



Budget Office

CITY OF PHILADELPHIA

April 28, 2023

The Honorable Darrell Clarke
City Council President
City Hall, Room 490
Philadelphia, PA 19107

Dear Council President Clarke,

This letter is in response to questions raised by Councilmembers regarding the Proposed FY24 Operating and Capital Budget.

Councilmember Gilmore-Richardson: The department refers to its Water Revitalization Plan throughout its testimony, how was the impact of climate change considered during the formation of that plan?

The Water Revitalization Plan (WRP) incorporated climate change as a key planning driver that informed system risks and solutions for PWD's drinking water system. PWD's Climate Change Adaptation Program (CCAP), which stays up to date on the latest climate science, provided information for the WRP that will be carried through design and implementation of the projects identified in the plan.

Specifically, the WRP was developed to include design elevations that will protect against sea level rise and storm surge, and the evaluations also incorporated system risks associated with increasing precipitation and higher air temperatures. The climate change-related risks considered as part of the WRP's development include: salt line migration (up the Delaware River), Coastal Flood Risk, Riverine Flood Risk, and Source Water Quality and Quantity.

Further, it should be noted that the Water Revitalization Plan was developed with an adaptive approach that enables PWD to account for changing conditions (as is done for all PWD efforts – our infrastructure is designed to last very long periods, and we know it is critical to plan for change). To this end, the WRP will be reviewed on a 5-year basis to evaluate its progress and goals, identify changes to drivers (e.g., new regulations and advances in our understanding of climate-based risks), and validate its conclusions. As new and updated information emerges, CCAP and the Department's water supply planning experts will work with the WRP team to incorporate the latest findings into WRP infrastructure projects and ensure alignment among the goals of both programs.

Councilmember Gilmore-Richardson: The recent toxic chemical spill underscored the threats to our drinking water supply, could you please address the threat of the salt line being pushed up the Delaware River to the point that it threatens our water supply? What is the department currently doing to address this potential threat as we continue to experience threats from climate change?

PWD has a regionally acclaimed salinity modeling program that studies the risk to the drinking water supply from salinity intrusion under current and future climate conditions. PWD is also very active in the



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regulatory agency committees dedicated to drought management such as the DRBC Regulated Flow Advisory Committee and the Pennsylvania State Water Planning Committee. Current drought management policies are capable of preventing salty water from entering the PWD treatment plant. PWD is committed to understanding future salinity risk and treatment needs to support a high-quality drinking water supply to Philadelphians under all climate conditions.

Councilmember Gilmore-Richardson: The Water Revitalization Plan states Philadelphia invested significantly in its drinking water system during the 1950s and 1960s. Given the significant infrastructure improvements required to ensure the sustainability of our water infrastructure, do you believe that opportunities exist for increased investment in our water system? If so, what are they?

Yes, we believe that opportunities exist for increased investment in our aged system and that such investments are needed to prevent any catastrophic breakdown of the system. The need to invest is very clear. PWD has developed long-term plans, for example the 25-year Water Revitalization Plan, as a blueprint for investment in our infrastructure. For the next six years, PWD will need \$4.5 billion for such investment. However, what is less clear is identifying appropriate resources to undertake such massive investment. There are traditionally three sources of funding to consider: 1) current revenue, 2) debt, and 3) grants, which we discussed below:

- 1) Current revenue – According to best practice in the public utility industry, capital investment should be funded in part by current revenue. PWD estimates that over the next six years, \$26 million will be required annually from current revenue to fund the capital programs, which puts tremendous pressure on rates.
- 2) Debt – over the same six-year period, PWD plans to borrow on average an estimated \$630 million annually, which translates into an annual debt service of about \$287 million on average. PWD has worked tirelessly to secure low-interest loans from PennVest and the U.S. Environmental Protection Agency’s Water Infrastructure Finance and Innovation Act program (WIFIA) which has resulted in savings on debt services. Note, however, that although these loans afford PWD savings on debt service, they still need to be paid back with interest.

Since the current revenue and debt services are funded by ratepayers, on average \$313 million (\$26M + \$287M) will be contributed annually by the ratepayers to these capital projects which is included in our request for rate adjustment.

- 3) Grants – Unlike debt, grants are not repaid, which offers savings on both principal and interest. PWD hired the services of consultants and has applied for over \$55 million in grant funding from the Federal Emergency Management Association (FEMA) and the American Rescue Plan Act of 2021 (ARPA) and has received advanced notice of awards for \$25 million. Although this is welcomed, it is still a drop in the bucket. Please note that PWD does not currently qualify for principal forgiveness (i.e., grants) under PennVest which manages most of the infrastructure funds accessible to PWD. PWD and MDO are currently in discussion with PennVest to see how PennVest’s rules can be amended so that PWD can qualify for grant funding.

PWD and its consultants are actively reviewing all funding opportunities and will appreciate working with any office and organization to access funding for the system.



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Councilmember Gilmore-Richardson: Based on the Water Department's current rate case and past rate requests, it appears that the department's position is that annual increases of 10% are required to fund our water system regardless of funding opportunities. How do we provide our residents and businesses with access to water at an affordable rate if this is to continue?

Based on conditions – such as price increases and need to invest in our infrastructure, most of which are nondiscretionary – PWD needs rate relief. Presently, PWD has not been successful in identifying alternative sources of funds to minimize or replace the need for a rate increase. As stated in the response to the above question, PWD has pursued low-interest loans to save costs on the capital program, which benefits will be realized over several future years. A review of eleven peer utilities indicates that the average (mean) typical rate is \$79.22, and median is \$72.16, while the current PWD rate is \$69.30, and the rate recommended for FY24 is set at \$77.47. PWD's rates are below average (mean) rates compared to peer utilities. For residents with financial limitations, PWD has robust customer assistance programs which include Tiered Assistance Program (TAP), Senior Citizen Discount, Charity Discounts etc. to assist residents facing affordability issues.

PWD strongly believes that investing in our infrastructure now will ensure that the system is resilient, efficient, and reliable to ensure quality service to our residents.

Councilmember Gilmore-Richardson: Is there going to be money in the budget for dry weather overflow?

Dry weather program expenses are funded through both the capital and operating budget. PWD allocates sufficient funding to maintain compliance with the Illicit Discharge and Detection Elimination Program requirement in the City's MS4 Permit.