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## COUNCIL OF THE CITY OF PHILADELPHIA

3

## PUBLIC HEARING

4

## COMMITTEE ON TRANSPORTATION

5

## AND PUBLIC UTILITIES

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Room 400, City Hall  
Philadelphia, Pennsylvania  
Wednesday, September 22, 2004  
2:10 p.m.

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RESOLUTION 040298 - Resolution authorizing  
City Council's Committee on Transportation  
and Public Utilities to hold public hearings  
to investigate the proposed nearly 43% water  
and sewer cost rate increase to be effective  
July 1, 2004...

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PRESENT:  
COUNCILMAN MICHAEL NUTTER, Chair  
COUNCILMAN FRANK RIZZO  
COUNCILMAN DAVID COHEN  
COUNCILMAN BRIAN O'NEILL

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2           COUNCILMAN NUTTER: Ladies and  
3 gentlemen, this is a continuation of the  
4 hearing of the Council's Committee on  
5 Transportation and Public Utilities pursuant  
6 to Resolution No. 040298 authorizing City  
7 Council's Committee on Transportation and  
8 Public Utilities to hold public hearings to  
9 investigate the proposed nearly 43 percent  
10 water and sewer cost rate increase to be  
11 effective July 1, 2004, requested by the  
12 Philadelphia Water Department; and in  
13 furtherance of such investigation, authorizing  
14 the issuance of subpoenas to compel the  
15 attendance of witnesses and the production of  
16 documents to the full extent authorized under  
17 Section 2-401 of the Home Rule Charter.

18           We have a list of witnesses. We  
19 have a continuing quorum from the last  
20 hearing. And the first witness is the Acting  
21 Water Commissioner, Mr. Bernard Brunwasser.

22           Could you please approach the  
23 witness table?

24           Please identify yourself for the  
25 record. Unless Councilman Rizzo has an

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2           opening statement, you can proceed with your  
3           testimony.

4                   COMMISSIONER BRUNWASSER:   Good  
5           afternoon, Mr. Chairman. My name is Bernard  
6           Brunwasser. I'm the Acting Water  
7           Commissioner.

8                   COUNCILMAN NUTTER: Let the record  
9           indicate that Councilman Rizzo is here and a  
10          couple other Members are anticipated to join  
11          us very shortly.

12          Councilman Rizzo.

13                  COUNCILMAN RIZZO: Thank you,  
14          Councilman Nutter. Councilman O'Neill will be  
15          here momentarily.

16                  Commissioner, for the record, I know  
17          that you always are very responsive with  
18          information that we ask for, and we have many  
19          of the exhibits in the information.

20                  I would like to go back over -- and  
21          Councilman O'Neill, I'm sure, will agree.  
22          We'll be asking you to follow-up on some of  
23          the questions that we had of you during our  
24          first hearing. It had to do with the  
25          wholesale contracts.

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2           Could you for the record talk a  
3           little bit about the number of contracts and  
4           some of the issues that we requested of you to  
5           respond to in reference to those wholesale  
6           contracts?

7           COMMISSIONER BRUNWASSER:   Yes.  As  
8           I recall, one of the things that was requested  
9           was actually the listing of who these  
10          customers are and the length of their contract  
11          and so forth.  We have actually provided  
12          copies of each wholesale customer contract.  
13          And that was in response to questions at our  
14          first session.

15          We've also provided a discussion of  
16          the differences between wholesale and retail,  
17          as well as speaking about them at the second  
18          session and the first session.  And there's a  
19          considerable difference between the services  
20          that the Water Department supplies for retail  
21          customers versus the services that we supply  
22          to wholesale customers.  That, I believe, was  
23          the gist of the questioning of these  
24          contracts.

25          COUNCILMAN RIZZO:  If I can

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2           recollect, your answer to the question about  
3           the cost associated with the wholesale  
4           contracts is that we have a big pipe, we send  
5           them X numbers of cubic feet of water.

6                     COMMISSIONER BRUNWASSER:    Yes.

7                     COUNCILMAN RIZZO:  We haven't gotten  
8           to gallons, yet, right; We're still in cubic  
9           feet?

10                    Based on the fact that we're just  
11           sending a quantity of water and we're not  
12           responsible for the distribution of that  
13           water, that is the rationale on the pricing  
14           there?

15                    COMMISSIONER BRUNWASSER:    Right.  
16           That's certainly part of it.

17                    COUNCILMAN RIZZO:  As the Water  
18           Commissioner, do you believe that this is good  
19           business for the City of Philadelphia, to be  
20           in this wholesale?

21                    COMMISSIONER BRUNWASSER:    I  
22           absolutely know that to be a good deal for the  
23           owners of the system, and the owners are the  
24           citizens of Philadelphia

25                    The value of selling wholesale to

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2           the suburban customers is that we are  
3           spreading some of our fixed costs over a much  
4           larger base than what we have now in the City.  
5           We have approximately one-and-a-half million  
6           people inside the City. When we wholesale  
7           wastewater services, we are hitting about  
8           three-quarters of a million people beyond our  
9           borders and we're spreading some of the cost  
10          of the plants, the three wastewater plants,  
11          on to those customers. And we're making a  
12          profit of 10 percent over above all of our  
13          costs.

14                 COUNCILMAN RIZZO: By the way, just  
15          to digress for a second, thank you also for  
16          your quick action. I received a call from  
17          Bucks County that really appreciated the work  
18          that you're doing to try to get them squared  
19          away with some of the issues that you  
20          identified.

21                 One of the critical things that has  
22          to happen to go forward with this proposed  
23          rate increase is the consumer advocate must be  
24          appointed. That has not happened. Could you  
25          talk about why that hasn't happened, if you're

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2           knowledgeable of that decision-making process?

3           Because nothing can happen here, which for us

4           that's good and that could be bad in the same

5           breath. Could you just talk a little about

6           that, please?

7                       COMMISSIONER BRUNWASSER:

8           Councilman, as far as I know, the appointment

9           of a hearing officer and a public advocate,

10          which is done by the Mayor, President of City

11          Council, and the City Controller jointly, that

12          has not yet materialized. I believe that may

13          still be in the Mayor's Office, that request.

14                       COUNCILMAN RIZZO: The proposal, the

15          timeline for this rate increase, the timeline

16          that was established, could you give me that?

17          I'm talking about the one that was advertised

18          weeks ago.

19                       COMMISSIONER BRUNWASSER: We

20          proposed a four-year rate period beginning

21          July 1, 2004, which, of course, has passed.

22          And so that was what we set out to do

23          initially.

24                       COUNCILMAN RIZZO: What is the

25          impact, each week, each month, that you don't



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2           have the process in place? What impact does  
3           that have on you?

4                   COMMISSIONER BRUNWASSER: Well,  
5           obviously, we have not been collecting higher  
6           revenues since July 1. We've been collecting  
7           at the old rate. And the impact is, the  
8           incremental revenue that we need in Fiscal  
9           2005, which is the period we're in already,  
10          as each day goes by we have less and less time  
11          to collect the incremental revenue that we  
12          need to balance our books.

13                  COUNCILMAN RIZZO: Many of the  
14          constituents and, I think, the Members of  
15          Council, we were kind of staggered by the  
16          significance of this increase. Could you just  
17          elaborate on the overall four-year rate  
18          increase on the percentages and why they are  
19          so significant? It's one of the biggest  
20          increases I think I've ever heard announced.  
21          Could you just take us through that a little  
22          bit and tell us how you got to these numbers?

23                  COMMISSIONER BRUNWASSER: Sure. I  
24          know I passed this out in a booklet at one of  
25          our prior sessions, but there were some major

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2           factors that we're looking at right now. And  
3           the first one is increasing debt service. We  
4           have to continue to go to the bond market to  
5           raise capital to continue to replace our  
6           infrastructure.

7                     Primarily most of what the  
8           Philadelphia Water Department needs are funds  
9           to pretty much renew and replace what we have  
10          in the ground today.

11                    Our capital program is not one of  
12          tremendous expansion any longer. We expanded  
13          our three wastewater treatment plants at an  
14          almost \$900 million cost back from the late  
15          '70s through the early '90s. Since that time  
16          it's mostly been renewal and replacement.  
17          And we have an old system, as we know, an old  
18          City, an old water and wastewater system. So  
19          we have to continue to go out into the market.

20                    Now, the bond issues that we have  
21          contemplated occurring within the four-year  
22          rate period would require us to raise about  
23          \$89 million in additional debt service,  
24          principal, and interest payments on those  
25          bonds. That was the biggest single item that

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2           we were looking at.

3                   The second biggest item was \$70  
4           million for sewer lateral and water line  
5           replacement programs for the lines, customer  
6           lines, in the street from the curb to the  
7           center of the street or to the main in the  
8           street. That was a \$70 million program spread  
9           out over those four years. That program, of  
10          course, is not imminent. There is no  
11          ordinance in place for that, nor is there one  
12          pending, as far as I know. So that may  
13          eventually come out of our filing, thereby  
14          lowering the revenue requirement.

15                   Then there are additional revenues  
16          needed for compliance with environmental laws.  
17          We have a lot of combined sewer overflow and  
18          storm water issues, watershed issues, that  
19          we're spending a good deal of money on, a lot  
20          less than many cities throughout the country,  
21          but we have a lot of regulatory requirements  
22          that continue to come up from Washington or  
23          from Harrisburg. So there's a good deal of  
24          money allotted for that.

25                   We also have security issues that

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2           have come up since 9/11. And we're getting  
3           rid of our chlorine at all of our water plants  
4           In fact, one of them has no chlorine and the  
5           two others will move to sodium hydrochloride  
6           within a short period of time, and there will  
7           no longer be any chlorine at any of our six  
8           wastewater treatment plants. That's a good  
9           thing because chlorine gas is a potentially  
10          dangerous chemical. These are some of the  
11          reasons for the sizable rate hike that we're  
12          seeking.

13                 COUNCILMAN RIZZO: Commissioner,  
14           you mentioned about the lateral program. I  
15           don't mean to get very basic, but the record  
16           here is very important, especially on this  
17           issue. Could you go back and restate the  
18           actual proposal with the lateral program in  
19           there, what the increase would mean in  
20           percentages, however you'd like to present it,  
21           so we truly understand where you are today?

22                 I'm sure Councilman O'Neill, since  
23           it's his issue, will probably be able to tell  
24           you exactly where he is with that. But let's  
25           talk about the percentage for the four years,

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2           again, however you'd like to try to explain to  
3           the record what this proposal will be, what  
4           this increase will be. If you could at the  
5           end, for an average consumer, explain what  
6           that would mean.

7                   COUNCILMAN COHEN: Sir, please  
8           explain what the lateral program is. Don't  
9           assume that we know what you're talking about,  
10          because I don't know.

11                   COMMISSIONER BRUNWASSER: Right. I  
12          guess it was last fall, fall of 2003, an  
13          ordinance was sent to City Council and I  
14          believe it passed in Committee. I don't  
15          recall the Committee. But it was an ordinance  
16          that would have the Water Department take over  
17          responsibility of maintaining water and sewer  
18          customers' service lines and sewer laterals in  
19          the street. That's the basic ordinance.

20                   COUNCILMAN COHEN: Why did  
21          Councilman Rizzo call that Councilman  
22          O'Neill's program? I've been arguing for that  
23          for over 25 years, as have other  
24          Councilmembers.

25                   COUNCILMAN RIZZO: I believe

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2       Councilman O'Neill moved the issue in the  
3       form of an ordinance and it went to Committee  
4       and came out, from what I understand, with a  
5       favorable recommendation. And when Councilman  
6       O'Neill arrives, Councilman Cohen, he can  
7       explain -- believe me, it's not a Republican  
8       idea. I'm sure that Councilman O'Neill will  
9       explain the rationale of that.

10               So what exactly did you say --  
11       refresh all our memories -- came out of  
12       Committee? Was it voted out of Council?

13               COMMISSIONER BRUNWASSER: I believe  
14       it didn't go in front of the full Council  
15       before the full Council recessed in December  
16       of last year.

17               COUNCILMAN RIZZO: And I assume that  
18       Councilman O'Neill will probably try to  
19       accomplish that because I know he was very  
20       interested in having that occur.

21               You're telling me there's a \$70  
22       million tab associated with that ordinance?

23               COMMISSIONER BRUNWASSER: Right.  
24       And that's what we included because of our  
25       filing. We notified City Council of our plans

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2           in late January of this year and the whole  
3           filing was put together with the idea that  
4           this was an ordinance that would go through.

