

*In the opinion of Co-Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, assuming continuing compliance by the City with the requirements of the Internal Revenue Code of 1986, as amended. Co-Bond Counsel are also of the opinion that, under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax. See "Tax Matters" herein.*



**\$424,250,000**  
**CITY OF PHILADELPHIA, PENNSYLVANIA**  
**GAS WORKS REVENUE BONDS**  
**SEVENTEENTH SERIES**  
**(1998 GENERAL ORDINANCE)**  
 consisting of



**\$314,960,000**  
**GAS WORKS REVENUE BONDS**  
**SEVENTEENTH SERIES A**

**\$109,290,000**  
**GAS WORKS REVENUE REFUNDING BONDS**  
**SEVENTEENTH SERIES B**

**Dated: Date of Delivery** **Due: August 1, as shown on the inside cover page**

**Defined Terms** All capitalized terms that are not otherwise defined on this cover page have the meanings provided to such terms in this Official Statement.

**The Bonds** The City of Philadelphia (the "City") is issuing the \$424,250,000 Gas Works Revenue Bonds, Seventeenth Series (1998 General Ordinance) (the "Bonds") consisting of \$314,960,000 Gas Works Revenue Bonds, Seventeenth Series A (the "Series A Bonds") and \$109,290,000 Gas Works Revenue Refunding Bonds, Seventeenth Series B (the "Series B Bonds"). The Bonds will be issued in denominations of \$5,000 and integral multiples thereof.

**Purpose** The proceeds of the Series A Bonds will be used to (i) finance a portion of Philadelphia Gas Works' ("PGW") ongoing Capital Improvement Program, (ii) pay the costs of redeeming the City's outstanding Gas Works Revenue Capital Project Commercial Paper Notes, and (iii) pay the costs of issuing the Series A Bonds. The proceeds of the Series B Bonds, together with certain other available funds, will be used to (i) refund certain bonds currently Outstanding under the General Gas Works Revenue Bond Ordinance of 1998 (the "1998 General Ordinance"), and (ii) pay the costs of issuing the Series B Bonds. See "Plan of Finance and Estimated Sources and Uses of Funds" herein.

**Payment and Security** The following is qualified in all respects by the information in this Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS" and the documents referenced under such caption.

The Bonds are being issued as Senior 1998 Ordinance Bonds on a parity with all other Senior 1998 Ordinance Bonds issued and Outstanding under the 1998 General Ordinance. The Bonds are secured by and payable by the City solely from the Gas Works Revenues and the Sinking Fund Reserve.

**The Bonds are special obligations of the City payable solely from the sources described herein and neither the taxing power nor the general revenues of the City are pledged for the payment of the principal of, premium, if any, or interest on the Bonds, nor are the Bonds a general obligation of the City. The Bonds do not constitute debt of the City within the meaning of the Constitution of the Commonwealth of Pennsylvania.**

The scheduled payment of principal of and interest on the Series A Bonds maturing on August 1 of the years 2041, 2043 and 2054 (collectively, the "Insured Series A Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY INC.



**Redemption** The Bonds are subject to redemption prior to maturity. See "DESCRIPTION OF THE BONDS" herein.

**Additional Bonds** The City is authorized to issue additional bonds under the 1998 General Ordinance under the circumstances and upon satisfaction of certain conditions established in the 1998 General Ordinance, as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS – Authorized Additional 1998 Ordinance Bonds" herein.

**Interest Payment Dates** Interest on the Bonds is payable semiannually on each February 1 and August 1, commencing on February 1, 2025.

**Tax Status** For information on certain tax matters relating to the Bonds, see the italicized language at the top of this cover page and "TAX MATTERS" herein.

**Delivery Date** It is expected that the Bonds will be available for delivery to DTC on or about September 18, 2024.

**This cover page contains certain information for quick reference only. It is not a summary of the Bonds or this Official Statement. Investors must read the entire Official Statement, including the Appendices, which are an integral part hereof, to obtain information essential to the making of an informed investment decision regarding the Bonds.**

*The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the prior sale, withdrawal, or modification of the offer without notice, and subject to the approval as to the legality of the issuance of the Bonds by Eckert Seamans Cherin & Mellott, LLC and Andre C. Dasent, P.C., Co-Bond Counsel, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the Underwriters by Ballard Spahr LLP, of Philadelphia, Pennsylvania, Counsel to the Underwriters. Certain legal matters will be passed upon for the City by the City of Philadelphia Law Department. Certain legal matters will be passed upon for Philadelphia Gas Works by the Office of General Counsel of the Philadelphia Gas Works and by Eckert Seamans Cherin & Mellott, LLC, of Harrisburg, Pennsylvania. Cozen O'Connor and Ahmad Zaffarese LLC, Co-Disclosure Counsel to the City for PGW, both of Philadelphia, Pennsylvania, will each deliver a letter to the City and the Underwriters regarding certain matters related to PGW. Hawkins Delafield & Wood LLP, of Washington, D.C., as Disclosure Counsel to the City, will deliver a letter to the City and the Underwriters regarding certain matters relating to the information contained in APPENDIX C and APPENDIX D.*

**J.P. Morgan**  
**Academy Securities**

**Ramirez & Co., Inc.**  
**Rice Financial Products Company**

## MATURITY SCHEDULE

**\$314,960,000**

**CITY OF PHILADELPHIA, PENNSYLVANIA  
GAS WORKS REVENUE BONDS  
SEVENTEENTH SERIES A  
(1998 GENERAL ORDINANCE)**

<b><u>Due (August 1)</u></b>	<b><u>Amount</u></b>	<b><u>Rate</u></b>	<b><u>Price</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP No.†</u></b>
2029	\$ 5,640,000	5.00%	110.666	2.65%	71783MCN3
2030	5,920,000	5.00	112.230	2.73	71783MCP8
2031	6,220,000	5.00	113.390	2.84	71783MCQ6
2032	6,530,000	5.00	114.299	2.95	71783MCR4
2033	6,855,000	5.00	115.217	3.03	71783MCS2
2034	7,200,000	5.00	116.045	3.10	71783MCT0
2035	17,000,000	5.00	115.218 <sup>(c)</sup>	3.19 <sup>(c)</sup>	71783MCU7
2036	8,405,000	5.00	114.488 <sup>(c)</sup>	3.27 <sup>(c)</sup>	71783MCV5
2037	8,830,000	5.00	113.945 <sup>(c)</sup>	3.33 <sup>(c)</sup>	71783MCW3
2038	9,270,000	5.00	113.585 <sup>(c)</sup>	3.37 <sup>(c)</sup>	71783MCX1
2039	9,735,000	5.00	113.136 <sup>(c)</sup>	3.42 <sup>(c)</sup>	71783MCY9
2040	10,220,000	5.00	112.600 <sup>(c)</sup>	3.48 <sup>(c)</sup>	71783MCZ6
2041*	10,730,000	5.25	114.493 <sup>(c)</sup>	3.50 <sup>(c)</sup>	71783MDA0
2042	11,295,000	5.00	111.274 <sup>(c)</sup>	3.63 <sup>(c)</sup>	71783MDB8
2043*	11,860,000	5.25	113.244 <sup>(c)</sup>	3.64 <sup>(c)</sup>	71783MDC6
2044	12,480,000	5.00	110.141 <sup>(c)</sup>	3.76 <sup>(c)</sup>	71783MDD4

\$72,775,000 5.25% Term Bonds due August 1, 2049, Yield: 3.91%<sup>(c)</sup>, Price: 110.880<sup>(c)</sup>, CUSIP No.† 71783MDE2  
\$93,995,000 5.25% Term Bonds due August 1, 2054\*, Yield: 3.92%<sup>(c)</sup>, Price: 110.793<sup>(c)</sup>, CUSIP No.† 71783MDF9

\* Insured Maturity. See “BOND INSURANCE” within.

† CUSIP is a registered trademark of American Bankers Association (the “ABA”). CUSIP data is provided by CUSIP Global Services (“CGS”), which is managed on behalf of the ABA by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders of the Series A Bonds only at the time of original issuance of the Series A Bonds, and the City, the Philadelphia Gas Works and the Underwriters do not make any representation with respect to such CUSIP numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of such Series A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of such maturity of the Series A Bonds.

<sup>(c)</sup> Yield/Price to the August 1, 2034 optional call date.

## MATURITY SCHEDULE

**\$109,290,000**

**CITY OF PHILADELPHIA, PENNSYLVANIA  
GAS WORKS REVENUE REFUNDING BONDS  
SEVENTEENTH SERIES B  
(1998 GENERAL ORDINANCE)**

<b><u>Due (August 1)</u></b>	<b><u>Amount</u></b>	<b><u>Rate</u></b>	<b><u>Price</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP No.<sup>†</sup></u></b>
2026	\$12,335,000	5.00%	104.274	2.64%	71783MDG7
2027	9,175,000	5.00	106.591	2.60	71783MDH5
2028	9,640,000	5.00	108.662	2.63	71783MDJ1
2029	14,020,000	5.00	110.666	2.65	71783MDK8
2030	14,725,000	5.00	112.230	2.73	71783MDL6
2031	15,460,000	5.00	113.390	2.84	71783MDM4
2032	16,225,000	5.00	114.299	2.95	71783MDN2
2033	8,635,000	5.00	115.217	3.03	71783MDP7
2034	9,075,000	5.00	116.045	3.10	71783MDQ5

<sup>†</sup> CUSIP is a registered trademark of the ABA. CUSIP data is provided by CGS, which is managed on behalf of the ABA by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders of the Series B Bonds only at the time of original issuance of the Series B Bonds, and the City, the Philadelphia Gas Works and the Underwriters do not make any representation with respect to such CUSIP numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of such Series B Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of such maturity of the Series B Bonds.

**CITY OF PHILADELPHIA, PENNSYLVANIA**

**HONORABLE CHERELLE PARKER**

---

**MAYOR'S CHIEF OF STAFF**

**Tiffany W. Thurman**

---

**MAYOR'S CABINET**

Adam Thiel.....Managing Director  
Rob Dubow.....Director of Finance  
Renee Garcia, Esq..... City Solicitor  
Sinceré Harris .....Chief Deputy Mayor of Intergovernmental Affairs, Sustainability, and Engagement  
Aren Platt.....Chief Deputy Mayor of Planning and Strategic Initiatives  
Alba Martinez..... Director of Commerce  
Carlton Williams..... Director of Clean and Green Initiatives  
Rachel Branson.....Director of Minority Business Success  
Adam Geer.....Chief Public Safety Director  
Alexander F. DeSantis ..... Inspector General  
Kevin Bethel.....Police Commissioner  
Dr. Debora Borges-Carrera..... Chief Education Officer  
Valerie Gay..... Director of Arts and Culture  
Jeffrey W. Thompson ..... Fire Commissioner  
Atif Saeed ..... Chief Executive Officer, Department of Aviation  
Jazelle Jones ..... City Representative and Director of the Office of Special Events  
Tumar Alexander.....Senior Advisor

**City Treasurer**  
Jacqueline Dunn

**PHILADELPHIA GAS WORKS**  
800 W. Montgomery Avenue  
Philadelphia, Pennsylvania 19122

Seth A. Shapiro..... President and Chief Executive Officer  
Joseph F. Golden, Jr. .... Executive Vice President and Acting Chief Financial Officer  
Raquel N. Guzmán, Esq. ....Senior Vice President of Administration and General Counsel  
Melanie O. McCottry .....Chief of Staff and Senior Vice President, External Affairs and Communication  
Denise Adamucci..... Senior Vice President, Customer and Regulatory Affairs  
Robert K. Smith..... Senior Vice President, Operations and Supply Chain  
Frank Weigert.....Chief Information Officer  
John C. Zuk ..... Senior Vice President, Gas Management

**CITY CONTROLLER**  
Christy Brady

---

**CO-FINANCIAL ADVISORS**  
PFM Financial Advisors LLC  
Phoenix Capital Partners, LLP

---

**FISCAL AGENT**  
U.S. Bank Trust Company, National Association

No dealer, broker, salesperson or other person has been authorized by the City, the Philadelphia Gas Works (“PGW”) or the Underwriters to give any information or to make representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City, PGW or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been furnished by the City and PGW and includes information obtained from other sources, all of which are believed to be reliable. The paragraphs under the heading “UNDERWRITING” have been furnished by the Underwriters for inclusion in that section of this Official Statement. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of PGW or the City since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party.

This Official Statement is submitted in connection with the sale of the Bonds described herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract or agreement among the City, PGW, the Underwriters and the purchasers or owners of any Bonds. This Official Statement is being provided to prospective purchasers either in bound printed form (“Original Bound Format”) or in electronic format on the following websites: [www.munios.com](http://www.munios.com) and [www.emma.msrb.org](http://www.emma.msrb.org). This Official Statement may be relied upon only if it is in its Original Bound Format or if it is printed in full directly from such websites.

The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed a determination of relevance, materiality or importance, and this Official Statement, including the cover page, the inside cover page, and the Appendices, must be considered in its entirety. The captions and headings in this Official Statement are for convenience only and in no way define, limit, or describe the scope or intent, or affect the meaning or construction, of any provisions or sections of this Official Statement. The offering of the Bonds is made only by means of this entire Official Statement.

The statements contained in this Official Statement, including in the Appendices, and in any other information provided by PGW and the City and other parties to the transactions described herein that are not purely historical are forward-looking statements. Such forward-looking statements can be identified, in some cases, by terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “illustrate,” “example,” and “continue,” or the singular, plural, negative or other derivations of these or other comparable terms. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to such parties on the date thereof, and neither PGW nor the City assumes any obligation to update any such forward-looking statements. The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including, but not limited to, risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in various important factors. Accordingly, actual results may vary from the projections, forecasts and estimates contained in this Official Statement and such variations may be material, which could affect the ability of the City to fulfill some or all of the obligations under the Bonds.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

**In connection with the offering of the Bonds, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time.**

**These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense. The Bonds have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption contained in Section 3(a)(2) of such act. Neither the 1998 General Ordinance nor any Supplemental Ordinance thereto has been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon an exemption contained in such act.**

**Assured Guaranty Inc. (“AG”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading “BOND INSURANCE” and “Appendix I - Specimen Municipal Bond Insurance Policy”.**

## TABLE OF CONTENTS

	PAGE
INTRODUCTION .....	1
GENERAL .....	1
PURPOSE; USE OF PROCEEDS .....	1
THE BONDS.....	1
SECURITY AND SOURCES OF PAYMENT .....	2
PHILADELPHIA GAS WORKS .....	3
CONFLICT IN UKRAINE AND MIDDLE EAST; OTHER GEOPOLITICAL DEVELOPMENTS, AND IMPACT ON ENERGY MARKETS AND PGW .....	4
CERTAIN TERMINOLOGY .....	5
PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS .....	5
PLAN OF FINANCE.....	5
ESTIMATED SOURCES AND USES OF FUNDS .....	6
VERIFICATION.....	6
DESCRIPTION OF THE BONDS.....	6
GENERAL .....	6
OPTIONAL REDEMPTION OF CERTAIN OF THE BONDS AT PAR.....	7
OPTIONAL REDEMPTION OF CERTAIN OF THE BONDS AT MAKE-WHOLE REDEMPTION PRICE .....	7
MANDATORY REDEMPTION .....	8
SELECTION OF BONDS TO BE CALLED FOR REDEMPTION .....	8
NOTICE OF REDEMPTION OF BONDS .....	8
SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS .....	9
PLEDGE OF REVENUES AND FUNDS .....	9
GAS WORKS REVENUES .....	10
SINKING FUND RESERVE .....	12
RATE COVENANT AND RATE REQUIREMENTS .....	13
QUALIFIED SWAPS AND EXCHANGE AGREEMENTS .....	14
CREDIT FACILITIES WITH RESPECT TO 1998 ORDINANCE BONDS.....	16
AUTHORIZED ADDITIONAL 1998 ORDINANCE BONDS.....	18
COVENANT AGAINST COMMINGLING WITH OTHER CITY FUNDS .....	19
SENIOR 1998 ORDINANCE BONDS DEBT SERVICE SCHEDULE.....	19
BOND INSURANCE .....	21
BOND INSURANCE POLICY.....	21
ASSURED GUARANTY INC. ....	21
COMMERCIAL PAPER PROGRAMS .....	23
CP CAPITAL PROJECT NOTES .....	23
GAS WORKS NOTES.....	24
NOTE PURCHASE AND CREDIT AGREEMENT.....	24
OTHER DEBT OBLIGATIONS PAYABLE FROM GAS WORKS REVENUES.....	24
SHORT-TERM BORROWINGS .....	24
ADDITIONAL BOND ORDINANCES.....	24
POSSIBLE FUTURE PGW RELATED FINANCINGS .....	25
FINANCING OF CAPITAL IMPROVEMENTS .....	25
INFRASTRUCTURE REPLACEMENT .....	25
PERMITTED SECURITIZATION OF REVENUES RELATED TO NON-PERFORMING ASSETS .....	26

INDEPENDENT CONSULTANT’S ENGINEERING REPORT .....	26
ASSUMPTIONS.....	27
OPINIONS .....	29
REMEDIES OF BONDHOLDERS .....	29
GENERAL .....	29
LIMITATION ON REMEDIES OF BONDHOLDERS .....	30
PHILADELPHIA GAS WORKS.....	31
GENERAL .....	31
HISTORY .....	31
ADDITIONAL INFORMATION .....	32
BUSINESS CONTINUITY PLANS .....	32
COVID-19 RESPONSE AND IMPACTS.....	32
MANAGEMENT.....	33
SUCCESSION PLANNING; PERSONNEL MATTERS; TRAINING .....	39
STRATEGIC PLANNING AND PERFORMANCE MANAGEMENT .....	40
GOVERNMENTAL OVERSIGHT.....	40
LABOR RELATIONS .....	43
INSURANCE, LOSS RESERVES AND COST RECOVERY .....	43
PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS.....	44
LITIGATION.....	49
COMPETITION .....	52
THE GAS WORKS FACILITIES.....	54
NATURAL GAS SALES, COSTS AND SUPPLIES .....	59
PGW GAS SALES AND NATURAL GAS COSTS .....	59
SEASONAL CONSIDERATIONS .....	62
GAS SUPPLY, STORAGE AND TRANSPORTATION .....	63
GAS SUPPLY AND DEMAND BALANCE.....	65
TRANSPORTATION SERVICE TO PGW CUSTOMERS .....	66
ENVIRONMENTAL MATTERS .....	67
GENERAL .....	67
CURRENT ACTIVITIES .....	68
ESTIMATES FOR FINANCIAL STATEMENT PURPOSES .....	68
OTHER ESTIMATE OF ENVIRONMENTAL REMEDIATION COSTS .....	68
ACTUAL COSTS MAY DIFFER SUBSTANTIALLY FROM ESTIMATES.....	69
OTHER ENVIRONMENTAL ACTIVITIES .....	69
REGULATORY ACTIONS AND SUITS.....	69
VIOLATIONS.....	70
INSURANCE SETTLEMENTS .....	70
RECOVERY OF ENVIRONMENTAL REMEDIATION AND OTHER COSTS .....	70
UNCERTAINTY .....	70
CLIMATE CHANGE .....	70
CYBERSECURITY RISK MANAGEMENT .....	72
LEGISLATIVE AND REGULATORY RISKS .....	73
GAS SERVICE TARIFF AND RATES.....	74
GAS SERVICE TARIFF.....	74
RATES .....	77
SUMMARY OF EXISTING TARIFF RATES.....	84
ASSISTANCE PROGRAMS AND GRANTS.....	84
CONSERVATION PROGRAMS .....	87



COLLECTIONS .....	89
THE CAPITAL IMPROVEMENT PROGRAM .....	91
CAST IRON MAIN REPLACEMENT .....	92
CUSTOMER INFORMATION SYSTEM REPLACEMENT AND BUILDING CONSOLIDATION .....	94
PGW BUDGETS AND FINANCES.....	97
BUDGET APPROVAL.....	97
ACCOUNTS RECEIVABLE .....	102
PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....	103
SELECTED OPERATING DATA REGARDING CUSTOMERS AND GAS SALES.....	105
SUMMARY OF STATEMENTS OF REVENUE AND EXPENSES .....	106
DEBT SERVICE COVERAGE RATIO .....	108
MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE ELEVEN MONTHS ENDED JULY 31, 2024 AND JULY 31, 2023 (UNAUDITED) .....	110
FINANCIAL HIGHLIGHTS .....	110
OPERATING REVENUES.....	111
OPERATING EXPENSES.....	111
ASSETS .....	115
DEFERRED OUTFLOWS OF RESOURCES.....	116
LIABILITIES.....	117
DEFERRED INFLOWS OF RESOURCES .....	118
PGW PAYMENT TO CITY .....	118
THE PGW ACFR.....	118
INDEPENDENT AUDITORS .....	119
UNAUDITED STATISTICAL SECTION.....	119
TAX MATTERS.....	119
FEDERAL.....	119
STATE .....	120
OTHER .....	120
CHANGES IN FEDERAL AND PENNSYLVANIA TAX LAW.....	120
GENERAL .....	120
RATINGS .....	121
NO LITIGATION.....	121
CERTAIN LEGAL MATTERS.....	121
CO-FINANCIAL ADVISORS .....	122
CERTAIN RELATIONSHIPS .....	122
UNDERWRITING .....	122
CONTINUING DISCLOSURE.....	123
CERTAIN REFERENCES .....	124
MISCELLANEOUS .....	124

APPENDIX A ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEARS ENDED  
AUGUST 31, 2023 AND 2022 OF THE PHILADELPHIA GAS WORKS..... A-1

APPENDIX B INDEPENDENT CONSULTANT’S ENGINEERING REPORT ..... B-1

APPENDIX C THE CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION .. C-1

APPENDIX D THE CITY OF PHILADELPHIA SOCIOECONOMIC INFORMATION ..... D-1

APPENDIX E SUMMARY OF THE 1998 GENERAL ORDINANCE .....E-1

APPENDIX F FORM OF CONTINUING DISCLOSURE AGREEMENT ..... F-1

APPENDIX G BOOK-ENTRY ONLY SYSTEM ..... G-1

APPENDIX H PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL..... H-1

APPENDIX I SPECIMEN MUNICIPAL BOND INSURANCE POLICY .....I-1

**OFFICIAL STATEMENT**  
**\$424,250,000**  
**CITY OF PHILADELPHIA, PENNSYLVANIA**  
**GAS WORKS REVENUE BONDS**  
**SEVENTEENTH SERIES**  
**(1998 GENERAL ORDINANCE)**  
**consisting of**

**\$314,960,000**  
**GAS WORKS REVENUE BONDS**  
**SEVENTEENTH SERIES A**

**\$109,290,000**  
**GAS WORKS REVENUE REFUNDING BONDS**  
**SEVENTEENTH SERIES B**

**INTRODUCTION**

This introduction is intended to provide an overview of matters that are described in more detail in this Official Statement, and as such is qualified by reference to the entire Official Statement. The Official Statement includes the cover page, the inside cover page, the pages prior to and including the Table of Contents, this introduction, and all appendices to the Official Statement. The definitions of certain capitalized terms appear in APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE.” Capitalized terms not otherwise defined shall have the respective meanings set forth in the 1998 General Ordinance (as defined below).

