Fund.

(b) Includes Residual Fund interest and interest earnings on Debt Service Reserve Substitution funds deposited in the Special Water Infrastructure Account.

(c) Assumes a variable rate of 4.00% over the life of the Variable Rate Series 1997B Bonds.

(d) Assumes term of 30 years, level annual principal and interest payments, 5.00% interest for FY 2009 and 5.5% interest for FY 2012 & FY 2014.

(e) Transfer of interest earnings from the Bond Reserve Account must first go to the Residual Fund as shown in Line 36 to satisfy the requirements for the Transfer to the City General Fund, with the balance (if any) included in Line 15 going to the Revenue Fund.

**PHILADELPHIA WATER DEPARTMENT  
Public Advocate Proposed Expense Adjustments**

Adjustment	PA Position	PWD-32 Amount (\$000)		PA Main Brief Section		
		FY2009	FY2010		FY2011	FY2012
<u>Final Budget</u>	Use final budget data.	(\$806)	(\$826)	(\$855)	(\$894)	V (A)
<u>Budget-to-Actual Factors</u>	Use simple average of 2-year and 3-year data for all classes. Eliminate 0.5% increase per year for Class 100.	(\$6,061)	(\$6,264)	(\$6,597)	(\$6,967)	V (B)
<u>Indemnities</u>	Use 5-year average factor of 48.45% applied to \$6,500,000. Use 2.5% growth factor.	(\$127)	(\$1,000)	(\$1,926)	(\$2,934)	V (C)
<u>Growth Factors</u>	Class 100- use \$1,100 lump sum payment for FY2009. Use no growth factors for FY2010, FY1011 & 2012.	(\$3,073)	(\$3,149)	(\$3,228)	(\$3,308)	V (D)
<u>Fringe Benefits</u>	Class 200, 300, 400-use 2.5% growth factor.	(\$744)	(\$3,431)	(\$9,542)	(\$17,936)	VI (B)
<u>Interdepartmental</u>	Use no inflation factors.	\$0	(\$529)	(\$1,089)	(\$1,678)	VI (C)
<u>Non-Recurring Expenses</u>	Class 100-use no growth factors. All other expenses-use 2.5% growth factors.	\$0	(\$3,148)	(\$6,646)	(\$10,627)	VI (B)
<u>"Scoop"</u>	FY2009-eliminate \$3,102,000 of non-recurring expenditures. FY2010-eliminate \$3,000,000 related to lump sum payment. Fourth year costs for the Water Security Grant program should be eliminated and no growth factors applied.  Transfer excess interest from the Debt Reserve Account to the Revenue Fund.	\$0 <sup>1/</sup>	(\$2,684)	(\$2,763)	(\$2,846)	VI (D)
						VII

PA Appendix 3

<sup>1/</sup> PWD-32 does not reflect the \$3,102,000 adjustment for FY2009.

Note: The PWD-32 adjustments are estimates based upon Schedule 3. The Public Advocate recommends that after the Hearing Officer identifies the areas where adjustments should be made, he should request that Table 11 be rerun, in order to determine the ultimate effect upon the revenue requirement, with all the necessary assumptions.

**Non-Recurring Expenditures Eliminations**

	<u>FY2009</u>	<u>FY2010</u>	
	<u>Class 200</u>	<u>Class 100</u>	<u>Class 200</u>
PWD	\$0	(\$3,000,000)	(\$1,300,000)
PA	(\$3,102,000)	(\$3,000,000)	

**Source: Exhibit PWD-5, OMone-7**