5                   COUNCILMAN RIZZO: Commissioner,  
6           after you walk us through the proposed  
7           increase, taking \$70 million out, would you  
8           also elaborate on what that would mean to the  
9           rate increase?

10                   Why don't we start at the  
11           beginning. Let's talk about with it in, take  
12           us through a four-year period each year, what  
13           that means in the increase.

14                   COUNCILMAN COHEN: You stated  
15           earlier that the bond issue was going to be  
16           for \$89 million and you said that the lateral  
17           issue was for about \$70 million, but that may  
18           come out of the original bond issue. If it  
19           comes out, it means the current issue is only  
20           for \$19 million.

21                   COMMISSIONER BRUNWASSER: I didn't  
22           really state what the bond size was. The  
23           \$89 million is for the debt service, the  
24           incremental debt service on the next two bond  
25           issues.

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2           COUNCILMAN COHEN: Which are how  
3 much borrowing?

4           COMMISSIONER BRUNWASSER: The first  
5 one is for \$250 million, 250 being the first  
6 issue. And that gives you a debt service of  
7 \$17.2 million each year. When you play that  
8 out over each of the four years, I guess it  
9 comes to about \$68 million, 68, \$69 million  
10 for debt service.

11           Then towards the end of the  
12 four-year rate period, there's another bond  
13 issue contemplated. It's either \$300 or \$350  
14 million, and that has additional associated  
15 debt service.

16           COUNCILMAN COHEN: And there's still  
17 debt service owing on the original bond issue,  
18 bond issue No. 1? Or pay off full bonds in  
19 the four years?

20           COMMISSIONER BRUNWASSER: No.

21           COUNCILMAN COHEN: Councilman Rizzo,  
22 forgive me. I'm just trying to find out what  
23 we're talking about.

24           COUNCILMAN RIZZO: I understand, and  
25 I appreciate your questions.



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2           COMMISSIONER BRUNWASSER:   The first  
3       bond issue, which will probably occur early in  
4       Calendar 2005, will probably have debt service  
5       for 25 to 30 years.   But it will certainly  
6       have that debt service for the four years that  
7       we're looking at   I'm just looking at the  
8       four-year rate window at this point.

9           COUNCILMAN COHEN:   Why are you only  
10      looking at the four-year rate window?   Why  
11      are you looking at four years instead of two  
12      years, three years or five or six years?  
13      What's magic about the number four?

14          COMMISSIONER BRUNWASSER:   It's for  
15      planning purposes.   We need a little more than  
16      two years to put a plan together and to go  
17      through a rate process like this.   Rate  
18      processes are very   expensive and they're  
19      relatively onerous for a municipally-owned  
20      utility like our own.   We can't go through  
21      these too often.   Four years is a good  
22      planning horizon.   We think it's about the  
23      ideal for a utility like ours.

24          COUNCILMAN COHEN:   Is it ideal for  
25      the people of Philadelphia to be saddled for

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2           the next 20 or 25 years with what you call a  
3           four-year plan, which is actually a 20- or  
4           25-year plan as intended, to remain as a debt  
5           for that long? If there's any second bond  
6           issue for later, it's going to be added on.  
7           It's not going to be in place of. You're not  
8           telling us that this bond issue will later be  
9           paid off, but we're going to assume an equal  
10          bond debt for other purposes. You're saying  
11          this is going to be an add-on for 20 years or  
12          more. We're still going to be paying on this  
13          issue, plus a new issue, you're telling us.

14                   COMMISSIONER BRUNWASSER: We're  
15          still paying for issues from 20 years in the  
16          past.

17                   COUNCILMAN COHEN: I think we need  
18          some show of honesty, because we don't know  
19          that at all. We've always used the Water  
20          Department as an example for being a good  
21          utility as compared to the Gas Works, which  
22          we felt was a bad utility. It seems to me  
23          that one can't, from the point of view of the  
24          cost of taxpayers, differentiate between the  
25          two. Am I right or am I wrong?

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2           COMMISSIONER BRUNWASSER:   Well, you  
3       should continue to use the Water Department as  
4       a good example of a utility because we are and  
5       we're so known throughout the country.

6           COUNCILMAN COHEN:   Well, maybe  
7       that's because you've been able to convince  
8       people in Philadelphia that you're good.   But  
9       we don't question it.   We don't know what all  
10      the bond issues are for.

11          COMMISSIONER BRUNWASSER:   As I said  
12      earlier, primarily the bond issues at this  
13      point in time are just to maintain the systems  
14      we have in place.   Currently we have 3,300  
15      miles of water main, 3,000 miles of sewer  
16      main.   We have three water treatment plants.  
17      We have three wastewater treatment plants.   We  
18      have 33 pumping stations.   We have a large  
19      bio-solids recycle center.   All of these  
20      facilities and others, like our sewer  
21      maintenance yard and our distribution at 29th  
22      Street yard --

23          COUNCILMAN COHEN:   Maybe we have too  
24      many.   Do we have more than are needed?   It  
25      seems to me that the feeling may be that cost

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2           means nothing but for let's keep adding on new  
3           systems.

4                   COMMISSIONER BRUNWASSER:   Our costs  
5           are much lower than our suburbanites. So I  
6           think we're considered to be very efficient

7                   COUNCILMAN COHEN: I just think  
8           we've got to begin to get much more detailed  
9           information before we approve bond issues.  
10          Because the Mayor says we're in a financial  
11          crisis, but we don't know why we're in a  
12          financial crisis. We don't know where the  
13          money going. Because this Mayor and maybe  
14          mayors before him had a policy of never  
15          divulging the full extent of the debt or for  
16          what the purpose money is being spent. City  
17          Council doesn't know. We think the time has  
18          come for openness. We ought to know what  
19          every dollar is being spent for.

20                   Before I vote on another Water  
21          Department bond issue, I'd like to know what  
22          the bond issues are and for what purpose and  
23          can they be reduced and do we have too many  
24          functions.

25                   Didn't we prepare for our Water

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2           Department to cover the City's need for three  
3           million people or two-and-a-half million, far  
4           more than what we have?

5                   COMMISSIONER BRUNWASSER:   Some of  
6           our water facilities were designed for perhaps  
7           two-and-a-half million people.

8                   COUNCILMAN COHEN:   And we have a  
9           million and a half?

10                   COMMISSIONER BRUNWASSER:   Correct.

11                   COUNCILMAN COHEN:   What's the need  
12          for continuing the services for a million  
13          people that we don't have?   Couldn't we reduce  
14          the   expenses?

15                   I'm not saying that today we have to  
16          get all of the answers, but today I think  
17          it's time to begin raising the questions.   Why  
18          can't we do something to show that the City  
19          has a million-and-a-half people and therefore  
20          doesn't need this process of developing water  
21          supplies for two-and-a-half million, so that  
22          you have to go hat in hand trying to sell the  
23          amount of services we have available for an  
24          extra million people?   Has that been fully  
25          explored?   If so, we'd like to know how.   We

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2           might have a few ideas on that.

3                   COMMISSIONER BRUNWASSER: Well, as I  
4           said, we service about three-quarters of a  
5           million people outside of our borders.

6                   COUNCILMAN COHEN: Why?

7                   COMMISSIONER BRUNWASSER: Because it  
8           makes economic sense for us to do so.

9                   COUNCILMAN COHEN: Well, I think we  
10          have to have a case presented for that. But  
11          through our ability to raise questions, we've  
12          never had the chance to evaluate that. Maybe  
13          all the brains are on the Administration's  
14          side and we in Council may be too political  
15          or too stuffy or too stupid to understand.  
16          But we think we maybe fit a different category  
17          and maybe we've been too lenient and maybe  
18          we've got to begin learning what the money is  
19          for.

20                   Unless there's rigid responsibility  
21          in accounting, money seems to be something  
22          that -- you know, when you talk about a  
23          \$250 million bond issue, you threaten my whole  
24          sense of stability. That is a huge bond issue  
25          for the City of Philadelphia to currently

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2           consider. We're trying to cut taxes in the  
3           City, not increase them. We're trying to cut  
4           taxes on business and we'd like to cut taxes  
5           on non-business groups. How you do that and  
6           increase the bond issues, I don't know.

7                     I get concerned when people  
8           representing the Administration talk about  
9           25-year bond issues and then tell us what the  
10          cost is for the first four years and don't  
11          tell us that that of course means the bond  
12          issue continues in effect for 21 more years,  
13          20 more years.

14                    You know, if we talk about fiscal  
15          restraint and fiscal responsibility, let's  
16          begin practicing it and let's begin doing it  
17          by making information available to people who  
18          are in a position to vote on it.

19                    So I'm not going to support your  
20          bond issue unless I get much more information  
21          about it. It might make sense. And when I  
22          get convinced that you're right in continuing  
23          to prepare for three-and-a-half million when  
24          we only have a population of a  
25          million-and-a-half or two million or whatever

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2           the figure is -- we don't need to be in the  
3           business of producing water for other agencies  
4           or other suburban communities who never  
5           appreciate whatever Philadelphia does and  
6           never want to participate --

7                   COUNCILMAN NUTTER: Commissioner, we  
8           will have a subsequent conversations about the  
9           -- maybe a training session on public  
10          testimony and appearances in City Council for  
11          many other top operating departments in order  
12          to assist you through our process in trying to  
13          escape with the rest of your life as possible.  
14          We'll do that another day

15                   First, why don't we make it clear  
16          at this hearing, this hearing is not about a  
17          bond issue. There's no legislation in front  
18          of us with regard to a bond issue at the  
19          moment; is that correct?

20                   COMMISSIONER BRUNWASSER: Correct.

21                   COUNCILMAN NUTTER: Do you have an  
22          upcoming bond issue?

23                   COMMISSIONER BRUNWASSER: We don't  
24          have an upcoming ordinance. But we have a  
25          bond issue that has already been approved by



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2           City Council, and that issue, hopefully, will  
3           happen early in Calendar 2005.

4                   COUNCILMAN NUTTER: So that's  
5           already been approved? It's just working  
6           through the process?

7                   COMMISSIONER BRUNWASSER: Yes.

8                   COUNCILMAN NUTTER: Okay. What's  
9           the size?

10                  COMMISSIONER BRUNWASSER: \$250  
11           million.

12                  COUNCILMAN NUTTER: Why don't you  
13           get it to me for the Members of the  
14           Committee, a complete schedule of all of your  
15           debt service payments, how many bond issues  
16           you have presently outstanding.

17                  What's the total amount of debt  
18           outstanding for the Water Department at the  
19           moment?

20                  COMMISSIONER BRUNWASSER:  
21           Approximately \$1.7 billion.

22                  COUNCILMAN NUTTER: \$1.7 billion  
23           with a "B"? What's the debt service on that?

24                  COMMISSIONER BRUNWASSER:  
25           Approximately \$160 million.

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2           COUNCILMAN NUTTER: Does that come  
3 out of the General Fund or out of the Water  
4 Reserve?

5           COMMISSIONER BRUNWASSER: It's all  
6 Water Fund money.

7           COUNCILMAN NUTTER: It's all Water  
8 Fund dollars, not General Fund dollars?

9           COMMISSIONER BRUNWASSER: Right.

10          COUNCILMAN NUTTER: You're at 160  
11 now in debt service?

12          COMMISSIONER BRUNWASSER: Correct.

13          COUNCILMAN NUTTER: Okay. If you  
14 could get us a listing of each of the bond  
15 issues that's outstanding, when it was issued,  
16 and a schedule that goes with each of those  
17 issues, that would be helpful. And you can  
18 certainly mention the routine maintenance  
19 and, I guess, pipe program, the replacement of  
20 mains and pipes that you normally do. If  
21 there were special projects that were paid for  
22 out of any particular bond issue, if you could  
23 make a designation or a note for that  
24 particular one or a legend. If you're aware,  
25 if there was a plant, if there was a building,

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2           if there was something outside of underground  
3           infrastructure that was taken care of out of  
4           a particular bond issue or a series of issues,  
5           that would be helpful.

6                     Now, with the \$17 billion  
7           outstanding, does that particular fund -- do  
8           you have your own financial advisor or do you  
9           use the City's financial advisor?

10                    COMMISSIONER BRUNWASSER:   The City  
11           chooses that for us.

12                    COUNCILMAN NUTTER:   Has there been  
13           any discussion about the amount of debt in  
14           the context of possible restructuring of the  
15           debt, any savings, any refinancings? Tell me  
16           anything about that.