**General**

The City of Philadelphia, Pennsylvania (the “City”) is issuing the \$424,250,000 City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Seventeenth Series (1998 General Ordinance) (the “Bonds”) consisting of \$314,960,000 Gas Works Revenue Bonds, Seventeenth Series A (the “Series A Bonds”) and \$109,290,000 Gas Works Revenue Refunding Bonds, Seventeenth Series B (the “Series B Bonds”) which are special obligations of the City. This Official Statement describes the Bonds, the purposes for which they are being issued, the security and sources of payment of the Bonds, and other related matters.

**Purpose; Use of Proceeds**

The proceeds of the Series A Bonds will be used to (i) finance a portion of the Philadelphia Gas Works’ (“PGW”) ongoing Capital Improvement Program, (ii) pay the costs of redeeming the City’s outstanding Gas Works Revenue Capital Project Commercial Paper Notes, and (iii) pay the costs of issuing the Series A Bonds. The proceeds of the Series B Bonds, together with certain other available funds, will be used to (i) currently refund all of the City’s (1) Gas Works Revenue Refunding Bonds, Thirteenth Series maturing on August 1 in the years 2026 through 2034, inclusive, currently Outstanding under the 1998 General Ordinance (the “Thirteenth Series Refunded Bonds”), and (2) Gas Works Revenue Bonds, Fifth Series A-2 maturing on September 1, 2034, currently Outstanding under the 1998 General Ordinance (the “Fifth Series A-2 Refunded Bonds” and together with the Thirteenth Series Refunded Bonds, the “Refunded Bonds”), and (ii) pay the costs of issuing the Series B Bonds. The City will also terminate the letter of credit related to the Fifth Series A-2 Refunded Bonds in connection with such refunding. See “PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS.”

**The Bonds**

The Bonds of the respective series will be issued in the aggregate principal amounts, the principal amounts per maturity, and at the interest rates, yields and prices shown on the inside cover page. Interest on the Bonds will be payable on each February 1 and August 1, commencing February 1, 2025.

The Series A Bonds are being issued pursuant to: (i) the First Class City Revenue Bond Act of the Commonwealth of Pennsylvania (the “Act”); (ii) the General Gas Works Revenue Bond Ordinance of 1998, as amended and supplemented prior to March 26, 2015 (the “Original Ordinance”) adopted by Philadelphia City

Council (“City Council”); (iii) the Sixteenth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1998 adopted by City Council (the “Sixteenth Supplemental Ordinance”); (iv) the Fourteenth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1998 adopted by City Council, which also relates to the issuance of certain other Senior 1998 Ordinance Bonds (as defined herein) (the “Fourteenth Supplemental Ordinance”); (v) the Fifteenth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1998 adopted by City Council, which also relates to the issuance of certain other Senior 1998 Ordinance Bonds (the “Fifteenth Supplemental Ordinance,” and together with the Original Ordinance, the Sixteenth Supplemental Ordinance, the Fourteenth Supplemental Ordinance, and the Thirteenth Supplemental Ordinance (as defined herein and related to the issuance of the Series B Bonds and certain other Senior 1998 Ordinance Bonds), the “1998 General Ordinance”); and (vi) the Bond Authorization for the Bonds adopted by the Bond Committee of the City (consisting of the Mayor, the City Controller and the City Solicitor and acting by at least a majority thereof) (the “Bond Committee”) (the “Seventeenth Series Bond Authorization”).

The Series B Bonds are being issued pursuant to: (i) the Act; (ii) the Original Ordinance; (iii) the Thirteenth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1998 adopted by City Council (the “Thirteenth Supplemental Ordinance”); and (iv) the Seventeenth Series Bond Authorization.

The Bonds will be issued in book-entry form with no physical distribution of the Bonds being made to the public. The Depository Trust Company (“DTC”) will act as securities depository for the Bonds. U.S. Bank Trust Company, National Association has been appointed as Fiscal Agent under the 1998 General Ordinance, and as such will also act as paying agent, registrar, and Sinking Fund Depository of the Sinking Fund (as defined below).

### **Security and Sources of Payment**

The Bonds will be issued as senior bonds under the 1998 General Ordinance (“Senior 1998 Ordinance Bonds”), and will be secured by a pledge of, lien on, and security interest in all Gas Works Revenues (as defined herein) and the Sinking Fund Reserve. Gas Works Revenues are generally defined in the 1998 General Ordinance to include all operating and non-operating revenues of Philadelphia Gas Works (“PGW” or the “Gas Works”) derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas. See “SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS” and APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE.”

The Bonds will be secured on a parity basis with all other Senior 1998 Ordinance Bonds, and the obligations of the City to make payments (other than termination payments) due on Qualified Swap and Exchange Agreements, as described below under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS.” The City is authorized to issue additional 1998 Ordinance Bonds (as defined herein), which may be either on parity with or subordinate to the Senior 1998 Ordinance Bonds, subject to the satisfaction of certain conditions described below under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS – Authorized Additional 1998 Ordinance Bonds” and APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE.”

### *Rate Covenant*

The City has covenanted in the 1998 General Ordinance that, for so long as any 1998 Ordinance Bonds are Outstanding, the City will, at a minimum, impose, charge and collect in each Fiscal Year of PGW such gas rates and charges as shall, together with all other Gas Works Revenues to be received in such Fiscal Year, equal not less than an amount needed to pay, among other costs, the sum of: (i) certain operating expenses of PGW (costs and expenses necessary and appropriate to operate and maintain the Gas Works in good operable condition), and (ii) 150% of debt service on Senior 1998 Ordinance Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS – Rate Covenant and Rate Requirements” and APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE.”

### *Sinking Fund; Sinking Fund Reserve*

The Act requires that a bond ordinance authorizing the issuance of bonds must provide for “the establishment and maintenance of a sinking fund.” The 1998 General Ordinance establishes a Sinking Fund, which operates as a debt service payment fund. The Sinking Fund is held in the name of the City separate and apart from all other accounts of the City, and the City deposits in the Sinking Fund from Gas Works Revenues the amounts needed to pay when due debt service on Senior 1998 Ordinance Bonds. See the third paragraph under “SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS – Gas Works Revenues – *Order of Application of Gas Works Revenues*” and APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE.”

The 1998 General Ordinance also establishes a Sinking Fund Reserve as part of the Sinking Fund. The City is required to deposit in the Sinking Fund Reserve an amount sufficient to cause the amount therein to be equal to the Sinking Fund Reserve Requirement. Such deposits can be made from either the proceeds of each Series of bonds secured by the Sinking Fund Reserve, available Gas Works Revenues, or some combination of both. The Sinking Fund Reserve Requirement is equal to the greatest amount of debt service requirements on bonds secured by the Sinking Fund Reserve in any Fiscal Year. The Sinking Fund Reserve Requirement may also be met by the use of letters of credit or other credit facilities. The Bonds and the other Senior 1998 Ordinance Bonds currently Outstanding are secured by the Sinking Fund Reserve. See “SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS – Sinking Fund Reserve” and APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE.”

### *Special Obligations*

The Bonds are special obligations of the City payable solely from the sources described herein and neither the taxing power nor the general revenues of the City are pledged for the payment of the principal of, premium, if any, or interest on the Bonds, nor are the Bonds a general obligation of the City. The Bonds do not constitute debt of the City within the meaning of the Constitution of the Commonwealth of Pennsylvania (the “Commonwealth”).

### **Philadelphia Gas Works**

PGW is owned by the City and is accounted for in the City’s audited financial statements as a component unit of the City. PGW prepares a separate Annual Comprehensive Financial Report (“ACFR”) that includes annual financial statements audited by an independent auditor and an unaudited statistical section. See “THE PGW ACFR.”

PGW is the largest municipally-owned gas utility in the nation, is responsible for the acquisition and storage of natural gas and is the sole distributor of natural gas within the limits of the City. Such limits also define the service area of PGW which, being the corporate limits of the City, is a mostly dense urban area of 134 square miles located in southeast Pennsylvania along the Delaware River and within the smallest county of the Commonwealth.

PGW is principally a gas distribution utility, with a distribution system of approximately 3,047 miles of gas mains and 473,708 service lines. In addition, PGW operates facilities for the liquefaction, storage, and vaporization of natural gas to supplement gas supply taken directly from interstate pipeline and storage companies. The principal PGW natural gas supply facilities include nine City gate stations, owned in large part by the interstate natural gas pipeline companies serving PGW: Texas Eastern Transmission (“Texas Eastern”), a division of Enbridge (formerly, Spectra Energy) and Transcontinental Gas Pipe Line Corporation (“Transco-Williams”), and two liquefied natural gas (“LNG”) plants owned by the City and operated by PGW.

PGW’s operations are managed by the Philadelphia Facilities Management Corporation (“PFMC”), a Pennsylvania not-for-profit corporation whose Board is appointed by the Mayor. PFMC’s responsibilities are set forth in a Management Agreement between the City and PFMC dated December 29, 1972, as subsequently amended (“Management Agreement”), which delegates responsibility for PGW’s operation to an executive management team provided by PFMC. Under the Management Agreement, those responsibilities that are not

specifically granted to PFMC are the responsibilities of the Philadelphia Gas Commission (“PGC” or the “Gas Commission”), except to the extent preempted by the Pennsylvania Public Utility Commission (the “PUC”) pursuant to the Pennsylvania Natural Gas Choice and Competition Act (the “Gas Choice Act”). The Gas Choice Act made PGW subject to regulation by the PUC effective July 1, 2000, and provides that choice among natural gas suppliers will be provided to PGW’s customers.

The information under this caption is derived, in principal part, from the Independent Consultant’s Engineering Report, dated May 31, 2024, prepared by Atrium Economics, LLC, an independent energy consulting company retained by PGW to evaluate PGW (the “Independent Consultant’s Engineering Report”), which is attached hereto as APPENDIX B, and to which the reader is referred for a more detailed presentation.

The following summary chart describes the management and governance of PGW:

Organization	Function
City	<ul style="list-style-type: none"> <li>• Owns PGW property</li> <li>• City administration reviews certain transactions and processes (chiefly through the Director of Finance)</li> <li>• City Council enacts legislation for the functioning of PGW (e.g., the capital budget, real estate transactions, pension modifications and gas supply contracts)</li> </ul>
PGC	<ul style="list-style-type: none"> <li>• Consists of the City Controller, two members appointed by the City Council and two members appointed by the Mayor</li> <li>• Responsibilities include:               <ul style="list-style-type: none"> <li>• approval of certain executive personnel provided by PFMC</li> <li>• review of gas supply contracts for approval by City Council</li> <li>• approval of PGW’s operating budget</li> <li>• review of PGW’s capital budgets for approval by City Council</li> <li>• review and approval of real estate transactions for approval by City Council</li> </ul> </li> </ul>
PFMC	<ul style="list-style-type: none"> <li>• Incorporated by the City in 1972 for the purpose of operating PGW</li> <li>• Governed by a seven-member board of directors appointed by the Mayor</li> <li>• Provides executive management for PGW</li> <li>• Directs operation of PGW facilities and operations</li> </ul>
PGW	<ul style="list-style-type: none"> <li>• Manages construction, operation, and maintenance of the gas system on a day-to-day basis</li> <li>• PGW executive management is responsible for hiring PGW staff</li> </ul>
PUC	<ul style="list-style-type: none"> <li>• Regulates rates, customer service and safety</li> </ul>

**Conflict in Ukraine and Middle East; Other Geopolitical Developments, and Impact on Energy Markets and PGW**

Unrest and instable geopolitical environments, such as conflicts occurring in Ukraine and the Middle East and disruptions to shipping such as those related to the Suez Canal, Red Sea, and Panama Canal, can result in pricing and supply impacts throughout the natural gas industry. Although PGW has been impacted by the effects that can result from these international events, PGW’s natural gas has been obtained predominantly, if

not entirely, from domestic United States sources. PGW's management foresees that such domestic sourcing will continue. PGW uses a portfolio approach when it comes to natural gas procurement. Purchasing from different geographical locations, and utilizing off-site and on-site storage all help PGW minimize the impacts it may experience due to the risk of major events impacting natural gas infrastructure and the natural gas markets. PGW's firm pipeline contracts give PGW the flexibility of sourcing natural gas from multiple different locations. Consequently, PGW has experienced pricing impacts, but not availability issues, over the last several fiscal periods in response to international energy market disruptions. PGW's experience over the last several years with respect to weather events impacting the United States Gulf Coast similarly involve pricing impacts, but no significant disruptions for natural gas supply. Certain disruptions may have negligible or even potentially favorable short-term impacts on PGW. To the extent that United States' exports of liquefied natural gas are impeded or slowed, PGW, like other domestic purchasers of natural gas, may benefit from increased amounts of natural gas supply that are not otherwise being exported. However, no assurances can be provided about larger energy market trends and disruptions which may affect PGW like other gas utilities.

### **Certain Terminology**

As used in this Official Statement, the terms "gas" and "natural gas" are interchangeable.

The Fiscal Year of PGW begins on September 1 and ends on August 31 of the following calendar year. For example, "Fiscal Year 2024" or "FY 2024" when used in connection with PGW refers to the Fiscal Year ended August 31, 2024. The City's Fiscal Year begins on July 1 and ends on June 30 of the following calendar year. For example, "Fiscal Year 2024" or "FY 2024" when used in connection with the City refers to the fiscal year ended June 30, 2024.

Unless otherwise defined within this Official Statement, when referred to individually, each Series of City of Philadelphia, Pennsylvania Gas Works Revenue Bonds (1998 General Ordinance) is referred to by its numerical designation, followed by the words "Series Bonds."

## **PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS**

### **Plan of Finance**

The proceeds of the Series A Bonds will be used to (i) finance a portion of PGW's ongoing Capital Improvement Program, (ii) pay the costs of redeeming the City's outstanding Gas Works Revenue Capital Project Commercial Paper Notes (the "Retired CP Notes"), and (iii) pay the costs of issuing the Series A Bonds.

The Retired CP Notes will be paid off on the date of issuance of the Bonds. The accrued interest due on the Retired CP Notes as of the date of issuance of the Bonds will be paid from available revenues of PGW.

The proceeds of the Series B Bonds, together with certain other available funds, will be used to (i) currently refund all or a portion of the Refunded Bonds, and (ii) pay the costs of issuing the Series B Bonds.

A portion of the proceeds of the Series B Bonds, together with certain other available funds, in an amount equal to the applicable redemption price of the respective Refunded Bonds plus accrued interest thereon: (i) to September 18, 2024, the redemption date for the Thirteenth Series Refunded Bonds, and (ii) to September 18, 2024, the redemption date for the Fifth Series A-2 Refunded Bonds (collectively, the "Redemption Dates"), will be applied to the payment of the respective redemption prices of the Refunded Bonds and accrued interest on the respective Redemption Dates.

The City is utilizing the make-whole call redemption provision to optionally redeem the Thirteenth Series Refunded Bonds.

See "Verification" herein.

The City will also terminate the applicable letter of credit related to the Fifth Series A-2 Refunded Bonds in connection with such refunding subsequent to the related redemption on the Redemption Date.

**Estimated Sources and Uses of Funds**

The sources and uses of proceeds of the Bonds are estimated to be as follows:

**Verification**

American Municipal Tax-Exempt Compliance (AMTEC) of Avon, Connecticut (the “Verification

	<u>Series A Bonds</u>	<u>Series B Bonds</u>	<u>Total Amount</u>
<b><u>Estimated Sources:</u></b>			
Principal Amount of the Bonds	\$314,960,000.00	\$109,290,000.00	\$424,250,000.00
Original Issue Premium	<u>37,880,118.20</u>	<u>12,423,358.10</u>	<u>50,303,476.30</u>
<b><u>Total Sources</u></b>	<b><u>\$352,840,118.20</u></b>	<b><u>\$121,713,358.10</u></b>	<b><u>\$474,553,476.30</u></b>
 <b><u>Estimated Uses:</u></b>			
Deposit to Capital Improvement Fund	\$315,200,000.00	\$ -	\$315,200,000.00
Redemption of Retired CP Notes	35,000,000.00	-	35,000,000.00
Refunding of Refunded Bonds	-	121,022,893.54	121,022,893.54
Costs of Issuance <sup>(1)</sup>	<u>2,640,118.20</u>	<u>690,464.56</u>	<u>3,330,582.76</u>
<b><u>Total Uses</u></b>	<b><u>\$352,840,118.20</u></b>	<b><u>\$121,713,358.10</u></b>	<b><u>\$474,553,476.30</u></b>

(1) Includes the fees and expenses of various counsel, the Fiscal Agent, accountants, municipal advisors, verification agent, and rating agencies, printing and publication costs, contingency, bond insurance premium, Underwriters’ discount and other expenses related to the issuance of the Bonds.

Agent”) will deliver to the City and PGW, on or before the date of the delivery of the Bonds, its report (the “Verification Report”) indicating that it has verified the mathematical sufficiency of the information provided by the City, PGW, and their representatives with respect to the amount of proceeds of the Bonds and certain other available funds necessary to redeem the Refunded Bonds on their Redemption Dates.

The verification performed by the Verification Agent will be based solely upon data, information and documents provided to the Verification Agent. The Verification Report will state that the Verification Agent has no obligation to update the Verification Report for events occurring, or data or information coming to their attention, subsequent to the date of the Verification Report.

**DESCRIPTION OF THE BONDS**

**General**

The Bonds will be issued in denominations of \$5,000 and integral multiples thereof and will mature on the dates and in the principal amounts, and will bear interest from their date of delivery at the interest rates, all as set forth on the inside cover pages of this Official Statement. Interest on the Bonds is payable on February 1 and August 1 (each an “Interest Payment Date”), commencing February 1, 2025, and is calculated on the basis of a 360-day year of twelve 30-day months. The regular record date for the Bonds is the fifteenth (15th) day of the month preceding such Interest Payment Date.

The Bonds are available only in book-entry form as fully registered bonds without coupons. When issued, the Bonds will be registered in the name of Cede & Co., as nominee for DTC, to which payments of principal and interest will be made. Purchasers of the Bonds will not receive physical delivery of bond certificates representing their ownership interests during the period during which a nominee of DTC is owner of the Bonds. So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds are payable directly to such nominee for redistribution to Participants and in turn to Beneficial Owners as described herein. For so long as any purchaser is the Beneficial Owner of Bonds, such purchaser must maintain an account with a broker or dealer who is, or acts through, a Participant to receive payment of the principal of and interest on such Bonds. See APPENDIX G – “BOOK-ENTRY ONLY SYSTEM” herein.



### **Optional Redemption of Certain of the Bonds at Par**

**Series A Bonds.** The Series A Bonds maturing on or after August 1, 2035 are subject to optional redemption, at the direction of the City, in whole at any time or in part from time to time on or after August 1, 2034, and in any order of maturity as may be designated by the City, at a redemption price equal to 100% of the principal amount of the Series A Bonds so redeemed, plus accrued interest to the redemption date.

**Series B Bonds.** The Series B Bonds are not subject to optional redemption at par.

### **Optional Redemption of Certain of the Bonds at Make-Whole Redemption Price**

**Series A Bonds.** The Series A Bonds maturing on or prior to August 1, 2034 are subject to optional redemption, at the direction of the City, prior to their stated maturity dates, in whole or in part on any date and in any order of maturity as may be designated by the City, at the Make-Whole Redemption Price (defined below).

**Series B Bonds.** The Series B Bonds are subject to optional redemption, at the direction of the City, prior to their stated maturity dates, in whole or in part on any date and in any order of maturity as may be designated by the City, at the Make-Whole Redemption Price (defined below).

The following capitalized terms, when used under this subheading, shall have the respective meanings set forth below:

“Make-Whole Redemption Price” means an amount equal to the greater of (i) one hundred percent (100%) of the Amortized Value (as defined herein) of the Bonds subject to optional redemption at the Make-Whole Redemption Price to be redeemed plus accrued and unpaid interest on such Bonds to be redeemed on the redemption date; or (ii) an amount equal to the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of such Bonds to be redeemed, discounted to the date on which such Bonds are to be redeemed on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at a discount rate equal to the Applicable Tax-Exempt Bond Rate (as defined herein) minus five basis points.

