COUNCIL OF THE CITY OF PHILADELPHIA

PUBLIC HEARING

COMMITTEE ON TRANSPORTATION

AND PUBLIC UTILITIES

- - - -

Room 400, City Hall
Philadelphia, Pennsylvania
Thursday, May 20, 2004
2:10 p.m.

- - - -

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

PRESENT:

COUNCILMAN MICHAEL A. NUTTER, Chair
COUNCILMAN DARRELL L. CLARKE
COUNCILMAN DAVID COHEN
COUNCILMAN RICHARD T. MARIANO
COUNCILMAN JACK KELLY
COUNCILMAN FRANK RIZZO
COUNCILWOMAN MARIAN B. TASCO
COUNCILWOMAN DONNA REED MILLER
COUNCILMAN BRIAN O'NEILL
COUNCIL PRESIDENT ANNA C. VERNA

- - - -

V A R A L L O Incorporated
Litigation Support Services
Eleven Penn Center
1835 Market Street, Suite 600
Philadelphia, Pennsylvania 19103
215.561.2220 215.567.2670

I N D E X

05/20/04 - TRANSPORTATION - RES. 040298

COUNCILMAN NUTTER: Good afternoon. This is a public hearing of the Committee on Transportation and Public Utilities pursuant to Resolution No. 040298. The members of the Committee who are here are myself, Councilman Nutter as Chair, Councilman Clarke, Councilwoman Tasco, Councilman Mariano and Councilman Rizzo has been appointed to the membership of the Committee by Council President Verna for today.

Resolution 040298 is a resolution authorizing City Council's Committee on Transportation and Public Utilities to hold public hearings to investigate the proposed nearly 43 percent water and sewer cost rate increase to be effective July 1, 2004, requested by the Philadelphia Water Department and in furtherance of such investigation authorizing the issuance of subpoenas to compel the attendance of witnesses and the production of documents to the full extent authorized under Section 2-401 of the Home Rule Charter.

We have a list of witnesses. This

resolution was sponsored by Councilman Rizzo, and his office has been kind enough to put together a witness list. And the first person to be testify Mr. Bernard Brunwasser.

Would you please come to the witness table?

Please identify yourselves for the record and proceed.

COMMISSIONER BRUNWASSER: Good afternoon, Chairman Nutter and Members of the Transportation and Public Utilities Committee. I am Bernard Brunwasser, acting Water Commissioner, appearing before you today to testify on behalf of the Philadelphia Water Department. On my right is Mr. Jay row McKinley from the firm of Black & Veatch. Black & Veatch, that firm, is the Department's rate consultants.

My appearance is at your request to response to various questions arising from the Department's application for increased rates filed earlier this year. As you know, technical hearings concerning the rate increase will take place following the appointment of a hearing examiner and public advocate who will be jointly chosen by the Mayor, the president of City Council and the City Controller.

As I said in my budget testimony of April 28th, the Philadelphia Water Department provides high-quality drinking water to all of its customers. Its extraordinarily safe. We provide award-winning wastewater treatment and environmental stewardship to Philadelphia and southeastern Pennsylvania. Within the water industry we are recognized as one of the finest water and wastewater utilities, public or private, in the world.

Finally, we do all of this at the lowest cost in the region. Water rates are let's than half in Philadelphia are less than half what most suburban customers pay in this region. Also, around the country, rates have been shooting up as water and sewer utilities have been forced to deal infrastructure problems and many cities are facing higher rate increases than we are, double digits; in some cases, a tripling of rates within five years.

Before answering your questions I would like to offer a brief overview of the reason for Department's application for rate relief.

This application was sought because of seven major cost factors which will impact the Department over the period FY 2005 to 2008 and include in descending order: Increased debt service of $89.4 million, the lateral service program at $70 million, additional regulatory requirements and inflation of $53.3 million, increased personnel related cost of $34 million, the loss of a state subsidy, also known as Act 339 for wastewater operations, that's valued at $32 million, and the need for additional security-related cost, $8.9 million. And there's a table attached to this testimony which highlights those.

By way background, the City Council should be aware that the Department last requested a change in rates back in 2001. We got a three-part rate increase. Residential customers were impacted on the average of 2.8

percent per year and that was after six years of no increases.

Now, since that time, 2001, our total operating expenses have grown from 127.5 million to 484.2 million in the current year, FY 2004. This represents a 13.3 percent increase over the three-year period or an average annual increase of 4.4 percent. The cost driving the budget include those for personal services, debt service, inner fund payments, security materials, supplies, and equipment and inflation.

For example, personal services costs have increased by 11.7 percent and fringe benefits have escalated 16.1 percent, arising from the last labor agreements with our union workforce.

Annual debt service on bounds issued to fund the Department's Capital Program has also increased by 7.7 percent to 163.9 million since FY 2001.

In addition, increased costs associated with security, additional treatment for water and wastewater at Department facilities, materials including chemicals, supplies, equipment require the Department to spend 20.7 percent more today in FY 2004 than it did in FY 2001.

This budgetary growth also occurred during a period when Philadelphia continued to lose a portion of its population and businesses. And we've loss approximately 1500 customers each of the last three years on average. Needless to say, this continuing trend has the effect of substantially eroding the Department's customer base. This demographic reality has caused the Department's high fixed cost, and that's cost to maintain water mains, sewer mains, pumping stations, treatment plants, inlets. And it's caused that to be spread over fewer and fewer customers.

These budgetary and demographic factors in combination with the loss of state subsidy for wastewater operations and also future costs for the Department's proposed implementation of the lateral service program, the need to meet rate convenance for investors, additional regulatory costs associated with environmental requirements, this is all combined to force us to seek higher rates.

As shown in the table that's attached to this testimony, the lateral service program is proposed to be funded by the rate increase. That means out of operating funds. Program costs are calculated to be $70 million over the rate period 2005 to 2008. This represents about 23 percent of the incremental revenues tat we've shown as being required. Projected expenditures in connection with this program during the rate period are $10 million annually in the startup period of '05, and then that's repeated in '06 with an additional $10 million coming in and then $20 million annually thereafter.

The impact of inclusion of the lateral service program as an operating cost will have the effect of increasing rates applicable to the typical residential customer by 9.7 percent in Fiscal '05, 9.7 in Fiscal Year '06, 8.5 percent in Fiscal Year '07, and

9.4 percent in Fiscal Year '08.

In contrast, the impact of capitalizing the cost of this program on rates applicable to the typical residential customer will cause the rates to rise 7.1 in 2005, 6.4 percent in Fiscal 2006, 6.4 percent in Fiscal 2007, and 6.8 percent in Fiscal Year 2008. And this is very preliminary.

And I'd like you -- for more detail on the funding options for the lateral program, I would refer to an attachment which is a letter to City Council President addressing, Councilman, your question to me back on April 28th.

We took a look at it and we do believe that the Department's view is that it's cheaper in the long wrong and therefore cost beneficial to our customers to treat these costs as operating expenditures.

In any event, I hope I've made it plain that there are significant substantive reasons justifying the proposed rate increase so the Department can better serve its customers. The Department remains open City

Council's suggestions as to the appropriate cost of recovery mechanism for the service lateral recovery program as well as recommendations in all areas to improve service to our customers.

I am prepared to answer any of your questions.

COUNCILMAN NUTTER: Commissioner, I just have a couple questions.

Let me first get on the record that we have been joined by Council President Verna, Councilman Cohen and Councilwoman Donna Reed Miller.

I guess a couple things. First, I did receive your response to the question as it was addressed to Council President Verna. I think I received it yesterday, and I did try to read through it. While you may be relatively new in your current position, I know that you are a long-term public employee and you have clearly mastered the art of responding to a question in great detail, but in a way that is almost impossible to glean a clear answer. So I might have to stumble back through some of the responses.

I thought my question at the time on that issue was, how would we differently use the $125 million that's proposed from the water reserve funds for a different use as to benefit all of the ratepayers. I did not think that I limited the question just to the lateral program or even a four-year period of time. And we can go back through all of that, but let me get to a couple of these questions.

First, in your first paragraph you talk about -- and I know that there's an extensive process here -- that two individuals have to be appointed; one, a hearing examiner, and one a public advocate. And you note that candidates for such positions are under consideration by the Administration, City Council, and the City Controller.

Now, what is the process? Those three appointing authorities, the Mayor, Council President, and the Controller have to agree on a hearing examiner and a different person as a public advocate?

COMMISSIONER BRUNWASSER: CORRECT.

There is a table that I passed on April 28th and I passed out again today.

COUNCILMAN NUTTER: When does that process take place or by what time must it conclude?

COMMISSIONER BRUNWASSER: Well, at this point in time, I'm not certain that Council President Verna has yet been contacted or the City Controller, but I believe that's eminent. After that particular process, there are a number of things that will help. Once the hearing officer is chosen and the public advocate, the hearing officer will call all the parties that have registered with the Department of Records after we've filed there, all interested parties will get together and they will set up a hearing schedule, both a formal hearing schedule where witnesses cross-examined and there's a record taken --

COUNCILMAN NUTTER: Maybe this is what I'm not understanding. Is it my understanding that the anticipated rate increase is to start July 1, 2004 for FY '05?

COMMISSIONER BRUNWASSER: That was

what we had hoped for, yes.

COUNCILMAN NUTTER: Well, today is May 20th. We don't have an advocate or a hearing examiner appointed yet. How would you get all of this work done in any kind of legitimate process in the next 40 days?

COMMISSIONER BRUNWASSER: Well, I believe it will have to be -- the effective date will have to slip perhaps as much as 60 days.

COUNCILMAN NUTTER: Well, can you impose a rate increase in the middle of a fiscal year or once a fiscal year has started?

COMMISSIONER BRUNWASSER: Yes. There is no prohibition.

COUNCILMAN NUTTER: Let's talk about your second paragraph. I'm sure this will attract a fair amount of attention. First, letter A, you have basically $90 million in increased debt service.

Have you done a number of borrowings in recent times?

COMMISSIONER BRUNWASSER: Yes, we have.

COUNCILMAN NUTTER: Were they unanticipated?

COMMISSIONER BRUNWASSER: No.

COUNCILMAN NUTTER: How many have you done?

COMMISSIONER BRUNWASSER: Personally, probably on -- as far as new money, we probably go out every two and a half to three years on average.

COUNCILMAN NUTTER: When was the last one that you did? I mean, what's causing the -- your statement is, "increased debt service, $89.4 million." Which bond offerings caused you to have $89 million in increased debt service?

COMMISSIONER BRUNWASSER: We are anticipating going to the bond market this summer. And for $250 million which City Council has already approved, and that results in an estimated annual debt service of $17.2 million each year.

COUNCILMAN NUTTER: It's a 30-year offering?

COMMISSIONER BRUNWASSER:

Approximately. It depends on when you get to the market how it's structured, but some of the debt actually gets defeased earlier than that but will likely run as long as 30 years, yes.

COUNCILMAN NUTTER: Where does the $89.4 million come into place? You have a $17 million annual debt service on the 250.

COMMISSIONER BRUNWASSER: Right.

COUNCILMAN NUTTER: Are you somehow put this in the four-year box?

COMMISSIONER BRUNWASSER: Right. 17.2 each of the four years for the $250 million.

COUNCILMAN NUTTER: That's 68.

COMMISSIONER BRUNWASSER: And by the last year of the four-year period we're out again for new money resulting in additional debt service which gets you to 89.

COUNCILMAN NUTTER: I know that Councilman O'Neill will have even more questions than I, but the discussion around a lateral service program, I thought there had been a fair amount of discussion back and forth about whether this should be in Operating or Capital. I'm not going to step on that area, but it does jump out at me.

The $34 million in increased personnel costs, is this for additional staff or is it solely related to raises and fringe benefits?

COMMISSIONER BRUNWASSER: That will be primarily raises and fringe benefits and perhaps a small increase in staff.

COUNCILMAN NUTTER: So you're increasing your staff?

COMMISSIONER BRUNWASSER: We hope to fill some of our positions, yes. We're not asking -- we don't foresee many more authorized bodies, authorized positions, we foresee filling a little higher level than we have today.

COUNCILMAN NUTTER: Can you provide us with a list of the water rates for the four immediate counties around Philadelphia?

I know some of them may not operate their own water departments as we do, but if there is an authority or a private company that provides service to any of the cities and towns and municipalities around us. I'd like to see a rate chart.

COMMISSIONER BRUNWASSER: The major ones are right in this booklet.

COUNCILMAN NUTTER: Was that a part of what you handed out?

COMMISSIONER BRUNWASSER: Yes. Again, that was handed out in a spiral bound fashion on April 28th. I think I brought 25 copies.

COUNCILMAN NUTTER: Councilman Rizzo.

COUNCILMAN RIZZO: Commissioner, could you also provide us, if you haven't already, with the wholesale price of water?

I know we've talked about this in the past, and I understand that there are municipalities, other water companies that buy our water at a very, very reduced rate. So I'd like to know what we plan to do in adjusting that rate also.

COMMISSIONER BRUNWASSER: Their rates are going up July 1st. They don't go

05/20/04 - TRANSPORTATION - RES. 040298

through a hearing process per say, but when Black and Veatch revises the rates, all we have to do is give them 90 days notice of revision of rates. And they are going up and they're seeing some significant percentage increases.

COUNCILMAN RIZZO: And there's no approval process that you have to go through to raise those rates or decrease those rates? You don't bring that to Council?

COMMISSIONER BRUNWASSER: No, no. Our relationships with the townships are governed by ordinances of City Council. The last one was in 1987, and it told us that we have to charge at least the cost of service, full cost of service rates, plus at least a 10 percent management fee on top of that. And that's what we're getting today.

COUNCILMAN RIZZO: That sounds to me like a very good deal.

So you can charge basically whatever you want and they can say yes or no?

COUNCILMAN O'NEILL: Excuse me. Point of order.

COUNCILMAN RIZZO: Sure.

COUNCILMAN NUTTER: Councilman O'Neill.

COUNCILMAN O'NEILL: Are you referring to water and waste, or just water?

I want to make that we're not talking about one and not the other if they're different.

COUNCILMAN RIZZO: That's a good point, Councilman. Thank you.

Does that apply to wastewater also?

COMMISSIONER BRUNWASSER: That's correct. It's full cost of service plus 10 percent management fee.

COUNCILMAN RIZZO: That's obviously a very different number than a business customer in Philadelphia would pay -- I guess what I'm trying to learn is how that compares with a major corporation that would buy water and sewage charges versus what we would charge a municipality. Could you describe -- are they in balance, is it a significant break for those municipalities or is this an industrial customer?

COMMISSIONER BRUNWASSER: I think I know the answer, I think I will defer to Mr. McKinley who is really a recognized expert in United States.

MR. MCKINLEY: Let me describe a little bit about how the wholesale customers, both the water side and wast water, are charged within the City of Philadelphia.

Obviously, there are contracts with each of these customers. We'll start with the water side first. We have Bucks County and sewer on the water side and Philadelphia Suburban Company Water as a second wholesale water customer. And we basically allocate costs to these customers in proportion to their contract capacity or contract demand. Their contract with the City of Philadelphia actually have a maximum date capacity which you effectively reserve in your water system to provide them. They pay the capital costs on their contract capacity even though they may not be utilizing their full contract capacity amount.

And for Philadelphia Suburban Water

Company, there's 10 percent management fee as Bernie has described. We pay full cost of service. They don't utilize necessarily the same total facilities of a water system, for example, as an industrial customer. They use only the large mains, the transmission mains, to get the water from the treatment plants to the outlying areas where they take the water. They don't utilize the small distribution mains within the City system, so appropriately they're excluded from paying for the small mains cost. However, they do pay their full cost of the capital cost for the treatment plants, the source of supply facilities, the pumping facilities of the large mains. And basically they're paying in cost for service, it's what it cost of the City of Philadelphia Water Department to provide service to these customers. And that's basically what's embodied in the contracts with the customers that they should pay cost. And there are certain methodologies outlined in those contracts that we follow in our allocation and rate design process.

COUNCILMAN RIZZO: What effect does this arrangement we have on our rates? Is this good? Is this a business deal for us? In other words, if we stop doing this, would this bring the potential rate increase down or is this good for Philadelphia to do this type of an arrangement?