17                    COMMISSIONER BRUNWASSER:   Well, I  
18           would say that since 1993 we have refinanced  
19           several times. I believe the net present  
20           value savings that we've achieved over that  
21           well now 11-year period is approximately  
22           \$93 million.

23                    COUNCILMAN NUTTER:   What was the  
24           debt service 10 years ago for whatever amount  
25           of bonds you had outstanding at that time?

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2           COMMISSIONER BRUNWASSER: It was  
3 less than you have today.

4           COUNCILMAN NUTTER: Would you show  
5 us on the same set of materials or with the  
6 same information, show us the either increase  
7 or decrease in debt service levels over the  
8 last, let's say, 15 years for the Water  
9 Department, okay?

10          COMMISSIONER BRUNWASSER: Okay.

11          COUNCILMAN NUTTER: Let me get to  
12 that question. The resolution indicates that  
13 you are anticipating upwards of a 43 percent  
14 rate increase to be effective July 1, 2004.  
15 Obviously that has not happened. When was  
16 this announced and what would have had to have  
17 happened in order for you to get a rate  
18 increase effective July 1, given that nothing  
19 has happened and it's now September 22?

20          COMMISSIONER BRUNWASSER: The rate  
21 increase, I think, was announced the same day  
22 we sent the filing, I believe, to Council  
23 President Verna. I think that was January  
24 27th, give or take a day.

25          COUNCILMAN NUTTER: Okay. And what

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2           are the mechanics of making the announcement  
3           on January 27th in order to have a rate  
4           increase effective July 1? What would have  
5           had to have happened?

6                   COMMISSIONER BRUNWASSER: We would  
7           need to get an independent hearing officer  
8           appointed. We'd also need a public advocate  
9           appointed. That hearing officer would call  
10          the parties that would have registered with  
11          the Department of Records. The filing sits in  
12          the Department of Records for 30 days --

13                  COUNCILMAN NUTTER: Stop right  
14          there. Who authorized you to make the filing  
15          with the Council President about the rate  
16          increase in the first place?

17                  COMMISSIONER BRUNWASSER: We in the  
18          Water Department determined that we would have  
19          a revenue requirement, an incremental revenue  
20          requirement, beginning July 1, 2004. We  
21          determined that last year sometime.

22                  COUNCILMAN NUTTER: I understand.

23                  COMMISSIONER BRUNWASSER: We  
24          commissioned a comprehensive study of our  
25          rates --

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2           COUNCILMAN NUTTER: I understand.

3           We don't have to debate for the moment the  
4           size of it. What I'm trying to understand  
5           is, when you make the decision that the rate  
6           needs to increase by whatever, what is the  
7           internal process that gets to the point -- I  
8           mean, does the Commissioner have the authority  
9           absent anyone else or in a unilateral fashion  
10          to make the rate request, or does it work its  
11          way up through the Administration? Does  
12          someone have to sign off on this?

13          COMMISSIONER BRUNWASSER: It did  
14          work its way up through the Administration.  
15          Whether it has to under the Charter or any  
16          other documents, I don't know whether that's  
17          so, but it did work its way up through the  
18          Administration.

19          COUNCILMAN NUTTER: Did the Mayor  
20          approve you filing for a 43 percent rate  
21          increase?

22          COMMISSIONER BRUNWASSER: Yes.

23          COUNCILMAN NUTTER: But still today  
24          you don't have a hearing examining officer?  
25          What's this person?

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2           COMMISSIONER BRUNWASSER:   This  
3       would be an independent hearing examiner or  
4       hearing officer similar to what the Gas Works  
5       has.

6           COUNCILMAN NUTTER:   I understand.  
7       How does the person get appointed?

8           COMMISSIONER BRUNWASSER:   What we  
9       have done is, we have presented three resumes  
10      of folks that we believe could do this job and  
11      are independent of the City.  In other words,  
12      it's preferable, we believe, to have someone  
13      who doesn't have an ongoing relationship or  
14      contractual relations with the City  
15      government, and we have presented that.  Those  
16      three names.  And the Mayor, the Council  
17      President and the City Controller are free to  
18      choose whomever they want.  It doesn't have to  
19      be any of these three people.

20          COUNCILMAN NUTTER:   I wondered a  
21      little bit about that.  Doesn't that put you  
22      in a slightly unusual position of recommending  
23      who should oversee the case based on the  
24      petition?  What's the Water Commissioner's  
25      role in the rate process?

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2           COMMISSIONER BRUNWASSER: The Water  
3           Commissioner has final say on rate increases.

4           COUNCILMAN NUTTER: Why then would  
5           we have a process where the Water Department  
6           recommends who is going to conduct the  
7           process?

8           COMMISSIONER BRUNWASSER: These  
9           regulations were adopted with the knowledge of  
10          folks who had served as public advocates in  
11          the past, Community Legal Services, and they  
12          felt that that would be a fair process.

13          COUNCILMAN NUTTER: So it's the  
14          Mayor, the Council President and the City  
15          Controller have to agree on a hearing  
16          examiner?

17          COMMISSIONER BRUNWASSER: Correct.

18          COUNCILMAN NUTTER: And that has not  
19          happened?

20          COMMISSIONER BRUNWASSER: Right.

21          COUNCILMAN NUTTER: Do we know if  
22          the people have been contacted?

23          COMMISSIONER BRUNWASSER: I  
24          personally do not know. I believe this is  
25          going to be imminent, but I don't have any



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2           specific knowledge right now.

3                   COUNCILMAN NUTTER: So let's say it  
4           was imminent. Let's say it happened by the  
5           end of the week. Then what?

6                   COMMISSIONER BRUNWASSER: The  
7           hearing officer would call the parties that  
8           have registered with the Department of  
9           Records as wanting to be part of the process,  
10          part of the hearing process, want to be  
11          parties to the process, that hearing officer  
12          would call these parties together --

13                  COUNCILMAN NUTTER: How would people  
14          know that there was a process?

15                  COMMISSIONER BRUNWASSER: When we  
16          filed with the Department of Records, we also  
17          advertised in fairly large -- not the little  
18          legal advertisements, but we advertised in the  
19          paper that people, if they are interested in  
20          seeing the filing, it's at the Department of  
21          Records. And I think we sent those to all the  
22          regional libraries as well. If they're  
23          interested in becoming a party, they should so  
24          register.

25                  COUNCILMAN NUTTER: I understand.

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2           I would only suggest to you, you know, that  
3           was eight, almost nine months ago. If ever  
4           the process starts, you might want to remind  
5           people that there's a process going on for  
6           anyone else who is interested or happened to  
7           miss the big ads back in January or February

8                     Let's say you do all of that, what's  
9           your best estimate of when there would be a  
10          conclusion? If you're in effect losing money  
11          because you didn't get the increase on July 1  
12          that you expected, so now your rates are at  
13          the same level that they've been, is it  
14          reasonable to say that you built into your  
15          budget or are you anticipating increased  
16          revenues as a result of the anticipated rate  
17          hike?

18                    COMMISSIONER BRUNWASSER: Yes.  
19          That's a fair statement.

20                    COUNCILMAN NUTTER: How much revenue  
21          have you -- I don't want to say theoretically.  
22          I guess maybe in fact, how much revenue would  
23          you estimate that you've lost as a result of  
24          the rate hike not going into effect on July 1?

25                    COMMISSIONER BRUNWASSER: To date,

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2           I would guess that we've probably lost  
3           somewhere between 6 or \$7 million in revenue.

4                   COUNCILMAN NUTTER: Between 6 and \$7  
5           million?

6                   COMMISSIONER BRUNWASSER: Uh-huh.

7                   COUNCILMAN NUTTER: What's been the  
8           impact on the Department as a result of that  
9           rate hike not going through?

10                   COMMISSIONER BRUNWASSER: Well,  
11           there hasn't been a great impact yet. It's  
12           one of the offsetting items that I spoke a  
13           little bit with Councilman Rizzo earlier.  
14           Clearly we're not going to be in a position  
15           to provide this lateral program at the date we  
16           thought we would need to provide it, so some  
17           of those costs would not occur, at least not  
18           within Fiscal '05. So there is some offset.  
19           The bond sale is going out later than  
20           anticipated, so there is some offset in debt  
21           service as well. So there would be some  
22           adjusting that would have to be done.

23                   COUNCILMAN NUTTER: Councilman  
24           O'Neill is here so he can speak to this much  
25           more intelligently. To some extent the rate

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2           hike and the lateral program, I thought they  
3           had been decoupled to some extent. There was  
4           basically no connection between the one and  
5           the other.

6                   COMMISSIONER BRUNWASSER:   Not  
7           decoupled, no. I know we were asked to see  
8           what would happen to rates, for instance, if  
9           we were able to capitalize the cost of the  
10          lateral program. And we did that. That  
11          would certainly lower operating costs in the  
12          early years.

13                   COUNCILMAN NUTTER: Okay. I have  
14          one last question -- and then Councilman  
15          O'Neill has a question -- which is, tell me a  
16          little bit more about the Rate Stabilization  
17          Fund. What's the size of it, how the dollars  
18          flow into it, what's the money for?

19                   COMMISSIONER BRUNWASSER: The Rate  
20          Stabilization Fund came about when we went to  
21          our new general revenue bond ordinance back in  
22          1993. Before that time we had no Rate  
23          Stabilization Fund. The fund currently stands  
24          at approximately \$157 million

25                   COUNCILMAN NUTTER: What's the money

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2           for?

3                   COMMISSIONER BRUNWASSER: The money  
4           is there to do exactly as it states. It's  
5           there to stabilize rates. What we use it for  
6           is in those years where our revenue does not  
7           come up to meet our coverage requirements  
8           under our bond ordinance, we draw Rate  
9           Stabilization Fund money down to meet bond  
10          coverage.

11                  COUNCILMAN NUTTER: Where does the  
12          Rate stabilization money come? What's the  
13          source?

14                  COMMISSIONER BRUNWASSER: The Rate  
15          Stabilization Fund, it's basically revenues  
16          that have come in over the years. In those  
17          years where we collect enough current revenue  
18          to meet our bond coverage, anything collected  
19          over and above our bond coverage needs gets  
20          deposited to the Rate Stabilization Fund, so  
21          it does not get counted in that year's  
22          revenue. We can only count revenue once under  
23          our ordinance. So it resides in the Rate  
24          Stabilization Fund and is drawn out those  
25          years when we need it.

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2           COUNCILMAN NUTTER: And this started  
3 in 1993?

4           COMMISSIONER BRUNWASSER: Yes.

5           COUNCILMAN NUTTER: What's the  
6 highest it's ever been?

7           COMMISSIONER BRUNWASSER: I think it  
8 reached just over \$200 million some years  
9 back.

10          COUNCILMAN NUTTER: Can you give us  
11 a schedule showing since '93 on a yearly basis  
12 what the amount, quote/unquote, deposited in  
13 the Rate Stabilization Fund has been?

14          COMMISSIONER BRUNWASSER: Yes.

15          COUNCILMAN NUTTER: Okay. Thank  
16 you.

17          Councilman O'Neill.

18          COUNCILMAN O'NEILL: Thank you.

19          Commissioner, the capitalization of  
20 the pipes obviously would cost more in later  
21 years because you have more debt service the  
22 more you do it. Isn't that the same thing  
23 that is true of the Capital Program itself, I  
24 mean, with your water mains and things? So  
25 it's oranges and oranges, in that sense. Has

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2           a decision been made to capitalize?

3                   COMMISSIONER BRUNWASSER: My  
4           position on it, and I've thought about it  
5           quite a bit, I would say that it would be best  
6           for us not to capitalize that for several  
7           reasons. We still have issues of ownership of  
8           the pipes. And using capital funds -- our  
9           accountants tell us you're supposed to have an  
10          asset at the end of day, and if we don't have  
11          ownership of pipes, then we don't have an  
12          asset.

13                   From a financial standpoint, I think  
14          after 13 or 14 years of capitalizing these,  
15          the lateral program, we would then begin to  
16          reach over \$20 million a year in actual  
17          expense just for the debt service. And with  
18          our debt service we have a bond coverage  
19          requirement which is 20 percent over and above  
20          your debt service. So a \$20 million debt  
21          service requirement, the payment requirement,  
22          requires a \$24 million revenue requirement or  
23          120 percent over your actual debt service. So  
24          in about a dozen years to 15 years, we would  
25          be paying more just for the debt service than

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2           we would be paying for laterals if we went on  
3           an operating pay-as-you-go basis.