The “Amortized Value” will equal the principal amount of the Bonds subject to optional redemption at the Make-Whole Redemption Price to be redeemed multiplied by the price of such Bonds, expressed as a percentage, calculated based on the industry standard method of calculating bond prices, with a delivery date equal to the date of redemption, a maturity date equal to the stated maturity date of such Bonds, a coupon equal to the stated coupon on such Bonds and a yield equal to the original offering yield of such Bonds.

“Applicable Tax-Exempt Bond Rate” means, for a Bond subject to optional redemption at the Make-Whole Redemption Price to be redeemed, the “Interpolated AAA Yields” rate for the published maturity most closely corresponding to the maturity date of such Bond, as published most recently by the Municipal Market Data (“MMD”) at least five calendar days, but not more than 60 calendar days, prior to the redemption date of such Bonds to be redeemed, or if no such rate is established for the applicable maturity date, the “Interpolated AAA Yields” rate for the published maturities closest to the applicable maturity date.

Should the MMD no longer publish the “Interpolated AAA Yields” rate, then the Applicable Tax-Exempt Bond Rate will equal the “BVAL Muni AAA Monthly Callable Yields” rate for the maturity date (made available by Bloomberg at the close of each business day). In the further event that Bloomberg no longer publishes the “BVAL Muni AAA Monthly Callable Yields” rate, the Applicable Tax-Exempt Bond Rate will be determined by a verification agent appointed by the City, based upon the rate per annum equal to the semiannual equivalent yield to maturity for those tax-exempt general obligation bonds rated in the highest rating category by Moody’s and S&P, with a maturity date equal to the maturity date of such Bonds having characteristics (other than the ratings) most comparable to those of such Bonds in the judgment of the verification agent. The verification agent’s determination of the Applicable Tax-Exempt Bond Rate shall be final and binding in the absence of manifest error.

The Make-Whole Redemption Price for Bonds subject to optional redemption at the Make-Whole Redemption Price will be determined by a verification agent, investment banking firm or financial advisor

(which verification agent, investment banking firm or financial advisor shall be retained by the City at the expense of the City) in order to calculate such the Make-Whole Redemption Price for such Bonds. The City may conclusively rely on such verification agent’s, investment banking firm’s or financial advisor’s determination of the Make-Whole Redemption Price for such Bonds and will bear no liability for such reliance.

**Mandatory Redemption**

The Series A Bonds maturing on August 1, 2049 and August 1, 2054 are subject to mandatory redemption prior to maturity, in part, by lot, at the times and in the amounts set forth below at a price equal to 100% of the principal amount of such Bonds being redeemed, plus accrued interest to the date of redemption:

Series A Bonds

<u>Year</u> <u>(August 1)</u>	<u>Principal Amount</u> <u>(maturing August 1, 2049)</u>	<u>Year</u> <u>(August 1)</u>	<u>Principal Amount</u> <u>(maturing August 1, 2054)</u>
2045	\$13,105,000	2050	\$16,925,000
2046	13,795,000	2051	17,815,000
2047	14,515,000	2052	18,750,000
2048	15,280,000	2053	19,735,000
2049*	16,080,000	2054*	20,770,000

\* Maturity

In the event a portion, but not all, of the Series A Bonds maturing on a particular date and subject to mandatory redemption are to be redeemed pursuant to optional redemption or purchased by the City and presented to the Fiscal Agent for cancellation, then the principal amount of any remaining mandatory sinking fund redemptions or the final maturity applicable to such Bonds shall be reduced (subject to the ability to effect future redemptions of the Bonds of such series and maturity in authorized denominations) in such amounts as specified by the City.

**Selection of Bonds to be Called for Redemption**

During the period when all of the Bonds are registered in the name of a nominee of DTC, if less than all of the Bonds of a series and maturity are being redeemed, DTC’s current practice is to determine by lot the amount of the interest of each Participant (as defined in APPENDIX G – “BOOK-ENTRY ONLY SYSTEM”) in such maturity to be redeemed. If the Bonds are not in book-entry form, then, if less than all of the Bonds of a series and maturity are to be redeemed, the particular Bonds to be called for redemption will be selected by lot or by such other method as the Fiscal Agent deems fair and appropriate.

**Notice of Redemption of Bonds**

Notice of redemption of Bonds shall be made not less than thirty (30) days nor more than (60) days before the date fixed for redemption to the applicable Registered Owners appearing on the Bond Register of the Bonds to be redeemed. During the period when all of the Bonds are registered in the name of a nominee of DTC, the Fiscal Agent will send all redemption notices to such nominee, and DTC will be responsible for notifying Participants, and Participants and Indirect Participants are responsible for notifying Beneficial Owners. Neither the Fiscal Agent, the City, nor PGW is responsible for sending notices to Beneficial Owners or for the consequences of any action or inaction by the City or PGW as a result of the response or failure to respond by DTC or its nominee as Bondowner. (“Indirect Participants” and “Beneficial Owners” are defined in APPENDIX G – “BOOK-ENTRY ONLY SYSTEM.”)

If the Bonds are not in book-entry form, notice of any redemption will be mailed, first class postage prepaid, addressed to the registered owners of the Bonds called for redemption at the addresses appearing in the registration books kept by the bond registrar. Not more than sixty (60) days following the applicable redemption date, a further notice will be mailed as described above to the Bondholders of any Bonds called for redemption and not then presented for payment.

Any notice of redemption provided in accordance with the provisions described above shall be conclusively presumed to have been duly given, whether or not such notice is actually received by the Bondholders. No defect in the notice with respect to any Bond (whether in the form of notice or the providing thereof) shall affect the validity of the redemption proceedings for any other Bonds.

A notice with respect to an optional redemption of the Bonds may state that it is conditioned upon the deposit of moneys with the Fiscal Agent on or before the date fixed for redemption and in such event, such notice shall be of no effect unless such moneys are deposited.

## **SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS**

### **Pledge of Revenues and Funds**

The Bonds and each Series of bonds or notes previously issued or to be issued under the 1998 General Ordinance (collectively, “1998 Ordinance Bonds”) are special obligations of the City secured by and payable by the City solely from (i) the Gas Works Revenues, and (ii) unless otherwise set forth in the Supplemental Ordinance authorizing such 1998 Ordinance Bonds, the Sinking Fund Reserve. The Bonds and all Outstanding Senior 1998 Ordinance Bonds are secured by the Sinking Fund Reserve. Bonds and notes issued as subordinate bonds under the 1998 General Ordinance (“Subordinate 1998 Ordinance Bonds”) are payable from Gas Works Revenues, subordinate to payment of the Bonds and other Senior 1998 Ordinance Bonds. The Subordinate 1998 Ordinance Bonds are not secured by the Sinking Fund Reserve. See “– Gas Works Revenues” and “– Sinking Fund Reserve” below.

***The Bonds are special obligations of the City payable solely from the sources described herein and neither the taxing power nor the general revenues of the City are pledged for the payment of the principal of, premium, if any, or interest on the Bonds, nor are the Bonds a general obligation of the City. The Bonds do not constitute debt of the City within the meaning of the Constitution of the Commonwealth.***

#### *Outstanding 1998 Ordinance Bonds*

Bonds and notes issued under the 1998 General Ordinance may be issued as Senior 1998 Ordinance Bonds or as Subordinate 1998 Ordinance Bonds. As of August 31, 2024, the City has issued Senior 1998 Ordinance Bonds in an aggregate principal amount of \$2,977,820,000, together with an aggregate principal amount of \$256,000,000 of Subordinate 1998 Ordinance Bonds in the form of CP Capital Project Notes (as defined below). As of such date, there was \$917,995,000 of Outstanding 1998 Ordinance Bonds, which consisted of \$882,995,000 of Senior 1998 Ordinance Bonds and \$35,000,000 of Subordinate 1998 Ordinance Bonds. Subordinate 1998 Ordinance Bonds may be issued in the form of CP Capital Project Notes, which the City is authorized to issue in a principal amount not to exceed \$120,000,000 Outstanding at any time. See “– Authorized Additional 1998 Ordinance Bonds” and “Commercial Paper Programs – CP Capital Project Notes” below and “PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS” above. Also see “COMMERCIAL PAPER PROGRAMS – Note Purchase and Credit Agreement.”

#### *Senior 1998 Ordinance Bonds*

All Senior 1998 Ordinance Bonds (including the Bonds) are secured on a parity with all other Senior 1998 Ordinance Bonds and the obligations of the City to make, from Gas Works Revenues, payments (other than termination payments) due under any Qualified Swaps and Exchange Agreements related to Senior 1998 Ordinance Bonds. In accordance with the 1998 General Ordinance, Net Operating Expenses then payable are paid from Gas Works Revenues before debt service on Senior 1998 Ordinance Bonds and the other City obligations payable on a parity with Senior 1998 Ordinance Bonds. The Bonds and all other Senior 1998 Ordinance Bonds are senior in right of payment and security to any Subordinate 1998 Ordinance Bonds. See “– Gas Works Revenues – Order of Application of Gas Works Revenues” below.

#### *Subordinate 1998 Ordinance Bonds*

All Subordinate 1998 Ordinance Bonds are subject to the prior right of payment and security of the Senior 1998 Ordinance Bonds (including the Bonds), the other obligations of the City on a parity with Senior

1998 Ordinance Bonds and payments to issuers of Credit Facilities related to Senior 1998 Ordinance Bonds. See “– Senior 1998 Ordinance Bonds” above and “– Gas Works Revenues – Order of Application of Gas Works Revenues” below. Subordinate 1998 Ordinance Bonds (including CP Capital Project Notes, if any) are secured on a parity with all other Subordinate 1998 Ordinance Bonds and certain other obligations of the City. See APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE – Order of Application of Gas Works Revenues.”

## **Gas Works Revenues**

### *General*

The 1998 General Ordinance defines Gas Works Revenues as:

All operating and non-operating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works.

Revenues derived from activities unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto are not included in Gas Works Revenues. If PGW receives fair payment for the use of gas related assets and personnel of PGW used in such unrelated activities, such payments are included in Gas Works Revenues.

Gas Works Revenues may be divided into separate components in one or more Supplemental Ordinances and any Series of 1998 Ordinance Bonds issued thereafter may be limited as to source of payment to one or more of such components as provided in the Supplemental Ordinance authorizing the particular Series of 1998 Ordinance Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS – Authorized Additional 1998 Ordinance Bonds.” As of the date of this Official Statement, no portion of the Gas Works Revenues has been divided as described above and all Gas Works Revenues secure and provide payment for all 1998 Ordinance Bonds. Only new sources of Gas Works Revenues may be so divided while the Bonds and all previously issued Series of 1998 Ordinance Bonds remain Outstanding.

Gas Works Revenues do not include any portions of PGW’s rents, rates and charges derived from non-performing assets, if any, which are securitized and sold pursuant to the 1998 General Ordinance. PGW currently has no assets designated as “non-performing.” See “PERMITTED SECURITIZATION OF REVENUES RELATED TO NON-PERFORMING ASSETS” below.

### *Order of Application of Gas Works Revenues*

Gas Works Revenues are not exclusively available for payment of debt service on Senior 1998 Ordinance Bonds and deposits to the Sinking Fund Reserve. Gas Works Revenues are also the source of payment for PGW’s operating costs, debt service on Subordinate 1998 Ordinance Bonds, payments required under Credit Facilities and Qualified Swaps and Exchange Agreements, and certain other obligations of the City related to PGW. For information concerning the City’s existing Qualified Swaps and Exchange Agreements and Credit Facilities, see “– Qualified Swaps and Exchange Agreements” and “– Credit Facilities With Respect to 1998 Ordinance Bonds” below. See APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE – Order of Application of Gas Works Revenues.”

The 1998 General Ordinance establishes an order of application of Gas Works Revenues as and when collected in each Fiscal Year as follows: FIRST to Net Operating Expenses then payable; SECOND to debt service on Senior 1998 Ordinance Bonds and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Senior 1998 Ordinance Bonds, and THEREAFTER to the other obligations of the City (including, but not limited to, debt service on Subordinate 1998 Ordinance Bonds, the replenishment of the Sinking Fund Reserve and any termination payments to issuers of Qualified Swaps and

Exchange Agreements) described and in the order set forth in APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE – Order of Application of Gas Works Revenues.”

The City transfers Gas Works Revenues available after the payment of Net Operating Expenses then payable from PGW’s operating funds to the Sinking Fund to make payments due on Senior 1998 Ordinance Bonds. The 1998 General Ordinance requires such transfers to be made on or before the day that payments on Senior 1998 Ordinance Bonds are due. The Sinking Fund (including the Sinking Fund Reserve) is held by the Sinking Fund Depository in the name of the City in an account or accounts separate and apart from all other accounts of the City. U.S. Bank Trust Company, National Association, the Fiscal Agent with respect to the 1998 Ordinance Bonds, also serves as the Sinking Fund Depository. If the City elects to invest moneys in the Sinking Fund, such investments may be invested and reinvested on a consolidated basis with investments held in the Sinking Fund Reserve. See “– Sinking Fund Reserve” and “– Covenant Against Commingling with Other City Funds” below and APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE – Sinking Fund” and “– Fiscal Agent.”

Any deficiency in the Sinking Fund Reserve shall be replenished with the Gas Works Revenues available after the payment of Net Operating Expenses then payable, debt service on 1998 Ordinance Bonds and the other obligations on a parity with 1998 Ordinance Bonds, payments due to Credit Facility Issuers and any Rebate Amount required to be paid to the United States. See APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE – Order of Application of Gas Works Revenues.” The 1998 General Ordinance provides that any excess moneys (including investment earnings) in the Sinking Fund Reserve, to the extent not required to be retained in the fund or account to which such moneys related, shall be transferred to the operating accounts of PGW to be applied as Gas Works Revenues in accordance with the 1998 General Ordinance.

#### *Net Operating Expenses*

Net Operating Expenses are defined in the 1998 General Ordinance as Operating Expenses exclusive of City Charges.

Operating Expenses are defined in the 1998 General Ordinance as all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year, and include, without limitation, the manager’s fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Gas Works, which does not have a probable useful life of at least five years, pension and welfare plan and workmen’s compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted municipal accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges. The 1998 General Ordinance, however, excludes expenses which are unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto from the definition of Operating Expenses. Gas Works are defined in the 1998 General Ordinance as all property, real and personal, owned by the City and used in the acquisition or manufacture, storage and distribution of natural, liquefied, synthetic or manufactured gas or in the maintenance, management or administration thereof and all activities ancillary and related thereto, and also means, as the context may require, the business entity managed by PFMC.

#### *City Charges*

City Charges are defined in the 1998 General Ordinance as the proportionate charges, if any, for services performed for the Gas Works by all officers, departments, boards or commissions of the City which are contained in the computation of operating expenses of the Gas Works including, without limitation, the expenses of the Gas Commission, and also means the base payments to the City contained in the Management Agreement and all other payments made to the City from Gas Works Revenues.

City Charges are payable from Gas Works Revenues provided, however, that such payments are subordinate to all other City obligations payable from the Gas Works Revenues. See APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE – Order of Application of Gas Works Revenues.” The

City has covenanted in the 1998 General Ordinance that it will not in any Fiscal Year pay from Gas Works Revenues any City Charges or debt service on any general obligation bonds of the City unless, among other things, there has been deposited in the Sinking Fund an amount sufficient to pay all sinking fund charges then payable with respect to all Outstanding 1998 Ordinance Bonds. See APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE – Covenants – *Additional Covenants.*” Assuming the satisfaction of the above referenced covenant, PGW’s annual \$18.0 million payment to the City under the Management Agreement is paid currently in equal installments on the first business day of February, March, April and May in each Fiscal Year. See “PHILADELPHIA GAS WORKS – Management – *Management Agreement*” and “GAS SERVICE TARIFF AND RATES – Rates – *Ratemaking Methodology to Comply with Bond Covenants.*”

#### *Supplemental Ordinances and Certain Required Findings*

Prior to issuing any 1998 Ordinance Bonds, the Act and the 1998 General Ordinance require the City Council to adopt a Supplemental Ordinance that makes certain findings relating to the adequacy of Gas Works Revenues to pay debt service on all then-Outstanding 1998 Ordinance Bonds, the 1998 Ordinance Bonds to be issued thereunder and all other bonds or notes secured by the Gas Works Revenues. See “Authorized Additional 1998 Ordinance Bonds” below. Such findings with respect to the related Bonds have been made in each of the Sixteenth Supplemental Ordinance, Fifteenth Supplemental Ordinance, Fourteenth Supplemental Ordinance, and the Thirteenth Supplemental Ordinance.

#### *Rate Covenant*

The 1998 General Ordinance requires the City to comply with a rate covenant (the “Rate Covenant”), which requires the City to impose, charge and collect, in each Fiscal Year, rates and charges which, together with all other Gas Works Revenues to be received in such Fiscal Year, shall be sufficient to meet, among other things, Net Operating Expenses then payable and the debt service coverage requirements (including those with respect to the 1998 Ordinance Bonds) specified in the 1998 General Ordinance. See “– Rate Covenant and Rate Requirements” below, “GAS SERVICE TARIFF AND RATES – Rates – *Ratemaking Methodology to Comply with Bond Covenants,*” and APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE” herein.

#### **Sinking Fund Reserve**

The 1998 General Ordinance establishes the Sinking Fund Reserve as a separate account in the Sinking Fund. Each Series of Senior 1998 Ordinance Bonds (unless otherwise set forth in the Supplemental Ordinance authorizing such Series) is entitled to the benefit of the Sinking Fund Reserve. The City is required to deposit to the credit of the Sinking Fund Reserve from Gas Works Revenues and/or the proceeds of sale of each Series of Senior 1998 Ordinance Bonds secured by the Sinking Fund Reserve an amount which, together with other amounts in the Sinking Fund Reserve, equals the greatest amount of debt service requirements required in any Fiscal Year to pay principal of and interest on the Senior 1998 Ordinance Bonds secured by the Sinking Fund Reserve coming due and payable in that Fiscal Year. In lieu of a deposit to the credit of the Sinking Fund Reserve or in substitution for amounts in the Sinking Fund Reserve, the City may provide one or more letters of credit or other Credit Facilities in the same aggregate amount, issued by a provider or providers whose Credit Facilities are such that bonds secured by such Credit Facilities are rated in one of the three (3) highest rating categories by Moody’s Investors Service, Inc. (“Moody’s”), Fitch IBCA, Inc. (“Fitch”) or Standard & Poor’s Ratings Service, a Division of The McGraw Hill Companies, Inc. (“S&P”), all in the manner described in APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE – Sinking Fund Reserve.”

If, at any time and for any reason, the moneys in the Sinking Fund (other than the Sinking Fund Reserve) are insufficient to pay, as and when due, debt service on any Senior 1998 Ordinance Bonds secured by the Sinking Fund Reserve, the Sinking Fund Depository is required to pay over to the Fiscal Agent, from the Sinking Fund Reserve, the amount of the deficiency. If by reason of such withdrawal (including draws on any Credit Facilities held to satisfy the Sinking Fund Reserve Requirement) or for any other reason there shall be a deficiency in the Sinking Fund Reserve, the City has covenanted to restore such deficiency from Gas Works Revenues (either by a deposit of funds or the reinstatement of the cash limits of the Credit Facilities) within twelve (12) months.

The Sinking Fund Reserve is established solely for the benefit of the Bondholders of those Senior 1998 Ordinance Bonds secured by the Sinking Fund Reserve. The Bonds and all Outstanding Senior 1998 Ordinance Bonds are secured by the Sinking Fund Reserve. Providers of Qualified Swaps or Exchange Agreements, issuers of Credit Facilities (other than those that become Bondholders as a result of a draw under a Credit Facility), the holders of any bonds or notes which are Subordinate 1998 Ordinance Bonds or on a parity with Subordinate 1998 Ordinance Bonds and the providers of any credit facilities related thereto do not have a lien on or security interest in the Sinking Fund Reserve.

Upon issuance of the Bonds and the refunding of the Refunded Bonds, the amount required to be on deposit in the Sinking Fund Reserve will be \$112,972,523. The City will not be required to make a deposit to the Sinking Fund Reserve in connection with the issuance of the Bonds to meet the Sinking Fund Reserve Requirement. The amount on deposit in the Sinking Fund Reserve on the date of issuance of the Bonds will be the amount necessary to satisfy the Sinking Fund Reserve Requirement. See "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS" above.

The Sinking Fund Reserve is managed by, and invested and reinvested under the direction of, the City. The Sinking Fund Reserve is valued by the Sinking Fund Depository promptly after any withdrawal from the Sinking Fund Reserve or upon any other event indicating a possible deficiency in the Sinking Fund Reserve and on August 31 of each Fiscal Year of PGW. The 1998 General Ordinance establishes permitted investments and the terms of such investments for moneys held in the Sinking Fund, including the Sinking Fund Reserve.

For additional information concerning the Sinking Fund Reserve, see APPENDIX E – "SUMMARY OF THE 1998 GENERAL ORDINANCE –Sinking Fund Reserve."