MR. MCKINLEY: I'll answer that from, I guess a technical perspective, then Bernie can answer from maybe a more political perspective.

COUNCILMAN RIZZO: No, I'm interested in the politics.

MR. MCKINLEY: I'm talking about what the market will bear type of situation.

COUNCILMAN RIZZO: I understand.

MR. MCKINLEY: I've been in the rate business for somewhat 30 or 40 years now, and we try to establish cost of service and rate design, whether it's wholesale or retail customer rates that will stand the test of courts. We don't like to have arbitrary capricious rates because you get into trouble when you vary from what the true cost of serving on. So that's kind of our position as we educate and we recommend to the Water Department what it costs to actually serve these various customers, whether they be wholesale, which are governed by contracts, or retail customers. So I think from the perspective that I'm coming from, paying full cost of service plus a 10 percent adder for a management fee is certainly fair to the City in providing that service. They're recovering their cost.

In the case Philadelphia Suburban and in Bucks County, we are at a rate of return on the investment provided to those customers based on their contract capacity, and neither one of those customers on the water side are actually utilizing currently their full contract capacity. So they're paying for reserve capacity at a 7 percent rate of return as well as depreciation on the facilities they're using as well as the actual operating cost based on how they use the system each year.

COUNCILMAN RIZZO: I'll let our

Chairman continue. I just didn't want that to get by us.

I guess to finish up, Commissioner, you have a political side of that question to answer versus -- and again, lastly, when we're in a water crunch here, if we weren't exporting this water when we tell people we can't wash our cars and we can't do all these things, if we weren't exporting this water, could we do all the things we want to do?

COMMISSIONER BRUNWASSER: Well, just to get back one moment to what Ro just said, it's good for us to be able to spread the fixed cost of our facilities across the widest, largest customer base we can.

The three water treatment plants were actually designed in the 1950s and I guess constructed probably in the early '60s, and they were designed and built to handle maybe two and a half million people inside Philadelphia with industry. So we have very large reserve capacity at those plants. It's best for us to market as much of this capacity to the suburbanites as we can.

COUNCILMAN RIZZO: I'm finished. I'm going to turn it back to Councilman O'Neill.

COUNCILMAN O'NEILL: It's excess capacity so if we're not selling it to suburbs, we're just paying for it among ourselves so even if we have to sell it for less, it's still better than nothing. That's kind of the argument I've always heard from the Water Department on the excess capacity argument and why suburbanites pay less than Philadelphians for the same service.

COMMISSIONER BRUNWASSER: They pay differently, they pay on a different basis. For instance, Bucks County, that's a pipe through Northeast Philadelphia. That's one pipe. They pay for that pipe, for that conveyance pipe, and they take the water at the City boundary. Then they have to go and distribute that water -- we have 3300 miles of water main inside the City. They have their own water main system in Bucks County, and they have to go and meter and bill those customers. So that's why it's wholesale.

05/20/04 - TRANSPORTATION - RES. 040298

They have one pipe. We give them all the water they required under the contract. And that portion of the plant that's attributable to them, they share in that cost. So it helps to spread our fixed cost of that plant, but we charge them everything that it costs us plus, as Ro just said, return on capital and 10 percent management fee.

COUNCILMAN O'NEILL: Okay. I'm going to ask you just as an example. To carry that thought along, and I think I understand it. I never agreed with it, but I understand it. I'm a developer. I find a tract of land, maybe it's the Byberry site, something big. I want to put a thousand residences in there, residential properties. Why can't I sit down with you and say, "I want to pay cost plus 10 percent. This is excess capacity. If I don't build this, you're not going to use that water, you're not going to use that wastewater capacity."

To me, it is no different. You're recognizing a border as important, and it's offensive to people that live in the City the same recognition that a border makes the difference, because you would never allow a developer -- maybe you would. Maybe I should let you answer the question. Would you allow a developer to negotiate that with you? Because I have a few that are interested in it, I can tell you that.

COMMISSIONER BRUNWASSER: We already have the lowest water rates in the region. If people made the judgment -- if people in the Delaware Valley made the judgment whether to move in or move out of an area based on water rates alone, we would have 4 or 5 million people here and the suburbs would be emptying out if that's the basis. So I don't believe --

COUNCILMAN O'NEILL: Just answer the question. You would not do that with a developer what you're doing with suburban townships and other political entities.

COMMISSIONER BRUNWASSER: It's a different story --

COUNCILMAN O'NEILL: You consider it a different story. I understand that. I think it's clear you wouldn't.

COMMISSIONER BRUNWASSER: Yes, right

COUNCILMAN O'NEILL: I always like an absurd example to bring out what I think is the real meat of the matter here, because I've talked to enough people in the counties surrounding Philadelphia who love us treating their sewage because of the political problems. And you raised that there's a political side to this. What we're refusing to go recognize, and have been for years, is how we're helping their political problem because their residents don't want the wastewater treatment there. Instead of charging them extra to take them off the hook, we charge them less. That is wrong. It's wrong for our citizens, and it's too easy for them. They shouldn't be treated any different than a developer who has a massive development they want to build and one of the negotiations with the City is, "I'll build this. Let me use your excess capacity. Give me one pipe, I'll figure out the rest while the homeowners association or whatever the mechanism is --"

but cost plus 10 percent is fine if it's that way for everybody.

The politics of wastewater treatment is just mind boggling in the suburbs, what people will take "not in my backyard thing" and we're letting them off the hook and having our people subsidize it, because that's the end of it. You get full rate from them, you don't get a subsidy up there. What we pay, they pay. As soon as you start with a different rate, we're subsidizing. So I don't know we can continue to make this excess capacity argument.

COMMISSIONER BRUNWASSER: Councilman, I disagree with you because we charge wholesale rates at the border. They then have to go back and do what they do to either send us wastewater through a bunch of sewer pipes that they have had to build and they have to go and bill their customers. Now, the bottom line is the suburbanites in these regions that are our customers, our wholesale customers, are paying more than we do, than our inside city customers, so the argument doesn't really work out that way. What we've discussing is retail and wholesale. And I think I'll ask Mr. McKinley to kind of explain because Mr. McKinley has a nationwide view of how this is handled. He happens to be chairman of the American Waterworks Associations's Rates Charges Committee. So there's probably no one in the country who understands this any better than Mr. McKinley.

COUNCILMAN O'NEILL: And we're a member of that association and all the township water departments and water companies are a member of the association. I don't see an objective position here. I see an expert. He's got all the credentials, but is he going to say anything that might offend someone in a suburban jurisdiction that's a member of the association? I don't think so and I wouldn't expect it. This is partly political. And you can't not recognize it.

These people in Bensalem or other townships, they don't care if they have sewer -- they want sewer pipes in their street. What they don't want is a wastewater treatment plant down the street from their house. If we don't have it, somebody's going to have it down the street from their house. And it its politically difficult to build those in the suburbs. And I think they'd be willing to pay more if they had to than to pay less.

COMMISSIONER BRUNWASSER: One point before I turn the mike over to Ro. Those three wastewater treatment plants that we have -- by the way, it was the biggest investment; up until the building of the stadiums, that was the biggest investment we have ever made as a City. Those three wastewater treatment plants were also designed to treat the wastewater from those suburban customers. And the federal government gave us grants in order to build those plants at those sizes for those customers.

COUNCILMAN RIZZO: I believe that was in the '70s.

COUNCILMAN O'NEILL: There's two issues with the plants. One is when we built them, the other is when they forced us to up grade them and over purify and overdo it for political reasons. It was going on between the Administration here back in the late '70s and people in Washington who didn't like who somebody running, you know, the was Mayor supporting, and we paid dearly. We first started having the true increases that have gotten our water bills to monthly instead of quarterly because of the requirements that were being placed on us here and not necessarily nationwide in the same way. That is what changed the whole water structure in Commissioner Marazzo's administration, because of the mandates from the federal government on our treatment plants. I understand that. That's when it really got expensive and that's when we started off-loading a lot of this excess capacity. But it doesn't make it right. It may explain what happened, but --

I put two bills in today ave. One is just Gas Works add another line telling people how they're paying for people who aren't paying that can afford to. The Water Department put in another line -- your collections are better, but not 100 percent and they should be closer to 100 percent, considering you can only live a day in the house without water. Why don't we just put in here how much your subsidizing the suburbs, this is how much the differential is. I mean, this is -- we're not going to solve it today, but the 1997 ordinance has to be revisited.

COUNCILMAN RIZZO: Thank you, Councilman O'Neill.

Before you shift over here, I have developers like Councilman O'Neill just said that there are so many buildable, fine construction opportunities in various sections of our City that has no sewerage, that has no water, and I don't know what the relationship is with the Water Department and some of the these developers, but they give up, they walk away because of the cost associated with the infrastructure to provide water, specifically I assume more so the sewage side.

Why are we letting all of these developers walk away that want to build 20 houses, nice singles here, 15 over here because they, for lack of a better word, they're not getting cooperation from the Water Department or any assistance in looking down the road what this construction could mean in revenue? Commissioner?

COMMISSIONER BRUNWASSER: Well, I've been Commissioner for four weeks. This is an area that I want to explore. I believe that policy where we have the developer build the development to our standards, the water and sewer infrastructure to our standards and then deed it over to the Water Department where we take over maintenance from then on, I think that's served us well so far. But I'm willing to listen and learn a little bit more about this topic.

COUNCILMAN RIZZO: Because I know three developers that have walked after spending a lot of money for engineering and survey, et cetera. But they claim that they just can't work with the Water Department because of the cost associated with what you just described, the construction of the system and turning it over to you for maintenance.

Thank you. Excuse me for

interrupting.

MR. MCKINLEY: That's no problem.

As Bernie said, I am the Chairman of the American Waterworks Rates Committee. I also have just completed a rewrite of the wastewater rate manual for the WEF, Water Environmental Federation, which basically is a manual of practice in rate-setting, so I've seen a lot of experience, a lot of jurisdictions around the country through my own experience and through the experience of the people on my committee. And ratemaking 101 is kind of hard to explain in a nutshell, but let me just do it this way.

Basically, when you establish rates that are fair, equitable, will hopefully stand the test of the courts, you start with three processes, and we're talking really about the first one here, and that's the revenue requirement projections, what requirements do you have of your rate revenue; you have O and M expense, capital costs, et cetera. Once you've done the projection of the revenue requirements and indicated the need for rate adjustments or revenue adjustments -- which is what we're facing here, we're looking at a four-year proposed revenue increase in each of four different years -- the next step is to take your cost, your revenue requirements and distribute those equitably amongst the classes of customers you serve. In the broadest scheme, you could say we have two classes of customers Philadelphia and many other jurisdictions; wholesale customers and retail customers. You have to do the allocation of your revenue requirements, your O and M expenses, your costs, your annual capital costs to these two groups of customers in an equitable fashion. Once you've allocated the cost, the next step is to design rates when applied to the usage, consumption and the strength parameters and the wastewater, extract that allocated cost from each of these customer classes.

So when you're looking at wholesale versus retail, and this is not an uncommon situation, in most cases you'll find you have contractual obligations with your wholesale customers. It's kind of a two-way street; they want to have service provided by the providing entity, such as the City of Philadelphia Water Department, and the City of Philadelphia Water Department wants protection that these wholesale customers won't walk away and leave you with stranded capacity that you've built for them.

So when you're allocating costs between the wholesale and retail group, you're bound by contractual commitments in allocating the cost of service to the wholesale customers most generally and certainly in the case Philadelphia, which, as I say, a typical case around the country.

On the wastewater side, the largest of your wholesale customers, whether it's Bucks County or Bensalem or Lower Southampton or Upper Darby, they have all made capital contributions, upfront capital payments to the Water Department based upon your investment in the system to provide service to them and their contract capacity. They actually made an upfront capital payment which basically makes their service risk-free from a capital standpoint to the City of Philadelphia. In other words, Del Couras uses 50 million gallons a day; that's their contract capacity. And the capacity of the Southwest Treatment Plant where their water goes directly to, wastewater goes directly to, they paid 50 divided by 210 or about 25 percent of the City's share of capital cost of that Southwest Treatment Plant. All of the other large wastewater customers have done the same thing. That was not only on the original contribution, but as you replace and upgrade and because of new regulations and the system wearing out, they also make a capital contribution for their share of the capital investment in the replacements of the Southwest Plant or Southeast Plant or the Northeast Plant. This is on the wastewater side.

So the contracts really govern what you charge your wholesale customers. And that's what I was saying earlier, we allocate them what it costs to serve them. And in most cases -- I think maybe one exception, Bucks County Water, I don't think that has a 10 percent management fee. I think all the other wholesale water and wastewater customers have a 10 percent surcharge on top of the cost to provide service to them. There's no justification for that. That's just a cost of doing business. So to say that they're being subsidized I think is, in my opinion anyway, a misstatement, the wholesale customers. They're paying their cost plus 10 percent. And once you've allocated your revenue requirements or your O and M, operation and maintenance expense and capital cost to the wholesale customers, then the balance has to be recovered from your retail customers because basically you're governed predominately by your bond ordinance, the pledge you have to the holders of all your $1.5 billion or whatever the number is of revenue bonds are outstanding that says you'll recover revenues --

Remember, this is not a taxing authority. This the Water Department has to recover revenues from their rates they charge to their customers is their only source of revenue basically except for interest income. And they have to pledge to the bondholders that they will get enough revenue not only to meet their cost, their O and M expense, to pay that debt service, but there's a coverage covenant, debt service coverage. They have to recover revenue, the Water Department, that's 20 percent over and above their annual debt service payment. And it's a cushion to bondholders that the money will be in the bank to pay the principal and interest on bonds.

Now, there's a use of that 20 percent. The Water Department also has to make a capital contribution as part of its bond covenant called the annual capital deposit which is about 16 to $18 million capital contribution to the construction fund for cash financing a portion of their capital improvements.

So basically, we allocate the cost of service to the wholesale customers plus 10 percent. The balance of those costs have to

05/20/04 - TRANSPORTATION - RES. 040298

distributed amongst the retail customers, residential, commercial, industrial. And we have rates designed that basically follow the manuals of practice in terms of the rate structure themselves that recover the cost equitably from the retail customers.

Now, you talk about industrial development or you have people walking away. There are such things in the industry called industrial development rates, and those maybe below cost rates to attract industry; a thousand jobs, 2000 jobs. When you do that, you have to very careful, though, because if you're trying to an attract some sort of an industry, a brewery or whatever you already have breweries in the City of Philadelphia and you're giving this customers a break in their water rates, the existing customers may feel like they've been disadvantaged. It's kind of a double edged sword when you talk about industrial development type of rates, subsidized rates. Because, like I say, you have a revenue requirement to recover, you have bond covenants to comply with. And anytime you subsidize a rate to any group of customers, small group or large group, somebody else has to make up the difference because you have a certain total amount of revenue that has to be generated from your rates.

So that's my quick and dirty story from, I guess, a rate expert and a revenue requirement responsibility.

COUNCILMAN RIZZO: Am I hearing you say that someplace in the United States if a developer installs the infrastructure that there could be a reduced rate for the water? But I didn't hear you say that maybe until they recovered their investment. Is there a time associate with that reduced water so it balances investment installation of the facilities?

MR. MCKINLEY: I would suspect so. An example, we do work with the City of San Antonio water system. They just attracted a large Toyota automobile manufacturing plant. And a part of the package was reduced water rates, water wastewater rates. I don't know what percent of the package it was. I suspect it was not a significant part. There are also tax breaks for a certain amount of time. So when you try to attract industry, water is typically a very small piece of pie. It's the taxes, it's the other infrastructure costs.

The Philadelphia Water Department does not have a system development charge for new customers, which many, many utilities do, particularly those that are growing system development charge. It's a new customer contribution, a front-end contribution that residences have to make, businesses in cities where they have such charges. And like I say, most of these cities are fast-growing cities, so rather than make the existing customers pay for the cost of holding extra capacity or reserve capacity, they make the new customers pay a front-end capital contribution towards that capacity. It helps keep the rates lower in a long run. But, see, the City of Philadelphia does not have such a system development charge, so that's not a reason why some water or customer wouldn't locate here because high system development charge. Those charges can be 5 to $10,000 depending on the infrastructure of the City, and you don't have those.