4                     The other point I want to make is,  
5           we are an old City We have a lot of debt  
6           service. You may have heard \$1.7 billion in  
7           outstanding debt, \$160 million in debt  
8           service. \$160 million in debt service over  
9           \$520 million operating budget, that's pretty  
10          highly leveraged business. And what we're  
11          trying to do is actually keep our debt service  
12          under control as much as possible.

13                    One thing I should tell you is,  
14          under our '93 ordinance, we've been putting in  
15          at least \$16 million a year towards our  
16          capital program, pay as you go. It's under  
17          our ordinance. We're required to make a  
18          payment each June of 1 percent of our net  
19          plant property and equipment. And in our  
20          case, that's approximately \$16 million. So  
21          we've deposited probably \$170 million or so to  
22          capital from operating over the past 11 years.  
23          This year we also made a deposit from our  
24          residual fund, which is another complicated  
25          thing to get into.



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2           We are trying our best to maximize  
3       how much we do on a pay-as-you-go basis  
4       because we recognize and Wall Street  
5       recognizes that we have quite a bit of debt.  
6       It's not very unusual for a water and sewer  
7       utility which has all this unbelievable  
8       infrastructure to pay for and maintain and is  
9       an older utility like we are, it's not unusual  
10      to have percentages of that nature.

11           What we don't want to do is  
12      exacerbate the problem of too much debt, and I  
13      don't believe that this will be looked on  
14      favorably if we capitalized the lateral  
15      program. When we go up to New York and tell  
16      them, Well, our typical annual capital budget,  
17      instead of being \$120 million, is now 140, and  
18      it's not for anything new, new infrastructure,  
19      it's for taking over this operation of this  
20      function --

21           COUNCILMAN O'NEILL: I appreciate  
22      the answer and I appreciate recognizing that  
23      the same argument making against doing it for  
24      laterals, you already have the same problem on  
25      the finance side with your sewer system and

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2           water system.

3                       Last time we spoke in Council  
4           Chambers, I was trying to determine the  
5           difference between what I think is a  
6           relatively small cost of retroactively -- we  
7           don't have to talk about retroactively, but  
8           just looking backwards at the number of  
9           laterals that were fixed under the Help  
10          Program -- because the others are kind of  
11          beyond our control. But to the extent that  
12          we know all of them, fine. Because there's  
13          all kinds of numbers out there. We should  
14          have permits and the shut-off notices,  
15          whatever that go with it. But there's a much  
16          higher number that we would be replacing than  
17          we're forcing owners to replace because we  
18          know they're bad. They're just not so bad  
19          that we are, from a policy standpoint, forcing  
20          people to do it. Is that exponent, is it 10  
21          times, is it 5 times, is it 15 times that we'd  
22          be doing more than is being done today under  
23          the current system?

24                       COMMISSIONER BRUNWASSER:

25          Councilman, I know you're talking primarily

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2           about the Help Loan Program --

3                   COUNCILMAN O'NEILL: But if you have  
4           information on all of them, I find it hard to  
5           believe that somebody won't use Help when they  
6           get at least a minimal guarantee. I think a  
7           year is too short, but we've got contractors  
8           willing to negotiate. They also get the  
9           interest-free loan for five years. If they  
10          don't take the Help Program, it's probably  
11          because they're getting told by somebody  
12          knocking on their door, the Water Department  
13          rips you off. I'll do this quickly. They  
14          don't tell them that it's probably not any  
15          cheaper. And secondly, there's somebody  
16          watching this thing, that we use approved,  
17          bonded contractors. We get at least a  
18          one-year guarantee. I would hope that if we  
19          ever got big arms around this thing, that we  
20          could do better than a year. That's for the  
21          future

22                   But my concern is -- and I've said  
23          it before; I'll say it again. If you just  
24          use a simple number like 1,000, if 1,000 are  
25          being done currently, being replaced, but we

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2       know we should be replacing 10,000 a year, and  
3       that's what we're pricing it, the onus on the  
4       ratepayer is, oh, your neighbor's lateral is  
5       getting fixed so you're getting a rate  
6       increase by this. Where if we just instead of  
7       splitting at the curb, ownership -- this is an  
8       idea I've developed in the last week or two  
9       knowing these hearings were coming up. If we  
10      knew that 1,000 are being done a year, and  
11      it's no more the homeowner's fault than it is  
12      our fault that they break, if we just didn't  
13      delineate or differentiate between house to  
14      curb, curb to main, and we just said, if you  
15      go on the Help Program, we'll pick up half of  
16      it. The numbers on the 1,000 are the same.  
17      We just aren't doing anymore out there unless  
18      we get more aggressive in our ordering new  
19      laterals.

20                It's a lot different for me as a  
21      homeowner, if instead of now rolling dice --  
22      and I'll admit I came up with the dice roll --  
23      that where the break occurs, not my fault in  
24      either place, but you pay one and I'll pay the  
25      other, we agree no matter where it is, we just

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2       split the cost. If I'm willing to go on the  
3       Help Program, not have some unknown contractor  
4       out there who could be a fly-by-night, could  
5       be somebody that we have no record of,  
6       doesn't have a bond or anything else, doesn't  
7       give a guarantee, I think that may be a  
8       middle ground at least to start with because,  
9       to me, the leap from the number of laterals  
10      being replaced today to the number that you  
11      will be replacing under a responsibility and  
12      the street change is an enormous amount of  
13      money that gets tagged with, oh, yeah, we're  
14      going to start picking up the streets. It's  
15      not apples and apples. It's apples today,  
16      oranges tomorrow because it's a totally  
17      different program once the Water Department  
18      gets in the streets.

19                I don't need an answer on that  
20      today. But it's one way I'm thinking of  
21      going on this thing, keeping the cost low,  
22      probably saving you and the homeowner money in  
23      that case. But it may be a little simpler to  
24      explain. It may seem more customer friendly.  
25      And if we could keep the number the same, then

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2           if we decide to go to the other system, we say  
3           we're doing this. We think it's right, but  
4           it's going to cost money, but it's not because  
5           all of a sudden we're going to start helping  
6           with the cost of lateral repairs or taking it  
7           over.

8                     I just say that for the record today  
9           because this, to me, is kind of a work of  
10          progress, whether it makes it into this rate  
11          increase or not. I don't want it to be a  
12          negative when it happens. That's all. And I  
13          think right now it's a huge negative  
14          offsetting what should be a huge positive, but  
15          the negative seems to be a lot larger.

16                    Two other areas. One, your final  
17          authority over rate increase, that's in the  
18          Charter, isn't it?

19                    COMMISSIONER BRUNWASSER: Correct.

20                    COUNCILMAN O'NEILL: Okay. I  
21          thought so. We're a very large public water  
22          company. There's bigger companies, but  
23          they're private and they go all over the  
24          place. There's a couple that are in our area.  
25          Are there any public companies that match up

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2           in size with us, other cities that are public  
3           water that are like ours?

4                   What I'm trying to get at is, I know  
5           it isn't apples and apples if you compare  
6           certain things to the private companies,  
7           whether it's because they're in the suburbs  
8           with new pipe and things. Do we ever have  
9           someone do a unit analysis for us, either a  
10          unit cost, unit audit to just tell us what  
11          we're paying for this system and what we're  
12          charging our customers? How does it relate to  
13          the rest of the world, you know, factoring in  
14          public employees and the like and all that  
15          goes with it? Do we have anything like  
16          that, that we're constantly looking at to make  
17          sure we're as competitive as possible as a  
18          utility rather than a government on the  
19          General Fund side? Not that we shouldn't be  
20          doing it there, too.

21                   COMMISSIONER BRUNWASSER: There are.  
22          Obviously, we published a table of how we  
23          compare to our suburbanites. There are two  
24          major, major private companies in our area,  
25          Aqua Pennsylvania and Pennsylvania American,

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2           that are international companies. In fact,  
3           the Pennsylvania American is really at the  
4           moment a German-owned firm. But they're  
5           large. They're huge and they're in most of  
6           the states in the US and in Canada.

7                     Now, we are less than half of their  
8           cost. But that's also a function of the  
9           region. You know, they may have much  
10          different costs in Utah or Nevada, you know,  
11          places actually where water is rare -- or  
12          scarce, I should say. People are willing to  
13          pay a lot more for water than they are here.  
14          So it's difficult to make those kinds of  
15          comparisons.

16                    There is a company -- and I know the  
17          owner because he's very big in the industry.  
18          Of course, George Raftellas (ph). His company  
19          prepares a book each year -- it used to be  
20          done by Erston Young (ph) -- of comparative  
21          water rates. I'm not sure about the sewer  
22          side, but comparative water rates throughout  
23          the country. And that's something we should  
24          look at.

25                    I'm not saying we're the lowest of



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2           the big city water utilities in price, because  
3           we're not, but we're competitive with  
4           virtually all of them. Sometimes it's very  
5           difficult to compare one City to another  
6           because they have certain different  
7           requirements.

8                     For instance, our plumbing  
9           requirements here in Philadelphia are a little  
10          more stringent. There's something more that's  
11          required here than in most places in some  
12          cases. And some might argue it's unnecessary.  
13          Some argue it is necessary.

14                    We have other things. For  
15          instance, in our wastewater side, we have  
16          storm water included. Whereas many, many  
17          communities', the storm water charge is in  
18          their tax bill, buried in their tax bill, and  
19          no one really knows what their sewer costs  
20          are. So it's difficult, but we do look at  
21          this book for national comparison. And of  
22          course, we take a look at the suburbs and see  
23          what their charges are.

24                    COUNCILMAN O'NEILL: And in the  
25          suburbs, that's where we got into the

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2       discussion about the wastewater comes here.

3           COMMISSIONER BRUNWASSER: Yes.

4           COUNCILMAN O'NEILL: And we're not  
5       necessarily getting our fair return for the  
6       political salvation we give some of these  
7       people that would have to otherwise put a  
8       sewage treatment facility in their community.

9           COMMISSIONER BRUNWASSER: You made  
10      a very good point with that. I was thinking  
11      about that the other day. There's another  
12      advantage to us, one that's not mentioned.  
13      Obviously, when you think about this, if there  
14      were smaller sewage plants just north of the  
15      City, for instance, in Bucks County and  
16      whatnot, it would impact the quality of the  
17      raw water coming into Baxter plant, for  
18      example, and we would have to do --

19          COUNCILMAN O'NEILL: I know that.  
20      But the fact is, that's technical. You can  
21      measure it. The political escape that we  
22      provide is immeasurable. As they say on some  
23      of those commercials, priceless. I'm not sure  
24      we get a priceless return on that discount we  
25      give.

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2           I have two items, and one may be as  
3 much revenue as water. Actually, they both  
4 are. So I'll go with the easier one for me to  
5 understand. The northeast mini City Hall -- I  
6 know we have two mini City Halls. I'm  
7 astounded at the collections that go on in  
8 this little place that you can't even find  
9 unless you really are on the hunt looking for  
10 it in the middle of a shopping center that  
11 doesn't have any frontage or anything. It  
12 seems like they collect upwards between real  
13 estate and water of \$100 million a year,  
14 according to the staff we talked to and what  
15 they take in a day on an average day. The  
16 collections sheets I saw, just some daily  
17 sheets, had water even higher than real  
18 estate, but I'm sure that that fluctuates  
19 depending on the season.

20           I had asked the Gas Works the other  
21 day to move an office, or at least a part of  
22 their office and a few staff members into that  
23 facility and help pay for it because they  
24 don't have anything in the area. Their  
25 Northeast Philadelphia office now is not

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2       Northeast Philadelphia. It's a real hike to  
3       4400 Frankford Avenue from Welsh and the  
4       Boulevard or Somerton or whatever, a hike that  
5       most people don't take. And the total cost of  
6       this facility, rent and utilities, is \$43,000  
7       a year. Fairly reasonable. And if something  
8       can be found cheaper, fine, but it doesn't  
9       seem like an astonishing number.

10           I was just wondering, does water pay  
11       part of the cost of that on any basis, whether  
12       it's a square footage, revenue, or just a  
13       negotiation, you know, you're getting half,  
14       we're getting half? You can do customer  
15       service out of there as well. I'm just trying  
16       to offer some suggestions to the  
17       Administration to keep it open because I think  
18       it's a value. You get \$100 million in  
19       collections, over 100,000 people use the  
20       facility a year, or at least there are that  
21       many individual trips. It is providing a  
22       service and hopefully helping with collections  
23       on at least taxes and water. I think it could  
24       be a help on gas. Could you answer that  
25       question?