#### **Rate Covenant and Rate Requirements**

Pursuant to the Rate Covenant, the City has covenanted in the 1998 General Ordinance that, for so long as the 1998 Ordinance Bonds are Outstanding, the City will, at a minimum, impose, charge and collect in each Fiscal Year of the Gas Works such gas rates and charges as shall, together with all other Gas Works Revenues to be received in such Fiscal Year, equal not less than the greater of (a) and (b) below:

- (a) The sum of:
  - (i) all Net Operating Expenses payable during such Fiscal Year;
  - (ii) 150% of the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Senior 1998 Ordinance Bonds;
  - (iii) the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Subordinate 1998 Ordinance Bonds and other obligations of the Gas Works on a parity with Subordinate 1998 Ordinance Bonds payable during such Fiscal Year;
  - (iv) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year;
  - (v) the Rebate Amount required to be paid to the United States during such Fiscal Year;and
  - (vi) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year;

or

- (b) The sum of:
  - (i) all Net Operating Expenses payable during such Fiscal Year;
  - (ii) all Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding 1998 Ordinance Bonds and all amounts payable in respect of obligations of PGW which are on a parity with any of the 1998 Ordinance Bonds and in respect of general obligation bonds issued for improvements

to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve;

(iii) the Rebate Amount required to be paid to the United States during such Fiscal Year;  
and

(iv) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year.

In calculating the City's compliance with the Rate Covenant set forth above, required Sinking Fund deposits are calculated without regard to the effect of any Qualified Swap and Exchange Agreements. For a further discussion of the Rate Covenant and other rate requirements applicable to the City, including the PUC obligation to set rates, see "PGW BUDGETS AND FINANCES – Debt Service Coverage Ratio" and "GAS SERVICE TARIFF AND RATES – Rates – *Ratemaking Methodology to Comply with Bond Covenants.*"

### **Qualified Swaps and Exchange Agreements**

The 1998 General Ordinance permits the City to enter into a Qualified Swap or Exchange Agreement with respect to a Series of Senior 1998 Ordinance Bonds or Subordinate 1998 Ordinance Bonds or a portion thereof upon the enactment of an ordinance by the City Council authorizing such Qualified Swap or Exchange Agreement. Payments, other than termination payments, due to the provider of a Qualified Swap or Exchange Agreement are payable from Gas Works Revenues on a parity with debt service on, as applicable, Senior 1998 Ordinance Bonds (if such Qualified Swap or Exchange Agreement relates to a Series of Senior 1998 Ordinance Bonds) or Subordinate 1998 Ordinance Bonds (if such Qualified Swap or Exchange Agreement relates to a Series of Subordinate 1998 Ordinance Bonds). See "– Gas Works Revenues – *Order of Application of Gas Works Revenues*" above. The 1998 General Ordinance prohibits the provider of any Qualified Swap or Exchange Agreement from having any right or claim at any time to amounts on deposit in the Sinking Fund Reserve. There are four Qualified Swaps and Exchange Agreements in effect, each of which is related to a Series of Senior 1998 Ordinance Bonds and detailed in the table below.

[Remainder of Page Intentionally Left Blank]



**Table 1**  
**QUALIFIED SWAPS & EXCHANGE AGREEMENTS**  
**RELATED TO SENIOR 1998 ORDINANCE BONDS**  
**as of August 31, 2024**

Related Senior 1998 Ordinance Bond Series	8B	8C	8D	8E
<b>Initial Notional Amount</b>	\$313,390,000 <sup>(7)</sup>	\$50,000,000	\$50,000,000	\$50,000,000
<b>Current Notional Amount <sup>(1)</sup></b>	\$22,650,000	\$22,530,000	\$33,800,000	\$22,650,000
<b>Termination Date</b>	8/1/2028	8/1/2028	8/1/2028	8/1/2028
<b>Product</b>	Fixed Rate Payer Swap	Fixed Rate Payer Swap	Fixed Rate Payer Swap	Fixed Rate Payer Swap
<b>Rate Paid by Provider<sup>(8) (9)</sup></b>	70% SOFR + 0.080136%	70% SOFR + 0.080136%	70% SOFR + 0.080136%	70% SOFR + 0.080136%
<b>Rate Paid by City <sup>(2)</sup></b>	3.6745%	3.6745%	3.6745%	3.6745%
<b>Provider</b>	JPMorgan Chase Bank, N.A. <sup>(6)</sup>	JPMorgan Chase Bank, N.A. <sup>(6)</sup>	JPMorgan Chase Bank, N.A. <sup>(6)</sup>	JPMorgan Chase Bank, N.A. <sup>(6)</sup>
<b>Net Present Value <sup>(3)</sup></b>	(\$560,207)	(\$562,988)	(\$835,838)	(\$560,207)
<b>Credit Related Termination Events</b>	For Provider: <sup>(4)</sup> For City: <sup>(5)</sup>	For Provider: <sup>(4)</sup> For City: <sup>(5)</sup>	For Provider: <sup>(4)</sup> For City: <sup>(5)</sup>	For Provider: <sup>(4)</sup> For City: <sup>(5)</sup>

- (1) As of August 31, 2024. As of such date, the notional amount of each swap is equal to, as applicable, the principal outstanding amount of the related Series.
- (2) The City’s fixed rate payments under each swap are insured by Assured Guaranty Municipal Corporation (“Assured”). On August 1, 2024, Assured (AGM) and its sister-subsidiary Assured Guaranty Capital (AGC) merged into Assured Guaranty (AG). All of the rating agencies that rate AGM (Moody’s, S&P and Kroll) affirmed that there were no rating changes ratings. AG is currently rated “A1” by Moody’s, “AA” by S&P, and “AA+” by Kroll.
- (3) Net present values are as of August 31, 2024, include accrued interest, and are shown at mid-market from the City’s perspective.
- (4) Each swap may be terminated by the provider if (a) Assured’s claims paying ability is rated below “A” by S&P and its financial strength rating is rated below “A2” by Moody’s or if either rating is withdrawn or suspended and not reinstated within 30 days (provided that Assured maintains a rating of at least “AA” from S&P or “Aa2” from Moody’s during such 30 day period), and (b) the Eighth Series Bonds are rated below “Baa2” by Moody’s or below “BBB” by S&P. As of August 31, 2024, Moody’s website reflected a rating of “A1” for Assured and S&P’s website reflected a rating of “AA” for Assured.
- (5) Each swap may be terminated by the City if the senior long-term debt or deposits of the provider are rated below “A3” by Moody’s or “A-” by S&P, unless the provider has (i) assigned or transferred the swap to a party acceptable to the City; (ii) provided a credit support provider acceptable to the City whose obligations are pursuant to a credit support document acceptable to the City; or (iii) executed a credit support annex, in form and substance acceptable to the City, providing for the collateralization by the provider of its obligations under the applicable swap.
- (6) As of August 31, 2024, Moody’s website reflected a senior long-term debt rating of JPMorgan Chase Bank, N.A. (“JPMorgan”) of “Aa2” and a counterparty risk assessment rating of “Aa1(cr).” As of August 31, 2024, S&P’s website reflected a long-term rating of JPMorgan of “A+”.
- (7) Reflects the initial notional amount of the swap entered into in connection and concurrently with the issuance of the Sixth Series Bonds, which were the Senior 1998 Ordinance Bonds redeemed in whole with a portion of the proceeds of the Eighth Series Bonds. Upon such redemption, a portion of such swap was terminated, and the remainder of the swap was identified to and reallocated among the four Series of Senior 1998 Ordinance Bonds reflected in Table 1. See Note 8 in the “Annual Comprehensive Financial Report for Fiscal Years ended August 31, 2023 and 2022 of the Philadelphia Gas Works – Financial Section”.
- (8) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, establishes accounting and financial reporting requirements related to the replacement of interbank offered rates (IBORs) in hedging derivative instruments and leases, including the London Interbank Offered Rate (LIBOR). GASB No. 99, *Omnibus*, offered an extension of the use of LIBOR until fiscal years beginning after June 15, 2023. PGW early adopted this GASB in FY 2023. The transition to the Secured Overnight Financing Rate (SOFR) + 0.080136% had no material impact on PGW’s financial reporting.
- (9) The City adhered to the International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol in April 2023.

On July 27, 2017, the Financial Conduct Authority (*i.e.*, the conduct regulator for financial services firms and financial markets and prudential supervisor in the United Kingdom) announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR rates after 2021. The Financial Conduct Authority subsequently announced on March 5, 2021 that, among other things, the one-month tenor of LIBOR would be deemed “not representative” after June 30, 2023. PGW’s swaps, which relate to PGW’S Eighth Series Bonds, previously used one-month LIBOR as a reference rate for determining floating-leg payments by the provider thereunder. To manage the transition from LIBOR, the City adhered to the International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol in April 2023.

The City does not have any outstanding PGW-related bonds or notes which have an interest rate determined by any tenor of LIBOR. The City also does not have any investment of proceeds or other funds related to PGW debt based upon any tenor of LIBOR in an amount which PGW’s management considers material to PGW’s finances.

See also “PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS” above.

For additional information regarding such Qualified Swap and Exchange Agreements as of August 31, 2023, see Note 8(d) in APPENDIX A – “ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEARS ENDED AUGUST 31, 2023 AND 2022 OF THE PHILADELPHIA GAS WORKS – Financial Section.”

### **Credit Facilities With Respect to 1998 Ordinance Bonds**

The 1998 General Ordinance permits the City to enter into a Credit Facility with respect to any Series of Senior 1998 Ordinance Bonds and Subordinate 1998 Ordinance Bonds. As of the date of this Official Statement, there is a Credit Facility in effect in the form of a letter of credit with respect to each of the five subseries of variable rate Senior 1998 Ordinance Bonds (consisting of one subseries of the Fifth Series Bonds and four subseries of the Eighth Series Bonds as further detailed in Table 2 below), which bonds (in the aggregate) have an Outstanding principal balance of \$131.63 million as of August 31, 2024. Such amount represents 14.9% of the Senior 1998 Ordinance Bonds Outstanding as of August 31, 2024. The coverage for principal payments under each letter of credit is equal to the Outstanding principal amount of the applicable subseries as of the date of this Official Statement. Each letter of credit expires prior to the final maturity date of the applicable Series of Senior 1998 Ordinance Bonds. In connection with any scheduled expiration, the City may extend the scheduled expiration, provide an alternate liquidity facility to replace the expiring letter of credit, or convert the interest rates on the applicable 1998 Ordinance Bonds to fixed interest rates or to an interest rate mode that does not require a liquidity facility. There can be no assurance that the City will be able to extend any expiration date or to obtain an alternate Credit Facility on terms substantially similar to the terms of any expiring letter of credit.

Following an unreimbursed draw on a letter of credit, the applicable 1998 Ordinance Bonds, so long as they are owned by such Credit Facility issuer, are “bank bonds” and will be subject to a more rapid term loan amortization (as discussed below under Table 2) and bear an interest rate determined in accordance with the applicable Bond Authorization and letter of credit reimbursement agreement (a “bank bond rate”). This interest rate may be higher or lower than the rate that 1998 Ordinance Bonds of the same Series that are not bank bonds would otherwise bear. In addition, each bank bond rate may increase upon the occurrence of certain defaults (such increased bank bond rate is the “default rate”) and outstanding term loans to the City under a facility related to liquidity draws and other obligations of the City may become due upon the occurrence of certain defaults.

Issuers of Credit Facilities (other than those that are Bondholders) do not have any lien on or security interest in the Sinking Fund Reserve. See APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE – Order of Application of Gas Works Revenues” for a discussion of the respective payment priorities of amount due under a Credit Facility.

*Senior 1998 Ordinance Bonds*

The table below describes the existing letters of credit, and the issuers thereof, related to Senior 1998 Ordinance Bonds as of the date of this Official Statement. In accordance with the 1998 General Ordinance, the payment of interest on and principal of bank bonds that are Senior 1998 Ordinance Bonds is on a parity with debt service on all other Senior 1998 Ordinance Bonds.

*The existing letter of credit related to the Fifth Series A-2 Refunded Bonds detailed below in Table 2 is expected to be terminated in connection with the issuance of the Bonds after the redemption of the Fifth Series A-2 Refunded Bonds on the date of issuance of the Bonds. See “PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS” above.*

**Table 2  
VARIABLE RATE SENIOR 1998 ORDINANCE BONDS  
LETTERS OF CREDIT**

<b>Related Series</b>	<b>Bonds Outstanding (\$000 omitted)<sup>(1)</sup></b>	<b>Issuer</b>	<b>Expiration Date</b>	<b>Counterparty Risk Assessment Term Ratings (Moody's)<sup>(3)</sup></b>	<b>Issuer Long Term and Short Term Ratings (S&amp;P)<sup>(3)</sup></b>	<b>Issuer Long Term and Short Term Ratings (Fitch)<sup>(3)</sup></b>
5A-2 <sup>(4)</sup>	\$30,000	TD Bank <sup>(2)</sup>	12/21/2024	A1(cr)/P-1(cr)	AA-/A-1+	AA-/F1+
8B	22,650	TD Bank <sup>(2)</sup>	8/1/2028	A1(cr)/P-1(cr)	AA-/A-1+	AA-/F1+
8C	22,530	TD Bank <sup>(2)</sup>	8/1/2028	A1(cr)/P-1(cr)	AA-/A-1+	AA-/F1+
8D	33,800	TD Bank <sup>(2)</sup>	8/12/2028	A1(cr)/P-1(cr)	AA-/A-1+	AA-/F1+
8E	22,650	TD Bank <sup>(2)</sup>	8/1/2028	A1(cr)/P-1(cr)	AA-/A-1+	AA-/F1+

<sup>(1)</sup> As of August 31, 2024.

<sup>(2)</sup> TD Bank, N.A. (“TD Bank”). The City is required to repay the principal component of bank bonds in six semi-annual installments beginning on the letter of credit expiration date. The bank bond rate is a rate per annum equal to (a) during the period from the date of the related unreimbursed draw to and including the 180th day thereafter, the greater of (i) the “base rate” (as defined below) and (ii) 5.00%, and (b) during the period from the 181st day after the related unreimbursed draw, the greater of (x) the base rate plus 200 basis points (2.00%) and (y) 5.00%; provided, however, that from and after the occurrence and during the continuance of an event of default under the related reimbursement agreement, the bank bond rate shall equal the greater of (x) the base rate plus 300 basis points (3.00%) and (y) 7.00%. The “base rate” is a rate per annum equal to the higher of (a) the Wall Street Journal Prime Rate in effect on such day and (b) the sum of the federal funds open rate in effect on such day plus 100 basis points (1.00%). In no event will the bank rate exceed the lesser of (x) twenty-five percent (25%) per annum and (y) the maximum lawful rate. Notwithstanding the establishment of the bank bond rate, bank bonds shall bear interest at the greater of the applicable bank bond rate or the rate of interest borne by 1998 Ordinance Bonds of the applicable Series that are not bank bonds.

<sup>(3)</sup> All ratings reflect information from the respective rating agency’s website as of August 31, 2024.

<sup>(4)</sup> Will be refunded by the Series B Bonds on the date of issuance thereof.

*Subordinate 1998 Ordinance Bonds*

CP Capital Project Notes, if any, are Subordinate 1998 Ordinance Bonds and any letters of credit, solely as they relate to the CP Capital Project Notes, are Credit Facilities under the 1998 General Ordinance. Pursuant to the 1998 General Ordinance, CP Capital Project Notes, if any, are not secured by the Sinking Fund Reserve. The Gas Works Notes (as defined below) are not issued under the 1998 General Ordinance. However, under the 1998 General Ordinance, such Gas Works Notes are junior in priority of payment to the Senior 1998 Ordinance Bonds, and payments due in respect of Gas Works Notes are on a parity with Subordinate 1998 Ordinance Bonds. See “COMMERCIAL PAPER PROGRAMS.” As of August 31, 2024, there was \$35,000,000 of CP Capital Project Notes outstanding. The City does not expect to issue any additional CP Capital Project Notes prior to

PGW's Fiscal Year 2032. There are no Gas Works Notes currently outstanding. The City currently does not have any plans to issue Gas Works Notes, but expects to review such potential financing option periodically.

See "COMMERCIAL PAPER PROGRAMS" and "POSSIBLE FUTURE PGW RELATED FINANCINGS."

### **Authorized Additional 1998 Ordinance Bonds**

The 1998 General Ordinance permits the issuance of additional 1998 Ordinance Bonds which, if and when issued, will be either Senior 1998 Ordinance Bonds or Subordinate 1998 Ordinance Bonds. The issuance of any additional 1998 Ordinance Bonds (other than the Bonds and any other additional 1998 Ordinance Bonds issued pursuant to The Sixteenth Supplemental Ordinance, the Fifteenth Supplemental Ordinance, the Fourteenth Supplemental Ordinance, or the Thirteenth Supplemental Ordinance) requires, among other things, the adoption by the City Council of a Supplemental Ordinance that makes the findings described under "– Gas Works Revenues – *Supplemental Ordinances and Certain Required Findings*" above.

The 1998 General Ordinance authorizes the City to issue one or more Series of CP Capital Project Notes. The CP Capital Project Notes are issued as Subordinate 1998 Ordinance Bonds. See "– Pledge of Revenues and Funds – *Subordinate 1998 Ordinance Bonds*" above and "COMMERCIAL PAPER PROGRAMS" below.

The Series A Bonds, which will finance a portion of PGW's ongoing Capital Improvement Program and redeem certain CP Capital Project Notes, are being issued pursuant to: (i) the Sixteenth Supplemental Ordinance, which authorizes the City to issue one or more series of Senior 1998 Ordinance Bonds in an aggregate principal amount not to exceed \$300 million, and which, after issuance of the Series A Bonds, will have a remaining authorization for the City to issue Senior 1998 Ordinance Bonds in an aggregate principal amount of \$208.020 million, (ii) the Fifteenth Supplemental Ordinance, which authorizes the City to issue one or more series of Senior 1998 Ordinance Bonds in an aggregate principal amount not to exceed \$300 million and which, after issuance of the Series A Bonds, will have no remaining authorization for the City to issue Senior 1998 Ordinance Bonds, and (iii) the Fourteenth Supplemental Ordinance, which authorizes the City to issue one or more series of Senior 1998 Ordinance Bonds in an aggregate principal amount not to exceed \$300 million and which, after issuance of the Series A Bonds, will have no remaining authorization for the City to issue Senior 1998 Ordinance Bonds. The Series B Bonds, which will refund the Refunded Bonds, are being issued pursuant to the Thirteenth Supplemental Ordinance. See "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS" above.

The Thirteenth Supplemental Ordinance authorizes the City to issue one or more Series of Senior 1998 Ordinance Bonds in an aggregate principal amount not to exceed \$1.026 billion for the purposes, *inter alia*, of refunding or redeeming of all or a portion of any Outstanding Senior 1998 Ordinance Bonds and all or a portion of Outstanding CP Capital Project Notes, and paying any termination payment that may become due and payable under a Qualified Swap Agreement in connection with the redemption or conversion of all or any portion of any refunded Senior 1998 Ordinance Bonds. The first such Series (the "Thirteenth Series Bonds") was issued in the aggregate principal amount of \$261.770 million on August 18, 2015; the second such Series (the "Fourteenth Series Bonds") was issued in the aggregate principal amount of \$312.425 million on August 30, 2016; the third such Series (the "Fifteenth Series Bonds") was issued on August 16, 2017 and the allocable refunding portion thereof was \$99.28 million and the fourth such series (the "Sixteenth Series Bonds") was issued on October 29, 2020 and the allocable refunding portion thereof was \$50.765 million. Subsequent Series of Senior 1998 Ordinance Bonds issued pursuant to the Thirteenth Supplemental Ordinance (including the Bonds) do not require any additional City Council authorization, provided that the City may only issue bonds under the Thirteenth Supplemental Ordinance to refund Senior 1998 Ordinance Bonds previously issued under the Thirteenth Supplemental Ordinance if such refunding bonds (i) are issued solely to refund any 1998 Ordinance Bonds previously issued pursuant thereto, (ii) do not extend the final maturity of the 1998 Ordinance Bonds to be refunded and have debt service in each year lower than the debt service in each year on the bonds to be refunded, and (iii) are in a principal amount not to exceed the amount which accomplishes the foregoing, together with the amount necessary to pay the costs of issuance related to such refunding bonds. The Thirteenth Supplemental Ordinance provides that the aggregate principal amount of Senior 1998 Ordinance Bonds which may be issued

to pay the costs of redeeming the CP Capital Project Notes may not exceed \$135.0 million. The Bonds which will refund the Refunded Bonds satisfy the applicable criteria of the Thirteenth Supplemental Ordinance. Prior to the issuance of the Bonds, the City has the authority to issue up to \$301.760 million of 1998 Ordinance Bonds to refund Senior 1998 Ordinance Bonds and CP Capital Project Notes pursuant to the Thirteenth Supplemental Ordinance. After issuing the Bonds, the City will retain the authority to issue up to \$192.470 million of 1998 Ordinance Bonds to refund Senior 1998 Ordinance Bonds and CP Capital Project Notes pursuant to the Thirteenth Supplemental Ordinance.

Any Series of 1998 Ordinance Bonds issued pursuant to the Sixteenth Supplemental Ordinance, the Fifteenth Supplemental Ordinance, the Fourteenth Supplemental Ordinance, or the Thirteenth Supplemental Ordinance will be entitled to the benefit of the Sinking Fund Reserve.

As noted above under “– Gas Works Revenues,” Gas Works Revenues, pursuant to a Supplemental Ordinance, may be divided into separate components and any Series of 1998 Ordinance Bonds issued thereafter may be limited as to source of payment to one or more such components. Since all current Gas Works Revenues are pledged for the security of and payment on all 1998 Ordinance Bonds, only new revenues that satisfy the definition of Gas Works Revenues could be so divided and pledged as security for and the only source of payment on one or more future Series of 1998 Ordinance Bonds.