COUNCILMAN O'NEILL: Just on the same subject. THE cost plus 10. You mentioned that the '87 ordinance is cost plus 10 minimum.

COMMISSIONER BRUNWASSER: Yes.

COUNCILMAN O'NEILL: Has the City Water Department ever gotten more than 10?

COMMISSIONER BRUNWASSER: No.

COUNCILMAN O'NEILL: 10 is, I assume.

COMMISSIONER BRUNWASSER: Yes.

COUNCILMAN O'NEILL: You have close to 20 years of experience where we've treated the floor also as the ceiling.

COMMISSIONER BRUNWASSER: Correct.

COUNCILMAN O'NEILL: Okay. And can you explain the Bucks County water not paying the 10?

COMMISSIONER BRUNWASSER: Well, yes. Bucks County Water's contract with

Philadelphia precedes the ordinance. They signed a 45-year contract back, I believe, in 1966. I may be off by a year or two. 1966 is correct, yes.

COUNCILMAN O'NEILL: Now that they're getting near the END, are they planning to open their own treatment plant so that when the contract is over they won't have to continue this wonderful arrangement?

COMMISSIONER BRUNWASSER: We don't know what their plans are, but I would suspect no.

COUNCILMAN O'NEILL: You have to have some sense, I mean, you're all in the same business, you're not competitors.

What would be your instinct on that?

COMMISSIONER BRUNWASSER: No.

COUNCILMAN O'NEILL: All right. That's all I have.

COUNCILMAN NUTTER: The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: What do we pay -- what's involved in the cost of the service charge that Philadelphians pay. We pay a water cost and then we pay a service charge.

COMMISSIONER BRUNWASSER: That's right. The service charge portion of the bill which is -- I used to know the number, but it's probably along the number of $17 or so. It's a little less than what it used to be when we re-allocated storm water over the past three years. We lowered the service charge cost to the residential customer. And the large meter customer has gotten some significant increases because we've discovered that they occupy more property of the City than we thought initially. And we use meter size as a surrogate. So every five-eighth inch meter customer, their service charge is approximately $17. I know some of the fellows behind me know exactly what it is. But most of that charge is related to storm water treatment, and disposal; collection, treatment, and disposal. Many of the sewers in the street, some of them in the older sections carry both storm batter and sanitary wastewater. In the newer parts of the City, we separate system, separate storm water and separate sanitary lines. The storm water sewers have to be much larger, and there's a large capital cost component to those sewers. Also, we maintain the sewers through our sewer maintenance unit. We maintain the inlets that are associated with storm water runoff through our inlet cleaning unit. And we also have the capital cost of treating the storm water that gets to our wastewater treatment plants, and that adds up to a rather high burden of about, I don't know, 85 to $90 million probably annually; 85 to $90 million of our annual budget is devoted to storm water related items.

And storm water, the reason it's in your service charge, it has no relation to the amount of water that you use, it's there to take rain water off of your property and off all the City streets so we're able to navigate during rainy whether.

COUNCILWOMAN TASCO: Do we provide any of that service to areas we sell water to?

COMMISSIONER BRUNWASSER: We don't directly, but what we have during rain events is a lot of infiltration of storm water at our connection points to the City, and that comes in and goes to our wastewater treatment plants and we charge them for that. We actually treat their storm water, the storm water that gets into their sewer system, and we charge them on volume as well as strength.

COUNCILWOMAN TASCO: So you charge the county?

COMMISSIONER BRUNWASSER: Yes. We charge -- well we have actually now nine entities on the wastewater side that we charge for wastewater. And in this particular instance, wastewater includes storm water.

COUNCILWOMAN TASCO: Is that charged to the county and not to individual?

COMMISSIONER BRUNWASSER: Right. It's wholesale. In other words --

COUNCILWOMAN TASCO: That cost is calculated in the cost you charge the municipality.

COMMISSIONER BRUNWASSER: Right. The municipality, the township or the authority. Yes, we have about 55 communities surrounding Philadelphia in Pennsylvania send their wastewater to us. They do this through what's been 10. Now two of them have merged, so nine wholesale wastewater contracts, and that's the entity we deal with on a wholesale basis. We say, "Here's what you sent us last month. This is the volume of sewage and this is the strength of that sewage and here is the calculation. Here is the peak you had, et cetera. Here is the calculation for your sewage bill for the month of April."

They then turn around and use that to calculate their retail bills back to their customers.

COUNCILWOMAN TASCO: Are they charged the same rate that we pay?

COMMISSIONER BRUNWASSER: Their rates are higher than ours. They pay us and then they have to cover the cost of collecting their wastewater through their own pipes to get it to us and they have metering and billing charges and maintenance charges within their area. So all of that has to be added on top of wholesale bill that they paid us. So what we've discovered is that wastewater rates in the suburban areas are more expensive than ours and water rates are more expensive than ours.

The other thing I should tell you is in many areas outside of Philadelphia, they honestly don't know much they pay for wastewater because it's part of their tax bill. Sometimes wastewater is separate, sanitary wastewater, but storm water costs is part of their tax bill so they don't really know. They really don't know any all the components of their cost. Some of it is buried in their taxes.

COUNCILWOMAN TASCO: Thank you.

COUNCILMAN NUTTER: The Chair notes that Councilman Kelly has joined us.

Commissioner, I wanted to just ask a couple questions in the same area. I'm now looking at the document that you gave out to us either a couple weeks ago or today. I'm looking at the 2003 regional residential water and sewer charges. Now, let me just make sure I'm understanding this. When you say

Philadelphia Water Department, $17.27, is that -- what does that exactly mean? How much water is that?

COMMISSIONER BRUNWASSER: That's 800 cubic feet of water a month. That is what we call typical residential customer. I sometimes hit that exact number 8,000 cubic and --

COUNCILMAN NUTTER: 800 or 8,000?

COMMISSIONER BRUNWASSER: Excuse me. 800 cubic feet, and that means for me a bill of about 41.76. Only $17.27 of that bill is associated with water. If it was purely a water bill, it would be $17.27. The 17.50 you see for the monthly sewer bill is sanitary sewer charge. Then in the service charge, the service charge which you don't see here, you have storm water taken out and charged as part of your service charge. What this chart depicts here is monthly water bill and a monthly sanitary sewer bill. These are all apples to apples type relationships. In other words, most of these suburban customers have no idea what their storm water charge really is because they don't get a separate storm water charge, it's part of their tax bill, I should say their real estate tax bill.

COUNCILMAN RIZZO: Why can't we just call it gallons? Why do we have to do cubic feet? Why can't we just do just what people can understand? I don't know many cubic feet of water I use to take a shower.

MR. MCKINLEY: It's about 50/50 in the U.S. 100 cubic feet versus a thousand gallons. 800 cubic feet per month turns out to be about 72,000 gallons per year or about 6,000 gallons per month. That's a typical residential user 6,000 gallons a month,

COMMISSIONER BRUNWASSER: Quite a bit cheaper than bottled water.

COUNCILMAN NUTTER: So let me try to understand this. Let's go back to part of Councilman O'Neill's original question.

What is the actual dollar amount that we charge, suburban companies, I guess, for water versus what we charge a Philadelphia resident for water?

COMMISSIONER BRUNWASSER: That's a

bad comparison because of the volume. In Philadelphia, we have declining block rates --

COUNCILMAN NUTTER: Commissioner, I know you've been in the Department a long time and you probably haven't spent much time at the witness table. Let me give you at least one bit of advice. When a Councilmember asks you a question, you cannot like the question, you can think it's a stupid question, you can think it's an inappropriate question. My strong advice to you is just try to answer the question without an editorial comment on whether it's the right question or the wrong question. I can assure you that most members, whether it's the first time they asked the question or the tenth time they asked the question, they'll get to the question that they want to get to.

So I'm going to ask you about the residential customer in Philadelphia and the suburban customer or company or whoever we sell the water to, what are the rates in the City, outside the City.

COMMISSIONER BRUNWASSER: Thank you

for setting me straight.

COUNCILMAN NUTTER: It's all right.

COMMISSIONER BRUNWASSER: The rates do vary depending on the customer.

COUNCILMAN NUTTER: What does that mean?

COMMISSIONER BRUNWASSER: Well, we charge on a number of bases.

COUNCILMAN NUTTER: Number of bases? Criteria?

COMMISSIONER BRUNWASSER: Criteria. And we charge on capacity and the bases of usage. We do have declining block rate in Philadelphia.

COUNCILMAN NUTTER: I'm sorry, declining --

COMMISSIONER BRUNWASSER: Declining block rates in Philadelphia.

COUNCILMAN NUTTER: What is that?

COMMISSIONER BRUNWASSER: It's part of cost of service rates. And I think it's best for me to pass off to Mr. McKinley because he has the better technical expertise.

MR. MCKINLEY: Talk about water

first of all.

COUNCILMAN NUTTER: And you heard what I explained to the Commissioner, right?

MR. MCKINLEY: Talk about the water utility separate from wastewater.

COUNCILMAN NUTTER: Yes.

MR. MCKINLEY: Declining block rates, what that means is in the general terms, the more water you use, the lower the per unit cost is. Now, it sound like it's not a very conservation oriented rate. It sounds like it's a quantity discount like if you're a big customer you get a break.

And just a little bit of background on that from a retail customer perspective. Residential customers by and large -- it's a long answer, but I'll get to your answer.

You asked what a declining ing block rate is, and I'm trying to explain it.

COUNCILMAN NUTTER: No, actually, I wasn't that excited about declining block rate. I'm sure there's more for me to learn about it.

MR. MCKINLEY: The first block rate

which is what the residential customers tend to use is the highest per unit cost because of inefficiencies in their water usage habits.

COUNCILMAN NUTTER: Is this the 6,000 cubic feet a person?

MR. MCKINLEY: It's basically $2.50 per hundred cubic feet, $25 per thousand cubic feet. It's he about $1.88 per thousand gallons if you convert it to numbers we understand, the per gallon thousand number.

COUNCILMAN NUTTER: Next you'll want to tell me what it is in liters.

MR. MCKINLEY: No, I want to tell you what Philadelphia Suburban's rate is, for example, which is what you asked, and I know that one right off the top of my head because we just negotiated that with them three or four years ago. It's about $1.10 per thousand gallons. So it's lower than the residential rate. That's the answer.

COUNCILMAN NUTTER: Slow down. The Philadelphia resident, the rate is what?

MR. MCKINLEY: About $1.88 per thousand gallons.

COUNCILMAN NUTTER: And we sell water to --

MR. MCKINLEY: Philadelphia Suburban.

COUNCILMAN NUTTER: It's now Aqua Pennsylvania?

MR. MCKINLEY: Excuse me?

COUNCILMAN NUTTER: Philadelphian Suburban is Aqua Pennsylvania, right?

MR. MCKINLEY: Yes. 1.10 per thousand.

COUNCILMAN NUTTER: And does this go back to Councilman O'Neill's point with regard to -- is this excess capacity issue where we're just trying to sell whatever we have at whatever rate we can get, I mean, is it the goal here?

MR. MCKINLEY: The 1.10 is a rate based on the capacity that they have contracted for with the Water Department, they're paying for their full cost of that contract capacity. It's 11 million gallons per day is what they contracted for. And so they're paying for that cost plus the 10 percent markup. That's what Philadelphia Suburban rates are paying.

COUNCILMAN NUTTER: Well, even at that, it's $1.21, right?

MR. MCKINLEY: No, I already added the 10 percent into that.

COUNCILMAN NUTTER: The plus 10 is in there?

MR. MCKINLEY: Yes.

COUNCILMAN NUTTER: So it's really a dollar?

MR. MCKINLEY: Roughly, yes, a thousand dollars.

COUNCILMAN NUTTER: So explain to me why this is a good thing.

MR. MCKINLEY: They have a considerable different peak to average demand factor that's embodied into their rates, that's embodied into their contract capacities. The Philadelphia Water Department, the service area and the retail system has a much different usage characteristics. And that's why I was starting to talk about --

COUNCILMAN NUTTER: I understand that, I think.

MR. MCKINLEY: Both rates are cost to service based.

COUNCILMAN NUTTER: Both what?

MR. MCKINLEY: Both rates, the retail rate that I talked about for residential and the Philadelphia Suburban rate reflect the cost of providing service to each of these two distinct customer groups. It's cost based.

COUNCILMAN NUTTER: I hear what you're saying. I'll assume that you really know your business, but for the average person trying to under tan this and you're just a regular Philadelphia ratepayer -- I mean, the Philadelphia residents paying whatever the rates are, they're paying rates, they're paying for bond offerings. The Commissioner talked about an upcoming $250 million deal, $17 million in debt service going back into why our rates are going up.

I mean, we're the entity with the product. Now we may not have necessarily created it, but from above we have the product here. We have a system that's been paid for by many Philadelphians over decades. We have a certain number of people, I might even agree I don't know that folks have fled to suburbs because they can get keeper water. We have more than enough incentives built into many systems here in the City that this just kind of be a little bonus that you might not even know about until you get out there. But Philadelphians pay to make this system what it is. How do you justify to a Philadelphia ratepayer that the pipes under the ground, especially if you're in like an outlying area near a county -- Councilman O'Neill is very close to Bucks County. I have Montgomery County literally a block and a half from my house. Some pipe in my neighborhood, some pipe in his neighborhood, some pipe in somebody else's neighborhood is running wit the same infrastructure, connecting a pipe possibly in the middle of City Avenue or Street Road or County Line Road, and when it crosses that line, that political imaginary boundary, people getting that water -- I mean, what is that, 40 percent, a 40 percent difference?

MR. MCKINLEY: If I can explain a little bit of that, some of the rationale for these differences. When that water crosses the city line at $1.10 a thousand gallons, whoever the purveyor is, Philadelphia Suburban in this case, they have to add to that cost the cost of their local distribution system, their pumping stations, their reservoirs to get that water.

COUNCILMAN NUTTER: I understand that.

MR. MCKINLEY: See, those costs are not included in the $1.10 because Philadelphia doesn't provide that service to them.

COUNCILMAN NUTTER: I understand that. But that's their problem.

MR. MCKINLEY: That's why the rates aren't comparable because $1.88 has all those local distribution mains, the additional pumping, the local cost as well as the reserve capacity within the City of Philadelphia retail system. All of those costs are in the $1.88.

COUNCILMAN NUTTER: Why wouldn't we have just one rate for water? It's all produced here in the City. Why wouldn't there be one rate in Philly, out of Philly? We produced it with Philadelphians' money. Why wouldn't there just be one rate?

MR. MCKINLEY: Because just like on the wastewater side, when the water goes out or the wastewater comes in, there's a litany of infrastructure within each of those wholesale customers' boundaries that are costs that they have to incur to distribute the water to their customers or to collect the wastewater and give it to the City of Philadelphia. They don't have the same level of service that you provide to them as you provide to your own retail customers because you have not only the collector sewers, the treatment plant --

COUNCILMAN NUTTER: Councilman O'Neill.

COUNCILMAN O'NEILL: I understand

everything you're saying. The thing you didn't mention in this equation that I think we're all begging to hear some information about either at this hearing or a future one, and that is the fact that there's a value, not just political, but a real dollar value to them not having to build treatment plant in today's dollars. I haven't heard yet where that cost savings to them is recognized at all and what they're paying us who built ours in the '50s and have paid repeatedly to upgrade it.

And I just want to mention one thing. It was a statement by Commissioner that we built this for the suburbs. I had always been told as you started to say at the beginning of your testimony that we built it for a much larger city than we have and it is wise for us to sell. When we had two and a half million people that we were building for, we also were building for the suburbs?

You said two different things, and if we can just get that clarified. I think it's an inconsistency, anyway.

05/20/04 - TRANSPORTATION - RES. 040298

COMMISSIONER BRUNWASSER: What I said was these plants were designed for a lot more customers and --

COUNCILMAN O'NEILL: Right, but you initially said for Philadelphians that never materialized. Then you said they were built also for the suburbs.