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2           COMMISSIONER BRUNWASSER:   I just  
3           want to make sure Nancy Kammerdeiner --

4           COUNCILMAN O'NEILL:   Nancy   is here.  
5           I'll let you call her up.

6           COMMISSIONER KAMMERDEINER:   Nancy  
7           Kammerdeiner, Revenue Commissioner.

8           I don't know that there's anything  
9           that's contributed toward the rent and the  
10          utility costs you mentioned.   There are  
11          certainly some staff from the Water Revenue  
12          Bureau who are paid from the Water Fund who  
13          are present at that space and provide service  
14          and support.   And at least one of the cashiers  
15          who is located at each of the service centers  
16          is also paid for through the Water Fund.   Some  
17          of the equipment that they use has been  
18          purchased by the Water Fund in the past.

19          COUNCILMAN O'NEILL:   I expected the  
20          salaries to be paid, at least in part.   That's  
21          a pretty straight line.

22          When I heard the cost was  
23          relatively as low as it is, rather than lose  
24          it, it may make sense to recognize the  
25          contribution and return, on the ROI, as

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2           everybody says. I just wanted to ask a  
3           technical question. I'm not talking about a  
4           lot of money. The salaries are not being  
5           talked about to be eliminated. Those people  
6           are just being talked about -- we'll bring  
7           them down to Center City. So if that were an  
8           issue, it would complicate things greatly.

9                   COMMISSIONER KAMMERDEINER: I would  
10          like to say that the salaries are spent much  
11          more efficiently, particularly on the cashier  
12          and the payment processing side, if we're  
13          talking about it from the Municipal Services  
14          Building. If we had, for example, a drop box  
15          at that location and someone made their  
16          payment by putting an envelope in a drop box,  
17          we pick that up and brought that down to  
18          Center City to the Municipal Services  
19          building, we would do high speed processing  
20          of that payment, encoding the check, doing the  
21          validations, sorting it for the bank, all high  
22          speed. And it's much more efficient and less  
23          costly to handle that process. So you get  
24          more from the staff who are working in that  
25          process.

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2           COUNCILMAN O'NEILL: Commissioner,  
3           have you ever seen this site? It's about the  
4           size of Ann Verna's inner office, which is not  
5           very large, the inner office. And they are  
6           collecting a \$100 million a year out of this.

7           You accept cash, right?

8           COMMISSIONER KAMMERDEINER: We  
9           accept cash.

10          COUNCILMAN O'NEILL: If I want to  
11          pay my bill with cash, I'm okay at MSB.  
12          There's a big sign up there. They're doing  
13          all this with a big sign that says, "No cash  
14          accepted."

15          COMMISSIONER KAMMERDEINER: And  
16          then it comes back here and we process again  
17          some of what they bring in up there. I'm just  
18          saying that it's more efficient --

19          COUNCILMAN O'NEILL: They don't take  
20          cash.

21          COMMISSIONER KAMMERDEINER: I  
22          understand that.

23          COUNCILMAN O'NEILL: I can  
24          guarantee you that probably 99 percent of the  
25          people that go there will never, ever go to

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2           MSB. So you can pretty much write them off as  
3           people who are likely to pay every month in  
4           person and have their money in their hand.

5                   COMMISSIONER KAMMERDEINER: We  
6           would rather have them pay by mail or pay in a  
7           way that we do the high speed process, rather  
8           than have a cashier handle the individual  
9           transactions, because those are more costly  
10          transactions on an individual basis than the  
11          others.

12                   COUNCILMAN O'NEILL: I know. But  
13          the fact is that most of them have to travel  
14          12 to 17 to 20 miles to get here, where your  
15          office, your collection place, is really  
16          convenient to people who don't live in the  
17          Northeast or that far away. And I don't have  
18          a problem with that. It's worked great for 20  
19          years, but I didn't realize how little it  
20          cost. I'm just trying to reduce the cost or  
21          spread it over the period. I just needed the  
22          answer. The justification, I'm sure the  
23          Managing Director and the Mayor will look at.

24                   COMMISSIONER KAMMERDEINER: They're  
25          working on it. We're also offering now online



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2           payment by credit card. That's another  
3           possibility that wasn't available before.  
4           That is something that is on an increasing  
5           basis available for people to pay.

6                     And I remind you also of the zip  
7           check possibility, for someone to make a  
8           payment automatically from their bank account  
9           on a regular basis that don't even have to  
10          come into the office to do either of those  
11          things. We're trying to avoid having people  
12          come into, whether it's the Center City office  
13          or one of the service centers, and find a way  
14          to make the payments convenient.

15                    COUNCILMAN O'NEILL: I understand.  
16          And if we're one of the most senior states in  
17          the nation -- I think we're third. The  
18          northeast is probably the most senior part of  
19          the City that doesn't do any of the things you  
20          just mentioned and they're not going to.  
21          They're not going to learn tomorrow. It's a  
22          wonderful, inexpensive opportunity to take in  
23          a whole lot of revenue from people who aren't  
24          going to give it to us any other way, unless  
25          they can find their way into this no man's

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2           zone in a big shopping center.

3                   While you're here, because either  
4           one of you can answer this question. The  
5           answer I wanted was that we're not paying any  
6           money or we were, and at least I know that.

7                   COMMISSIONER KAMMERDEINER: Not to  
8           my knowledge

9                   COUNCILMAN O'NEILL: I'm not talking  
10          about bankrupting the Water Department. I'm  
11          talking about a very tiny payment.

12                  COMMISSIONER KAMMERDEINER: The one  
13          thing I didn't mention is that every year at  
14          the end of the year there's an inner fund  
15          transfer to make adjustments between the  
16          General Fund and the Water Fund for things  
17          that one fund has done for the other. It is  
18          possible -- I don't know for sure, but it is  
19          possible that some portion of the cost is  
20          taken care of.

21                  COUNCILMAN O'NEILL: Okay. Could  
22          you find that out for me? Because if we were  
23          already doing it, it would almost make it  
24          silly to close it. I won't go that far  
25          without knowing.

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2           Our collections, last year there was  
3       some confusion, and I experienced some of it  
4       myself, but I also learned the difference  
5       between current collections and five-year  
6       collections; five-year collections being real  
7       high, current collections being kind of -- I  
8       don't know. You're getting like the gas  
9       company. Could you give me the two numbers  
10      again? Current is in the mid 80s or so and  
11      the high 90s with the five years?

12           COMMISSIONER KAMMERDEINER: Between  
13      85 and 87 in the current year. You have to  
14      remember that some of that would be billed in  
15      June wouldn't even be due until July. So  
16      when you look at those numbers, that may  
17      seem --

18           COUNCILMAN O'NEILL: They're not  
19      12-month numbers?

20           COMMISSIONER BRUNWASSER: The  
21      definition that we're using, current  
22      collection factor, would mean that bills that  
23      went out June 12th, June 15th, June 28th, they  
24      have due dates in July. Even if a person pays  
25      them in a timely basis, if they pay them near

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2           the due date, those receipts fall into the  
3           following year. So you never get to a 100  
4           percent.

5                   COUNCILMAN O'NEILL: You're killing  
6           yourself with your own definitions. If you  
7           just back track 12 months and included last  
8           July, the last July, as long as I get a  
9           12-month picture, that's current for me. You  
10          give me an 11-month picture and charging  
11          yourself with 12 months of collections,  
12          you're starting out with a big ball and chain  
13          around one leg that you put there that no one  
14          asked you to.

15                   Whatever you do internally is fine  
16          If you're giving us current annual  
17          collections, give us 12 months that were sent  
18          out and collected on time. Because it doesn't  
19          help anybody. You don't have to give it to me  
20          today, but I'd like to know where the 85 to 87  
21          goes. How much is current for the last 12  
22          months, no matter when you take the snapshot,  
23          in July or December or whenever, what's your  
24          average current 12-month experience?

25                   What bothers me -- and it's hard to

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2           even make this a real strong statement now  
3           because I don't know how far that whole thing  
4           changes. It may go up to 95 percent if you  
5           add a month; I don't know.

6                   COMMISSIONER KAMMERDEINER: No, it  
7           doesn't.

8                   COUNCILMAN O'NEILL: What does it go  
9           up to?

10                  COMMISSIONER KAMMERDEINER: I don't  
11           have the exact number right here. I will have  
12           to get that for you. But it takes  
13           approximately five years to get to that 95  
14           percent point. In 10 years, it's 98.5  
15           percent.

16                  COUNCILMAN O'NEILL: This is what  
17           bothers me. Of all the things other than  
18           Comcast to collect -- because everybody needs  
19           Comcast. You can't live without it, no matter  
20           how much you don't like paying other bills.  
21           But just dealing with the three main utilities  
22           that everybody deals with, water, electric and  
23           gas. All you need to talk to is anybody who's  
24           ever been in a situation or had a family  
25           member in a situation that either can't or

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2       won't -- and often times it's won't -- pay  
3       their utilities for whatever reason, mental  
4       health or whatever -- I guess it's usually  
5       mental health if they can pay. They have a  
6       choice of what they can live without at  
7       certain stages. You can live for a while  
8       without electric, provided you can turn your  
9       gas on. You can live without gas and turn  
10      your electric on. After a while you might  
11      need kerosene or something for one those  
12      things.

13               Commissioner, you got the best thing  
14      going. About day and a half, two days. You  
15      didn't smoke them out. You did another thing  
16      to get them out. You can't live without  
17      water. Our numbers, if we're as aggressive,  
18      if we're half as aggressive as we're asking  
19      the gas company to be, you stop me in my  
20      tracks if you say you're going to shut my  
21      water off. I can't function without the  
22      water.

23               COMMISSIONER KAMMERDEINER: Some  
24      people do, and it's surprising to me as well.

25               COUNCILMAN O'NEILL: We can get them

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2           for something else real quickly, because  
3           we've all had that experience. And the  
4           neighbors usually pick up on that real quick.  
5           There's some that go out the window and some  
6           that just start spreading down the block, but  
7           it's pretty apparent to the neighbors when  
8           they're trying to function without water in a  
9           house.

10                  When you heard the numbers in the  
11           gas company of what a percent means, the  
12           increases, I mean, it's enormous, the cash  
13           flow change once you increase 1 percent. But  
14           I also know that if you're getting 95 to 97  
15           percent over 5 and 10 years, you are spending  
16           a whole lot of money to make money. Because  
17           you're at the point now where you're doing  
18           lawyers, you're doing collection agencies,  
19           you're doing liens, you're doing all kinds of  
20           stuff that you're ringing these accounts.  
21           Some of them are commercial and they've got  
22           different issues than that residential  
23           comparison I make. But they still can't live  
24           without the product.

25                  I obviously was kidding about

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2           people not being able to live without their  
3           cable, but sometimes you would think that when  
4           you see the payment records.

5                       So if you could just tell me maybe  
6           at the next hearing we have -- because I have  
7           a feeling that Councilman Rizzo is going to at  
8           least want one more -- first of all, what your  
9           current program is for shutting somebody off,  
10          how hard you are or how soft you are or how  
11          much public policy has built up.

12                      The Gas Works people leadership was  
13          very clear. There's been a policy in the Gas  
14          Works that it's easy to get it for free for  
15          years or to scam the gas company by payment  
16          plans that really aren't serious, changing  
17          people's names and all this, which they're now  
18          trying to undo because they have the public  
19          support, meaning the government support to not  
20          treat it as a social service.

21                      I'm just wondering, as we're talking  
22          about rate increases, probably more so than  
23          any of the other things I just asked you, if  
24          you could get 1 percent, 2 percent, 3 percent  
25          in this thing and ratchet those numbers up, we



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2           may be able to be saving a lot more, whether  
3           we put it towards debt service or whatever.  
4           I'd like to have a discussion maybe next time.  
5           I'll lead off with that. If you could just  
6           give me some ideas you might have if we have  
7           support for this.

8                     The gas company, for instance, can't  
9           shut off Friday. It goes back to the days  
10          when the banks weren't open on Saturday or  
11          Sunday. They haven't been able to change it  
12          through the PUC. They're hoping it will get  
13          changed. Little things like that should be  
14          tremendous for them to have changed and help  
15          them to be more efficient and effective.

16                    COMMISSIONER KAMMERDEINER: I'll get  
17          more of the information. But just in general,  
18          a \$75 bill in delinquency for two cycles will  
19          put you into the shut-off cue. And so we are  
20          already starting the process with that. We  
21          have better than 50 percent of the people who  
22          get the initial shut-off letter who come in  
23          and pay or enter into an agreement to pay. If  
24          they fail to keep an agreement, the next time  
25          they have to pay in full before they get their

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2           water turned back on.