The Act and the 1998 General Ordinance authorize the City to issue Senior 1998 Ordinance Bonds and Subordinate 1998 Ordinance Bonds in the form of revenue bond anticipation notes (“Anticipation Notes”). The principal of any Anticipation Notes is payable by exchange for, or out of the proceeds of the sale of, a designated Series of 1998 Ordinance Bonds referred to in the related Anticipation Notes. If such designated Series of 1998 Ordinance Bonds is offered for sale but cannot be sold, the sole remedy of the Holders of Anticipation Notes is to accept the 1998 Ordinance Bonds of the designated Series at their maximum interest rate (which must be set forth in the related Anticipation Notes), or to extend the maturity of the Anticipation Notes for one or more specified additional periods of not less than six months during which additional offers of the designated Series of 1998 Ordinance Bonds may be made. The City has not issued Anticipation Notes.

See “POSSIBLE FUTURE PGW RELATED FINANCINGS” below for information concerning potential future issuances of 1998 Ordinance Bonds.

#### **Covenant Against Commingling with Other City Funds**

The City has covenanted that so long as any of the Bonds remain Outstanding, all Gas Works Revenues, as applicable, shall be deposited and held in and disbursed from, one or more unsegregated accounts of PGW which shall be separate from and not commingled with the consolidated cash account of the City or any other account of the City not held exclusively for PGW purposes.

The effectiveness of the separation of proceeds of the Bonds and revenues from other City accounts may be limited under certain circumstances, including a bankruptcy filing by the City. See “REMEDIES OF BONDHOLDERS – Limitation on Remedies of Bondholders” below.

#### **Senior 1998 Ordinance Bonds Debt Service Schedule**

The table below reflects the debt service schedule for all Senior 1998 Ordinance Bonds Outstanding, (excluding the Refunded Bonds and including the Bonds).

[Remainder of Page Intentionally Left Blank]

**Table 3**  
**SENIOR 1998 ORDINANCE BONDS DEBT SERVICE**

Fiscal Year Ending August 31	<b>Outstanding Senior 1998 Ordinance Bonds <sup>(1)</sup></b>	<b>The Bonds</b>				Total Debt Service	<b>Total Senior 1998 Ordinance Bonds (including the Bonds) Combined Total Debt Service</b>
	Existing Debt Service	Series A Bonds		Series B Bonds			
		Principal	Interest	Principal	Interest		
2025	\$ 91,995,394	\$ -	\$ 14,103,606	\$ -	\$ 4,751,079	\$ 18,854,685	\$ 110,850,080
2026	78,951,623	-	16,221,400	12,335,000	5,464,500	34,020,900	112,972,523
2027	80,958,338	-	16,221,400	9,175,000	4,847,750	30,244,150	111,202,488
2028	81,050,868	-	16,221,400	9,640,000	4,389,000	30,250,400	111,301,268
2029	52,109,250	5,640,000	16,221,400	14,020,000	3,907,000	39,788,400	91,897,650
2030	50,634,625	5,920,000	15,939,400	14,725,000	3,206,000	39,790,400	90,425,025
2031	50,628,125	6,220,000	15,643,400	15,460,000	2,469,750	39,793,150	90,421,275
2032	50,631,375	6,530,000	15,332,400	16,225,000	1,696,750	39,784,150	90,415,525
2033	50,625,750	6,855,000	15,005,900	8,635,000	885,500	31,381,400	82,007,150
2034	50,633,000	7,200,000	14,663,150	9,075,000	453,750	31,391,900	82,024,900
2035	42,936,500	17,000,000	14,303,150	-	-	31,303,150	74,239,650
2036	51,107,100	8,405,000	13,453,150	-	-	21,858,150	72,965,250
2037	51,111,800	8,830,000	13,032,900	-	-	21,862,900	72,974,700
2038	51,106,500	9,270,000	12,591,400	-	-	21,861,400	72,967,900
2039	40,450,650	9,735,000	12,127,900	-	-	21,862,900	62,313,550
2040	40,449,750	10,220,000	11,641,150	-	-	21,861,150	62,310,900
2041	30,512,000	10,730,000	11,130,150	-	-	21,860,150	52,372,150
2042	30,512,350	11,295,000	10,566,825	-	-	21,861,825	52,374,175
2043	30,513,350	11,860,000	10,002,075	-	-	21,862,075	52,375,425
2044	30,512,900	12,480,000	9,379,425	-	-	21,859,425	52,372,325
2045	30,513,900	13,105,000	8,755,425	-	-	21,860,425	52,374,325
2046	30,514,000	13,795,000	8,067,413	-	-	21,862,413	52,376,413
2047	30,517,000	14,515,000	7,343,175	-	-	21,858,175	52,375,175
2048	13,254,750	15,280,000	6,581,138	-	-	21,861,138	35,115,888
2049	13,252,250	16,080,000	5,778,938	-	-	21,858,938	35,111,188
2050	13,256,250	16,925,000	4,934,738	-	-	21,859,738	35,115,988
2051	-	17,815,000	4,046,175	-	-	21,861,175	21,861,175
2052	-	18,750,000	3,110,888	-	-	21,860,888	21,860,888
2053	-	19,735,000	2,126,513	-	-	21,861,513	21,861,513
2054	-	20,770,000	1,090,425	-	-	21,860,425	21,860,425
<b>Total</b>	<b>\$1,168,739,398</b>	<b>\$314,960,000</b>	<b>\$325,636,406</b>	<b>\$109,290,000</b>	<b>\$32,071,079</b>	<b>\$781,957,485</b>	<b>\$1,950,696,884</b>

<sup>(1)</sup> Excludes the Refunded Bonds. Interest on the Eighth Series B, C, D and E Bonds calculated at the swap rate of 3.6745%. This table assumes that there will be no draws on the letters of credit. See "SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS – Credit Facilities with Respect to 1998 General Ordinance." See "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS" above.

## BOND INSURANCE

### Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Inc. (“AG”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Series A Bonds maturing on August 1 of the years 2041, 2043, and 2054 (collectively the “Insured Series A Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Insured Series A Bonds when due as set forth in the form of the Policy included as Appendix I to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, Maryland, California, Connecticut or Florida insurance law.

### Assured Guaranty Inc.

AG is a Maryland domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL” and together with its subsidiaries, “Assured Guaranty”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its subsidiaries, provides credit enhancement products to the U.S. and non-U.S. public finance (including infrastructure) and structured finance markets and participates in the asset management business through ownership interests in Sound Point Capital Management, LP and certain of its investment management affiliates. Only AG is obligated to pay claims under the insurance policies AG has issued, and not AGL or any of its shareholders or other affiliates.

AG’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A1” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AG should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AG in its sole discretion. In addition, the rating agencies may at any time change AG’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AG. AG only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AG on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

### *Merger of Assured Guaranty Municipal Corp. Into Assured Guaranty Inc.*

On August 1, 2024, Assured Guaranty Municipal Corp., a New York domiciled financial guaranty insurance company and an affiliate of AG (“AGM”), merged with and into AG, with AG as the surviving company (such transaction, the “Merger”). Upon the Merger, all liabilities of AGM, including insurance policies issued or assumed by AGM, became obligations of AG.

### *Current Financial Strength Ratings*

On July 10, 2024, Moody’s, following Assured Guaranty’s announcement of the Merger, announced that it had affirmed AG’s insurance financial strength rating of “A1” (stable outlook).

On May 28, 2024, S&P announced it had affirmed AG’s financial strength rating of “AA” (stable outlook). On August 1, 2024, S&P stated that following the Merger, there is no change in AG’s financial strength rating of “AA” (stable outlook).

On October 20, 2023, KBRA announced it had affirmed AG’s insurance financial strength rating of “AA+” (stable outlook). On August 1, 2024, KBRA commented that, following the closing of the Merger, AG’s insurance financial strength rating of “AA+” (stable outlook) remains unchanged.

AG can give no assurance as to any further ratings action that S&P, Moody’s and/or KBRA may take. For more information regarding AG’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

*Capitalization of AG, AGM and Pro Forma Combined AG*

	<b>As of June 30, 2024</b> (dollars in millions)		
	<b><u>AGM</u></b> <b><u>(Actual)</u></b>	<b><u>AGM</u></b> <b><u>(Actual)</u></b>	<b><u>AGM</u></b> <b><u>(Actual)</u></b>
Policyholders’ surplus	\$1,649	\$2,599	\$3,960 <sup>(1)</sup>
Contingency reserve	\$421	\$910	\$1,331
Net unearned premium reserves and net deferred ceding commission income	\$355	\$2,078 <sup>(2)</sup>	\$2,433 <sup>(2)</sup>

(1) Net of intercompany eliminations.

(2) Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AGM or pro forma combined AG, as applicable, and (ii) the net unearned premium reserves and net deferred ceding commissions of Assured Guaranty UK Limited (“AGUK”) and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA (“AGE”).

The policyholders’ surplus, contingency reserves, and net unearned premium reserves and net deferred ceding commission income of AG, AGM, and the pro forma combined AG were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

*Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the “SEC”) that relate to AG and AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (filed by AGL with the SEC on February 28, 2024);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2024 (filed by AGL with the SEC on May 8, 2024); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2024 (filed by AGL with the SEC on August 8, 2024).

All information relating to AG and AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding



Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Inc.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AG and AGM included herein under the caption “BOND INSURANCE – Assured Guaranty Inc.” or included in a document incorporated by reference herein (collectively, the “AG Information”) shall be modified or superseded to the extent that any subsequently included AG Information (either directly or through incorporation by reference) modifies or supersedes such previously included AG Information. Any AG Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

#### *Miscellaneous Matters*

AG makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading “BOND INSURANCE”.

### **COMMERCIAL PAPER PROGRAMS**

The City is authorized to issue commercial paper to finance the costs of certain PGW capital projects, other project costs and working capital requirements. As of June 1, 2022, all commercial paper notes were supported by the Note Purchase Agreement (as defined herein) and a security interest in PGW’s revenues as further discussed below. Prior to that, all notes were supported by a note purchase agreement between the City and a different bank and secured by a security interest in PGW’s revenues.

#### **CP Capital Project Notes**

Pursuant to the 1998 General Ordinance, as supplemented by the Fourteenth Supplemental Ordinance, the City may currently issue one or more Series of commercial paper notes in installments in a principal amount not to exceed \$120.0 million Outstanding at any time (the “CP Capital Project Notes”) to finance capital projects included in PGW’s approved capital program. CP Capital Project Notes are issued as Subordinate 1998 Ordinance Bonds. The Bonds and all other Senior 1998 Ordinance Bonds are senior in right of payment and security to the CP Capital Project Notes. As of the date of this Official Statement, \$35,000,000 CP Capital Project Notes are outstanding. Such CP Capital Project Notes will be retired in connection with the issuance of the Bonds. See “PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS” above.

The City does not currently anticipate issuing any additional CP Capital Project Notes prior to Fiscal Year 2030. PGW may from time to time request the City for authorization to issue additional CP Capital Project Notes in future Fiscal Years. The City’s present plans contemplate issuing any future CP Capital Project Notes pursuant to the Fourteenth Supplemental Ordinance.

The holders of CP Capital Project Notes and the issuers of any credit facilities related thereto do not have a lien on or a security interest in the Sinking Fund Reserve. See “SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS – Pledge of Revenues and Funds – *Subordinate 1998 Ordinance Bonds*” and “– Sinking Fund Reserve.”

## **Gas Works Notes**

PGW's working capital requirements may be financed by the issuance of notes (the "Gas Works Notes") pursuant to The City of Philadelphia Municipal Utility Inventory and Receivables Financing Act of the Commonwealth (the "Inventory and Receivables Financing Act") and the General Inventory and Receivables Gas Works Revenue Note Ordinance of 2021 (the "Note Ordinance"). Gas Works Notes may be issued in installments in a principal amount (together with interest) not to exceed, in the aggregate, \$150.0 million at any one time outstanding. As of the date of this Official Statement, no Gas Works Notes are outstanding, and the City does not currently anticipate issuing any Gas Works Notes. The proceeds of Gas Works Notes may be used to finance or refund the costs of acquiring or funding certain inventory, accounts, and other expenses of PGW or to refund Gas Works Notes.

Gas Works Notes are not 1998 Ordinance Bonds. Debt service on Gas Works Notes is payable from Gas Works Revenues on a parity with Subordinate 1998 Ordinance Bonds. The Bonds and all other Senior 1998 Ordinance Bonds are senior in right of payment and security to the Gas Works Notes. See "SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS – Pledge of Revenues and Funds" and APPENDIX E – "SUMMARY OF THE 1998 GENERAL ORDINANCE – Order of Application of Gas Works Revenues." The holders of any Gas Works Notes and the issuers of any credit facilities related thereto do not have a lien on or a security interest in the Sinking Fund Reserve. "SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS – Sinking Fund Reserve."

### **Note Purchase and Credit Agreement**

Currently outstanding CP Capital Project Notes, and to the extent any additional CP Capital Project Notes and any Gas Works Notes are issued, such notes are or would, as applicable, be supported by revolving credit pursuant to a Note Purchase and Credit Agreement, dated as of June 1, 2022, between the City and PNC Bank, National Association (the "Bank") (the "Note Purchase Agreement"). CP Capital Project Notes and Gas Works Notes are and would be, as applicable, secured by a security interest in PGW's Gas Works Revenues on a parity with Subordinate 1998 Ordinance Bonds (which the CP Capital Project Notes themselves constitute). The Note Purchase Agreement supporting PGW's combined commercial paper programs sets the maximum level of outstanding CP Capital Project Notes and/or Gas Works Notes plus interest at \$120.0 million. The Note Purchase Agreement has a stated term ending June 16, 2026 subject to certain customary suspension and early termination events. CP Capital Project Notes and/or Gas Works Notes purchased by the Bank pursuant to the Note Purchase Agreement will bear interest payable monthly at a per annum rate equal to the Bank Rate (i.e., at a per annum rate equal to the sum of (i) the product of (x) the Applicable Factor and (y) the BSBY Rate (i.e., the Bloomberg Short Term Bank Yield Index) plus (ii) the Applicable Margin as such terms and provisions are more particularly specified in the Note Purchase Agreement) for the interest period of generally one month or longer established between the City and the Bank.

## **OTHER DEBT OBLIGATIONS PAYABLE FROM GAS WORKS REVENUES**

### **Short-Term Borrowings**

PGW is authorized to make interfund loans from various consolidated accounts of PGW that do not secure 1998 Ordinance Bonds for payment, as necessary, of PGW obligations, including debt service on bonds issued under the 1998 General Ordinance. PGW must reimburse such accounts as revenues are received by the end of each Fiscal Year during which such withdrawals were made. PGW did not make any interfund loans during any of its previous five fiscal years and does not currently anticipate making any such loans during the forward-looking time period covered by the Independent Consultant's Engineering Report.

Also, see "COMMERCIAL PAPER PROGRAMS" above.

### **Additional Bond Ordinances**

The Act permits the City to enact new general bond ordinances that pledge, for the security and payment of any bonds and notes issued thereunder, the Gas Works Revenues. Prior to enacting any such bond ordinance, the City Council must adopt a supplemental ordinance that makes certain findings relating to the adequacy of

Gas Works Revenues to pay debt service on all then-Outstanding 1998 Ordinance Bonds, Gas Works Notes, and the new series of bonds to be issued thereunder. Such findings are to be based on a report of the chief fiscal officer of the City, which in turn may be based on a report of an independent engineer employed by the City to evaluate PGW. The 1998 General Ordinance requires any such bonds and notes to be payable from Gas Works Revenues on a parity with debt service on Subordinate 1998 Ordinance Bonds and the other obligations on a parity therewith. See “SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS – Order of Application of Revenues” above and APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE – Order of Application of Gas Works Revenues.”

As of the date of this Official Statement, the City does not expect to enact any bond ordinances that pledge all, or a portion of, the Gas Works Revenues for the security and payment of any bonds and notes other than the 1998 Ordinance Bonds and the Gas Works Notes.

## **POSSIBLE FUTURE PGW RELATED FINANCINGS**

### **Financing of Capital Improvements**

PGW does not anticipate issuing commercial paper as CP Capital Project Notes at any time prior to Fiscal Year 2030 to fund any portion of PGW’s ongoing Capital Improvement Program. PGW anticipates undertaking a long-term debt issuance of approximately \$393.0 million in Fiscal Year 2028 to fund a portion of PGW’s ongoing Capital Improvement Program, including the refinancing of any then outstanding CP Capital Project Notes. PGW currently has a financial target of funding approximately 50% of its ongoing Capital Improvement Program from internally generated funds with the remaining portion funded from debt. Currently budgeted and planned PGW Capital Improvement Program expenditures for the six-year period ending August 31, 2030 total approximately \$1.353 billion, net of customer contributions and reimbursements, and inclusive of capital expenditures for pipeline replacement discussed below under “Infrastructure Replacement.” Such prospective long-term debt issuance in Fiscal Year 2028 may be in the form of 1998 Ordinance Bonds or obligations as described above under “OTHER DEBT OBLIGATIONS PAYABLE FROM GAS WORKS REVENUES – Additional Bond Ordinances.” If either 1998 Ordinance Bonds are issued and/or CP Capital Project Notes are issued and refinanced with Approved Bonds (as defined herein), then associated debt service would be included in the PUC rates under the 2010 PUC Policy Statement (as defined below). See “GAS SERVICE TARIFF AND RATES – Rates – Ratemaking Methodology to Comply with Bond Covenants.” See also “CAPITAL IMPROVEMENT PROGRAM – Customer Information System Replacement and Building Consolidation.” Additional bonds issued under other ordinances would constitute “Approved Bonds” unless the City Council determined otherwise in the authorizing ordinance.

### **Infrastructure Replacement**

In its April 21, 2015 report relating to a PUC-initiated inquiry and analysis of PGW’s infrastructure replacement program, the PUC staff identified the issuance of additional debt as one possible means of financing PGW pipeline and other infrastructure replacements. Such debt, if any, may be issued as 1998 Ordinance Bonds (including any CP Capital Project Notes) or pursuant to one or more new City ordinances as described above under “OTHER DEBT OBLIGATIONS PAYABLE FROM GAS WORKS REVENUES – Additional Bond Ordinances.”

The PUC in January 2016 granted PGW’s request to increase its Distribution System Improvement Charge (“DSIC”) surcharge from 5.0% to 7.5% of non-gas revenues.<sup>1</sup> The increase, from \$22 million to approximately \$33 million per year, has generated approximately \$11 million in additional revenue to fund PGW’s accelerated pipeline replacement program, which PGW is allowed to recover on a pay-as-you-go-basis through the DSIC surcharge. In Fiscal Year 2021, \$34.6 million was billed through the DSIC surcharge. DSIC revenues billed in Fiscal Year 2022 and Fiscal Year 2023 were \$36.8 million and \$34.6 million, respectively.

---

<sup>1</sup> On July 6, 2016, the PUC issued an Opinion and Order that permitted PGW to recover an additional \$11.4 million in DSIC under collections for the year ending December 31, 2015, over the course of two years. This resulted in a temporary increase in the DSIC of an additional \$5.7 million a year for two years. Beginning on October 1, 2016, PGW temporarily increased its DSIC surcharge to 8.84% as permitted by the PUC’s July 6, 2016 Order. This temporary increase terminated on September 30, 2018.

DSIC revenues are estimated at \$36.8 million in Fiscal Year 2024. This DSIC revenue has been in addition to the approximately \$153.2 million (*i.e.*, the total for Fiscal Year 2020 through Fiscal Year 2024) funded through base rates for cast iron replacement. (The base rate funded portion of the program for Fiscal Year 2025 is budgeted to be approximately \$36.6 million.) PGW has not issued any long-term debt to fund the accelerated replacement program.

PGW will consider the effectiveness of the accelerated pipeline replacement program funded by the DSIC surcharge, evaluate the effect of the DSIC on customers, and assess PGW's ability to effectively implement the level of accelerated pipeline replacement associated with the 7.5% DSIC surcharge prior to requesting an increase in the DSIC, but no assurance can be given that such request will be made or if made, approved. See "THE CAPITAL IMPROVEMENT PROGRAM – Cast Iron Main Replacement" for a discussion of certain Pipeline and Hazardous Materials Safety Administration (PHMSA) grants to PGW to finance a portion of the pipeline replacement.

See also "GAS SERVICE TARIFF AND RATES – Rates – *Surcharges* – DSIC Surcharge" and "THE CAPITAL IMPROVEMENT PROGRAM – Cast Iron Main Replacement."

### **PERMITTED SECURITIZATION OF REVENUES RELATED TO NON-PERFORMING ASSETS**

The 1998 General Ordinance permits the City to securitize and sell that portion of the Gas Works rents, rates and charges that relate to assets which are designated as non-performing by the PUC and as to which the PUC has designated specific rents, rates or charges.

Prior to any such securitization and sale, the City must deliver to the Fiscal Agent (1) an engineer's report including a statement that, for the three year period following such securitization and sale, the Gas Works rents, rates and charges (excluding those securitized and sold) are currently and will be sufficient to comply with the Rate Covenant described under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS – Rate Covenant and Rate Requirements" above, applied as if the percentage in subsection (a)(iii) thereof were 175% rather than 150% and (2) an opinion of bond counsel that such securitization and sale will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any outstanding 1998 Ordinance Bonds, the interest on which is intended to be so excluded. Proceeds received from any such securitization and sale shall be excluded from Gas Works Revenues in all calculations relating to the Rate Covenant and, notwithstanding any provision of the 1998 General Ordinance to the contrary, may be used to redeem or refund obligations issued to finance the related assets designated as non-performing.

Any and all Gas Works rates, rents and charges that are securitized and sold as described under this heading, do not constitute Gas Works Revenues and would not serve as security for or a source of payment of the 1998 Ordinance Bonds (including the Bonds). As of the date of this Official Statement, no PGW assets have been designated as "non-performing."