COMMISSIONER BRUNWASSER: I was referring basically to the wastewater side. The wastewater treatment plants were -- we didn't get federal money for the water plants, but in order to build the wastewater treatment plants and to build them size appropriately, they were built with two-thirds federal money based on our serving the 10 wholesale wastewater customers that we had at the time. And we still have the same customers.

So we got federal dollars in recognition of building adequate capacity so that wastewater treatment plants wouldn't be placed in many different places and they would lose the economy of scale. The federal government would have had to pay a lot more money if they had to build 15 wastewater treatment plants, small ones, rather than three large ones.

COUNCILMAN O'NEILL: Commissioner, while you're on that grant thing, and it was a grant that was given long ago. Does the federal government still give grants for wastewater treatment plants?

COMMISSIONER BRUNWASSER: Not directly. What they do is they do have an infrastructure bill that they do give money to some of the state revolving loan funds.

COUNCILMAN O'NEILL: Right, but they don't do what they did in the '50s and '60s anymore.

COMMISSIONER BRUNWASSER: No, not at all.

COUNCILMAN O'NEILL: So if I'm Bucks County, I'm not getting two-thirds of anything no matter what I tell them. I've got to pay for it.

COMMISSIONER BRUNWASSER: Uh-huh.

COUNCILMAN O'NEILL: Thank you.

COUNCILMAN RIZZO: Can I ask a question?

05/20/04 - TRANSPORTATION - RES. 040298

COUNCILMAN NUTTER: Councilman Rizzo.

COUNCILMAN RIZZO: If we didn't have the deals with the suburbs, both water, could we adjust the facilities? You say we have three. I believe the biggest one was built in the '70s. Would we be able to close one or reduce or change the way it is configured to accommodate just the wastewater from Philadelphia?

COMMISSIONER BRUNWASSER: My suspicion is it would save us little bit of money, but the flow -- it would be -- I think we'd have to keep all three wastewater plants open. We've looked at possibly mothballing one of our three water treatment plants, but I think the last study that we looked at made that insufficient.

COUNCILMAN RIZZO: And because of the contract, we have a staffing level to support the contractual needs, the needs of the City. But you're telling me that if we wanted to, we could reconfigure the way the plants are set up even if they were petitioned off somehow, they could actually run like an electric generating facility that's always running at full capacity? Could it be backed off to just accommodate the needs of Philadelphia?

COMMISSIONER BRUNWASSER: Well, that's a goo question. I don't have a simple answer for that because there are other demands on wastewater coming down the road from the federal government, from the EPA and eventually through the Pennsylvania Department of Environmental Protection. And one of the major items that we have on our radar screen is combined sewer overflows. We have, I would say, two-thirds of our city have combined sewers and during storm events, they are allowed to overflow into creeks and rivers. That was the scientific design at that time. They said this is diluted sewage that's going out there and the rivers have the capacity. Well, the federal government is basically telling us now -- telling many cities around the country what they're doing, their problems with combined sewers overflows have to be addressed and we may need some of that capacity anyway just in order to send more storm water directly to our plants for treatment as opposed to releasing storm water directly to the rivers.

COUNCILMAN RIZZO: I understand one of the biggest costs associated with moving water from Point A to Point B is electricity, the pump cost. Have we calculated all of our costs associated with those wholesale contracts? Have we included the electric bills that we have to spend the money to move the water?

COMMISSIONER BRUNWASSER: Yes, we have.

COUNCILMAN RIZZO: Everything's in there.

COMMISSIONER BRUNWASSER: Yes, we have. And in past years we've had occasional disputes with wastewater, especially the wastewater treatment customers because, the wholesale customers, because they were getting large rate increases also. As we were getting large increases here, they were somewhat mitigated by the water side of our bill. They were getting pure wastewater increased charges and if they flowed into Southwest Plant and Southwest was under major reconstruction, they were seeing some eye-popping increases. And so they disputed them and then Mr. McKinley came in and explained to them and, you know, they had some places -- they went over this with a fine tooth comb with their consultants. So we're pretty confident we've got all the costs in there.

COUNCILMAN NUTTER: Councilman Kelly.

COUNCILMAN KELLY: Thank you, Mr. Chairman.

Commissioner, I just want to get something clear in my head, that for Philadelphians, they're paying $1.88 per 1,000 gallons, according to your testimony. The suburbs, we, of course, are charging them $1.10 per thousand, as far as I gather from your testimony. Is this treated water? Is this all treated water when you sell it to the suburbs?

05/20/04 - TRANSPORTATION - RES. 040298

COMMISSIONER BRUNWASSER: Yes, this is drinking water.

COUNCILMAN KELLY: I just can't get it out of my mind that we seem to be subsidizing the suburbs for treated water --

COMMISSIONER BRUNWASSER: We're not. We're not, Councilman. You know we've tried to explain. The 1.10 --

COUNCILMAN KELLY: What would happen if we charged $1.50 or $1.35 or $1.40? Would they pay or would they say, "No way"?

COMMISSIONER BRUNWASSER: Philadelphia Suburban has other sources of water as well.

COUNCILMAN KELLY: They do?

COMMISSIONER BRUNWASSER: Yes.

COUNCILMAN KELLY: In other words, it's very competitive --

COMMISSIONER BRUNWASSER: There are places within their system that they could probably produce water a little cheaper than that but what we're doing is helping them in a district of their service area where they don't have as much water. But the $1.10 --

you have to remember that they've hooked up to our system down near the airport. They built miles of pipe, big transmission main from that point and then they have to distribute it.

COUNCILMAN KELLY: Do they maintain it also?

COMMISSIONER BRUNWASSER: Yes. They have to distribute it. It's a much different -- wholesale and retail is much, much different. Believe me, we are recovering all of our costs and 10 percent. That's how we're doing it at present. Whether 10 percent is negotiable later on, that's something for us to explore.

COUNCILMAN KELLY: In other words we're making 10 percent over and above the cost that --

COMMISSIONER BRUNWASSER: The full cost of service, yes, that we incur.

COUNCILMAN KELLY: Do you have any intentions of going after either the Suburban people to see if they can help us out by --

COMMISSIONER BRUNWASSER: You mean by selling more water to them?

COUNCILMAN KELLY: By selling water a little --

COMMISSIONER BRUNWASSER: We have, we have. And we have to -- we don't have the franchise outside of the borders of Philadelphia. We have to act through let's say the Bucks County Water and Sewer Authority or Aqua Pennsylvania or any other company that actually has the franchise to deliver water in those areas. So we can't retail outside of our borders. If we were to retail outside of our borders, their costs would be higher than inside City customer because we have would also have the responsibility for the water mains in the suburbs and to bill and collect from those customers on individual basis. That's what's missing here.

COUNCILMAN KELLY: Well, they could still use that infrastructure that you're speaking about, about pipelines and whatnot if, for instance, they did not deal with Philadelphia, they could use that same infrastructure to deal with another water company?

COMMISSIONER BRUNWASSER: Presumably, within the suburbs, yes. But there are certain facts --

COUNCILMAN KELLY: And it wouldn't cost them an additional sum of money to do that?

COMMISSIONER BRUNWASSER: They wouldn't be buying it from us if they could get it cheaper in that particular location. Now, we've reached out to the State of Delaware, believe it or not, as far away as Delaware when there was a drought a couple years back. Delaware, I think, was in a very bad way. I think they were pretty much rescued by the rain. They should be looking at ways to assure themselves of additional water. That state is growing rapidly, and their water sources will be pretty much tapped out the next time there's a drought. So this is the time for them to look for new sources, and we are reasonably priced even though we're 14 miles away.

COUNCILMAN KELLY: Well, Commissioner, with all due respect, I think the price differential is quite alarming, to say the least. That's all I have, Mr. Chairman. Thank you.

COUNCILMAN NUTTER: Councilman Rizzo.

COUNCILMAN RIZZO: Commissioner, I think I know the answer to my question about the reason hasn't been deregulated is because of the cost of distribution. It's not like electricity where you can pull a switch and fill a grid with it and it's transmitted through the power lines.

Is there any movement in the United States to deregulate water and be able to put our water into the existing infrastructure the same way they do with electricity?

PECO Energy still has the wires on the street and the service to the house, but you could be buying your electricity from a company in California.

Where are we with that?

COMMISSIONER BRUNWASSER: Councilman, I think if we deregulate it, because of our economies of scale and our

05/20/04 - TRANSPORTATION - RES. 040298

efficiencies, we would be in good shape. We would be more competitive than our surrounding areas.

COUNCILMAN RIZZO: We talked about politics. What is the politics to water deregulation? Where does it stand? Is there any movement at all or is it a political issue?

COMMISSIONER BRUNWASSER: Perhaps Mr. McKinley, since he has a more nationwide view can answer that better than I.

MR. MCKINLEY: It's a kind of difficult question to answer because really water, per se, isn't regulated. Most of the energy companies, the electric companies are regulated by public service commissions because they're in the business to make a profit. There has to be some watchdog. The PUCs the PSCs of the world to look the after energy rates. So virtue of the profit making characteristic of the energy business, it's regulated from a ratemaking standpoint and when you talk about wielding energy, basically electrons are electrons. There's no difference in California's electrons and New York City's, whether it's generated from coal fired, gas fired or hydropower fired facilities. Water, however, doesn't work that way. Water systems are built -- the City of Philadelphia Water Department has a grid system that's built and sized to serve its own needs. Philadelphia Suburban or Aqua Pennsylvania has its own system sized to meet its needs. The water system in Del Cora, Delaware County, the systems are sized so that they aren't basically configured to wield water from one entity to the other entity. Because the smaller mains tend to be on the outside of the system and the larger mains as you come into the system.

There's another thing with water compatibility. Different sources of water have different chemical characteristics. And when you pump water from one system to the other system, most often there's some sort of a reaction. It can corrode the pipes. So water is not like electricity because it's not a fungible commodity, it doesn't matter whose water it is and where it goes. The systems aren't really built to wield water back and forth to different entities, and the characteristics of the chemical constituency of water isn't built to do that.

However, out in California with Southern California Water District, it is a big district and they do have a lot of water pipelines that transmit water up and down the California system. And if there's really no water from Los Angeles to San Diego, that's kind of where it might happened. It's configured to do that type -- the system is configured to accommodate that.

COUNCILMAN RIZZO: But to hear what the Commissioner just said, we could go beyond the county line that we would be in a good position?

COMMISSIONER BRUNWASSER: I mean, we don't have the franchise. It if it was opened up and somebody wanted to buy -- somebody in the Lower Bucks County -- well, no, they already get our water, but if they got it directly from us or, you know, without the intervention, if Bucks would have to allow us to pump the water through their pipes, et cetera, and we got the benefit of that somehow, yeah, that would be to our benefit, but...

COUNCILMAN RIZZO: Thank you, Mr. Chairman.

COUNCILMAN NUTTER: Let's talk about -- the 1.88 per thousand gallons to the Philadelphia customer, what's included in that price?

COMMISSIONER BRUNWASSER: $1.88 for the water, that would be -- included would be the maintenance of 3,300 miles of water main, the cost that the wastewater treatment plant pumping the electricity in the pumping -- basically work on gravity, but there are about 16 or 17 water side pump pumping stations and about an equivalent number on the wastewater side, a lot of electricity chemicals, et cetera, metering and billing.

COUNCILMAN NUTTER: Is there any cost associated with uncollected billings in the $1.88?

COMMISSIONER BRUNWASSER: Well, we set rates in a similar fashion to almost every other business. When we set rates, we determine what the revenue requirement is and we do take a look at collection factors and payment patterns and we set rates realistically on past history.

COUNCILMAN NUTTER: So let me ask again. Is a portion of the $1.88 to cover non-paying customers?

COMMISSIONER BRUNWASSER: A small portion.

COUNCILMAN NUTTER: How much?

COMMISSIONER BRUNWASSER: Perhaps 3 percent, 2 to 3 percent.

COUNCILMAN NUTTER: Now, in the $1.10 for the suburban customer, is three an uncollectible factor or percentage in the $1.10?

COMMISSIONER BRUNWASSER: I don't believe so. We get paid every month by these customers.

COUNCILMAN NUTTER: Well, I understand that. But again, the overall system is being paid for by Philadelphians in order for this water to be made available. It gets shipped through the City in the various pipes, it goes where it goes. You already have the 41 percent differential that's been laid out, and then the Philly customer also is covering other cost factors in the system. But we're selling water to other people and they're not helping to contribute to that?

MR. MCKINLEY: We establish the rates and charges to the suburban customers based on the cost it takes the City to provide service to them. They pay their bills on time. They aren't contributing to any delinquencies or unpaid accounts. So they shouldn't be sharing any costs because they pay their cost of service basically in a timely, so far as I know. I don't think anybody's really in arrears. I get a monthly report.

COUNCILMAN NUTTER: I understand that, but again, it's our system.

How did you decide on the $1.88? How did you decide on the $1.10? Where did that come from?

MR. MCKINLEY: There's a lot of information here and I try to synthesize it to you and tell you basically what goes into those numbers. And I will tell you a couple things that, again, the $1.10 versus the $1.88 --

COUNCILMAN NUTTER: What do we know about the charges -- you mentioned in response to Councilman Kelly that if you we went to $1.50 or $1.35 whatever some other number might be that the companies would start looking to other providers. What are some of the rates that they pay to other service providers?

MR. MCKINLEY: I'm not familiar with other service providers Bucks Count has or Philadelphia Suburban. I can't answer that question. I'm on the not aware of who sources of supply --

COUNCILMAN NUTTER: None of that information goes into a determination of -- I mean, in business, notwithstanding whatever your production costs are, it seems to me that you want to price your product so that it is competitive in the marketplace. I mean, IBM must know what Xerox is selling a comparable sized copier for, right?

MR. MCKINLEY: I'm sure they do.

COUNCILMAN NUTTER: Why don't we know what our wholesale competitors are selling the product for?

MR. MCKINLEY: I guess my response to that -- and Commissioner Brunwasser can disagree or correct me, but the City enters into arms length contracts with these wholesale suburban customers. Nobody's holding a gun to either parties head to sign these contracts. The contracts call for providing service at cost, recognizing such factors as the contract capacity that is being provided to these customers.

COUNCILMAN NUTTER: I understand that. This is more in the realm of either good business sense or inquiring minds want to know. Why wouldn't you want to know what our other wholesale competitors are selling to the same customer for as we try to price our product? Notwithstanding how many miles we have, what it costs, wastewater, treatment plants, all kinds of other factors. I mean, is it possible that some other company is selling to -- and I don't want to use any system's name, but is selling to an entity that we're selling water to, is it possible that they could be selling their water to them for $1.15 per thousand gallons?

COMMISSIONER BRUNWASSER: It's quite possible and probably that it would be higher than our cost.

As an example, about 15 years ago, the State of New Jersey was looking for water for South Jersey. Their aquifers were getting salt water intrusion, things of that nature. And they came to Philadelphia, and we made a sales pitch to them with very low rates, again, cost of service rates. And they decided to build their own water treatment plant, which is far more expensive on a wholesale basis than Philadelphia. And they kind of built a plant across the river from our Baxter Plant up in Northeast Philadelphia.

The reasoning behind it was not a financial one, but a psychological, political reason.

COUNCILMAN NUTTER: Let me ask one last question. Attached to your testimony, you've got a chart of major costs. You have decrease in interest income. What is that caused from?

COMMISSIONER BRUNWASSER: We have several funds set up by our general ordinance. We have our revenue account, a revenue fund. We have a self-generated capital account. We have a bond proceeds account which is both -- the capital account and the bond proceeds account reside under the construction fund. We also have a residual account, and we have a rate stabilization account. And all of these accounts are professionally managed, professionally managed to maximize the amount of interest they earn.

COUNCILMAN NUTTER: Professionally managed by whom?

COMMISSIONER BRUNWASSER: Some of the accounts are -- also the sinking fund reserve account, that's professionally managed by Public Financial Management. And I think the other accounts are managed by -- well, it may still be called Solomon, Smith, Barney, for that portion of their business.

COUNCILMAN NUTTER: How many different accounts do you have?