3                   COUNCILMAN O'NEILL: Fifty is pretty  
4           low for people who can't live without  
5           something. My own editorial. If you said  
6           only 95 percent of the people come in after  
7           they get a shut-off, I'd say, well, that's 5  
8           percent. Fifty percent of people ignore it?

9                   COMMISSIONER KAMMERDEINER: Then  
10          they get a second notice and then it goes to  
11          shut off. So basically we are sending  
12          probably about 30 to 40 percent of those  
13          people who we initially identified for  
14          shut-off to the Water Department for shut-off  
15          during the period in -- I'll call them the  
16          summer months. But we also face the  
17          moratorium issue of no shut-offs between  
18          November 1st and April 1st

19                   COUNCILMAN O'NEILL: Is that City  
20          Council or is that a state utility?

21                   COMMISSIONER KAMMERDEINER: It was  
22          an agreement that was entered into with CLS  
23          and others a number of years ago in lieu of  
24          having formal legislation that mandated a  
25          moratorium from shut off.

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2           COUNCILMAN O'NEILL: November 15th  
3 to?

4           COMMISSIONER KAMMERDEINER: I'm  
5 sorry. December 1st until April 1st. In the  
6 past our problem was that we couldn't provide  
7 sufficient information to you and to others  
8 who were concerned about the low income  
9 population, enough information that showed  
10 that we provided a safety net.

11           Our current legacy system, which is  
12 25-plus years old, has been difficult to set  
13 up in terms of giving you that kind of  
14 assurance that someone who is really low  
15 income is getting all of the assistance and  
16 support they need. We think in the next year  
17 or so we'll be able to do that really  
18 effectively. We really do want to eliminate  
19 the full moratorium period. We think that  
20 that's what causes people to get into a habit  
21 of not paying at times and playing a game in  
22 terms of paying their bills.

23           COUNCILMAN O'NEILL: I think the Gas  
24 Works is trying to come up with some kind of  
25 policy -- they may have already done it. I

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2           know they were talking about it -- to get  
3           some relief. I think they have to go to the  
4           PUC. To get some relief for people who are in  
5           and out of these agreements based on when the  
6           shut-off period is in moratorium and recognize  
7           that if it's recurrent then you're just being  
8           scammed and it doesn't help anybody.

9           You also have the lowest bill.

10          That's the only other thing I forgot. Of the  
11          three utilities, I need you the most, can't  
12          live without you very long, and it's the  
13          lowest bill. I think there's a way of  
14          tightening it. I think there's support for  
15          this.

16          The Gas Works may have been your  
17          best friend on this because I think they've  
18          really gotten those who pay concerned that  
19          they're paying for those who can pay, but  
20          don't. The smaller the bill is, the smaller  
21          the affordability factor is. You don't have  
22          \$600 bills that somebody might get in a  
23          month, and at least we can then look at their  
24          income. But if anybody has income, they can  
25          afford your bill if they're dealt with in a

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2           very stern way. It probably helps them in the  
3           long run, not just helps us. I think it  
4           might be that the timing might be right to be  
5           revisiting how to get these numbers up and  
6           reduce the need for the five to 10 year  
7           expenditures, I call them. Because they are  
8           significant.

9                   COMMISSIONER KAMMERDEINER: A  
10          significant amount of the money that comes in  
11          later does come in as a result of transfers of  
12          property at the time of settlement, so that is  
13          one way that we're not expending money to  
14          bring that money in.

15                 COUNCILMAN O'NEILL: What's that  
16          cost called -- it's been a while -- the cost  
17          of not having the money?

18                 COMMISSIONER KAMMERDEINER: Right.  
19          There is the cost of money and not having it.  
20          But I'm saying we're not expending money for  
21          enforcement on some of what we bring in.

22                 COUNCILMAN O'NEILL: You could also  
23          move on those liens before they decide to  
24          sell the house.

25                 COMMISSIONER KAMMERDEINER: Yes.

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2           That is a program we're instituting to go to  
3           foreclosure for water liens on the house.

4                   COUNCILMAN O'NEILL: These are the  
5           things I want to hear. That agreement, by the  
6           way, it may be time to revisit it and at least  
7           now having experience, seeing where the holes  
8           are in it and how to close them from our  
9           standpoint.

10                   COMMISSIONER KAMMERDEINER: We would  
11           appreciate your support on that. That is  
12           something that we would very much like to do.

13                   COUNCILMAN RIZZO: I'd like to make  
14           a point on Councilman O'Neill's point. I  
15           don't understand the difference, and I think I  
16           can figure it out. What's the winter months  
17           have to do with water? Other than, I believe,  
18           years ago many of the hot water heating  
19           systems were dependent on hot water.

20                   COMMISSIONER KAMMERDEINER: Not in  
21           the older homes in Philadelphia. Most of them  
22           are still water based.

23                   COUNCILMAN RIZZO: I understand  
24           that. But I'm sure that many of the homes  
25           that you're allowing to stay on during the

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2           moratorium are not dependent on water to keep  
3           the heating system going. What Councilman  
4           O'Neill said is that you might have to have a  
5           separate criteria for the termination. July  
6           is no different than November or December  
7           when you're talking about water. Again, I  
8           think the rationale probably is the heat. And  
9           if you don't need water to heat your house --

10                  COMMISSIONER KAMMERDEINER: We agree  
11           we would like to revisit the moratorium  
12           procedures that we follow and we would like  
13           very much to eliminate or, at a minimum,  
14           revamp it so that we're not doing it on a  
15           universal basis.

16                  COUNCILMAN RIZZO: Truly, a  
17           well-functioning, proper functioning hot water  
18           heating system doesn't really need a lot of  
19           make-up water to keep the system going anyway.  
20           Again, that's another issue for another day.

21                  But I would like to go back,  
22           Commissioner, and just --

23                  Thank you, Commissioner  
24           Kammerdeiner.

25                  Commissioner, and again I don't want

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2           to go too long here because we have a couple  
3           more witnesses. I would like you for the  
4           record, though, to go back and tell me about  
5           the proposed rate increase and the fact that  
6           the lateral program has added 70-some million  
7           dollars to that increase. So take us through  
8           the four years, what those percentages are and  
9           what that would mean to the average consumer  
10          in your one year, two year, three year, four.

11                   COMMISSIONER BRUNWASSER: Sure.

12          Our initial filing, again, was back in  
13          January. We had a four-year rate program  
14          beginning in Fiscal 2005. That's July 1st  
15          just passed. In Fiscal 2005, we were  
16          proposing a 9.7 percent typical rate hike for  
17          the typical residential customers. That  
18          means an additional \$4.03 a month. In Fiscal  
19          2006, another 9.7 percent rate hike, which  
20          means \$4.42

21                   COUNCILMAN RIZZO: For how many  
22          cubic feet?

23                   COMMISSIONER BRUNWASSER: This would  
24          be, I think, for 800 or 833 cubic feet. I  
25          forget which. 800 cubic feet.



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2           COUNCILMAN RIZZO: Again, I jested  
3 about this before with you, that they give it  
4 to you in gallons. How much water is a cubic  
5 foot of water?

6           COMMISSIONER BRUNWASSER: One cubic  
7 foot equals seven-and-a-half gallons. Six  
8 thousand gallons, roughly, per month is what  
9 800 cubic feet equals.

10          COUNCILMAN RIZZO: Seriously, there  
11 are companies that have done away with that  
12 and went to gallons. Why don't we just keep  
13 it simple, put people under standard gallons  
14 versus cubic feet. I didn't mean to  
15 interrupt you, but it's something that's  
16 always bothered me.

17          COMMISSIONER BRUNWASSER: Mr.  
18 McKinley said that it's done about 50/50  
19 throughout the country. I know we're in cubic  
20 feet probably more so because that's the way  
21 our billing system is set up, to read cubic  
22 feet.

23          COUNCILMAN RIZZO: Could we do  
24 gallons?

25          COMMISSIONER BRUNWASSER: I'm sure

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2           it's possible, but I'm not sure what it would  
3           take to convert over.

4                   COUNCILMAN RIZZ0: Because I'll bet  
5           you there's a lot of people in this room who  
6           don't really know how much water they use.  
7           Just based on the dollar amount, they know.  
8           Just look into that. I know other  
9           municipalities don't use cubic feet. They  
10          use it in gas, but I'm always surprised to see  
11          it in water.

12                   So we're back to Fiscal Year '06,  
13          9.7, which is about 4 --

14                   COMMISSIONER BRUNWASSER: \$4.42.  
15          Fiscal 2007, 8.5 percent increase, which is  
16          equivalent to \$4.26. And then Fiscal 2008, 94  
17          percent increase By that time that's  
18          equivalent to \$5.14. As the rates get  
19          compounded, that's why the dollar amounts  
20          vary. Even though there's four years, none of  
21          them are as high as 10 percent. When you  
22          compound them, it's 42.7 percent, which got  
23          rounded up to the 43 percent. So we're  
24          phasing in that 43 percent rate increase.

25                   COUNCILMAN RIZZ0: This is with

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2           laterals?

3                   COMMISSIONER BRUNWASSER:    Yes.

4           This is with laterals, correct.  And I think  
5           what we were estimating was that the lateral  
6           program that we were contemplating doing would  
7           cost the typical customer about \$3.50 per  
8           month when it was fully implemented.  And we  
9           looked at it sort of as an insurance policy.  
10          For that additional \$3.50 per month, that was  
11          something you didn't have to worry about  
12          anymore, at least if it happened in the  
13          street.

14                   COUNCILMAN RIZZO:  You put it in  
15          there for every customer like Councilman  
16          O'Neill said earlier.  That's not realistic to  
17          think that you could even do all these.  I  
18          don't know why you would use a number like  
19          that that brings it to \$70 million when you  
20          never spend anywhere near that money in any  
21          fiscal year.

22                   COMMISSIONER BRUNWASSER:  Well, what  
23          we were looking at -- and Councilman O'Neill  
24          was very correct when he said that.  I know in  
25          the past that people may look at the Help

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2           Loan Program as being the universe of lateral  
3           repairs, which it's not. We know it's only a  
4           small portion of what's out there. We  
5           believe that there could be 8,000 to 10,000 of  
6           these repairs needed each year at a cost --  
7           you know, we worked out the costs. And for a  
8           full fiscal year we assume about a \$20 million  
9           cost to repair 8,000 to 10,000 water lines and  
10          sewer laterals through perhaps a warranty  
11          company. We wouldn't be doing these  
12          ourselves.

13                   COUNCILMAN RIZZO: Before Councilman  
14           O'Neill arrived, you indicated that you didn't  
15           have an ordinance.

16                   COMMISSIONER BRUNWASSER: Right.

17                   COUNCILMAN RIZZO: So what is your  
18           strategy now with your proposed rate increase?

19                   COMMISSIONER BRUNWASSER: When we  
20           sit down, when hearings actually do begin, we  
21           will adjust our filing to reflect our best  
22           estimates at that point in time, whether or  
23           not to have the lateral program in there or  
24           whether to have it in there but to begin at  
25           somewhat down the road, somewhere within that

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2           four-year period but not at the outset. And  
3           we would adjust in that manner.

4                   COUNCILMAN O'NEILL: Getting back to  
5           the laterals, we didn't put it on the record,  
6           but I'm still trying to get an idea -- and I  
7           know you guys internally have an idea how many  
8           are fixed a year under the current program.  
9           We really wait until the last possible moment  
10          to tell somebody we're going to shut them off  
11          if they don't do it. Some of them do it on  
12          first notice, but a lot of people wait.  
13          Somebody has to pull up a permit for that  
14          street opening so we have some idea of how  
15          many are being done now a year. How many is  
16          that? Give me a close approximate.

17                   COMMISSIONER BRUNWASSER: I believe  
18          it's on the order of 5,000 per year that go  
19          through L&I. Excuse me. Let me correct  
20          that; 5,000 to 8,000 that go through L&I each  
21          year.

22                   COUNCILMAN O'NEILL: But you only  
23          think you're going to go to 8 to 10 if you get  
24          involved? Or is that because it's really only  
25          half of those that are in the street and --

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2           COMMISSIONER BRUNWASSER: I think we  
3 provided in one of our documents all the  
4 permits.

5           COUNCILMAN O'NEILL: You gave me a  
6 stack about 20 inches high, and I wanted it on  
7 the record anyway, so I'd rather be talking  
8 about it on the record anyhow.

