



CITY OF PHILADELPHIA

OFFICE OF THE DIRECTOR OF FINANCE

Room 1330 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102
(215) 686-6140
FAX (215) 568-1947

ROB DUBOW
Director of Finance

April 24, 2023

Randy E. Hayman, Esq.
Commissioner and CEO
Philadelphia Water Department
1101 Market Street, 5th Floor
Philadelphia, PA 19107

Dear Randy:

Thank you for your letter inquiring about General Fund support for the Water Fund to help with the rate case. Unfortunately, additional General Fund support may hurt the ratings of both the General Fund and the Water Fund and could create budget problems for the General Fund.

As you recall, by reallocating pension fund costs between funds, we have reduced costs for the Water Fund by over \$100 million over five years and increased costs on the General Fund side. As we inquired with bond counsel and financial advisors about the impact of further General Fund support, we became convinced that additional support could damage both of our ratings.

Providing General Fund support for the Water Fund would be seen as a credit negative by rating agencies and investors. It would be seen as an indication that the Water Fund is unable to support itself. At the same time, it would signal to the rating agencies and investors that the General Fund is assuming direct responsibility for the water fund's finances, thus linking the two ratings, and likely dragging them both down. Moody's Investor Service has recently described exactly this type of scenario as a textbook example of an inter-fund linkage that would damage the ratings of both credits involved.

While that market perception limits the benefits of providing General Fund support for the Water Fund, the support would come at a financial cost to the General Fund. While the current General Fund balance is higher than it has historically been, our reserves still lag those of peer cities and have been boosted in part by one-time revenues and American Rescue Plan (ARP) funds. This leaves the General Fund with fewer resources to respond to a future recession or address other needs in the city. In short, there would be costs without clear benefits.

I hope this letter was helpful. Let me know if you would like to discuss these issues further.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Dubow".

Rob Dubow
Director of Finance