COMMISSIONER BRUNWASSER: A revenue account, a capital or construction fund account, a rate stabilization fund, and a residual fund.

COUNCILMAN NUTTER: So five?

COMMISSIONER BRUNWASSER: And the sinking fund makes five, I guess.

COUNCILMAN NUTTER: That makes six.

Revenue, construction, rate stabilization, residual, and sinking; five.

COMMISSIONER BRUNWASSER: Yes.

COUNCILMAN NUTTER: How many managers?

COMMISSIONER BRUNWASSER: Two.

COUNCILMAN NUTTER: And who are they?

COMMISSIONER BRUNWASSER: Singing fund reserve is Public Financial Management.

And the other accounts, I believe, are Solomon Smith Barney. They may now be called CitiGroup.

COUNCILMAN NUTTER: They have the other four?

COMMISSIONER BRUNWASSER: Yes, I believe so.

COUNCILMAN NUTTER: And how do they get paid?

COMMISSIONER BRUNWASSER: There's a fee structure that they have set up with the City Treasurer's Office.

COUNCILMAN NUTTER: Well, they get paid by the City Treasurer; do they get paid based on a percentage of funds under management, do they get paid on performance?

COMMISSIONER BRUNWASSER: It's a percentage of the earnings.

COUNCILMAN NUTTER: It's a percentage of the earnings. What's the percent and what was the amount paid last year?

COMMISSIONER BRUNWASSER: I would have to consult with the Treasurer's Office.

We don't directly manager those accounts.

COUNCILMAN NUTTER: You can get us information on the five accounts, the two managers, and what their fee structures are and what they were paid for the last three years, the amount of money in each account over the last three years?

COMMISSIONER BRUNWASSER: Okay.

COUNCILMAN NUTTER: This cost plus 10 you made reference to it being a 1987 ordinance. Would someone on the team happen to know the Bill number?

COMMISSIONER BRUNWASSER: We can provide that.

COUNCILMAN NUTTER: Okay, that would be helpful.

I didn't actually get an answer. What's the cause of the decreased in your interest income?

COMMISSIONER BRUNWASSER: Just lower interest rates in the market generally. In other words, the types of instruments that the fund managers invest in -- and it's a very conservative investment policy. It's difficult to find investments that are high interest if you're limited to double A or triple A treasuries or municipals.

COUNCILMAN NUTTER: Well, I understand that. But I'm under the impression based on this chart that you have lost interest income.

COMMISSIONER BRUNWASSER: We've experienced lower interest income than in the past. That's basically what we're saying.

COUNCILMAN NUTTER: Let me go back, and then I'm sure my colleagues have some questions.

Your May 14th letter to Council President Verna, maybe I wasn't clear in my request. What I was asking you for was if the $125 million from the Water Reserve Fund which is proposed to be used for economic development purposes were not used for that purpose but rather used for the normal purposes, for instance, that you would use the $250 million that you plan to go to the market for next year, what would you use the $250 million for?

05/20/04 - TRANSPORTATION - RES. 040298

COMMISSIONER BRUNWASSER: The 125 you mean?

COUNCILMAN NUTTER: No. You plan to go to the bond market sometime in the next fiscal year, and you're saying that we approved an ordinance for that. Do you recall when?

COMMISSIONER BRUNWASSER: November 2002, I believe.

COUNCILMAN NUTTER: Is that a separate bill by itself?

COMMISSIONER BRUNWASSER: Yes.

COUNCILMAN NUTTER: For the purpose of authorizing a borrowing of $250 million?

COMMISSIONER BRUNWASSER: Yes.

COUNCILMAN NUTTER: And you're just going to the market this summer.

COMMISSIONER BRUNWASSER: Yes.

COUNCILMAN NUTTER: Any particular reason?

COMMISSIONER BRUNWASSER: I think we had to ask for a little bit earlier because of the way the City's accounting system works, it's budget accounting system. We need

05/20/04 - TRANSPORTATION - RES. 040298

authorization through an ordinance of City Council as opposed to a general obligation bond which requires the authorization of the voters. And we'd run out of authorization long before we run out of cash.

COUNCILMAN NUTTER: Give me that Bill number on that one too, please.

So what do you plan to use the 250 for?

COMMISSIONER BRUNWASSER: Approximately 25 million of it will go for water main replacement, another 25 million or so will go for sewer main replacement, another 42 or $44 million or so will go for plant improvement or replacement of facilities, water treatment plants, waste water plants, pumping stations, and the like. We also pay some of our staff, they're paid on the capital budget. They work exclusively for capital.

COUNCILMAN NUTTER: So it's all things that are related to the current system and how it functions and operates?

COMMISSIONER BRUNWASSER: Yes.

COUNCILMAN NUTTER: For items that

are currently within the system to make sure that it functions and operates?

COMMISSIONER BRUNWASSER: Primarily, yes.

COUNCILMAN NUTTER: So my question back at the time was, what would happen if you use that $125 million for the things that you would normally use the proceeds from this now proposed $250 million bond offering that you plan to float this summer; and what effect would using $125 million for things you would normally use for the 250, the first of which is you wouldn't have to borrow 250, you'd only have to borrow 125? So play that out and then tell me how using the 125 in a different fashion on behalf of current customers, the current system, normal operations that you would go to the market for, how would that impact the proposed 43 percent increase in the rates over the next few years?

COMMISSIONER BRUNWASSER: Okay. I've attached two tables, as you know. But let me try to walk through it.

COUNCILMAN NUTTER: Two tables to

where?

COMMISSIONER BRUNWASSER: To the response, the May 14th response.

COUNCILMAN NUTTER: Why don't we do this. I don't want to go back through all that. I want to make sure you have the right question because you responded to a question that I didn't really ask and took the 125 and used it for the sewer lateral program. I wasn't asking about that.

COMMISSIONER BRUNWASSER: Not quite, but hat I believe you asked, and this is what I provided in that table. I'll hit the highlights of the table. You said, I believe, that assume the capitalization of the lateral program --

COUNCILMAN NUTTER: That was a different question.

COMMISSIONER BRUNWASSER: I watched the tape. I think it was in combination. But.

COUNCILMAN NUTTER: That was hundreds of questions ago. You could very well be right.

COMMISSIONER BRUNWASSER: In other words, what we did was, I went back and we said, let's assume the capitalization of the lateral program --

COUNCILMAN NUTTER: I understand.

COMMISSIONER BRUNWASSER: Now, $125 million in capital that we would use ourselves for our normal program would delay the next bond issue by a year.

COUNCILMAN NUTTER: I understand.

COMMISSIONER BRUNWASSER: What does that do to rates for the typical customer? Well, these two tables indicate that under the rates as filed earlier this year, the Water Department overall needs an increase in revenue of 7.4 percent each of the four years. I'll explain why that varies a little with the other numbers you've seen. If you capitalize the laterals and you push off the next bond sale by one year, you will have 5 percent annual increases over the four-year period instead of 7.4 percent increases. So you're basically cut one-third off the overall revenue requirement each year. That's the effect.

COUNCILMAN NUTTER: We'll go back to that.

Any other questions for the Commissioner?

Councilman Kelly.

COUNCILMAN KELLY: I have one question. I want to get back to what Councilman Nutter was referring with the cost plus 10, the cost for, of course, our suburban customers. I just want to know if we would be competitive if the cost were, say, 12 percent above the cost of providing and treating that water or 15 percent or whatever? I was wondering if anything was being done in that area. For instance, this surcharge, if I may use that term, for uncollectibles, you might say, that's about 3 percent that's being put on the bills for the people who pay in Philadelphia. Has that been ever thought about adding that on to the bills of the people that, of course, we're selling it to in the suburbs?

COMMISSIONER BRUNWASSER: Well, I

think the answer is that we have these contractual agreements with the suburbs and we charge them for what --

COUNCILMAN KELLY: I know it's cost plus 10. I'm thinking, though, would we still be competitive if it were 12 or 15 percent above cost?

COMMISSIONER BRUNWASSER: The answer to that is probably yes. The to other question, the suburban customers, it's been our experience, with very few exceptions over the years pay on time. So there's never a delay or we get a hundred percent of what's bill. So it would be inappropriate under the way our contracts are structured to charge them that piece which is of a retail nature inside the City boundaries, just as it would be improper for us to charge them for inside city inlet cleaning or inside city maintenance of 3300 miles of water main that they don't use. So it's that kind of thing which accounts for some of that difference between retail and wholesale. There's so much that we do internally for the retail customer that we do not do for the wholesale customer. They're basically buying in bulk and then they have to turn around and do what we do.

COUNCILMAN KELLY: But you would still be competitive in the market, in other words, if you increased it to, say, 12 to 15 percent?

COMMISSIONER BRUNWASSER: I would assume that, yes.

COUNCILMAN KELLY: Thank you.

COUNCILMAN NUTTER: Two last questions, Commissioner.

Thank you, Councilman.

First, how long is the term of the 1987 ordinance with regard to cost plus 10? Was there a set term or is there a limit as to how long we can contract with these customers? And are those contracts --

COMMISSIONER BRUNWASSER: That was James Palladino our rates manager. The ordinance doesn't have a timeline, but we did sign a number of contracts with that 10 percent provision. Just as we have the old water contract with Bucks County Water and

Sewer that dates back all the way to 1966.

COUNCILMAN NUTTER: Hold on for a second. You said the 1987 ordinance has no time limit in terms of how long you can sign a contract for?

COMMISSIONER BRUNWASSER: Oh, no, I misheard that.

COUNCILMAN NUTTER: What question where you answering?

COMMISSIONER BRUNWASSER: I thought you meant is there something about the ordinance itself that makes it go out of fashion.

Upon that ordinance being passed, we signed six, I think, wholesale wastewater contract for a duration of 35 years.

COUNCILMAN NUTTER: And this is a contract between the Water Department and?

COMMISSIONER BRUNWASSER: Upper Darby --

COUNCILMAN NUTTER: Well, why don't we do this. Why don't you get to us a list of all your contractual agreements, who they're with, length of term, I'd like to see a copy of the contract.

Second, what are the length of terms of contract for the six? Do you know them?

COMMISSIONER BRUNWASSER: They began to be signed probably in 1988, and through the early '90s I think all of the long-term agreements were signed and --

COUNCILMAN NUTTER: Now, how are you in a position as a Water Department -- who has to sign off on these contracts? Is there any City Council approval?

COMMISSIONER BRUNWASSER: I don't believe there's any further approval beyond the ordinance. In other words, I don't believe the ordinance requires us --

COUNCILMAN NUTTER: Why are you able to sign a 35-year contract? Normally, any contract over a year requires City Council approval.

COMMISSIONER BRUNWASSER: I think in this particular instance that -- well, that right was given to us, to the Water Department, through the ordinance.

COUNCILMAN NUTTER: Through the '87

ordinance?

COMMISSIONER BRUNWASSER: Yes. Now, you have to remember --

COUNCILMAN NUTTER: I hate to interrupt you. I think the Home Rule Charter says that any contract of more than a year must be approved by City Council. As much as we love our ordinances, they still don't outweigh the Home Rule Charter.

Please identify yourself for the record.

MR. PALLADINO: My name is James Palladino, the rates manager with the Water Department.

The '87 ordinance does provide us with the authorization under City Council's approval to enter contracts of varying lengths up to, I believe, 25 years in length. I am somewhat aware, less aware of the stipulation you've cited about a one-year contract being the limit without City Council authorization. I'm not sure how they duck tail, but the ordinance did go through extensive hearings here in '87. It replaced an earlier ordinance in '76, I believe, that extended the same authority with respect to the length of time a contract can be entered. And in fact, for practical reasons -- and we have these customers, the six customers that Commissioner Brunwasser was talking about, they have 25-year term contracts extending from the period about '88 to 1990. Without that length of term like that, these wholesale customers would never have been in a position to float moneys to pay us millions of dollars --

COUNCILMAN NUTTER: No, I understand why someone would want a long-term contract and I'm not say that we would not necessarily support a long-term contract. What I'm trying to understand is how statutorily or through an ordinance we could convey to you the authority to enter into a 25-year contract without requiring City Council approval of the actual contract. Now, I'm sure it was creatively written. Now I really do need to know the Bill No. on the '87 contract which I hope somebody in your team has because our next call is going to be down to the Chief Clerk's

Office to get a copy of it.

MR. PALLADINO: There may be a distinction that I'm unaware of the one-year contract which may be related -- and I'm hypothesizing here -- may be related to the City purchasing services as opposed to this contract which involves selling services.

COUNCILMAN NUTTER: I'm going to take it that someone creatively figured out that this is almost potentially like a concession or something akin to it, because normally the year contract issue is for when the City is purchasing a service. In this particular instance, someone is giving us money.

MR. PALLADINO: And that is my speculative answer to the question.

COUNCILMAN NUTTER: And it may have been handled that way. This is a significant long-term relationship. I mean, this is not like having a concession to sell hot dogs down in Fairmount Park. We're talking about some pretty serious money here.

Does anyone on the team know the

Bill number?

MR. PALLADINO: No, but I can provide it.

COMMISSIONER BRUNWASSER: We certainly will provide it and copy of the bill if we have it. Or not, the City Solicitor's office could provide it.

COUNCILMAN NUTTER: I'm sure they could, but I'd like to get it now.

Do you recall if there is a particular section in the Philadelphia Code that was amended by this ordinance from '87?

MR. PALLADINO: No, it did not. I'm almost certain it did not amend the Philadelphia Code, Councilman.

COUNCILMAN NUTTER: Okay, it was a contractural arrangement type ordinance. Okay, this will be quite fascinating.

Councilman Kelly.

COUNCILMAN KELLY: Thank you, Mr. Chairman.

I just have one question here and it's sort of a follow-up to what the Councilman was saying. In this ordinance, is there any provision in there that deals with inflation or anything like that?

MR. PALLADINO: Under the contracts we've entered under the authority of the ordinance, we can raise rates to our wholesale customers with 90 days notice.

COUNCILMAN KELLY: All right.

MR. PALLADINO: And that's what we've done. We've noticed them. We've provided --

COUNCILMAN KELLY: It's not an ironclad contract where it says it sets a certain rate for a certain time.

MR. PALLADINO: Absolutely not.

COUNCILMAN KELLY: Thank you.

COUNCILMAN NUTTER: One last question. Looking at your Five-Year Plan, in the rate stabilization fund, it appears in FY '04 you have $107 million and in FY '05, $63 million. What's the $44 million for?

COMMISSIONER BRUNWASSER: That's the draw down from rate stabilization in order to meet our bond covenant test of 1.20 times senior debt service. In other words, when we raise rates the last time and in raising rates this time, our proposed rates do not raise rates to the level that current revenue alone will get us the bond coverage test, but it's a combination of the rate increase, money coming in, and monies in our rate stabilization account that gets us to the 1.20. Otherwise, if we didn't have this rate stabilization fund, the rate increase would have to be higher.

COUNCILMAN NUTTER: Let me ask this question, and you don't have to go through all of it now. You have five different funds. What I'd like you to do is whether it's the $1.88 or this average ratepayer with the 6,000 gallons a month, I'd like you to take -- and maybe it's $17.27 in your chart. I'd like you to break that out and show us how much of that goes to any of the five funds. Show me where the money is going and how it's being used. I mean, how do these funds get money?

COMMISSIONER BRUNWASSER: The construction fund, for example, gets money in two major ways. One is through the sale of bonds --

COUNCILMAN NUTTER: You're going to send it to me.

COMMISSIONER BRUNWASSER: Okay. Yes.

COUNCILMAN NUTTER: Any other questions for the Commissioner?

(No response.)

COUNCILMAN NUTTER: Thank you very much.

COMMISSIONER BRUNWASSER: Thank you.

COUNCILMAN NUTTER: Revenue Commissioner Nance Kammerdeiner.

Please identify yourself for the record and tell us all about what you want to tell us.

COMMISSIONER KAMMERDEINER: Nancy Kammerdeiner, Revenue Commissioner.

The Water Revenue Bureau which is responsible for collecting water and sewer fees is a part of the Department of Revenue. I don't have prepared testimony. I came expecting questions from you and will do my best to answer those questions. If I don't right now, I will get answers to your questions.