See also "THE CAPITAL IMPROVEMENT PROGRAM – Customer Information System Replacement and Building Consolidation" for information about PGW's Building Consolidation initiative pursuant to which several facilities are expected to be retired from service for PGW.

### **INDEPENDENT CONSULTANT'S ENGINEERING REPORT**

The Independent Consultant's Engineering Report prepared by Atrium Economics, LLC ("Atrium"), contained herein as APPENDIX B, has been included in reliance of the expertise of that company as an independent consulting firm having broad experience in the design and analysis of the operations of gas works or gas distribution systems of the magnitude and scope of PGW and having skill in assessing assumptions used in the preparation of forecast financial statements of gas works systems.

*As described in certain of the assumptions below, and as further detailed in the Independent Consultant's Engineering Report, in certain instances, Atrium has primarily evaluated projections for the*

***period through Fiscal Year 2029 and has considered PGW's capital improvement program only through Fiscal Year 2029 in reaching the conclusions expressed in its opinions (described below).***

Among the subjects of the Independent Consultant's Engineering Report are the issuance of the Bonds and the expected issuance of 1998 Ordinance Bonds during Fiscal Year 2028 to finance a portion of PGW's then current Capital Improvement Program.

The following is a summary of certain assumptions and opinions of Atrium, stated in their entirety in the Independent Consultant's Engineering Report. This section, "INDEPENDENT CONSULTANT'S ENGINEERING REPORT," is in all respects subject to the complete text of the Independent Consultant's Engineering Report, which is contained herein as APPENDIX B.

### **Assumptions**

Atrium stated that in preparing the Independent Consultant's Engineering Report it relied on PGW's financial planning model and PGW's assumptions contained within that model with certain exceptions as noted in the Independent Consultant's Engineering Report. Atrium stated that the analyses summarized in the Independent Consultant's Engineering Report were based on assumptions provided by or reviewed by PGW and others, and it relied on currently available information and present circumstances. Atrium stated that it did not conduct verification tests of this information. Atrium stated that although it believes that these data and underlying assumptions are reasonable, actual results may materially differ from those projected, as influenced by conditions, events, and circumstances that actually occur that are unknown at this time and/or which are beyond the control of Atrium.

Atrium assumes that PGW will continue to operate and maintain the System as described in the Independent Consultant's Engineering Report. The following is a list of certain other critical assumptions used by Atrium in the development of the projections contained in the Independent Consultant's Engineering Report.

### *Revenues*

1. As set forth by the PUC in its order dated February 22, 2001, the PUC will comply with its statutory obligations pursuant to the Gas Choice Act as it amends the provisions of the Public Utility Code (66 Pa C.S.A. §2212(b)) requiring that the PUC, in determining PGW's revenue requirement and approving overall rates and charges, "follow the same rate-making methodology and requirements that were applicable to [PGW] prior to the assumption of jurisdiction by the [PUC]" and permit PGW to "impose, charge and collect rates or charges as necessary to permit...PGW to comply with its covenants to the holders of any approved bonds." The PUC affirmed this intention in a Policy Statement issued on April 19, 2010.
2. The throughput and revenue figures assume normal weather as established in PGW's general rate order. To the extent that weather is warmer than normal, the resulting contribution to margin revenue will be maintained to the extent that the Weather Normalization Adjustment described in "GAS SERVICE TARIFF AND RATES – Rates" remains in effect.
3. Projected revenue figures are based on the assumption that PGW will recover, in a timely manner, 100 percent of all gas supply costs (including upstream transportation, upstream storage, and liquefied natural gas related costs) and 100 percent of the costs (or discounted revenues) attributed to the Customer Responsibility Program and the Senior Citizen Program, which are recovered through the Universal Service and Energy Conservation Surcharge.
4. PGW's annual appropriation for uncollectible reserve (formerly bad debt expense) will range from \$40.8 million (minimum) to \$47.4 million (maximum), and PGW's collection factor on billed revenues is assumed be 96.0 percent, on average, during the projected fiscal year 2024 through 2029 period.

5. If PGW were unable to meet the rate covenant required under the 1998 General Ordinance, PGW would then have to reduce expenditures, develop other sources of Gas Works Revenues, and/or file for and receive timely rate relief.
6. If lost margins resulting from customers' reducing usage due to Demand Side Management programs or appliance efficiencies are significant, PGW will file for additional base rate increases.
7. PGW's current Distribution System Improvement Charge surcharge will allow the recovery of \$36.8 million to \$37.4 million in annual revenues to fund annual capital improvements in such amount associated with the Long Term Infrastructure Improvement Plan. The PUC will continue to provide either rate increases or surcharges to fund these expenditures. If the PUC determines that PGW's cast iron main replacement should be accelerated above current levels, the PUC will also provide rate increases or surcharges to fund the additional expenditures.
8. PGW will realize \$70.0 million in base rate increases on a levelized annual basis beginning in fiscal year 2026.

#### *Debt Service*

1. The debt service and interest costs do not reflect refunding of any outstanding bonds and includes new bond issues of approximately \$385.8 million in fiscal year 2025 (i.e., the Bonds), and approximately \$393.0 million in fiscal year 2028. If PGW refunds bonds, it is assumed that such refunding will not increase interest costs and annual debt service from the levels reflected in the Independent Consultant's Engineering Report.

#### *Capital Improvement Program (Fiscal Years 2025-2029)*

1. The planned capital improvements will be completed at the levels budgeted, for the projects currently planned and within the timeframe projected. Any additional capital improvements required to meet future regulatory requirements will be made to comply with those regulatory requirements.
2. Projected levels of capital improvements that are paid for by internally generated funds are assumed to comply with PGW's internal policies for financing capital improvements with other funding sources.

#### *The City*

1. PGW will make an annual payment to the City in fiscal years 2024 through 2029 of \$18.0 million.

#### *Policy*

1. There are a number of international, federal, state, and local legislative, legal, regulatory and other initiatives being proposed and adopted in an attempt to measure, control or limit the effects of global warming and climate change. Legislation or other forms of public policy or regulation that aim to reduce greenhouse gas emissions at the federal, state, or local level have and could continue to take a variety of forms including, but not limited to, carbon taxes, building codes, increased efficiency standards, mandates to conserve energy, or use renewable energy sources. Federal, state, or local governments may provide tax advantages and other subsidies to support alternative energy sources, withdraw funding from fossil fuel sources, mandate the use of specific fuels or technologies, prohibit the use of natural gas, or promote research into new technologies to reduce the cost and increase the scalability of alternative energy sources.

Atrium assumes public perception and environmental policy does not impede PGW's ability to carry out its operations in the future and execute its capital plan to provide safe and reliable service to customers.

### **Opinions**

In its Independent Consultant's Engineering Report, Atrium has opined and concluded, based on its analyses and the assumptions set forth or referred to in the Independent Consultant's Engineering Report, that:

1. PGW is a competently managed and operated gas distribution utility. PGW and PGW's gas works system (the "System") are organized, operated, and maintained at a level equal to, or in excess of, regulatory requirements and generally accepted industry practices. The System is in good operating condition.
2. Based upon Atrium's evaluation of financial projections and certain assumptions with respect to the System which Atrium believes to be reasonable, and on the basis of actual and estimated future annual financial operations of the System, the System should yield Gas Works Revenues (which are pledged under the 1998 General Ordinance) over the amortization periods of the bonds issued under the 1998 General Ordinance which will be sufficient to: (a) meet all expenses of operation, maintenance, repair and replacement of the System, (b) meet all reserve or special funds required to be established under the 1998 General Ordinance, (c) meet the principal of and interest on all bonds issued under the 1998 General Ordinance (including the Bonds), as the same shall become due and payable, and (d) provide such surplus requirements as are contained in the rate covenant of the 1998 General Ordinance. The Gas Works Revenues forming the basis of the opinion comply with the requirements of the definition of Project Revenues contained in Section 2 of the Act.
3. The Gas Works Revenues which are pledged as security for the bonds issued under the 1998 General Ordinance are currently, and are projected to be, sufficient to comply with the rate covenant set forth in Section 4.03(b) of the 1998 General Ordinance. See "SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS – Rate Covenant and Rate Requirement" and APPENDIX E – SUMMARY OF THE 1998 GENERAL ORDINANCE – Rate Covenant."
4. The capital improvements proposed during the projection period, September 1, 2024, through August 31, 2029 should, along with continued good operation and maintenance practices, enable PGW to maintain the System in good operating condition. Review of present management practices indicates that good operation and maintenance is likely to continue.
5. Contracted PGW term gas supplies; spot market purchases; additional off-system and liquefied natural gas storage capacity resources; as well as, the pipeline transport capacity to move these supplies to PGW, appear adequate to meet PGW's projected demand on a day of maximum demand (a "design peak day"), in an hour of maximum demand (a "design peak hour"), and during a year of maximum demand (a "design peak year").

## **REMEDIES OF BONDHOLDERS**

### **General**

Remedies under the Act and the 1998 General Ordinance available to Holders of 1998 Ordinance Bonds, including Holders of the Bonds, and to any trustee for Bondholders appointed by the Holders of 25% in principal amount of any Series of 1998 Ordinance Bonds in default, are described in the summary contained in APPENDIX E hereto. In addition to the remedies described therein, Bondholders, the Fiscal Agent, as representative of the Bondholders, or a trustee for the Bondholders are entitled under the Pennsylvania Uniform Commercial Code to all remedies of secured parties in respect of (i) the Gas Works Revenues and the funds on deposit in the Sinking Fund and (ii) the Sinking Fund Reserve if such bonds are secured by the Sinking Fund

Reserve. So long as DTC or its nominee is the Registered Owner, the remedies of Beneficial Owners are exercisable through the procedures established by DTC.

### **Limitation on Remedies of Bondholders**

The ultimate enforcement of Bondholders' rights upon any default by the City in the performance of its obligations under the 1998 General Ordinance will depend upon the application of remedies provided in the Act, the 1998 General Ordinance and other applicable laws. Litigation may be necessary to obtain relief in accordance with these remedies. Such litigation may be protracted and costly. Remedies such as mandamus, specific performance or injunctive relief are equitable remedies that are subject to the discretion of the courts.

The rights and remedies of Bondholders with respect to the City's obligations under the Bonds could be significantly limited by the provisions of Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Chapter 9 permits, under prescribed circumstances (and only after an authorization by the applicable state legislature or by a governmental office or organization empowered by state law to give such authorization), a "municipality" of a state to file a petition for relief in a bankruptcy court of the United States if it is insolvent or unable to meet its debts as they mature, and it desires to effect a plan to adjust its debt. Chapter 9 defines "municipality" as a "political subdivision or public agency or instrumentality of a State." Thus, for purposes of Chapter 9, except as may be limited by state law, the City would be considered a "municipality." As a result of the commencement of a federal bankruptcy case by the City, Bondholders could experience delays in receiving Bond payments, as well as partial or total losses of their investments in the Bonds.

The Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (Pa. P. L. 9, No. 6 (1991), as amended by the Act of July 7, 2022, P. L. 440, No. 36) (the "PICA Act"), prohibits the City from filing a petition for relief under Chapter 9 of the United States Bankruptcy Code so long as PICA has any power or duty under the PICA Act (which provides that PICA will remain in existence until the later of January 2, 2047 or one year after all its liabilities are met or, in the case of PICA Bonds (as defined in APPENDIX C), one year after provision for such payment shall have been made or provided for in the applicable bond indenture). Currently, no PICA Bonds are outstanding. Furthermore, the PICA Act requires approval in writing by the Governor of the Commonwealth for a filing under Chapter 9 by the City, and the City's proposed plan, after the Governor holds a hearing as required by the PICA Act. If the Governor were to grant an approval for the City to file a petition under Chapter 9, and the City were to file, provisions of the United States Bankruptcy Code could limit the enforcement of bondholders' rights and remedies. For more information on PICA and legislation which amended the PICA Act and extended the term of existence of PICA, among other things, see "THE CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION – Local Government Agencies – *Non-Mayoral-Appointed or Nominated Agencies* – PICA" in APPENDIX C hereto.

The filing of a bankruptcy petition under Chapter 9 operates as an automatic stay of the commencement or continuation of any judicial or other proceeding against the debtor or its property. However, a petition filed under Chapter 9 does not operate as a stay of application of pledged "special revenues" (as defined in the United States Bankruptcy Code) to the payment of indebtedness secured by such revenues. Special revenues include receipts derived from the ownership or operation of systems that are used to provide utility services and the proceeds of borrowings to finance such systems. The Bankruptcy Code further provides that special revenues acquired by the debtor after commencement of a Chapter 9 case shall remain subject to any lien resulting from any security agreement entered into by the debtor before the commencement.

The lien on special revenues derived from a system, however, will be subject to the payment of the necessary operating expenses of that system. Therefore if Gas Works Revenues are determined by a bankruptcy court to constitute "special revenues" within the meaning of Chapter 9, then Gas Works Revenues acquired by the City before and after the filing of a Chapter 9 petition will remain subject to the lien and security interest of the 1998 General Ordinance in favor of Holders of the 1998 Ordinance Bonds, but would be subject to the payment of PGW's necessary operating expenses as determined by the City.

If the pledged Gas Works Revenues could not support both the debt service requirements and operating expenses of PGW, it is possible that payments to Holders of the Bonds could be reduced. *No representation is*



***made that a bankruptcy court will determine that the Gas Works Revenues constitute “special revenues” within the meaning of Chapter 9.***

Unless a debtor consents or the plan proposed under Chapter 9 provides, the bankruptcy court may not interfere with any of the property or revenues of a Chapter 9 debtor or with such debtor’s use or enjoyment of any income producing property. Accordingly, if the City were permitted by State law to use the proceeds of the Bonds and the Gas Works Revenues pledged for the benefit of the Bondholders other than to benefit the Gas Works, and decided to do so, it is unclear whether a bankruptcy court would have the power to interfere with that decision. Even if a bankruptcy court had such power, the court, in the exercise of its equitable powers, could refuse to require the City to use the proceeds of the Bonds or the Gas Works Revenues to pay Holders of the Bonds, could permit a subordination of the liens to new bonds if the former were found more than “adequately protected” or could avail itself of a broad range of equitable remedies.

The debtor under Chapter 9 may file a plan for the adjustment of its debts that may include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by the court, binds all creditors that have had notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly. Thus, under the above described “cram-down” provisions of the Federal Bankruptcy Code, a plan of adjustment could be imposed on the Bondholders that would give them less than their anticipated rate of interest on the Bonds or possibly even less than a full return of their principal under certain circumstances, and/or extend the time for payment of principal of or interest on the Bonds.

PGW is a component unit of the City and any filing by the City under Chapter 9 could occur under circumstances where the City’s general financial condition has deteriorated without regard to the results of operations or the financial position of PGW. No assurances can be provided that any Chapter 9 filing by the City due to circumstances unrelated to PGW would not still adversely affect PGW.

Regardless of any specific adverse determinations in a City bankruptcy proceeding, the existence of such a proceeding could have a materially adverse effect on the liquidity and value of the Bonds.

## **PHILADELPHIA GAS WORKS**

### **General**

PGW, formed in 1836, is principally a gas distribution facility. It is a component unit of the City and is the largest municipally owned gas utility in the nation. PGW sells natural gas within the City, its service territory, and is the exclusive distributor of natural gas within the limits of the City. PGW maintains a distribution system with approximately 3,047 miles of gas mains and approximately 473,708 service lines serving approximately 510,000 customers in Fiscal Year 2024.

PGW consists of real and personal property owned by the City and used for the acquisition, manufacture, storage, processing and distribution of natural gas in the City, and all property, books and records employed and maintained in connection with the operation, maintenance and administration of PGW. In addition to an extensive distribution system, PGW operates facilities for the liquefaction, storage, and vaporization of natural gas to supplement gas supply taken directly from interstate pipeline and storage companies. Such storage facilities include two LNG plants.

### **History**

The City in March 1835 authorized private ownership and operation of a public gas utility with trustee management. The authorizing ordinance provided for an option clause which allowed the City to become the owner of the utility properties in connection with issuing City bonds to the stockholders. In March 1841, the City exercised this option to obtain ownership of the utility property and has continuously owned the gas system

since that time. The City began manufacturing gas in 1836, and service began that winter with 46 gas lamps provided along Second Street.

The management and operation of PGW has changed over time through a variety of arrangements. After initial private ownership, in 1841, a Board of Trustees assumed management of PGW which structure was maintained until the spring of 1887. At that time, the City took over the operation of PGW and managed it directly. In the midst of significant operating and financial challenges, the City changed this structure in fall of 1897. The City, without a viable option to sell PGW, arranged for the United Gas Improvement Company, (subsequently UGI Corporation), to manage and operate PGW, which arrangement continued through the end of 1972.

The City, in December of 1972, incorporated PFMC as a Pennsylvania non-profit corporation to manage the operations of PGW. PFMC presently provides executive management for PGW and directs operations of its facilities pursuant to the Management Agreement.

### **Additional Information**

In addition to the information under this heading, additional information about PGW is found in other sections of this Official Statement:

For a discussion of PGW’s facilities, see “The Gas Works Facilities” and “The Capital Improvement Program.”

For a discussion of PGW’s revenues and expenses, see “PGW Budgets And Finances,” “Gas Service Tariff And Rates,” “MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE ELEVEN MONTHS ENDED JULY 31, 2024 AND JULY 31, 2023 (UNAUDITED)” and APPENDIX A – “ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEARS ENDED AUGUST 31, 2023 AND 2022 OF THE PHILADELPHIA GAS WORKS – Financial Section.”

For information about the City, see APPENDIX C – “THE CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION.” APPENDIX D – “THE CITY OF PHILADELPHIA SOCIOECONOMIC INFORMATION” includes information about the City and its residents such as the City’s population, demographics, employment and unemployment conditions, median family and household incomes and cost-of-living index.

### **Business Continuity Plans**

PGW currently uses Assurance Software as the software platform in which its Business Continuity Planning (“BCP”) plans reside. PGW specifically uses the Continuity Management (CM) module. PGW’s BCP plans are based on the Disaster Recovery Institute International (DRII) 10 areas of concentrations. PGW has organized the BCP plans around three broad scenarios. In each of these scenarios, PGW’s departments look at impacts and recovery strategies for their respective areas to insure that, they will be able to meet all critical and essential functions to insure not only the safe and reliable delivery of natural gas, but also the safety of PGW’s employees and the Gas Works. The first scenario looks at the loss of gas supply (*i.e.*, a circumstance in which PGW were to lose gas supply coming into the City). The second scenario involves a corporate campus interruption. These plans look at the response and recovery of operations due to a loss of physical facilities and or computer systems, such as due to one or more cyber-attacks. The third scenario contemplates a pandemic, such as the COVID-19 outbreak, or the loss of a significant number of employees.

See also “CYBERSECURITY RISK MANAGEMENT” within.

### **COVID-19 Response and Impacts**

Beginning in the first quarter of 2020 prior to the Commonwealth’s declaration of emergency in reaction to the COVID-19 pandemic, PGW’s senior management convened a multi-disciplinary internal working group

in order to ensure overall safety, and to maintain continuity of operations in the face of likely business impacts. PGW instituted certain response measures to continue PGW's service goals, all in accordance with PGW's Business Continuity Plan and guidance from multiple public health and safety agencies, and after consideration of the response practices of certain other local utilities. PGW's 24-hour Emergency Hotline remained available throughout the pandemic with no material impact on response times. PGW customers did not experience any significant service disruption due to COVID-19.

As a precautionary measure for the safety of PGW employees and customers, PGW's five (5) Customer Service Centers were closed to the public on Monday, March 13, 2020. PGW's management subsequently determined in light of various considerations, including alternative payment options, to discontinue use of the Customer Service Centers.

PGW suspended non-payment customer service terminations, and new late payment charges on arrearages from Monday, March 13, 2020 to April 1, 2021 due to COVID-19 related concerns. Regular billing continued for all customers. See "GAS SERVICE TARIFF AND RATES – Collections" for a further discussion with respect to such termination moratorium as modified and subsequently ended.

PGW's management has not observed any long-term adverse effects on PGW's operations and financial position due to the impacts of COVID-19. There are no remaining or anticipated permanent financial impacts on PGW related to COVID other than the recovery of the COVID expenses through rates including through the amortization of the pandemic-related regulatory asset as discussed within. However, no assurances can be provided that PGW may not suffer material adverse impacts in the future in the event of any other future public health emergencies. For information on the City's response to COVID-19 and the related financial impact on the City, see APPENDIX C – "OVERVIEW – Fiscal Health of the City – COVID-19."

#### *Further Discussion*

See "PHILADELPHIA GAS WORKS – Business Continuity Plans" regarding a general discussion of PGW's emergency response plans, including with respect to pandemics, such as COVID-19. See "GAS SERVICE TARIFF AND RATES – Collections" for a discussion of a moratorium on utility shut-offs for late payments imposed in response to COVID-19 by the PUC, as modified, which was in effect from March 2020 to the beginning of April 2021 and of resulting regulatory assets created by PGW. See "PGW BUDGETS AND FINANCES – Accounts Receivable" for a discussion of the impact of COVID-19 on PGW's account receivables. See also "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE ELEVEN MONTHS ENDED JULY 31, 2024 AND JULY 31, 2023 (UNAUDITED)." with respect to overall performance of PGW subsequent to the pandemic recovery.

## **Management**

### *Governance of the Gas Works*

The Philadelphia Home Rule Charter (as defined in APPENDIX E) and the Management Agreement, which was adopted by an ordinance passed on December 29, 1972 (Bill No. 455, as subsequently amended), establishes the governance structure through legislation regarding the (i) ownership of PGW property and functioning of PGW by the City; (ii) approval by the City Council of capital budgets and certain gas supply contracts for PGW; (iii) the powers and duties granted to the Gas Commission; and (iv) provisions of executive management functions and directions for operation of PGW facilities by PFMC.