9           COMMISSIONER BRUNWASSER: This is  
10 Deputy Commissioner Debra McCarty, head of  
11 operations. Debra just told me that it's  
12 based on what we see currently by and large.

13          COUNCILMAN O'NEILL: Okay. So we're  
14 not looking at an increased number in the  
15 future. There is a difference in that we're  
16 seeing permits pulled that are on the property  
17 or in the street. So 5,000 to 8,000 a year,  
18 that's a pretty big jump. If you had said  
19 5,000 to 5,100, but our best numbers have a  
20 range of 3,000.

21          COMMISSIONER BRUNWASSER: We  
22 actually provided all the information, so we  
23 do have probably an exact number. I don't  
24 think we brought that with us.

25          COUNCILMAN O'NEILL: All this brain

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2           power here and nobody remembers that number?

3                   COMMISSIONER BRUNWASSER:    It's

4           close to 8,000.

5                   COUNCILMAN O'NEILL:    Okay.    How

6           many is Help a year in that 8,000?

7                   COMMISSIONER BRUNWASSER:

8           Approximately 2,000.

9                   COUNCILMAN O'NEILL:    There may be a

10          better educational piece we could be doing

11          with the Help Program and water bills and

12          things.    People should   at least have a

13          comparative.   If they get a cheaper price,

14          they should know that there are differences in

15          quality and guarantee.

16                   But assuming the 8,000 today over

17          the four years of the increase, how many a

18          year do you project doing?

19                   COMMISSIONER BRUNWASSER:   I think it

20          was based on current levels continuing.

21                   COUNCILMAN O'NEILL:    You're

22          basically looking at the 8 staying at 8 or

23          pretty close to it?

24                   COMMISSIONER BRUNWASSER:   Yes.

25                   COUNCILMAN O'NEILL:    So you're not

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2           looking at being more aggressive and going out  
3           after the problems you know are there but  
4           aren't serious enough to be cited for a  
5           shut-off based on defective laterals?

6                   COMMISSIONER BRUNWASSER: I think  
7           it's incumbent upon us when we do see  
8           something in the street that we do cite the  
9           property. But there's a limit to how much  
10          we're going to capture, as you know.

11                   COUNCILMAN O'NEILL: Looking at the  
12          8,000, and assuming that if the Water  
13          Department is paying half of my bill, I might  
14          use the Help Program, a little more than 2,000  
15          out of 8,000, that it might go up quite a bit.  
16          There will two things happening. First of  
17          all, you're going to get better prices because  
18          there's more work to be dangled out there.  
19          You may get better guarantees because there's  
20          more work. And the numbers are going to be  
21          roughly the same of what it costs. It might  
22          be a little cheaper. And we still only have  
23          to spend it if somebody is in the Help  
24          Program. We couldn't think about doing this  
25          outside the Help Program, where we have no



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2           control over whether a permit is pulled,  
3           whether the plumber is even a plumber. Take a  
4           look at that and just let me know what you  
5           think of it, that idea

6                   Obviously, you need more revenue to  
7           do it. The same number of laterals would be  
8           repaired a year either way. We would have a  
9           much better incentive to use the Help Program  
10          and to have bonded plumbers that we think  
11          highly of doing the work. We might not even  
12          have to go to an outside warranty company  
13          People would get help whether it's the lottery  
14          on their land or the lottery in the street.  
15          If you could do that, it may have some  
16          promise.

17                   Thank you.

18                   COUNCILMAN RIZZO: Commissioner, are  
19          we going to have a rate increase or the  
20          hearings that will authorize you to make a  
21          decision?

22                   What about the fact that we have  
23          \$160 million in the Rate Stabilization Fund?  
24          It sounds like a lot of money. Why would we  
25          need a rate increase if you have \$160 million

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2           in that fund?

3                   COMMISSIONER BRUNWASSER: That's a  
4           very good question. There are some  
5           limitations on the Rate Stabilization Fund.  
6           There's a maximum we can draw out in any given  
7           year.

8                   COUNCILMAN RIZZIO: By what  
9           authority?

10                   COMMISSIONER BRUNWASSER: It's a  
11          covenant that we have signed with the bond  
12          insurance companies. All four major bond  
13          insurance companies in the United States have  
14          some of our debt insured. We're a customer of  
15          all four of them.

16                   Back in 1993 when we went to this  
17          new ordinance, we also did a massive  
18          refinancing at that time. The whole bond  
19          issue was in excess of \$11 billion. One of  
20          the things that we agreed to was that current  
21          revenue had to be at least -- let me explain  
22          this.

23                   After we pay for operation and  
24          maintenance costs, what's left over in revenue  
25          is called net revenue after you've paid your

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2       expenses. The net revenue is then compared to  
3       your senior debt service, in our case \$160  
4       million at the present time. That net  
5       revenue has to be at least 90 percent of the  
6       senior debt service. So at least 90 percent  
7       of \$160 million has to be coming from current  
8       year revenues. If you fall below that, you've  
9       violated this covenant.

10           Now, to meet your other covenant  
11       test, 120 percent, you have to have 20 percent  
12       above the \$160 million, and you take that  
13       money if you need it from the Rate  
14       Stabilization Fund. So using \$160 million as  
15       the example, you need net revenues of 90  
16       percent of 160, which means \$144 million has  
17       to be from your current year revenues. You  
18       can't go below that. So your maximum  
19       borrowing to make your 120 percent of \$160,  
20       which is \$192 million, is the difference  
21       between 144 and 192. It gives you a  
22       \$48 million cap that you can draw down from  
23       Rate Stabilization.

24           I know it's an awfully complex thing  
25       to explain. But currently with \$160 million

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2           of debt service, the most we can tap Rate  
3           Stabilization for is \$48 million a year. The  
4           rest of it has to remain in that fund for the  
5           following years.

6                   COUNCILMAN RIZZO: Commissioner, you  
7           missed July 1. You thought you'd have a rate  
8           increase in place. The 9.7, that's what you  
9           were looking for. You missed that. So  
10          where are we with the process?

11                   It seems as though it's here, it's  
12          there. There's three people involved.  
13          Realistically, I'm sure you're asking that  
14          question a lot. Where are you with the  
15          process? Are we just not even going to be  
16          addressing that issue in the near future?  
17          What could you comment on this?

18                   COMMISSIONER BRUNWASSER: We  
19          honestly have to address this issue, and very  
20          quickly. The process, once we do get a  
21          hearing officer and a public advocate named,  
22          the process would hopefully move very quickly  
23          to rate hearings, both informal where the  
24          public can come in and voice their opinion,  
25          and formal hearings where the staff of the

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2           Water Department and its experts are  
3           cross-examined    The public advocate's experts  
4           in turn will be cross-examined because they  
5           will come up with an alternate revenue  
6           requirement.   So that process would probably  
7           have to last three to four months.

8                        So realistically if we got a hearing  
9           officer very soon, within the next week or  
10          two,   realistically we could have new rates in  
11          place perhaps by February 1st, maybe at the  
12          earliest January 15th, something along those  
13          lines.   We have to achieve enough revenues to  
14          meet all of our costs, of course, but then  
15          also all of these covenants that we've  
16          promised the bond holders.   If we don't meet  
17          those covenants, then we're in technical  
18          default of our bond covenant, and that has  
19          great implications on Wall Street.

20                      COUNCILMAN RIZZO:   Commissioner,  
21          could you stay at the witness table?

22                      I'd like to ask Mr. McKinley to come  
23          forward

24                      Commissioner, this issue of the  
25          wholesale of water, even though we understand

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2           about it going from point A to point B and  
3           thousands of cubic feet -- you got me using  
4           that now -- there's still a lot of concern  
5           about this whole process. I have a question  
6           for your consultant. I understand -- correct  
7           me if I'm wrong -- that you also represent our  
8           customers in the wholesale transaction?

9                     MR. MCKINLEY: Black & Veatch does  
10          have a contract with DELCORA, Delaware County  
11          Regional Water Authority. We're not  
12          representing them in any capacity against the  
13          City of Philadelphia. All we're doing is  
14          taking the costs which Philadelphia charges to  
15          DELCORA for provision of wastewater service  
16          and assisting DELCORA in allocating those  
17          costs amongst their own customer base. We  
18          have no relationship with them to compete or  
19          combat the City of Philadelphia with regard to  
20          those rates.

21                    COUNCILMAN RIZZO: Commissioner, are  
22          you comfortable with that?

23                    COMMISSIONER BRUNWASSER: With the  
24          limitations that Mr. McKinley just said, yes.

25                    COUNCILMAN RIZZO: Explain DELCORA.

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2           Like Councilman Cohen said, we believe we  
3           understand you, but we want to make sure we  
4           really understand you. Talk about who you  
5           represent and all of the lists of  
6           municipalities that we have contracts with,  
7           Bensalem and so on and so on. Who is DELCORA?

8                     MR. MCKINLEY: DELCORA is the  
9           Delaware County Regional Water Authority.

10                    COUNCILMAN RIZZO: So that's the  
11           only municipality that we have a contract  
12           with that you represent?

13                    MR. MCKINLEY: To my knowledge,  
14           that's the case.

15                    COUNCILMAN RIZZO: One?

16                    MR. MCKINLEY: That one, yes. We  
17           have represented the Philadelphia Water  
18           Department for many, many years in regards to  
19           wastewater rates. When this opportunity to be  
20           of service to DELCORA came up, we cleared this  
21           with the Water Department and with the  
22           understanding with DELCORA -- and we've done  
23           this with other clients in the past too where  
24           they may have a wholesale customer that wants  
25           our services. We in no way can represent

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2           them against our basic client in combatting  
3           the rates or contesting the rates.

4                   COUNCILMAN RIZZO: You understand  
5           why I'm asking the question? It's perception.  
6           When people go to the trouble to send an  
7           e-mail to a Member of Council making us aware  
8           that you are representing other  
9           municipalities, obviously the perception is  
10          that this isn't good, that you can't represent  
11          the seller and the customer all in one.

12                   You were aware of this right,  
13          Commissioner?

14                   COMMISSIONER BRUNWASSER: I was. To  
15          tell you the truth, I had forgotten about it  
16          already. What Mr. McKinley -- his firm is  
17          doing out in Delaware County is helping  
18          Delaware County to properly allocate their  
19          costs to their customers.

20                   COUNCILMAN RIZZO: That relationship  
21          has no effect on the contractual arrangement  
22          that you have? It's apples and oranges?

23                   MR. MCKINLEY: It's a Chinese wall  
24          that's been set up. In many ways I guess you  
25          could call it that. I don't have any input to



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2           the study that's going on for DELCORA. But  
3           the study that we're doing for DELCORA,  
4           basically it's whatever the cost of service  
5           provided by the Philadelphia Water Department  
6           to DELCORA is just a given in our study with  
7           them. We accept that and we allocate that  
8           cost amongst their retail customers. That's  
9           the purpose of our study, how to allocate the  
10          cost from the Philadelphia Water Department  
11          to their own retail customers. We have no  
12          basis on the side of DELCORA to analyze  
13          whether that's proper cost or to converse  
14          with them.

15                 In our context with the services  
16          that we provide for the Philadelphia Water  
17          Department, we use traditional cost of service  
18          allocation methodologies. We use the contract  
19          language with DELCORA to establish the  
20          appropriate rate from Philadelphia to DELCORA.

21                 COUNCILMAN RIZZO: How long have  
22          you've been doing this for the Water  
23          Department, your company?

24                 MR. MCKINLEY: Approximately 30  
25          years.

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2           COUNCILMAN RIZZO: Commissioner,  
3           that leads me to my final question on this  
4           particular issue. How many other firms are  
5           there out there that do what Black and Veatch  
6           do? What is the process in hiring the same  
7           company for 30 years?

8           COMMISSIONER BRUNWASSER: Well,  
9           there are a number of engineering firms and I  
10          guess financial firms that do the same kind of  
11          work. One of the reasons that we've gone with  
12          Black and Veatch for so many years is their  
13          reputation in the industry

14          I may have mentioned before that Mr.  
15          McKinley is the current chairman of the  
16          American Water Works Association's Rates and  
17          Charges Committee. Rowe has written sections  
18          of the Water Rates Manual and the Wastewater  
19          Rates Manual for a totally different  
20          organization, the Water Environment  
21          Federation.