COUNCILMAN RIZZO: Good afternoon, Commissioner.

COMMISSIONER KAMMERDEINER: Good afternoon.

COUNCILMAN RIZZO: Commissioner, could you walk us through the current status of the collection process where you are?

I know during the budget process, we learned -- got some, I thought, some very interesting statistics. For the purpose of this hearing, could you tell us where we are with your collection process?

COMMISSIONER KAMMERDEINER: I believe you're referring to the questions that came up during the budget testimony about our collection factor. And at that time, we indicated that the current collection factor is 85 percent. In other words, in the current year, we collect 85 percent. But that means that since that's a monthly billing, that includes bills that go out toward the end of the year that there's really very little time to collect on. So you really have a better figure if you look at collections over time. And after about three to five years, we collect approximately 96 to 97 percent of what has been billed. That gives you a much better picture than with the current year collection, and that's more comparable to what you were referencing in that hearing to PGW collections. We didn't realize when we were here at the budget hearing that the PGW numbers were quoting were collections over time. We thought they were current year collections and responded to what we thought your question was and we were actually giving you apples and oranges instead of something that was comparable.

COUNCILMAN RIZZO: You're saying your collection rate is 97 percent?

COMMISSIONER KAMMERDEINER: Over time. After you factor in additional efforts at collection enforcement. We lien property if there is a delinquent charge and it hasn't been paid. And so if the property sells, we'll get collections on that.

One of the chief enforcement tools we have, of course, is water shutoff. And as you know, there's a moratorium from November 1 through April 1 in terms of water shutoff. But we have concerted efforts working with the Water Department to identify accounts that are delinquent, and we refer to the Water Department the accounts that should be considered for shutoff. And I know they can give you some more updated figures than I have, some of the Water Department folks who are here can really update it. But we have referred over 29,000 accounts to shutoff since April 1 and significant number of those have already been shut off or the people have come forward and paid so that they could avoid shutoff. That's probably our most useful tool in terms of collection.

COUNCILMAN RIZZO: Are you able to tell us about the outstanding debt and where you personally as the Revenue Commissioner, where you are with -- are you satisfied? What is exactly -- I know you're never satisfied, but --

05/20/04 - TRANSPORTATION - RES. 040298

COMMISSIONER KAMMERDEINER: I was just going to use that term.

COUNCILMAN RIZZO: Tell me, because we got an impression during the budget process that things were in very bad shape. And you're now reporting that they're not as bad we first thought. Where exactly are we today? How much money is out on street?

COMMISSIONER KAMMERDEINER: I'm looking for something that I compiled after our hearing. Give me one second.

(Pause.)

COMMISSIONER KAMMERDEINER: One of the things that came up during the course of that hearing was an indication that we keep receivables on the books for 15 years. This is much longer than any other utility keeps receivables on the books. And at that time we were uncertain about the original source of that 15-year requirement. Some research since then has shown that it was a 1916 ordinance of Council that required this. Other factors from that ordinance has been rescinded or replaced, but that requirement has not been.

And so I would expect at sometime in the relative near future we'll be back to ask for a recision of that provision and appropriate replacement language in terms of how that should be handled.

That having been said, that means that we carry on the books a principal of delinquency that appears to be much higher than you would usually see with a utility. If you look at the period from 1998 through 2003, we had a principal balance of $132.9 million. Of that, however, only about 65 to 70 million represents the last three years and includes a lot more in 2003, which was still under really active enforcement activity. So our receivable looks significantly higher when you consider it over a 15-year period and is, I'm sure you know, collections after two to three years on something like a utility service become very, very difficult, if not impossible.

COUNCILMAN RIZZO: Councilman Kelly.

COUNCILMAN KELLY: Commissioner, I just have a question here in the uncollectibles. You don't have any restrictions like PGW has as far as water shutoffs and whatnot?

COMMISSIONER KAMMERDEINER: Yes, we do. We have a moratorium on shutoff from November 1 through April 1, essentially the same time period that PGW has a moratorium. And so during that time period, we do not shut off residential accounts. We will continue in that time period to shut off commercial accounts.

COUNCILMAN KELLY: In other words you still have the same restrictions as PGW, yet your collection rates are about 96 percent versus their probably 91 percent or 90 percent?

COMMISSIONER KAMMERDEINER: I don't know if they have any other restrictions that we don't have, but if you're only refer to the moratorium on shutoffs, yes.

COUNCILMAN KELLY: You have payment plans for people who are really hard-up for --

COMMISSIONER KAMMERDEINER: Yes, we do. We have low income program referred to as

Wrap. It's specifically designed for people who are in poverty, very similar to their Community Responsibility Program.

COUNCILMAN RIZZO: Could you take a two-minute recess until Councilman Nutter comes back. Just give him a minute. You can just hang out there.

COMMISSIONER KAMMERDEINER: Okay. Thank you.

(Brief recess.)

COUNCILMAN NUTTER: We're going to get restarted.

Commissioner, could you clarify your answer with regard to collection rates and total amount -- have you provided us in the past with a chart laying out what the outstanding taxes are and given us kind of a bit of a snapshot of 30, 60, 90, 120, 180 plus, anything like that?

COMMISSIONER KAMMERDEINER: I had prepared something after my budget testimony, I don't know whether it was distributed to you, that had aging on both the tax and the water billings to show how much was still outstanding. If you haven't gotten that, I will have to check and see that that gets to you.

What I had not included in there, and I can, is on the water specifically the 30-day collection, 90, 120. I had looked at it in terms of which year of billing and how far that had been outstanding. So I will add to it the 30, 90, 120 day.

COUNCILMAN NUTTER: Now, did I have a recollection from that hearing that we may be carrying on our balance sheet outstanding debts in excess of seven years.

COMMISSIONER KAMMERDEINER: Yes. I addressed that while you were out of the room, Councilman. We did some research after that budget hearing to find out what the source was for our carrying receivables for 15 years. We found that it was a 1916 ordinance that had never been rescinded or changed and that piece has been carried forward in the Philadelphia Code as a requirement on water receivables.

COUNCILMAN NUTTER: What's the requirement, length of time for how long you carry?

COMMISSIONER KAMMERDEINER: Yes. It actually indicates that we can't write them off or remove them as receivables until at least 15 years.

COUNCILMAN NUTTER: I assume you're going to sending over an ordinance about that?

COMMISSIONER KAMMERDEINER: We certainly want to do that and we'll be working with the Water Department and the Department of Finance to ensure that we come up with appropriate language for, shall we say, the modern age.

COUNCILMAN NUTTER: Okay. Tell me a little bit about our legal strategy as it relates to collections. How aggressive are we through the courts pursuing outstanding debts?

COMMISSIONER KAMMERDEINER: I assume in this context you're talking specifically about the water and sewer debts.

COUNCILMAN NUTTER: Well, you can tell me about those. But if we have other experiences, you can talk about that as well.

COMMISSIONER KAMMERDEINER: They're

parallel in many ways, except that with water and sewer we also have the shutoff enforcement possibility.

In terms of water delinquencies, we do lien properties because we follow the property with the water and sewer debt. The Law Department files judgements against the individuals in Municipal or Common Pleas Court, depending upon the dollar value of that receivable. And they also seek execution on those judgments in order to find and pursue the assets of the person who has the account and who has the judgment that's been filed against them.

We use collection agencies from Revenue, and the Law Department also uses collection agencies and co-counsel to pursue the collection of the receivables.

COUNCILMAN NUTTER: We've heard a little about that.

What's the collection rate by the outside agencies and by the Law Department?

COMMISSIONER KAMMERDEINER: I will have to get information for you on that by the various agencies. On the Law Department, I don't know. I can only give you information on the three agencies that Revenue uses for collection.

COUNCILMAN NUTTER: What is it?

COMMISSIONER KAMMERDEINER: I don't have it here with me. I will have to get that.

COUNCILMAN NUTTER: How much, if at all, do we avail ourselves -- I mean, there are people out there who kind of make a business out of buying accounts receivables; is that correct?

COMMISSIONER KAMMERDEINER: I know there are. We have not sold water and sewer receivables or factored them as I know some utilities do.

COUNCILMAN NUTTER: Why is that?

COMMISSIONER KAMMERDEINER: It has just not been one of the strategies we've followed. I don't have a particular reason for you on that. We had looked at it and talked about it, but --

COUNCILMAN NUTTER: Is it just a

policy decision? Is it just a practice?

COMMISSIONER KAMMERDEINER: It would be a policy decision.

COUNCILMAN NUTTER: Is it just we've never done it before so, therefore, we don't do it?

COMMISSIONER KAMMERDEINER: We talked once about doing that, but it was right after the real estate tax lien sale, and we chose not to go out with water and sewer liens right after that.

COUNCILMAN NUTTER: Do you have any information on -- when you talk about factoring or some of other strategies, what is the typical, I don't know, is it a discount or what's the typical rate that you end up with in terms of the bill is 100, we sell it to someone who buys AR accounts, what would we typically get back?

COMMISSIONER KAMMERDEINER: I don't know. I believe they examine the portfolio, take a look at efforts that were made to collect and review all of the information they can gain about that receivable to try and

05/20/04 - TRANSPORTATION - RES. 040298

determine what their potential for collection would be. I would expect that that rate would differ depending upon the age and alternative collection actions that have already been taken. I can't give you an exact amount. I think it would vary from portfolio to portfolio in terms of what you were trying to sell.

COUNCILMAN NUTTER: You've probably provided this to us in the past, but if you could get us information on the collection agencies -- does Revenue actually do any collections of its own?

COMMISSIONER KAMMERDEINER: Certainly, with the bills, we bill and --

COUNCILMAN NUTTER: No, I mean old debt. The collection agencies are dealing with old debt, I assume, right?

COMMISSIONER KAMMERDEINER: Right.

COUNCILMAN NUTTER: What's the threshold, is it 90 days, 120?

COMMISSIONER KAMMERDEINER: Again, it depends whether it's tax or water, but in terms of --

COUNCILMAN NUTTER: Let's talk about water.

COMMISSIONER KAMMERDEINER: With water, to go into the shutoff cue, which is the first level of enforcement activity, we're dealing with delinquent at least two cycles and at least $75.

And in terms of going to collection agency, I would have to double-check this, but I believe they go to the collection agency at about 120 days and have 120 days with the collection agency.

COUNCILMAN NUTTER: What I'd be interested to know is who our agencies are, what their collection rate is, how much we pay them, how much they've collected, those kinds of issues.

COMMISSIONER KAMMERDEINER: Okay. I'll get that together.

COUNCILMAN NUTTER: Commissioner, as always, it's been a pleasure.

COMMISSIONER KAMMERDEINER: Thank you very much.

COUNCILMAN O'NEILL: I JUST had one

question. I guess as might as well ask you, Commissioner. Again, it wasn't anything particular about the Water Department. It actually got started by the gas works don't collect as well as you. But all things being relative, I've seen people that can live without gas. I haven't seen anybody can live more than about 24 hours without water without their neighbors calling me at least and me calling the Health Commissioner and Police Department.

I would hope our collections could even be higher because of the leverage you have when there's no substitute. You can substitute things for gas. You know, for heat you can substitute kerosene or electricity. Water, pretty hard to use bottled water in the quantities you need to do certain things. But I do want to mention, because I don't want to blind-side somebody later, that I think we can up -- I don't think we're aggressive enough with our water collections even though we have a much higher rate. I know there was some confusion and I was caught up in it a few weeks ago. It depends on how you state this year versus --

COMMISSIONER KAMMERDEINER: Correct.

COUNCILMAN O'NEILL: But I do want at a later time to be talking about aggressive collection versus traditional collection, which I don't think is as aggressive as it could be. We're going to be back here again, I'll save that for then. We don't have to be talking about through this evening.

COMMISSIONER KAMMERDEINER: Okay. Thank you. We'll talk about that in the future.

COUNCILMAN O'NEILL: I'd like the Water Commissioner just for a minute.

COUNCILMAN NUTTER: May we have Mr. Brunwasser back, please?

Councilman O'Neill.

COUNCILMAN O'NEILL: Commissioner, the average residential water bill in this City is -- did I hear $42?

COMMISSIONER BRUNWASSER: That's about right, yes.

COUNCILMAN O'NEILL: So using the

number requested, the 70 million for the lateral program, it's about a quarter of the total increase being requested, so about how much is that a month?

COMMISSIONER BRUNWASSER: Well, we were using approximately $3.50, which is what we based on preliminary discussions.

COUNCILMAN O'NEILL: So I can actually tell somebody their bill might go up 43 or $4 a month to have the protection of the lateral of the street being handled by the Water Department?

COMMISSIONER BRUNWASSER: Correct.

COUNCILMAN O'NEILL: Let me just parenthetically -- because I already mentioned this to the Managing Director who just happened to be in a meeting two days ago, that Monday night I had -- and this is, to me, we should be charged with a crime, this is how bad this one is. A 75-year-old man, Byberry Road, west of Academy, first block west of Academy, very heavily traveled, very wide street, older, very old singles maybe 50 years old. It's a very tiny Levittown type Cape

Cods on one side but the other side was built as part of the Parkwood Manor development, the very beginning of it, row homes, 1960 vintage. The man just paid off his house, lived there 40 years or so. His street had a huge sinkhole. The Water Department came out, told him that it was all being caused by his laterals and that he would have to sign an agreement to pay for the laterals or they would lien his property anyway and then he'd have to pay a lot more. It wouldn't be the Help Program, it would be the lien program. Being a person of that generation, he signed whatever he had to sign and the bill initially was about $11,000 because the sewer is on the other side of the street. This is a street that takes buses, school buses, tractor-trailers, everything imaginable. There's only a few through streets through Parkwood. It's 3,000 homes but it was all built with cul-de-sacs so the builder could put about a thousand more units in the development.

His bill actually, he was told as it

was being done, there was a work order approved. He didn't understand quite what it was. He said it had something to do with flagmen and some other things, but it was another $1300 was added so his total bill was over 12,000. To you, the Help Program is helping him. That is an absolute outrage under anybody's definition what is fair whether it's somebody 75, somebody on a fixed income, somebody living in the house, has this catastrophe happen out in the middle of the street and somebody who works for the City would have the insensitivity, the callousness to blame this on a 75-year-old man water laterals when that is beyond any logic or reason that a lateral by itself -- this didn't run from his house. They took out one block of concrete from his sidewalk and he has a pretty long run of driveway from those row homes before you get to the curb and then he's got to go all the way across the street. Not only was everything done in the street, it was done on the other side. And it wasn't just a little damaged where the curb was depressed.

This was on the other side the street and it was a huge sinkhole. We'll take that one up later, but it defies all of the estimates that I have been given as to what the average or what the usual cost of a lateral replacement is.

The Managing Director asked me for the information. I'm trying to get it from the gentleman. He didn't have copies with him. He said there's something we have to do for this person. I think there's a lot we have to do for this person. That is just the most recent lateral case.

I would ask you before the next time you come back, because I believe -- first of all, I believe this is a capital expense, capital eligible expense, and I hope the Water Department and Managing Director's Office and the Administration are working on that now because this is no different in the street than a sewer in my opinion. Somebody's got to tell me otherwise. I've got people investigating other jurisdictions that take care of this and how they charge it and everything. But I do know that there are a lot more laterals out there that need to be replaced that are being replaced when we have to give that threat of a lien to somebody or a shutoff if they don't do it. And we're aware of it. It's a good thing for the Water Department to take over the laterals. But I also think it is counterproductive for the lateral replacement program to be given the blame or the credit, depending on where you're coming from, for the bulk of this increase. Because there is a backlog, and I think it's a tremendous backlog of pipes that we know are damaged under the streets that are hurting the street and they're hurting the water infrastructure tremendously and when we get ahold of it will make a difference of that. But I want when you come back here or before you come back here, because I know we're having another hearing, we're looking out four years, all I want is a list of the addresses, residential in the City that had laterals replaced in the last four years. I want to compare it to the projections. Because we're going to do it a lot cheaper because of our leveraging the numbers with the contractors than an individual is going to do and hopefully we'll get a better warranty than one year. Because I think people are going to want this work enough they're going to warrant more than a year of their work if it's done right.