PGW personnel are responsible for the day-to-day management of the construction, operation, and maintenance of the gas system. PGW's management organization is set forth in the table under "*Philadelphia Gas Works Organizational Structure*" below. Any changes in governance of PGW must be made pursuant to ordinances adopted by the City Council.

In addition, PGW's rates are regulated by the PUC under the Gas Choice Act (*i.e.*, Pennsylvania Natural Gas Choice and Competition Act No. 1999 21, P. L. 122, 66 Pa. C.S. Section 2201 *et seq.*) See "- Governmental Oversight –*The PUC.*"

### *Management Agreement*

PFMC has operated PGW pursuant to the Management Agreement since January 1, 1973. The Management Agreement authorizes PFMC to manage and operate all the property, real and personal, collectively known as the Gas Works, for the sole and exclusive benefit of the City and establishes PFMC's primary obligation as applying the highest standards of management practice and diligence to the operation of the Gas Works.

The Management Agreement and any amendments thereto are authorized by ordinances of the City Council. The Management Agreement has a two-year term, which, upon execution, is automatically extended for another two-year term, provided the City has not exercised its right of cancellation. The City can cancel the Management Agreement at any time by providing PFMC a 90-day notice of cancellation. Any such cancellation, however, must be approved by resolution or ordinance of the City Council.

The Management Agreement grants the Gas Commission certain specified powers and duties and all other powers not specifically granted to PFMC. The powers and duties granted to the Gas Commission include: (i) approval of personnel provided by PFMC, (ii) review of gas supply contracts for approval by City Council, (iii) approval of changes in tests and standards of gas quality and pressure, (iv) approval of PGW's operating budget, (v) review of PGW's capital budgets and recommendations thereon to City Council, (vi) approval of certain short-term loans (but not the issuance of bonds), (vii) access to and review of all books, records and accounts of PGW, (viii) prescription of certain insurance requirements, (ix) promulgation of standards for procurement and disposal of material, and procurement of supplies and services, and (x) approval of all real property acquisitions for further approval of City Council.

Pursuant to the Management Agreement, PFMC provides the executive management of PGW. The Management Agreement specifies in particular that such management includes a Chief Executive Officer (CEO), a Chief Operating Officer (COO), and a Chief Financial Officer (CFO). PFMC is also required to provide other personnel for such management which it considers to be appropriate.

Various aspects of PFMC's management of PGW are subject to review and approval by the Gas Commission, including approval of the PGW chief executive officer, chief operating officer and the chief financial officer, and, where authorization by the City Council is required, recommendation of the City's Director of Finance and/or the Gas Commission. The Management Agreement sets forth various responsibilities for the Gas Commission's oversight of the operations of PGW. The City's Director of Finance oversees certain financial practices of PGW. The Management Agreement designates the City's Law Department as the designated legal advisor to the Gas Commission and PGW. The Law Department has assigned the representation of PGW to the Office of General Counsel of PGW. See "— Governmental Oversight — *Gas Commission*" and "PGW BUDGETS AND FINANCES — Budget Approval" for additional discussions of the Gas Commission.

### *PFMC Board*

The PFMC Board of Directors consists of seven members appointed by the Mayor of the City. Each member is appointed to a two-year term and serves until the member's successor is duly qualified and seated. The following are the current members of the PFMC Board of Directors.

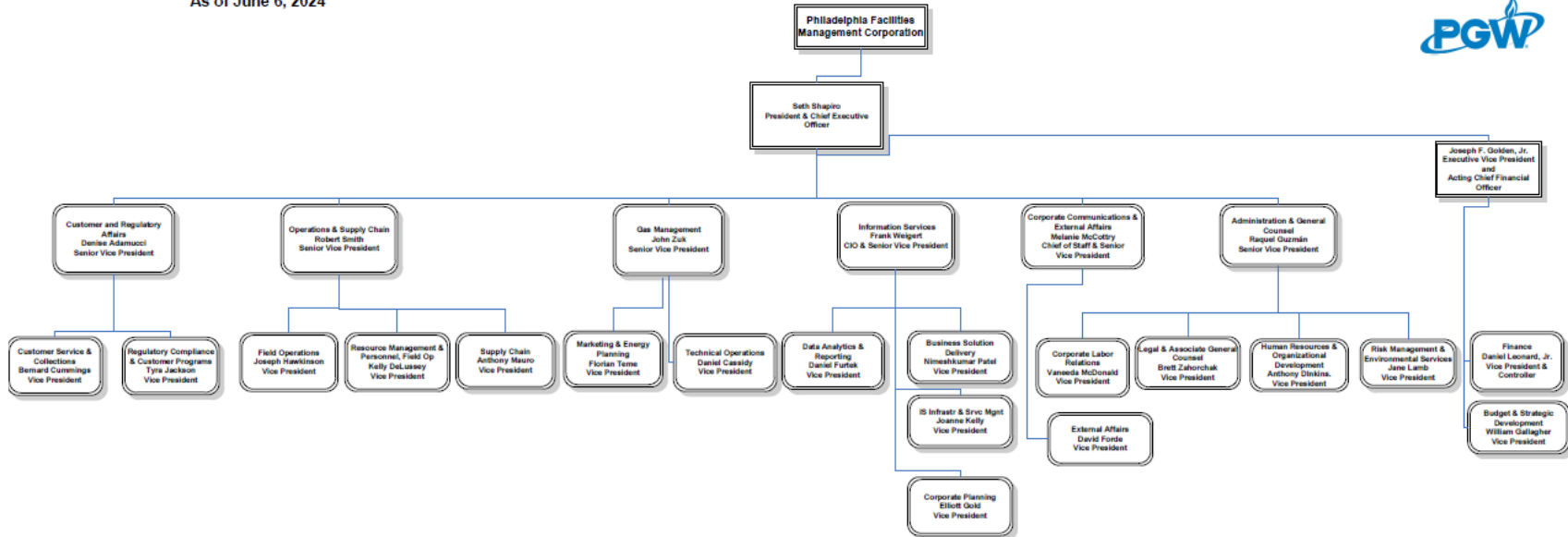
<u>Current Members</u>	<u>Title</u>	<u>Term Began</u>
Leigh Whitaker, Principal, Government Relations Buchanan Ingersoll & Rooney PC Member, Audit/Finance Committee Member, Compensation and Workforce Development Committee	Chair	4/05/2016
Sinceré Harris Chief Deputy Mayor, Office of the Mayor, City of Philadelphia Member, Compensation and Workforce Development Committee	Vice-Chair	2/19/2024
Gregory Segall Chairman and CEO, Versa Capital Management, LLC	Treasurer	2/19/2024
Lauren Gilchrist, Executive Vice President, Market Leader Newmark Member, Compensation and Workforce Development Committee	Secretary	7/22/2020
James Engler, Chief of Staff to the President and CEO ChristianaCare Chair, Compensation and Workforce Development Committee	Member	2/16/2016
Albert Mezzaroba, Of Counsel, Genova Burns, Chair, Audit/Finance Committee	Member	4/05/2016
Natalia Dominguez Buckley Director, Bureau of Redevelopment, Capital & Debt Governor's Budget Office Member, Audit/Finance Committee	Member	6/01/2022

[Remainder of Page Intentionally Left Blank]

*Philadelphia Gas Works Organizational Structure*

PGW's organizational chart is shown below:

As of June 6, 2024



### *PGW Senior Officers*

The following are brief biographical descriptions of PGW's current senior officers:

Seth A. Shapiro, President and Chief Executive Officer. Mr. Shapiro joined PGW in January of 2021 after serving for over 15 years on PGW's Board of Directors. He served under Mayors James F. Kenney, Michael Nutter, and John F. Street, and spent five years as Chair of the Finance and Audit Committee, five years as Vice Chairman, and five years as Chairman.

Before joining PGW's management team, Mr. Shapiro had over 20 years of experience managing all phases of real estate development and construction. He served in leadership positions with publicly and privately held development companies. During his career, he managed projects with a combined value of well over \$1.0 billion, including in excess of 10,000 residential units and over 2 million square feet of retail and commercial space. He has worked on projects in Pennsylvania, New Jersey, Maryland, Virginia, West Virginia, and Florida.

He has served in leadership positions on a variety of community-based non-profits, including the Chestnut Hill Business District, Mt. Airy USA and Operation Understanding. Mr. Shapiro has guest lectured at the University of Pennsylvania, Temple University and Drexel University and presents at a variety of industry conferences. He serves on the board of directors for the American Gas Association and on the Philadelphia Chamber of Commerce's CEO Council for Growth.

Mr. Shapiro graduated from Cornell University with a B.A. in Government.

Joseph F. Golden, Jr., Executive Vice President and Acting Chief Financial Officer. Mr. Golden started his career with PGW in August of 1986. He has prior work experience in public accounting, treasury accounting and cash management, and manufacturing.

Mr. Golden was appointed Executive Vice President & Acting Chief Financial Officer in March 2012. In this capacity he is responsible for the treasury, accounting, budgeting, and finance functions. Prior titles held by Mr. Golden at PGW include Controller, Treasurer, Manager-Treasury Department, Senior Staff Accountant, and Staff Accountant.

Mr. Golden holds a Bachelor of Science degree in Accounting from Villanova University and a Master of Business Administration degree from Drexel University, and received his Juris Doctor (*cum laude*) from Temple University School of Law.

Raquel N. Guzmán, Esq., Senior Vice President - Administration and General Counsel. Ms. Guzmán has held various positions within PGW since joining PGW in 1998. She joined PGW's Legal Department as a Senior Attorney in 1998, and was promoted to General Counsel overseeing PGW's Legal Department in 2016. Ms. Guzmán also oversees the operations of PGW's Human Resources Department, Risk Management and Environmental Services Department, Corporate Labor Department, and Safety, Security and Business Continuity Departments. Prior to joining PGW, Ms. Guzmán was a member of the Law Department of the City of Philadelphia, serving clients such as Philadelphia International Airport, and the City's Water Department. Previously, she practiced in the Real Estate department of a major Philadelphia law firm.

Ms. Guzmán is a Member of the Board of the World Affairs Council of Philadelphia, a non-partisan, international affairs nonprofit with 75 years of expertise in connecting Philadelphia to the world. Ms. Guzmán graduated with honors from Harvard University with an A.B. in History and a certificate in Latin American and Iberian Studies. She received her J.D. from the University of Pennsylvania Law School.

Melanie McCottry, Chief of Staff and Senior Vice President, External Affairs and Communications. Ms. McCottry began her energy career with PGW in 2009. Her fifteen years of service have seen her steadily advance through the ranks of PGW, and in January of 2023 she was promoted to her present position. In her new role, she contributes to all issues related to PGW's daily operations along with leading on community and

legislative priorities that communicate PGW's core objectives of safety, reliability, affordability, and environmental responsibility to its more than 500,000 customers.

Ms. McCottry is a graduate of Temple University with a bachelor's degree in Political Science and a Master of Education in Sports Administration. She also holds an Executive Master of Business Administration (MBA) from Saint Joseph's University, Philadelphia.

Ms. McCottry resides in the East Kensington neighborhood of Philadelphia. She is a member of the Leadership Council of the American Gas Association, a 2016 Leadership Philadelphia Fellow and a 2011 graduate of the Urban League of Philadelphia Leadership Forum.

Denise Adamucci, Senior Vice President, Customer and Regulatory Affairs. Ms. Adamucci joined PGW in 2004 as a Senior Attorney. Before joining PGW, she worked in private practice law firms, mainly working in corporate and bankruptcy law.

Ms. Adamucci has served on the boards of a variety of community-based non-profits, and currently serves as a board member for Philadelphia Corporation for Aging.

Ms. Adamucci graduated from Elizabethtown College with a B.A. in English Literature; from Arizona State University with an M.A. in English Literature; and from Boston University School of Law with a J.D.

Robert K. Smith, Senior Vice President, Operations, and Supply Chain. In his role, Mr. Smith oversees several departments, including Distribution, Field Services, Resource Management, Supply Chain, and Fleet Services.

Mr. Smith is also responsible for the safety and reliability of the distribution system for employees, customers, and the public. He is integral in labor negotiations and vendor contracts as well as industry and regulatory compliance matters. He leads a highly skilled workforce comprised of engineers, construction workers, system & distribution maintenance experts, field service technicians, and measurement and control professionals.

Mr. Smith began his career at PGW in 1989 and has held numerous positions across the organization beginning in the Field Services department facilitating critical infrastructure work across the City of Philadelphia.

He is an active board member of the Northeast Gas Association. Mr. Smith is also a member of several natural gas industry-related organizations. He holds a Bachelor's degree in Business Administration from Peirce College and a Master's degree in Business Administration (MBA) from Gwynedd Mercy University.

Frank Weigert, Chief Information Officer. Mr. Weigert oversees the Information Services and Corporate Planning Departments. He joined PGW in 1998 and has held various roles such as CIO & VP Information Services, Director of Technical Services, and Manager of Network Services in the Information Service department. In these roles, he has counseled PGW stakeholders in key decisions for advancing PGW's goals, priorities, strategic direction, and mission. Mr. Weigert has been instrumental in guiding PGW through numerous major and transformational technology projects during his tenure. He has a deep passion for technology, people, and customer service.

Prior to joining PGW, he worked as a Network Administrator and IT consultant in Mannheim, Germany. Mr. Weigert has dedicated over 30 years of his professional career to the IT field. He studied English and Business at the University of Mannheim and Electrical Engineering at University of Applied Sciences, Darmstadt in Germany.

John C. Zuk, Senior Vice President – Gas Management. Mr. Zuk began his career at PGW over 37 years ago in the Distribution Department. He continued in Field Operations to the level of Director of Labor



Relations for Field Operations and Customer Affairs. Mr. Zuk also held positions within the Marketing Department from Account Manager up to the position of Vice President.

His current position as Senior Vice President of Gas Management includes responsibility for PGW's Gas Processing, Engineering, Gas Acquisition, Transportation and Gas Control, Energy Planning, as well as PGW-owned and leased properties.

Mr. Zuk serves as a member of the American Public Gas Association ("APGA") Board of Directors and Executive Board of APGA. He formerly served on the Research Foundation Board and Vice Chair of the APGA Gas Supply Committee.

Mr. Zuk received his Bachelor of Science and MBA from LaSalle University.

### **Succession Planning; Personnel Matters; Training**

Given that the number of PGW employees who are eligible, or approaching eligibility, to retire has been increasing over recent years, PGW is anticipating a significant number of retirements and has taken certain measures in response. PGW over the last decade has put in place a planning process for succession. PGW is also developing a Knowledge Transfer pilot process to retain key information and facilitate the transmission of knowledge and expertise within its organization.

PGW conducts meetings with the majority of its departments to address anticipated retirements and training and development programs to further the professional development of identified candidates. PGW both evaluates potential leaders and actively takes steps so that identified employees might be developed as candidates for executive positions, including those at a senior level within PGW.

The probability, risk, and impact of turnover and loss, and nine box talent reviews<sup>1</sup> are examined in PGW meetings, as well as the consideration of possible successors and the time considerations relevant for implementing new placements. PGW has maintained more managerial roles at the Vice President level to provide a broader number of management level employees with the requisite experience needed to succeed in an executive role and ensure business continuity.

PGW provides extensive leadership training opportunities, including coaching, the Management Academy, and the Leadership Development Program. Since 2009, nineteen Leadership Development alumni (51 percent) have been promoted to the level of Director/Vice President. The Management Academy provides managers and directors with an understanding of the many different facets of PGW's business, teaches important soft skills, and enables better decision making through critical thinking exercises. PGW has also partnered with Leadership Philadelphia to better prepare its leaders to make differences within the organization as well as the community.

PGW recognizes the importance of maintaining a work environment that is diverse, inclusive, and equitable. Many of the management team members have attended a day long off-site learning session of recognizing and preventing unconscious bias. Sexual harassment prevention training is presented to all new employees as well as being embedded into the annual training programs of Field Operations.

PGW has created job ladders to reward performance in an accelerated manner for engineers and professionals in the information services area. Engineers participate in a rotational program to develop their understanding of different career opportunities provided by PGW. Because of this program, PGW has been able to promote 51 engineers who started with PGW ten years ago into more senior level positions such as superintendents and directors.

PGW utilizes a number of affinity groups in which identified several senior employees with institutional knowledge and respect within PGW offer mentoring to more junior professionals to promote the transfer of such

---

<sup>1</sup> Nine box talent reviews are a comprehensive assessment of the workforce, examining skills, potential, and performance of employees across various levels and roles.

institutional knowledge. By participating in various affinity groups, these individuals actively serve as mentors to more junior staff members to facilitate the knowledge transfer process. From Fiscal Years 2020 through 2024, PGW had approximately 1,100 external hires and/or internal promotions. Some of these employees had more than one promotion within this period.

*Upcoming Cabinet Member Change.* John C. Zuk, Senior Vice President – Gas Management, has announced that he will complete his service with PGW and retire from PGW by the end of calendar year 2024. Mr. Zuk and PGW are implementing transition plans for the continued management of the functions that Mr. Zuk oversees in that role. Mr. Zuk’s successor has not yet been designated by PGW.

## **Strategic Planning and Performance Management**

PGW’s annual strategic planning process has been in place since FY 2018. The process begins with a re-examination and confirmation of PGW’s mission statement, core values, and corporate goals. Next, PGW’s senior management team develops a set of “SMART” (specific, measurable, achievable, relevant, and time-bound) objectives for approval by the PGW management Cabinet and PFMC Board of Directors and builds an annual plan that identifies impactful, strategic initiatives that will accomplish the approved set of goals and objectives. The process is collaborative and iterative. Objective owners provide quarterly status updates to the Cabinet and Board.

Following the approval SMART objectives, Vice Presidents develop departmental objectives to align with PGW’s annual strategic plan. Departmental objectives also address the specific functions, responsibilities, and strategies within their respective department(s).

PGW’s senior officers monitor certain key performance metrics compiled in monthly reports to gauge the overall health of the utility and the effectiveness of the organization in fulfilling its mission of providing safe and reliable natural gas service, including the ongoing upgrade of its underground infrastructure. These monthly reports are then shared with the Board of Directors of the PFMC. The Summary Metrics Monthly Board Report is organized under the following categories of metrics: a) Corporate Citizenship – including M/W/DSBE Participation Rate, Philadelphia LBE Participation Rate, Pennsylvania LBE Participation Rate, Brand Impact, and PGW Workforce Demographics; b) Customer – including Customer Satisfaction and Self-Service Interaction core; c) Financial – including Rolling 24-Month Collection (i.e., calculated as a percentage and measured against PGW’s benchmark target of 96%), Cash flow Quick Ratio (i.e., the ratio is calculated using current assets such as cash, short-term investments, and net accounts receivable divided by current liabilities such as notes payable, current portion of long-term debt, and accounts payable), Days Sales Outstanding (calculated as gross accounts receivable balance divided by the rolling 12-month total billed revenue and then multiplied by 365 days in a year), and Capital Budget and Operating Expense Variance; d) Internal – including Retention Rate; and e) Operational including Operational Risk Score (composite based on PMVA Safety Training, and OSHA Rate), and Cast Iron Main Abandonment. Annually, PGW management provides a Detail Metrics Annual Report to the PGC, with monthly and yearly actual-to-goal metrics, covering a comprehensive list of individual performance metrics.

## **Governmental Oversight**

### *Gas Commission*

The Gas Commission was created by the Philadelphia Home Rule Charter. By Ordinance of City Council, the Gas Commission is a five-member body consisting of the City Controller, two members appointed by City Council and two members appointed by the Mayor. The Management Agreement vests in the Gas Commission the responsibility for overseeing the operation by PFMC of PGW. The City Controller serves during her incumbency as City Controller. The members appointed by the City Council and the Mayor each serve for terms of four years and hold office until their successors are appointed and qualified.

The Ordinance authorizing the Management Agreement grants the Gas Commission certain specified powers and duties and other powers not specifically granted to PFMC including: approval of certain personnel provided by PFMC; review of gas supply contracts and contracts for the distribution or transmission of gas for

approval by City Council; approval of changes in tests and standards of gas quality; approval of PGW-established gas pressure; initial approval of PGW's operating budget; review of PGW's capital budgets and recommendations thereon to City Council; approval of short-term loans (but not issuance of bonds); access to and review of all books, records and accounts of PGW; prescription of insurance requirements; promulgation of standards for procurement and disposal of material, supplies and services and initial approval of all real property acquisitions, sales and leases for further approval by the City Council.

### *The PUC*

The PUC was created by Pennsylvania statute and consists of five members appointed by the Governor of the Commonwealth, with the consent of the Pennsylvania Senate. Each member serves a five-year term and until his or her successor is appointed and qualified. The PUC conducts reviews of various aspects of PGW and the other utilities for which it establishes rates. The PUC has implemented various substantive and procedural regulations regarding the supervision of those utilities. PGW's rates are established by the PUC under the Commonwealth's Public Utility Code (the "Code" or "Public Utility Code") by virtue of the Gas Choice Act, subject to certain limits on the PUC's authority as described under "GAS SERVICE TARIFF AND RATES – Rates – *Ratemaking Methodology to Comply with Bond Covenants.*"

The PUC is Pennsylvania's regulator for services and rates for public utilities within the Commonwealth, including natural gas, among other utility services. The PUC holds all regulatory authority for PGW's rates, pursuant to the Gas Choice Act. The Gas Choice Act contains provisions which are designed to accomplish certain goals including prohibiting PUC from requiring action (or refraining from action) by PGW or the City under the Public Utility Code that would adversely affect the tax-exempt status of Approved Bonds, (i.e., defined in the Gas Choice Act as bonds or other obligations issued by the City for PGW). All bonds issued by the City on behalf of PGW under the Act, including the Bonds, are Approved Bonds. Another such goal is the preservation of the City's ability to comply with its bond covenants to the holders of Approved Bonds (including those covenants concerning the imposition, charging and collection of rates and charges). The Gas Choice Act also requires rates to be set for PGW utilizing the ratemaking methodology and requirements that were applicable to PGW's natural gas distribution operation prior to PUC's assumption of jurisdiction over PGW. This ratemaking methodology is required to be used until all outstanding Approved Bonds are paid in full or are refunded or defeased.