22          So when you have someone who has  
23          that level of expertise in the industry, you  
24          want to hold on to them for a couple of good  
25          reasons. One that I'll cover now is the fact

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2           that from time to time we may have a dispute  
3           with our township customers, one of our  
4           township customers --

5                   COUNCILMAN RIZZO: I hope not  
6           Delaware County.

7                   COMMISSIONER BRUNWASSER: No. But  
8           they may in turn hire an expert or an expert  
9           firm to question these rates on which basis we  
10          charge them. In those kinds of instances,  
11          we're very happy that Mr. McKinley is on our  
12          side because there's nothing about rates that  
13          he does not know.

14                  COUNCILMAN RIZZO: So this company  
15          has been doing this for 30 years. In your  
16          opinion -- I don't want to put words in your  
17          mouth -- they're pretty good at what they do  
18          and you feel good having them at your side.  
19          But what other companies have ever come to you  
20          or written to you and been -- I don't want to  
21          use the word rejected, but how does the  
22          process work? Is it your decision to hire  
23          them and what kind of dollar value are we  
24          talking about?

25                  COMMISSIONER BRUNWASSER: Well,

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2           obviously the initial decision to bring Black  
3           & Veatch in goes back to the time I was  
4           probably a management trainee --

5                   COUNCILMAN RIZZO: In the '70s, by  
6           the way.

7                   COMMISSIONER BRUNWASSER: -- and  
8           had no say in these matters. Going way back  
9           we've had another firm do rates for us. But  
10          there are firms that the Philadelphia Water  
11          Department does business with today that would  
12          love to do rates for us, because we have a  
13          number of engineering firms that assist us in  
14          our various complex work and they also have a  
15          management division that performs rates. But  
16          even though we're very happy with these firms  
17          for whatever they're doing for us  
18          engineering-wise, we don't have the same  
19          degree of confidence that we have in Mr.  
20          McKinley.

21                   COUNCILMAN RIZZO: Mr. McKinley or  
22          the firm?

23                   COMMISSIONER BRUNWASSER: Well, we  
24          understand that Mr. McKinley may not be there  
25          forever.

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2           COUNCILMAN RIZZO: I don't think  
3 he's been there 30 years either.

4           COMMISSIONER BRUNWASSER: Oh, yeah.

5           COUNCILMAN RIZZO: He has?

6           COMMISSIONER BRUNWASSER: Yes.

7           COUNCILMAN RIZZO: You're holding  
8 up good.

9           COMMISSIONER BRUNWASSER: But  
10 seriously, there are very few firms where we  
11 don't try change, but --

12          COUNCILMAN RIZZO: Again, it's rare  
13 that there's that length of a relationship and  
14 it's just curious and it's good to know that  
15 we've got the best.

16          I think that's it. I'm going to ask  
17 Lance Haver to come to the table to give him  
18 an opportunity.

19          We had one consumer, Debbie  
20 Williams. Is she here? I don't see her.

21          Thank you, Commissioner.

22          Good afternoon. Thanks for hanging  
23 in there.

24          MR. HAVER: Good afternoon. Thank  
25 you very much for this opportunity.

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2           COUNCILMAN RIZZO: I know you  
3 testified at our first hearing. I wanted to  
4 give you an opportunity and I just didn't want  
5 to have you holler from the back of the room,  
6 whether you had anything that you would like  
7 to add to the testimony today.

8           MR. HAVER: I would like to start  
9 with what I think is some good news. I've  
10 been working with the Water Department, the  
11 Water Revenue Department, to set up an almsman  
12 so people who do have trouble with their bills  
13 will get them straightened out. I think, as  
14 you heard testimony earlier from the  
15 Commissioner, we have a legacy computer system  
16 which, unfortunately, creates some  
17 difficulties for people who are having some  
18 problems So we're not there yet, but we're  
19 definitely making headway trying to make it as  
20 efficient as possible for people to get their  
21 bills straightened out.

22           The second piece of good news, as  
23 far as I'm concerned, is I want to again just  
24 state what the Water Department has told you.  
25 The water rates in Philadelphia are the lowest

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2           in the region. That's absolutely true  
3           There's no argument. We have a tremendous  
4           asset in the Water Department.

5                     That being said, I think there are  
6           some questions that can be asked that may  
7           help alleviate the need for a rate increase.

8                     Let me start with the Rate  
9           Stabilization Fund. As I read the Five-Year  
10          Plans, the amount in the Rate Stabilization  
11          Fund has increased over the last two years. I  
12          heard earlier Councilman Nutter ask for a  
13          report over the last 10 years of the amount in  
14          the Rate Stabilization Fund. In my opinion,  
15          if the Rate Stabilization Fund has been  
16          increasing, that would suggest there's a  
17          surplus in the rates. If that is the case,  
18          then maybe we don't need as much of a rate  
19          increase as what we think we need.

20                    Second, what we have seen in the  
21          past is sometimes our wholesale customers  
22          actually are worse payers than some of our own  
23          customers. I'm not sure that we've had a  
24          chance to investigate that, whether there  
25          continues to be difficulties in collecting

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2           from our wholesale customers. It was a  
3           problem years ago. There's been a change at  
4           the Water Department. I'm not suggesting that  
5           that's still the case, but I have not heard  
6           that question asked. Unless there is a  
7           hearing, we won't have an opportunity to ask  
8           that.

9                   COUNCILMAN RIZZO: I'll put that as  
10          a question, Commissioner That will suffice as  
11          me asking that question. Thank you.

12                   Excuse me, Lance

13                   MR. HAVER: What I think is just a  
14          tremendous asset at the Water Department is  
15          that we are ahead of the curve in cleaning the  
16          wastewater before it's released. And I'm not  
17          sure we take advantage of our lab and actually  
18          use that lab and offer the service to smaller  
19          water departments across the country and  
20          actually find a way of making that revenue  
21          positive for us.

22                   I'm sure you've heard the Acting  
23          Water Commissioner speak about this, but the  
24          City of Philadelphia is really in the  
25          forefront of having cleaner water than what's



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2           legally necessary right now. That's because  
3           the laws will be changed and we have to keep  
4           up. But we have this tremendous asset. I'm  
5           wondering if we can't find a way to offer what  
6           we've discovered to other cities that are  
7           farther behind. It's rare for Philadelphia  
8           to be ahead of everyone, but here is an  
9           example of where we are.

10                 As Councilman Cohen mentioned  
11           earlier, the Water Department is actually  
12           built to be able to take more water out than  
13           what we're currently taking out and serve more  
14           customers. As a result, we have this  
15           tremendous asset. If Arizona could get our  
16           water, they would be thrilled.

17                 But one of the things we don't do  
18           is we don't market the availability of low  
19           cost water as a way of economic development  
20           And it is a tool, I believe, that PIDC should  
21           be made aware of, and they don't market that.  
22           I think that's unfortunate because, obviously,  
23           more people who are buying water from the  
24           Water Department, the less need there is to  
25           raise rates because it's spread out over more

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2           shoulders. I think that's a very valuable  
3           asset the Water Department can have. If they  
4           are able to get a seat at the table when we  
5           are recruiting industry to come into the City  
6           to help people understand that if you have a  
7           process that uses water but doesn't return  
8           it into the sewer system, that you get a very  
9           deeply discounted water bill.

10                   I also think that Councilman  
11           O'Neill's point about -- I know the Water  
12           Revenue Commissioner doesn't particularly  
13           like the idea -- but having the opportunity to  
14           use northeast City Hall as a chance to  
15           combine collections for PGW and the Water  
16           Department can serve as a test so we can see  
17           if there really will be a tremendous cost  
18           savings by combining billing and collections  
19           with PGW and the Water Department. Right now,  
20           as you know, we have two municipally-owned  
21           utilities sending bills to the same  
22           households, collecting from the same people.  
23           In my mind, it makes sense to start to talk  
24           about how do we combine them for one billing,  
25           one collections and one opportunity to save

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2           money.

3                   COUNCILMAN RIZZO: Save a lot on  
4           postage alone.

5                   I have a question, and it will save  
6           me a phone call. The Administration announced  
7           this pay online, pay with your credit card.  
8           Does that include the Water Department.

9                   MR. HAVER: Yes.

10                   COUNCILMAN RIZZO: I know that on  
11          occasion I'm solicited to pay various bills  
12          by using the credit card, but there's a  
13          premium. I found it as high as 5, \$10 just to  
14          pay your bill. Are our constituents going to  
15          have to pay an up-charge to use their credit  
16          card to make the payment?

17                   MR. HAVER: I don't feel I can give  
18          you a definitive answer. My understanding is  
19          no, but if I'm wrong, someone should correct  
20          me.

21                   COUNCILMAN RIZZO: If I want to pay  
22          my water bill and use my credit card, it will  
23          cost me \$1.45 to do that? Have we been up  
24          front with people and told them that?

25                   COMMISSIONER BRUNWASSER: It's on

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2           the web site.

3                   COUNCILMAN RIZZO: But if we solicit  
4           them in the mail to do this in the water bill,  
5           I think we should say very clearly that  
6           there's a fee associated with that in our  
7           communications, that it's very clear that  
8           there's a charge for that.

9                   MR. HAVER: I have just two more  
10          things that I would like to mention.

11                   I'm wondering as the world has  
12          moved away from a cost plus basis for pricing,  
13          if we ought to investigate that as a  
14          possibility as well.

15                   The utility industry was  
16          restructured. The electric utility industry  
17          was restructured to go away from cost plus to  
18          market pricing. Many of the changes in our  
19          society are away from cost plus to market  
20          pricing. When we decide how much we're going  
21          to charge wholesale customers in the  
22          surrounding areas, we are still relying on the  
23          cost plus mechanism. There may be great  
24          wisdom in that. I'm just wondering, if we  
25          started that 40 years ago, if maybe every 30

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2       years or so we should rethink an assumption  
3       And there may be no advantage. There may be  
4       an advantage. I would just like to see us at  
5       least spend a moment thinking, why are we  
6       still using cost plus when many of the other  
7       utility industries are moving away from cost  
8       plus to market pricing

9           And finally, I am always curious as  
10      to whether we can save money in our  
11      procurement by forming a buying cooperative  
12      with other municipally-owned utilities in the  
13      nation.

14           COUNCILMAN RIZZO: Not to interrupt  
15      you. That's a great idea. But I think within  
16      the government we don't do enough of that.

17           The flashlight that the Water  
18      Department uses, I'll bet it's the same one  
19      the Streets Department uses and the Fleet  
20      Management uses.

21           I think that's great idea. I think  
22      it's got to start in-house before we even  
23      expand outside of other water departments.  
24      That's been one of the things that I've vented  
25      on for years around here, that the same pair

1           09/22/04 - TRANSPORTATION - RES. 040298  
2           of boots that our Water Department employee  
3           uses, I'll bet is the same pair of boots they  
4           have in the Streets Department. And I know  
5           from my 30-plus years in the utility business  
6           that when we got together and shopped smart  
7           the prices came down.

8                     Excuse me, Lance

9                     MR. HAVER: I appreciate what you're  
10          saying. One of the advantages, though, of  
11          looking at PGW or the Water Department is both  
12          of them have the capacity to join national  
13          organizations. This is more directed at PGW.  
14          But while I have your ear, PGW is the largest  
15          municipally-owned gas utility in the nation,  
16          and therefore has a tremendous say in how the  
17          Municipal Gas Association goes forward. If we  
18          can start to think about that, how we can use  
19          the assets we have to lower the prices by  
20          combining procurement on a national basis,  
21          even if the model has to come first from PGW  
22          and the Water Department follows, that may  
23          work.

24                     I do want to just say that I am not  
25          in support of ending winter moratorium on

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2       shut-offs. I think that the cost to the City  
3       when we turn someone off can be very great and  
4       that we have to look at that. Certainly we  
5       should stop people from gaming the system.  
6       People should not be allowed to enter into  
7       repayment plan after repayment plan after  
8       repayment plan. But even if someone pays  
9       nothing in the winter and then catches up,  
10      that's better than having their pipes burst or  
11      having no water and moving to the shelter  
12      system.

13                I certainly thank you.

14                COUNCILMAN RIZZO: Thank you.

15                I want to thank everyone for  
16      spending the time with us this afternoon.  
17      We're going to recess this hearing to  
18      Tuesday, October 27th, at 2:00 p.m.

19                Again, thank you for your  
20      participation.

21                (Council adjourned at 4:11 p.m.)

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C E R T I F I C A T I O N

I HEREBY CERTIFY that the foregoing  
proceedings of the Council of the City of  
Philadelphia of Wednesday, September 22, 2004,  
were reported fully and accurately by me, and  
that this is a correct transcript of the same.

RE: COMMITTEE ON TRANSPORTATION AND  
PUBLIC UTILITIES

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Lisa C. Bradley, RPR