So if you can get that for me before the next hearing, it will be very helpful because I believe that the number of 70 million maybe the right number, but it's not based on, I don't believe, on historical data. And I think the Water Department should come clean on what they're really talking about. They're not talking about a rate increase because this is how much it's going to cost to fix the laterals that are going to need to be fixed in the street over the next four years as it would have been over the last four based on the number that were fixed. It's a much bigger catchup program. It's going to take us years to get it, and we should be honest with people about what this rate increase involves.

It involves saving and protecting not just our infrastructure in the Water Department, but the infrastructure of the street itself that has been deteriorating because it is so hard to force people to pay 3, $4,000 or whatever for something they had nothing to do with that's in the street usually.

So please get that to me. We'll have further discussions on it. And I hope also a report on where we are with the Capital Budget. Because if you take the laterals and put them in capital, then you're paying debt service with something that should have 30, 40 year life. I know there's other issues. I know there's all kind of excuses to want to use operating. But if there's a way of using capital when you're doing this as part as a larger rate increase, all people are going to know is this great program so they won't get socked and that the whole system will get help, the 43 percent proposed increase is being blamed on this $4 a month that they're going to have to pay to protect themselves.

I hope we can get this in a better

light. I don't think it's been handled very well up to now.

COMMISSIONER BRUNWASSER: Councilman, I agree with a lot of what you said. I've attached in the documents today a copy of the press release, and I took care when we announced the rates that this was not the emphasis of the rate increase. It's only 23 percent of the entire revenue requirement we would have had to go out for rates in any fashion. And we support this bill. The people who have had the unfortunate experience of having these pipes fail and having to pay 1500 or $3,000 in a surprise bill --

COUNCILMAN O'NEILL: Or $12,300.

COMMISSIONER BRUNWASSER: We will look into it, obviously, and get back to you. But what I want to emphasize is, I took pains to make sure that any information that came out of the Water Department did not reflect that this was the cause of the rate increase because it wasn't and because it's good policy, we support it.

COUNCILMAN O'NEILL: But there's a

difference even with the 23 percent, there is a difference if you say the amount -- there's a percentage and it will ballparked no matter how you do it of how much is curb out and how much is curb in in terms of what goes. And homeowners are still going to keep responsible for inside the curb. We're going to have the trap or curb out. And anecdotally, I've talked to several plumbers that do a bit of this work, they thought 75 percent was a fair number that's somewhere between the trap and out. I don't know if that's correct. But let's just assume it's correct or it's fair enough that we can use it as a round figure. If there were a thousand replaced each year for the last four years, assume 75 percent of them would have been our responsibility, that is all that should be related to the cost of laterals in terms of us assuming responsibility. The catch-up part, the part we don't have to lien people anymore and get done because we don't have all the difficulties should be separated out. That should be purely a good Water Department policy that has nothing to do with just in the ordinary course of business what we would be charging ourselves with instead the customer. I believe that there's a wide difference between those two numbers. I don't have a problem with it, I just can't explain it to anybody that way because it keeps getting lumped together.

This number for the last four years may have been 10 million, it may have been 15. But we want to do 70 because we know what is out there. But that number, whether it's 10, 15 or whatever should be separated out from the 70 and made clear what we're really doing. It's not just to save the $3,000 bad luck that the person's had to pay anytime in the last four years, using that, but that plus what we know needs to be done and should be spread over all water customers because it could happen to anybody anywhere. And if you could work on that, I'd appreciate it.

I'm certainly not against this program. I just don't want it to be killed for the wrong reasons, both for your sake and my constituents' sake.

COMMISSIONER BRUNWASSER: I agree.

COUNCILMAN NUTTER: The part I didn't understand about this is why is the lateral service program being looked at in the context of a four year window?

I'm left with that impression from your response to the question from the budget hearing that you answered back on May 14th. I mean, you're not going to do $70 million worth of work in that four-year time frame, are you?

COMMISSIONER BRUNWASSER: Quite possibly.

COUNCILMAN NUTTER: How many laterals would that represent?

COMMISSIONER BRUNWASSER: I forget exactly. Perhaps along the line of about 8,000 annually.

COUNCILMAN NUTTER: Annually?

COMMISSIONER BRUNWASSER: Yes.

COUNCILMAN NUTTER: Now, who's going to be doing this work?

COMMISSIONER BRUNWASSER: Plumbers, registered plumbers, licensed plumbers.

COUNCILMAN NUTTER: You're not going to place any cap on the amount that we would pay for in any fiscal year?

I man, how are you going to manage this program? Anybody that shows up we're just going --

COMMISSIONER BRUNWASSER: The program can go different directions.

COUNCILMAN NUTTER: I mean, we don't resurface everybody's street in the course of the year even when they need it.

COMMISSIONER BRUNWASSER: Correct.

COUNCILMAN NUTTER: We limit the amount of money that we're prepared to spend on a particular program or a service. So I don't understand why the 70 was only being attributed to a four-year period which seems to match up perfectly with the rate increase.

COMMISSIONER BRUNWASSER: I was answering the question in the context of what it does to the proposed rates. I didn't look beyond the four years so much except to say that when you do capitalize laterals -- and I know we had a bit of this discussion at the budget hearing. When you do capitalize the laterals, in a period of 15 years, the annual debt service cost will then be approximately $20 million. And we have to cover debt, as you know, our senior debt by 1.2 percent, 1.20 percent which means 15 years down the road if we have $20 million debt service associated with going out for 20 million in debt each year for laterals, then you have to raise rates $24 million to meet your bond coverage. And then as you continue to go out 20 million or so each year -- and of course I'm talking about today's dollars, the equivalent of $20 million a year --

COUNCILMAN NUTTER: But, again, that seems to be a program that seemingly has no limit to it. If you said, "Look, we're going to have a lateral program" -- this was Councilman O'Neill's idea. He's brought it forward. Many of us certainly support it. I'm not trying to interfere with the implementation of his idea and I don't know how exactly he's laid out the program, but, I mean, this would not be the first program

05/20/04 - TRANSPORTATION - RES. 040298

where the government decides, we're going to spend X amount of dollars a year on the repair of sewer laterals. And when you reach that limit in the course of the year, sir, ma'am, I'm sorry, we've reached our -- and you're on the list and we'll take care of you when the funding becomes available. I mean, yours would not be the first Department that ever said that in February or March, "We're out of funding for this fiscal year for that particular thing and we'll be glad to have a conversation with you on July 1."

Why wouldn't you do it that way and stretch it out a bit? I mean, for a new service and new program for which homeowners have had no recourse whatsoever in the past, this sounds like everyone who shows up is going to get taken care of the moment they walk in the door, cost notwithstanding.

COMMISSIONER BRUNWASSER: Well, we have looked at, for instance, the permits that are taken out in L&I for this type of work and anecdotally we believe there's considerably more of these water lines and sewer laterals that need replacement, but as soon as the homeowner understands that he's on the hook for that service, they don't go any further than that. So we're heading into a bit of an unknown territory, and I grant you that. I can foresee that depending on the way the program is handled, we may have to put people on a priority and say, "Look, we'll get to you beginning July 1 of the following year" if you've used up too much money or you can't transfer money from one place to another. But there are also ways of putting the burden on perhaps a warranty company. And depending on how contracts are structures between us and the warranty company, they may take that burden.

COUNCILMAN NUTTER: It's just another perspective.

COMMISSIONER BRUNWASSER: But you're absolutely right. We don't really know.

COUNCILMAN NUTTER: The Councilman has been pushing this issue. I agree with the issue. I just was wondered how you're going to manage it. We don't have to figure that out right now. But I would at least like you to think about it.

Okay. Thank you.

COMMISSIONER BRUNWASSER: You're welcome.

COUNCILMAN NUTTER: Naomi Zaslow, Philadelphia Homeowners Association.

Good afternoon.

MS. ZASLOW: Good afternoon.

COUNCILMAN NUTTER: Please identify yourself for the record and proceed with your testimony.

MS. ZASLOW: I'm Naomi Zaslow, Public Relations Director for the Homeowners Association of Philadelphia. This is Willis Alston who is head of our Water Department Committee, and Harry Zaslow who is a past President.

We did appear when you and Councilman O'Neill were talking about Water Department and laterals. And a question we asked then was, will you hook on to the rise in water rates because of the laterals, and that seems to have been part of it and that was disappointing to see because we feared that when it came up. We like the idea, but we worry how it's going to come out.

COUNCILMAN NUTTER: Well, I can assure you that working with Councilman O'Neill and his leadership on this particular issue, I don't necessarily know that this will end up the way it seems at the moment. I believe just from the Councilman's questioning and other issues that have been raised, there's still some unanswered questions, and we'd like to know better how it will affect better.

MS. ZASLOW: And also last night, we had a general membership meeting and there were questions about what's happening with the laterals, the status of that situation. So if anything comes forward, we would love to know about it.

COUNCILMAN NUTTER: Okay. Please proceed with your testimony.

MS. ZASLOW: Surely. The Homeowners Association of Philadelphia was founded in 1954 and is celebrating our 50th anniversary.

Our mission is and was to upgrade and preserve property in what had been the City of homes. Some of our 3,000 members finally remember the neighborhoods where they lived and worked. The goal of low and moderate income residents was to own and live in a row house or small apartment building. They also struggled and saved to buy another property to supplement the family income and to work toward the American dream.

As decades passed, the atmosphere, the neighborhoods, and the attitude towards low and moderate income property owners changed. Tough and punitive government rules and regulations showed little regard or interest in helping property owners. Ever increasing property taxes, wage taxes, business taxes caused many owners to eventually abandon property and leave the City. Rules were also enacted enabling tenants to live rent-free while owners were prosecuted for bills and taxes they couldn't pay. It's no secret and has been evident today that Philadelphia is losing people, business, revenue, and credibility because it taxes its residents beyond what is reasonable and workable.

The Philadelphia Water Department request for a 43 percent increase is really deplorable. Water Department administrators and employees salaries can rise if rates increase, but residents do not have that opportunity or luxury especially in low and moderate income neighborhoods. If replacement or improvement of the water system is needed, why hasn't the Water Department management set aside funds for that purpose every year in previous years? If funds of that magnitude required, the Water Department can seek a bond issue but should not impose rates that gouge residents. Enforcement of water bill payments, collection agencies, and huge fines imposed on owners are a testament to the fact that residents cannot pay what is demanded now without the proposed increase. Owners and renters both suffer from water shutoff. Any increase in water rates will be a great burden on the low and moderate income property owner, manager, and renter.

HAPCO hopes there will be no game playing since the 43 percent is such a staggering request that A lower increase would be more palatable. Any increases placed on the backs of already overtaxed property owners will continue the flight from the City, provide less revenue for the City, and continue the decline of homes and neighborhoods. Government housing is one answer, but it cannot fill the need of low and moderate income renters throughout the City. We ask that the Water Department find other ways, not a 43 percent increase in water rates, to serve the needs of the Water Department and the residents of Philadelphia. Thank you.

COUNCILMAN NUTTER: Thank you very much.

I just want to be clear from the testimony. You mentioned last night that there was a membership meeting?

MS. ZASLOW: Yes.

COUNCILMAN NUTTER: And has HAPCO

taken a formal position?

MS. ZASLOW: Well, we were definitely in favor of helping people when it's not their problem but it's the problem in the street. But our fear was and has been realized that a huge rate increase would be placed on the water rates and that purpose is only -- we asked in our questions at that time how many people a year are you talking about helping? And is that increase that you might request going to reflect that small number or even as we see now laid on as if it's only for the laterals when it really is for probably needed other things.

I have something here that was given by one of our members yesterday that taking over the sewer lateral expense now paid by homeowners is a great idea, but we have to watch the taxes don't come up concomitantly.

COUNCILMAN NUTTER: Thank you.

Any other testimony?

MS. ZASLOW: This gentleman will help something to say.

COUNCILMAN NUTTER: It seems like

you know him pretty well.

MR. ZASLOW: it depends on the name of the project.

COUNCILMAN NUTTER: Please give your name for the record.

MR. ZASLOW: Harry Zaslow, past president of HAPCO.

It depends on the definition of the description of the project, what it's called by. I look at this lateral situation as being an insurance policy for the residents of Philadelphia. If we can present this in a better psychological way by saying, we're not increasing water bill and they don't even know what it is. There's a fire policy, there's liability policy, there's a water policy that all of us share in that policy on a broad scale. Perhaps you want to think about that.

COUNCILMAN NUTTER: Well, it's an interesting perspective. As you were speaking, not to bring another utility that's -- I don't know how people feel about them. But sometimes on your phone bill they have the different -- although I always feel like I'm getting taken advantage of at a certain level, but they have these wire the maintenance plan and then they have the guardian plan as if -- depending what things happen to your phone lines in your house kind of determine what level of service you get. But it's just a separate line and you know what it is. And if your phone bill is up, then they come in and do whatever it is that they do.

I am interested, and I'm going ask the Water Commissioner to come back up, to get to the issue that you raised which is --

Commissioner, why don't you come up and join these fine ratepayers who love the opportunity to sit next to you and maybe ask you a couple hundred questions.

In your testimony there's the chart, and you have the fiscal year '05 to '08, $307 million and you've got 70 for the lateral service program.

If the lateral service program were not in that list, if the new number was 237, what would the rate of the increase be?

COMMISSIONER BRUNWASSER: It's in

the attachments that I prepared. I think the first year instead of 9.7 percent, it would be 7.1 percent and it would be a little lower each of the other years. We would still have to seek moderate rate increase.

COUNCILMAN NUTTER: Well, all these things, I guess, are relative. I mean, what's a 43 percent increase, is that like exorbitant, outrageous?

COMMISSIONER BRUNWASSER: Not today. I happen to know about some of the things that are happening in other cities in the United States. Atlanta is facing a tripling of their rates over the next five years. They have $3 billion in capital.

COUNCILMAN NUTTER: Yes, I was going to say, don't they have a massive infrastructure project going on that's being paid for by both the city and the state?

COMMISSIONER BRUNWASSER: I think the state is helping them perhaps to some extent but not to a great extent.

COUNCILMAN NUTTER: Give us a sense of -- I mean, what we have in front of us is

43 percent. You've got a $370 million program over the four fiscal years; $230 million, what's the number?

MR. MCKINLEY: I'd have to go back and get my papers and look it up. But it's in the package that I presented today...

COUNCILMAN NUTTER: Is it in the letter that you sent me or is it in the bigger document?

COMMISSIONER BRUNWASSER: Actually, there was an answer to Councilman O'Neill's question during the Five-Year Financial Plan hearings. And I think it's in this package. Probably closer to the back.

Maybe it's not. Maybe it's not in this package. I remember in year one it would go down from 9.7 to 7.1, and I think all the increases were around 6 percent to 6 -- okay, here it is.

COUNCILMAN NUTTER: You're talking 7.1, 6.4, 7.4, 6.8?

COMMISSIONER BRUNWASSER: That's correct.

COUNCILMAN NUTTER: So what's that

what's that, 14.2?

MR. MCKINLEY: It's a cumulative process. It's not added.

COMMISSIONER BRUNWASSER: The 43 percent that's been referred to --

COUNCILMAN NUTTER: Can I just have a number then?

COMMISSIONER BRUNWASSER: It looks like about 28 percent if you add these percentages together, 28 percent.

Now, 43 percent is rounding up the average rate increase -- we're asking for four years stepped-up rates, 9.7 percent year one and the average rate increase over each of the next four years, we're requesting 9.3 percent. When you multiply it, it goes to 42.7 when compounding it.

MR. MCKINLEY: The comparable number compounded without the warranty program is 31 percent versus 43.

COUNCILMAN O'NEILL: Because of when the hikes hit, it's really -- the fourth hike is three years after the first hike; is that correct?

05/20/04 - TRANSPORTATION - RES. 040298

COMMISSIONER BRUNWASSER: It's three years, right, but that last hit is good for a full year afterwards. It's been characterized as a three-year. It's like saying, you know, "I'm a City worker. I get paid tomorrow. I get paid every two weeks, but tomorrow's check is my second check within two weeks." So it's a little disingenuous.

