



*The ARAMARK Tower
1101 Market Street
Philadelphia, PA 19107-2994*

Questions & Answers

Philadelphia Water Department

Proposed New Water and Sewer Rates

and Public Hearings

Q. When does the Water Department plan on phasing in its proposed new rates?

A. July 2004. The new rates will be phased in over a four-year period.

Q. How much will the average customer be paying as a result of the proposed new rates?

A. On July 1, 2004 the typical residential monthly water and wastewater customer's bill will be \$45.80 an average increase of \$4.02. These figures represent a bill for a 5/8" meter customer using 800 cubic feet of water per month.

Q. How will this effect the rates for senior citizens?

A. The typical monthly bill for a qualifying senior citizen will show an annual average increase of \$2.77 per month over the same period. This figure represents the cost of water and sewer service for 5/8" meter using approximately 500 cubic feet of water per month. Qualifying seniors receive a 25% discount on their bill. The income just to receive this discount is being increased to \$24,700.

Q. When was the last time new rates were phased in? How much was an average bill as a result of those rates?

A. Rates were phased in over a three-year period beginning July 1, 2001. The final increment was phased in beginning July 1, 2003. Since July, the typical average residential bill has been \$41.77 per month.

Q. What types of charges are included in the monthly bill that customers pay?

A. The customer is paying a usage charge for treatment and delivery of drinking water, the collection and treatment of sewage, and related environmental services such as biosolids recycling. Each bill also includes a service charge for stormwater collection, inflow into and leakage of water mains and sewers, in addition to costs associated with metering, billing

and collection operations.

Q. Why is the Water Department proposing new rates?

A. The proposed new rates are required so that the Department can pay for all costs associated with operating a safe, reliable and economic water and wastewater system. Some of the key costs are associated with:

- Loss of state subsidy
- Water service line and sewer lateral repair program
- New environmental regulatory requirements
- Increase in labor costs
- Higher costs associated with funding our capital program
- Decrease in interest income
- Decrease in customer base
- Inflation

Q. What is debt service?

A. It is the annual cost for bonds used to finance the Water Department's cost for bonds. Bonds are used to finance the Water Department's construction program. Debt service is comprised of the annual interest owed on bonds and repayment of a portion of the principal borrowed, similar to a mortgage payment.

Q. Why is the Water Commissioner responsible for setting rates?

A. The Water Commissioner is required by the City Home Rule Charter to set water rates to ensure that the Department is operated in a financially sound manner and by bond covenant, which requires that revenues must meet expenses.

Q. Why is City Council notified first?

A. The Philadelphia Code of General Ordinances requires that the Water Department notify City Council thirty (30) days prior to its filing of notice to the Department of Records. With this notification, the Water Department must present pertinent engineering and financial data that supports the department's proposal for new rates.

Q. What is the process for setting new rates?

A. Pursuant to the Philadelphia Code, the Department is required to first notify City Council and thereafter submit its proposed rate filing to the Department of Records. The filing will also be made available for review at branches of the Free Library.

Q. How can the public voice its opinion on the proposed rates?

A. A number of formal and informal public hearings will be scheduled where interested organizations and any of the department's customers may comment on the proposed rates.

Q. Who presides at the public hearings? How is this person selected?

A. An independent hearing officer is appointed jointly by the Mayor, the President of City Council and the City Controller to preside at the hearings. The officer also determines the number of hearings, their dates and locations.

Q. How do these public hearings work?

A. The hearing officer conducts a formal public hearing where testimonies concerning the proposed new rates are heard from both Water Department officials and formal intervenors, who may represent consumer advocates, social and community services groups and individuals. These hearings are open to the public. The general public will be provided with a chance to comment at a number of public sessions.

Q. How does the public learn about the hearings?

A. The Water Department will publish the dates, times and locations of these hearings in the City's newspapers, such *The Philadelphia Inquirer*, *Philadelphia Daily News*, *The Philadelphia Tribune*, *El Sol*, and *Al Dia*. These notices will be in the format of a public notice and will be easily read. They will be posted also on the Water Department's web page: www.phila.gov/water.

Q. Can the public get copies of the Water Department's proposed new rates prior to the public hearings?

A. Yes, copies of the proposal will be available through the Department of Records and for review at the main library on Logan Circle and the City's three regional libraries.

Q. Has a schedule been set for the public hearings?

A. The hearing officer will set the exact dates, times and locations. A formal schedule has not been set at this time. However, a tentative schedule calls for public hearings to be conducted this spring.

Q. Has the Department taken steps to improve service and minimize costs since the last time new rates were phased in?

A. Yes, the Department has initiated numerous measures to improve service, reduce operating costs and enhance revenues which include the following:

- Rebuilding water mains and sewers saves money in the long-run by preventing water main breaks and leaks which cause loss of water and damage to property. During the past decade, the department has increased the number of miles of water mains it repairs each year, approximately 22 to 25 miles, as compared to 14 miles in Fiscal Year 1994. Also rebuilding sewers prevents sewer collapses and the discharge of sewage.
- In January 1993 the Water Department began monthly water and sewer billing, ending the more difficult to budget quarterly billing process. By billing more frequently, and on a basis that is consistent with other household bills, payment was

made easier and more manageable for Water Department customers.

- In September 1997, the Water Department and Water Revenue Bureau launched its Automatic Meter Reading (AMR) project to eliminate the need for meter readers to gain access into customers' homes to obtain an accurate reading. Within a two-year period, 95 percent of the Water Department's 472,000 residential and small business customers had automatically-read meters installed. The benefits to both customers and the department's revenue collection efforts have been multiple: an increase in actual meter readings; accurate bills; reduced customer calls and complaints concerning their bills; significant reduction in meter reading costs. AMR is projected to achieve cumulative financial benefits over the 20-year useful life of the system estimated at \$25 million.
- The Water Department is expanding its wholesale services to communities beyond the city's borders. While Philadelphia already sells approximately \$5 million in water services and over \$20 million in wastewater services to its neighbors, the department is looking to market its high quality drinking water to additional suburban areas.
- The Water Department refinanced \$36 million of debt as part of a November 2001 \$286 million bond issue, saving \$1.7 million. This brought the net present value savings of bonds refinanced at lower rates to \$63 million since 1993.
- The Water Department decreased an extra \$24.5 million of bond debt since June 2002, lowering debt service.
- The Water Department continued to make annual deposits of one percent of net property, plant, and equipment (approximately \$16 million) from the Revenue Account to the Capital Account. These deposits have totaled \$153.2 million since 1993.
- A Revenue Protection Unit, created in Fiscal Year 2000, has investigated more than 4,300 customer accounts and recovered more than \$12.4 million in revenue to date.
- The Water Department entered into a Swaption Agreement with an investment bank in December 2002 in exchange for a net payment of \$29 million.
- The Water Department has institutionalized the significant operating savings achieved over the past decade at each of its seven major plants and facilities. These savings are valued upwards of \$25 million a year.
- Upgrades to the Water Department's bond credit ratings (Moody's A3, Standard and Poor's A-, and Fitch A-) have lowered borrowing costs.

Q. Does the Department need rate relief at this time?

A. Yes. Inflation in combination with increased labor costs, escalating regulatory requirements, the new water service line and sewer lateral repair program, and the Department's covenants with investors, make it necessary for the Department to raise rates at this time.