COUNCILMAN O'NEILL: It's -- how do you want the characterize that. I think you can justify either one depending on which side you're coming from.

COMMISSIONER BRUNWASSER: Exactly.

COUNCILMAN O'NEILL: I have an unrelated question. It's a fiscal question, but it's unrelated to the laterals although it involves laterals or lack thereof.

I've always been told that about 40 percent of the City is combined and about 60 percent is separate, or it should be reversed?

COMMISSIONER BRUNWASSER: It sounds reversed, to me. I can be corrected by any of the staff.

COUNCILMAN O'NEILL: Okay, 60

percent combined, 40 percent separate. Whatever it is, whether it's 40, 50 or 60, what is the cost of treating water in a combined system that would not have to be treated if it were in a separate system?

COMMISSIONER BRUNWASSER: Well, that's not an easy one to answer. You know, our rates don't get into the detail or, you know, we have properties that are two blocks from the Baxter Plant and then we have properties where the water has to be pumped out, you know, 10 miles away from the Baxter Plant and there's no --

COUNCILMAN O'NEILL: If you don't have it to the penny, I wouldn't mind. I just think there's some cost that -- see, this is a big system. I don't think most people know whether they have a combined system or a separate system or if they have one that other people have a different. But I will tell you that you don't have to be very smart, and that's why I know it to be true, that if you live in a separate system area, which I represent just about all separate system areas, you are saving the Water Department a whole lot of money on treating water that is missing the waste stream. Whatever the number is, it's significant, particularly if you go back 50 or 60 years since the separate system started.

What happens is in a combined system, we don't hear problems about laterals very often. One pipe breaks. Until the street sinks, who cares? No environmental problem, nothing going into the streams, the river. It's a major problem where you've got separate systems and the lateral goes and the person gets the reverse lottery, they get penalized for something they had nothing to do with. However, there's no recognition of all the money they're saving the system by having the separate system in the first place, which everyone I talked to still willing to accept responsibility on their end. But there's no recognition ever, and there's never been a recognition of all the savings because it's so much of that water in the combined system gets treated expensively that doesn't have to be treated if they were just in a separate system. So there's got to be a saving on the other end that's significant.

MR. MCKINLEY: I'm not really prepared with this specific, but just from recollection of the information I've had privy to over of the past several years, subject to check, I would say the cost of treating storm what water that's capture in the combined system and actually finds its way to the treatment plant is on the order of, I'm thinking, between 5 and $10 million a year out of a $400 million water waste water budget. Now, if you want to capture that, separate the combined system so that that storm water, the first flush, if you will, doesn't go into the sewage treatment plant for treatment, there's going to be a lot of capital costs associated with the separation of storm water and sanitary sewers where you have the combined system. Probably isn't cost effective thing to do totally.

But to answer your question directly, I'm thinking in the 5 to $10 million per year range of actually collecting and treating and transporting to the treatment plants, waste water treatment plants, the storm water. That's about the magnitude.

COUNCILMAN O'NEILL: But there has to be better than a guess. We don't have to have it today. But I've got to know if I'm running this company what it's costing me per household just dealing with volume, averages, and things coming out of a separate house and coming out of a combined house. Somebody might live a little closer, but that all evens out.

MR. MCKINLEY: We have that number. I just don't remember it exactly right now. It's not that we are just guessing. We have a calculated number for that. I don't have it with me right now.

COUNCILMAN O'NEILL: Do you pay the same amount of money, does it cost the same to treat a cubic foot or a gallon, whatever you want to use. I kind of like the gallon idea because at least I can relate to it. But the same quantity of water, does it cost the same to treat it when it comes from a combined system as when it comes from a separate system?

MR. MCKINLEY: Generally speaking, the combined waste water that is collected from rain water, et cetera, has a lower strength than the overall sewage that's influent to a sewerage treatment plant, so it probably cost less because of the strength element of storm water than it cost to treat regular sanitary waste water which is not combined. It's a lower strength volume you're treating.

COUNCILMAN O'NEILL: You don't have to decide today. We're coming back. But is it 5 percent less, is it 10 or is 50 or what? I mean, there's got to be -- this is much bigger picture than just, are we going to start taking care of laterals because it's the right thing to do, Number 1; and 2, it actually helps the entire infrastructure that we have. But there's also another issue here. People, you pay more to put in a separate system, the contractor just passes it along to

05/20/04 - TRANSPORTATION - RES. 040298

you in a new house, and then you wind up paying twice often because your laterals go. And it also happens that a person whose lateral goes tends to be unlucky again because there's something wrong often with, not the lateral, but something under that street that causes to wash-out or whatever that causes the pipes to crack, crush, or break.

We can talk about that more another time. But there are issues I want to develop further. Most people don't know the difference. Just like they didn't know or don't know that a certain percentage of their bill is to pay for people that don't pay. And I think we can put pressure on ourselves to collect more if we tell them how much of it is. People are very unsympathetic to people that can pay and don't and their neighbor pays for them. And I believe the Water Department has --

Commissioner, could you comment on that? You're kind of on the spot. Your not new with the Department, but in your position.

Water is a terrible thing to live

without. We've been going easy on people in the Gas Works, but by the same token people can get away with it longer because they can find other ways of heating or cooking or whatever. Water, you heard me earlier -- nothing is a hundred percent, but, boy, we've got such great leverage with somebody with the power of shutoff. Forget liens. Just shutoff and then the cost of returning it. If it happens once to you, you're going to find how much it cost to do the work that you get billed for, this is not an inexpensive adventure for somebody.

Do you think we can raise our collections?

Part of it is, "What's Revenue care?"

Is the Commissioner still here?

I don't mean her personally. If I'm working in the Revenue Department, and I'm collecting the Water Department's bills, I mean, it all has to come out of the Water Department, the pressure. Because a person in Revenue they have no interest. We're trying to get police overtime down and the Managing Director mentioned the other day there's three parties to this, the courts and the DA. But if the courts and the DA cause it, we don't any leverage and they have no interest because the Police Department is the one that runs up the overtime. We're trying to find ways to do that.

But how do we -- recognizing that Revenue has no interest in it, it's Enterprise funds, it goes in the Water Department, it doesn't help the bottom line of the City one bit. The Water Department has every interest in it because the money does go to it the Water Department. The Water Department has this great lever of shutoff and the person can't do very much in their house for very long, how do you increase collections? Assuming we decide to put a separate line in for the non-payers, how do you make that as small as possible so people say, "Boy, that Water Department is doing a great job trying to get these non-payments." Some people call them deadbeats, but just say non-payers.

COMMISSIONER BRUNWASSER: Well, in answer to your question, I know many of the people in Revenue are very good employees and they try to do a good job.

One of the ways the Water Department has tried to assist the Water Revenue Bureau in collections is to work with them. Basically, they're major functions are metering, billing, and collection. Metering, you're aware of our AMR project. It's the biggest in the country and usually successful. Almost every customer now has automatic meter reading devices in their place of business or their home. So we've kind of taken care of that. Those devices have tampering signals. Those devices now are read by computer. We've developed a revenue protection unit within the Water Department. Because we now have AMR, they have the ability to take a look and see which accounts need to be investigating, accounts that have not shown any usage. Maybe there's something wrong with the meter, maybe there's something wrong with the device, maybe the meter has been tampered with. And so this group has gone out and found $12.4 million in revenue over the last three years or so, and that's found billings, not the once that come in the future because they discovered that somebody had tampered or taken out the meter or reversed the meter. Those are the kinds of things that they see. That's number one, helping them with the metering situation, and certainly have done that.

Billing, the Water Department took the billing system over back in the early '90s, and we got monthly billing in 1993. The collections that you see now, about 85 percent current and 96-plus within the year, in other words cumulative collection factors. That's the way it's been pretty much since monthly billing came into effect.

Collections in the Revenue Department were actually less effective under the quarterly billing system. So we've actually seen a bit of an uptick there.

We've also work closely with Water Revenue Bureau in trying to make sure that these accounts that still have some potential for collection are gone after aggressively. And we've worked with Nancy and Marleen Duley and some of the folks over there over the last few years, and we've seen a little better results.

Finally, you have collections and that's something we can't do a whole lot about.

COUNCILMAN O'NEILL: If you tell me that you're okay. You'd like to have everything current, but that's 85 percent but you're pretty proud that 96 percent is paid within a year, I figure, you know, I got a year.

What is the -- if you said within three months you're going to get a shutoff notice. Remember, a gas bill can be in a small house can be 3 or $400 in a given month, and I at least have some sympathy for that. A water bill could be 30. And with the size of that bill and the leverage you have over that customer, how could you -- 1 percent, increase your collections by 1 percent, starting just with that based on the numbers you gave me, you increase them by 1 percent so the 96 becomes 97. What does that represent dollar-wise?

COMMISSIONER BRUNWASSER: One percent of the dollars that the Bureau collects now would be about 3.8 million, 3.6 million, something like that.

MS. ZASLOW: Excuse me. Would it be an idea as they do in some collections to say, if you'd pay by the 10tj of the month, it's this number; and if you pay by the 15th, it's going to go up by this amount? If you could just do that so people would have a compulsion to pay on time.

COMMISSIONER BRUNWASSER: I think the way the system is, I think we have a 5 percent penalty if you miss the due date.

I should say, senior citizens, by the way, are very, very good at paying their bills, and other folks are not.

COUNCILMAN O'NEILL: Now, the one year window, what do you estimate if we change that to a six-month window to consider ourselves in pretty good shape instead of a year. If we use that target instead of a year target as to when things are we're not so proud of? That would have a big effect, I would think.

COMMISSIONER BRUNWASSER: Councilman, I would applaud any improvements in collection. One of the things, of course, that was mentioned that we do have that four month moratorium and what we'd like to see is an income-based moratorium, not a wholesale moratorium. And I'll tell you why --

COUNCILMAN O'NEILL: Is that City or State, the moratorium. I just want to know. I should know it, but --

COMMISSIONER BRUNWASSER: I think we have it in our regulations. Council was considering an ordinance to put that in place in the late 1980s. We decided we'll handle it by regulation.

COUNCILMAN O'NEILL: You never did the income based?

COMMISSIONER BRUNWASSER: No, we didn't because, frankly, it may be a little bit difficult to administer, but I think we should give it a try.

COUNCILMAN O'NEILL: I think your customers would appreciate it a lot more.

COMMISSIONER BRUNWASSER: And not only that, not only for collection reasons, but the operations of the Water Revenue Bureau for four months, you know, some of those folks might be sitting on our hands because there's not much they can do. And then suddenly, I guess come late February or early March whenever they begin to send out those new shut-off notices, then suddenly, you know, you've got to perhaps pay overtime, et cetera, et cetera because you have this crazy glitch in your operation. You're working hard for eight months, nine months, and the other three or four months, you know, things are quiet. If only to get more efficiency out of the workers at the Water Revenue Bureau, I think putting a dent into this moratorium would be advisable. And I think that's one of the things we want to sit down with Nancy and the people at the Bureau and come back to you with a proposal that Council could live with.

COUNCILMAN O'NEILL: Could you get me information before the next hearing? Could you send us the regulation the water Department imposed itself that doesn't have income limits for the four-month moratorium.

COMMISSIONER BRUNWASSER: Sure.

COUNCILMAN O'NEILL: Okay. I appreciate that.

COUNCILMAN NUTTER: Councilman Rizzo.

COUNCILMAN RIZZO: Thank you.

Commissioner, could you provide to the Chair -- there's another troubling issue that bothers me, and maybe you were here. I asked this question two years ago. Could you provide to the Chair all of the permits that contractors have that can come to -- how much, first of all, is the permit for a person to take water from a fire hydrant?

COMMISSIONER BRUNWASSER: I don't recall. I believe that's something that's being changed within these rates as well, I think, trying to get a better cost figure, a more logical number.

05/20/04 - TRANSPORTATION - RES. 040298

COUNCILMAN RIZZO: Well, I question this process, and I'll say it again. There's a permit that allows a contractor to go to a hydrant and fill up a water tank truck for a fixed fee. They can take as much water as they want. Am I correct?

COMMISSIONER BRUNWASSER: I would have to go back to my staff to make sure. I think you're probably correct.

COUNCILMAN RIZZO: I understand that that is a pretty good deal for a person to engage in one of those permits where they have a water truck that holds a thousand, 2,000 gallons that they can actually take that tanker truck back to their facilities and use it to wash equipment and do all kinds of things with that water. I think that we're too easy. If I could get a permit that cost me a hundred bucks a year and be able every day to go to a hydrant at City limits and load a thousand, 2,000 gallons of water on a truck and take it back and use it wash down my yard, or water flowers with it, whatever -- and we're dumping a lot or the new Commissioner.

But I think you really need to really examine that process because I understand that there are some of those permits that do exactly what I described. Pick up a few thousand gallons of water, park the trailer in the parking lot, and use it for all the non-palatable issues that exist.

So I'd like to know how many of those permits that we have, how we manage that to be assured that it is being used in an appropriate manner.

COMMISSIONER BRUNWASSER: We don't have those statistics for you right now. But I remember we answered that question that you raised about two years ago. At that time, I don't think it was an extensive list of contractors, but just to tell you what we're proposing in these new rates, and I don't know the current charge, but a one-week permit for use of standard pressure hydrant, $185, and a six-month permit for use of standard pressure hydrant, $1600. And I'm sure these are quite a bit higher --

COUNCILMAN RIZZO: That's for a

year?

COMMISSIONER BRUNWASSER: For six months. So I think we're trying to make sure that if somebody needs to hook up to our water it's for the right purpose.

COUNCILMAN RIZZO: Exactly. But you can imagine, that's a pretty good deal. If you have a trailer that holds a few thousand gallons of water and you visit that hydrant two or three times a week and use it to do all the things that I described earlier, that's a pretty good deal.

And I understand the purpose of the permit is to allow contractors to get water when they're working in a specific area. That's what that program was designed for, not from what a police officer reported to me. I mean he was curious. He didn't know. He was on patrol and every day at City limits, this contractor was pulling up. He stopped him, thinking that he was doing wrong, and he showed him the permit. And he said Monday Tuesday, Wednesday, Thursday, and he was heading back to Montgomery County.

COMMISSIONER BRUNWASSER: Right. That's certainly not the intent of these permits. We do have a person who's responsible or tries to police this for us and he'll probably be the one providing this information.

COUNCILMAN RIZZO: Great. Thank you, Commissioner, and good luck.

COMMISSIONER BRUNWASSER: Thank you.

COUNCILMAN RIZZO: Thank you, Mr. Chairman.

MR. ZASLOW: I've been here for three hours or four hours. A lot of technical information is coming through. We don't really recognize or realize the nature of people who are retired or limited in their income who are in poverty who cannot pay these rates. I don't know the statistics, but I would say in this City there must be at least 20 to 30 percent of people who are in the poverty level, you know, not able to pay their bills. That's really something to think about. How do we solve that problem? That's really a tough problem.

I remember back in the late '50s my water bill was semiannually $7. It came out to $14 a year. Of course, the decade of the '50s was a wonderful decade. But through our experience, I find that every three years or two years, the water rates keep going up and up and up and up until it's going to come to a point where in economics it's called the law of the diminishing returns which means that we're going to go broke. The people are not going to be able to pay for it. I know that there's inflation also. But we're in the people business, not in the business of water.

COUNCILMAN NUTTER: Right. We'd like to think we're in the people business also.

MS. ZASLOW: I think you are. I just wanted to say how impressed and encouraged I am representing HAPCO at the level of inquiry and response, although the responses were difficult to follow, but I really feel that you were trying your best.

COUNCILMAN NUTTER: Thank you.

MS. ZASLOW: Thank you very much for

having us. We appreciate it, and we know you will factor in that while you have a collection problem, maybe there are people who don't want to pay, but there are also people who can't pay. So that's what we wanted to get across.

COUNCILMAN NUTTER: Thank you very, very much.

There are no further witnesses at this point. And we will recess this hearing until June 15, 2004 at 2 o'clock p.m. here in room 400. Thank you very much.

(Council adjourned at 5:35 p.m.)

- - - -

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 Thursday, May 20, 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

Lisa C. Bradley, RPR