Pursuant to the Gas Choice Act, among other things, PGW became subject to PUC regulation on July 1, 2000 and, except as otherwise provided in the Gas Choice Act, the provisions of the Public Utility Code apply to PGW as if it were a public utility. The Gas Choice Act provides that the PUC, instead of the PGC, sets rates for PGW's customers but that despite customer choice in gas suppliers, PGW remains a monopoly for its gas distribution business.

The Gas Choice Act addresses various matters and provides that the provisions of the Home Rule Charter with respect to the powers and duties of the PGC, to the extent inconsistent with the Gas Choice Act, were abrogated effective July 1, 2020. However, The City cannot be required to take any action under the Public Utility Code if such action would cause a variation in the City's financial plan approved by the Pennsylvania Intergovernmental Cooperation Authority. Moreover, the City's executive or legislative powers to "legislate or otherwise determine the powers, functions, budgets, activities and mission of PGW" are not abrogated or limited.

Following a management audit of PGW provided by PUC and restructuring proceedings, on March 31, 2003, the PUC approved PGW's restructuring plan (Docket No. M-00021612), which implements customer choice and permits licensed natural gas suppliers to deliver gas to customers in Philadelphia using PGW's distribution system. On September 1, 2003, PGW began operating under its Restructuring Compliance Tariff.

### *PUC South Eighth Street Inquiry*

On December 19, 2019, an explosion occurred at 1435 S 8th Street, Philadelphia, Pennsylvania, resulting in reports of two fatalities, property damage, and bodily injury in and near the cited address. Consistent

with PUC requirements, the PUC's Bureau of Investigation and Enforcement ("I&E") investigated this incident. Pursuant to this investigation, the PUC directed that certain materials in use at or near the site of the incident be submitted to an independent laboratory, Affiliated Engineering Laboratories, Inc., for metallurgical testing. This testing was completed, and a report of the laboratory's findings was issued to PGW and the PUC. The report noted that the portion of cast iron main examined was graphitized but the extent of graphitization or graphitic corrosion (the process of leaching of iron from cast iron) and reduced pipe wall thickness were findings typical of cast iron gas mains that have been buried in soil for decades. The testing and examination found no evidence of a pre-existing leaking condition prior to the reported incident and confirmed that the main suffered a circumferential fracture (a crack occurring at once, breaking the entire diameter or width of the pipe into 2 pieces with mating fracture surfaces which are uniform in color). This finding is indicative of a one-time overload condition after exposure to external forces/stresses. The report concluded this incident was the result of a one-time failure. The bending force which caused this incident was beyond the scope of the metallurgical report.

On July 15, 2022, I&E commenced a Formal Complaint against PGW at Docket No. C-2022-3033834, alleging that PGW violated the Public Utility Code, PUC regulations, and Federal pipeline safety regulations, seeking the imposition of over \$1.3 million in civil penalties and 13 corrective measures. The matter was litigated and both the PUC and PGW submitted factual and expert testimony. PGW maintained it was not culpable in any way for the circumstances leading up to the explosion. On August 18, 2023, I&E and PGW entered into a Joint Petition for Settlement, in which PGW admitted no culpability and no civil penalty was proposed. PGW agreed to voluntarily undertake various remedial and enhanced safety measures, conduct customer outreach, and provide education to the excavator community. By Recommended Decision entered June 7, 2024, the presiding Administrative Law Judge approved the Joint Petition for Settlement without modification, finding it to be reasonable and in the public interest. The Recommended Decision will be reviewed by the PUC in the future. PGW can provide no assurances that the consequences of the I&E Formal Complaint and related matters will not be material to PGW until a Final Order is entered by the PUC.

#### *PUC 2023 Report*

The PUC conducted a management audit of PGW's operations, in fiscal year 2022 (the "2023 PUC Audit"). A final report regarding audit findings was issued on February 2, 2023 (Docket No. D-2022-3030321) pursuant to a 5-0 vote of the PUC. The audit's functional evaluation summary found all areas were generally functioning adequately and the audit produced 32 recommendations for minor to moderate improvement of varying priority and identified one area in need for significant improvement. The PUC indicates that the evaluative categories it uses to rate each functional area's operating, or performance level (in descending order) are: i) "Meets Expected Performance Level," (ii) "Minor Improvement Necessary," (iii) "Moderate Improvement Necessary," (iv) "Significant Improvement Necessary," and (v) "Major Improvement Necessary". Ten functional areas for PGW were assessed with none graded in the highest or lowest categories. "Minor Improvement Necessary" was found for six areas (i.e., executive management and organization structure, financial management, materials management, information technology, fleet management, and human resources and diversity). "Moderate Improvement Necessary" was found for three areas (i.e., corporate governance, gas operations, and customer service). Emergency Preparedness was the one area where the "Significant Improvement Necessary" rating was given.

PGW accepted 26 recommendations completely, accepted 3 in-part, and rejected three. The PUC characterized the three audit recommendations that were rejected by PGW as, "all related to corporate governance – including streamlining PGW's corporate governance processes." PGW submitted its Implementation Plan Progress Report to the PUC in March 2024 which detailed the progress on the actions being taken, the expected completion dates and the individuals responsible for implementing each recommendation. With respect to the three rejected recommendations, the PGW implementation plan indicates that it is willing to continue to raise these issues with PFMC and the Gas Commission. The Management and Operations Audit and the related PGW Implementation Plan are publicly available on the PUC website at <http://www.puc.pa.gov>, and are not incorporated by reference herein.

The PUC previously conducted a management audit of PGW’s operations in fiscal year 2015 (Docket No. D-2015-2468141, August 2015) (the “2015 PUC Audit”) and issued in August 2018 a Management Efficiency Investigation (Docket: D-2017-2627521). The 2023 PUC Audit and the 2015 PUC Audit constitute periodic audits of PGW which PGW’s management expects to be continued to be undertaken in the future.

#### *Other Federal, Commonwealth and City Oversight*

In addition to the Gas Service Tariff (the “Gas Service Tariff”) and other rate related regulations promulgated by the PUC (see “– Gas Service Tariff” herein), PGW’s operations and facilities are subject to laws and regulations, including permitting and approval requirements, promulgated by federal agencies such as the United States Department of Transportation (“USDOT”), the United States Environmental Protection Agency (“USEPA”) and the Federal Emergency Management Agency (“FEMA”), state entities such as the Pennsylvania Department of Labor and Industry (“PADLI”) and the Pennsylvania Department of Environmental Protection (“PADEP”), the Pennsylvania Emergency Management Agency and local entities such as the Philadelphia Water Department (“PWD”), the Philadelphia Department of Public Health, the Philadelphia Air Management Services (“AMS”) and the Philadelphia Office of Emergency Management (“OEM”). In addition, the prices of gas transportation and storage are subject to regulation by the Federal Energy Regulatory Commission (“FERC”), although PGW, its operations and its facilities, are not.

#### **Labor Relations**

As of June 14, 2024, 1,079 of the 1,613 employees of PGW were represented by the Gas Works Employees’ Union of Philadelphia, Local 686, Utility Workers’ Union of America, AFL-CIO (“Local 686” or the “Union”). On March 24, 2022, PGW and Local 686 reached an agreement to integrate the collectively bargained 2022 Memorandum of Agreement into a unified collective bargaining agreement with an expiration date of May 15, 2026 (the “2022 CBA”). The terms of the 2022 CBA were approved in February, 2024 by the PFMC Board of Directors and on April 6, 2022, by Local 686. In May of 2024, representatives of PGW and Local 686 met to discuss an extension of the 2022 CBA and discussions are ongoing.

The terms of the 2022 CBA include general wage increases of 3.0% effective May 16, 2022; 3.5% effective May 13, 2023; 3.5% effective May 11, 2024; 2% effective May 10, 2025; and 2% effective November 15, 2025.

PGW continues to subcontract when the company’s workload exceeds the capacity of the established workforce, following notification to local Union representatives.

The early resolution of CBA issues by the entry into the 2022 CBA saved PGW approximately \$1.1 million in strike preparation expenses.

#### **Insurance, Loss Reserves and Cost Recovery**

PGW is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. While self-insured for many risks, PGW purchases insurance coverage when appropriate. PGW is a qualified self-insurer with the Commonwealth Pennsylvania for auto insurance. PGW’s real and personal property is insured against the risk of loss or damage in the amount of \$250.0 million, subject to a \$0.25 million per accident deductible at the Richmond and Passyunk Plants (hereafter defined) and a \$0.1 million per accident deductible at all other locations. There are separate sublimits for flood and earth movement at select locations. PGW’s property insurance includes coverage for damages incurred from a terrorist attack. PGW does not carry first party environmental coverage through which it could access direct payment of claims for environmental remediation costs. In addition, PGW maintains Boiler and Machinery, Blanket Crime, Directors and Officers, Fiduciary Liability, and other forms of insurance.

PGW maintains \$210.0 million in liability (including terrorism) coverage against the risk of damage to property or injury to the public with a per occurrence self-insured retention of \$1.0 million. PGW is a qualified self-insured employer in the Commonwealth for workers’ compensation insurance. In addition, PGW maintains Excess Workers’ Compensation Liability coverage with a \$0.5 million per occurrence retention.

PGW maintains \$11.0 million in Privacy and Security (Cyber) insurance with a \$0.250 million retention with sublimits for various coverages along with a \$10.0 million Blanket Crime policy with a \$0.1 million deductible.

PGW maintains a \$30.0 million Public Officials Liability (Directors and Officers Liability) policy with a \$0.5 million retention, as well as a \$60.0 million Fiduciary Liability policy with a \$0.2 million retention.

The above coverage descriptions are subject to the terms, conditions, and exclusions of the individual policies.

Although PGW is principally insured through insurance carriers, it is required to cover any settlements of claims that are excluded from coverage under the applicable insurance policies. In each Fiscal Year, PGW establishes an estimated liability for any such excluded settlements to be paid in such Fiscal Year.

PGW did not make any claims for losses related to the COVID-19 pandemic and does not anticipate making any such claims.

See Notes 1(q) and 14 to PGW's audited financial statements included in APPENDIX A – "ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEARS ENDED AUGUST 31, 2023 AND 2022 OF THE PHILADELPHIA GAS WORKS – Financial Section – Notes to Financial Statements."

PGW has been deemed a "local agency" for purposes of the Pennsylvania Political Subdivision Tort Claims Act ("Tort Claims Act"), 42 Pa.C.S. § 8541 *et seq.* As such, it is entitled to all protections and immunities from liability provided under the Tort Claims Act. See "LITIGATION" in APPENDIX C – THE CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION" for further information about the Tort Claims Act.

Costs that exceed the applicable insurance coverage and liability reserves set aside for the applicable events and any retainage that is in excess of such reserve are eligible for inclusion in the Base Rate (see "GAS SERVICE TARIFF AND RATES – Rates – *Base Rate*") although any increase in the Base Rate must be approved by the PUC. PGW has created a regulatory asset to recover certain increased costs related to COVID-19 through future base rates. See also "GAS SERVICE TARIFF AND RATES – Collections."

## **Pension Plans and Other Post-Employment Benefits**

### *Pension Plans*

PGW maintains pension plans covering all eligible employees of PGW, PFMC, and the Philadelphia Gas Commission which provide certain retirement, death and disability benefits. Retirement payments for vested employees under PGW's defined benefit plan commence (i) at age 65 and five years of credited service, (ii) age 55 and at least 15 years of credited service, or (iii) without regard to age, after 30 years of credited service. Union employees hired after May 21, 2011 and non-union employees hired after December 21, 2011 must make an irrevocable choice within 30 days of hire to participate in either the defined benefit pension plan or the defined contribution plan. As of May 31, 2024, there were 1,609 full time employees. Of these 1,609 employees, approximately 1,045 were hired after the respective dates noted above. There are 757 union employees and 288 non-union employees in this group. The defined contribution plan was chosen by 320 union employees and 146 non-union employees for a total of 466 employees. The defined benefit plan was chosen by 437 union employees and 142 non-union employees for a total of 579 employees. However, this allocation may not be representative of the choices made by future employees.

There are two actuarial valuations prepared for the PGW defined benefit pension plan each year. The first is a funding valuation ("funding valuation") that sets forth the contribution range for the plan year July 1 to June 30. The second is a valuation for financial reporting purposes ("accounting valuation") that is used to determine the net pension liability and related disclosures to be reported in PGW's annual financial statements. The funding valuation and accounting valuation are for different purposes, use different methodologies and assumptions, and have different results. The funding valuation reported that the funded ratio on July 1, 2023

was 74.38%. The similar ratio (net position of the pension plan as a percentage of the pension liability) reported in the accounting valuation and PGW's financial statements as of August 31, 2023 was 72.48%.

#### *PGW Pension Plan – Funding Valuation*

In the nine year period covering actuarial valuation dates spanning from September 1, 2014 to July 1, 2023, PGW's pension plan funded ratio (market value of assets basis) ranged from a low of 65.65% as of the July 1, 2016 actuarial funding valuation date to a high of 85.01% as of the July 1, 2021 actuarial funding valuation date. Over the same nine-year period, the unfunded actuarial accrued liability (market value of asset basis) as a percentage of covered payroll ranged from a low of 191.00% as of July 1, 2023 to a high of 247.40% as of July 1, 2016. PGW's actuarial funding valuation prepared for its July 1, 2023 through June 30, 2024 plan year projects a funded ratio (actuarial value of assets basis) increasing from 75.85% as of July 1, 2023 to 80.91% as of July 1, 2032 based on: (i) a funding policy of PGW making employer contributions in accordance with the greater of a 20-year open or 30-year closed amortization period, (ii) assumed investment returns of 7.0% per annum, and (iii) assumed increases in covered payroll based on valuation assumptions. Such schedule of prospective funded status is subject to the foregoing assumptions and other assumptions which may not be realized. No assurances can be provided that PGW's pension plan funded status will not differ materially from such projections which are expected to be revised annually in connection with future actuarial funding valuations of PGW's pension plan.

#### *PGW Pension Plan – Accounting Valuation*

Under Governmental Accounting Standards Board Statement No. 27, Accounting for Pensions by State and Local Governmental Employers (GASB 27), a net pension obligation was recorded for a defined benefit plan on a governmental employer's balance sheet, only to the extent the employer did not contribute at least the actuarially determined annual required contribution (ARC) each year. GASB 27 defines the ARC as the amount sufficient to pay (i) the normal cost and (ii) the amortization of the unfunded actuarial liability over a period not to exceed 30 years. Under GASB 27, PGW had no net pension obligation.

GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB 27 (GASB 68), and its companion standard GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (GASB 71), were effective for PGW's Fiscal Year beginning September 1, 2014 with retrospective application, to the extent practical, of all periods presented. Under GASB 68, the balance sheet includes PGW's net pension asset or liability related to its defined benefit plan, which is measured as the total pension liability less the amount of the defined benefit plan's fiduciary net position. The total pension liability is actuarially determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the measurement date. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that pension assets are available to pay benefits.

Certain components of the change in the net pension liability are recognized immediately as pension expense in the statement of revenues, expenses and changes in net position each year. For example, changes in the total pension liability resulting from current-period service cost, interest on the total pension liability, and changes of benefit terms are required to be included in pension expense immediately. The portion of the change in the net pension liability attributable to differences between expected and actual experience, changes in assumptions, the net difference between projected and actual earnings on pension plan investments, and contributions made after the measurement date are recognized as deferred inflows or outflows of resources. GASB 68 requires changes in expected versus actual investment returns to be amortized into pension expense over five years, and actuarial assumption changes and experience differences to be amortized over the average remaining years of active employment for the average working lifetime of all PGW pension plan participants. The impact of this amortization over time may increase volatility in annual amounts recognized as pension expense compared to amounts recognized under GASB 27 due to shorter permitted amortization periods over which the impact of changes can be smoothed.

PGW's net pension liability was \$229.4 million on August 31, 2023 and \$261.1 million on August 31, 2022. Also see APPENDIX A – "ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEARS ENDED AUGUST 31, 2023 AND 2022 OF THE PHILADELPHIA GAS WORKS – Financial Section – Notes to Financial Statements – (10(e)) – Defined Benefit Pension Plan – Net Pension Liability", for calculations showing the sensitivity of PGW's net pension liability to changes in the current discount rate used to measure PGW's total pension liability. Pension expense recognized for the years ended August 31, 2023 and August 31, 2022 were \$31.5 million and \$20.7 million, respectively, and outflows related to the pension that will be amortized into expense in future years were \$29.1 million on August 31, 2023 and \$68.2 million on August 31, 2022.

Financial information presented in the "PGW BUDGETS, RATES AND FINANCES" and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE ELEVEN MONTHS ENDED JULY 31, 2024 AND JULY 31, 2023 (UNAUDITED)" sections below reflects the impact of GASB 68 and 71 for Fiscal Years 2024 and 2023, and for the eleven-month periods ended July 31, 2024 and July 31, 2023.

#### *PGW Employer Pension Contributions for FY 2023 and FY 2024*

For the Fiscal Year ended August 31, 2023, the actuarially determined employer contribution for PGW was \$26.1 million. On November 24, 2020, the City's Director of Finance directed PGW to contribute \$30.0 million annually, beginning in the plan year 2021, to PGW's pension fund. This contribution amount exceeds the suggested level of funding in the most recent actuarial report for PGW's pension plan. PGW made an employer contribution to the PGW pension fund of \$30.0 million in Fiscal Year 2023 and also made an employer contribution to the PGW pension fund in the amount of \$30.0 million in Fiscal Year 2024. PGW has budgeted an employer contribution to the PGW pension fund of \$30.0 million for Fiscal Year 2025.

#### *Additional Pension Information*

See APPENDIX A – "ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEARS ENDED AUGUST 31, 2023 AND 2022 OF THE PHILADELPHIA GAS WORKS – Financial Section – Notes to Financial Statements – (10) Defined Benefit Pension Plan" and APPENDIX C – "THE CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION – PGW Pension Plan" for further information including, among other matters, certain historical normal cost, amortization payment, annual required contribution and payment to beneficiaries information, certain historical schedule of pension funding progress information, and schedules of projected funding status (calculated on both 20-year open amortization and 30-year closed amortization bases).

#### *Post-Employment Benefits*

PGW pays the full cost of medical, basic dental, and prescription coverage for employees and their beneficiaries who retired prior to December 1, 2001. Employees who retire after December 1, 2001 are provided a choice of three plans at PGW's expense and can elect to pay toward a more expensive plan until Medicare eligible. PGW pays 100% of the cost of the prescription drug plan after drug co-pays. Union employees hired on or after May 21, 2011 and non-union employees hired on or after December 21, 2011 who retire are entitled to receive post-retirement medical, prescription, and dental benefits for five years only. Retirees hired prior to those dates receive benefits until either their death or the death of their survivor if such election is made. Retirees may also contribute toward enhanced dental plan and life insurance coverage.

#### *Post-Employment – Funding Valuation*

There are two actuarial valuations prepared for the PGW other post-employment benefit ("OPEB") plan ("OPEB Plan") each year. The first is a valuation of PGW's health and life insurance plan for retired employees for the plan year January 1 to December 31. The second is a valuation for financial reporting purposes ("accounting valuation") that is used to determine the net OPEB liability and related disclosures to be reported in PGW's annual financial statements. The actuarial value of PGW's health and life insurance plan for retired employees' assets and accounting valuation are for different purposes, may use different methodologies and



assumptions, and may have different results. The funding valuation reported that the funded ratio on December 31, 2023 was 77.60%. The similar ratio (fiduciary net position of the OPEB Plan as a percentage of the total OPEB liability) reported in the accounting valuation and PGW's financial statements as of August 31, 2023 was 60.57%.

*Post-Employment Benefits – Treatment in Financial Statements.*

Under Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (GASB 45), a net OPEB obligation is recorded for a defined benefit plan on a governmental employer's balance sheet, only to the extent the employer does not contribute at least the actuarially determined annual OPEB cost (AOC) each year. GASB 45 defines the AOC as the amount sufficient to pay (i) the normal cost and (ii) the amortization of the unfunded actuarial liability over a period not to exceed 30 years.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – an amendment of GASB 45 (GASB 75), was effective for PGW's Fiscal Year beginning September 1, 2017 with retrospective application, to the extent practical, of all periods presented. GASB 75 revised standards for measuring and reporting OPEB liabilities for OPEB plans. Under GASB 75, the balance sheet now includes PGW's net liability related to its OPEB Plan, which is measured as the total OPEB liability, less the amount of the OPEB Plan's fiduciary net position. The total OPEB liability is actuarially determined by discounting projected benefit payments based on the benefit terms and legal agreements existing at the measurement date. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that OPEB Plan assets are available to pay benefits.

The OPEB Plan's fiscal year-end and measurement date for the net OPEB liability is December 31. PGW's net OPEB liability in its fiscal year-end audited financial statements reflects the net OPEB liability measured as of the December 31 occurring within the fiscal year of PGW ending on the August 31 following such measurement date.

Certain components of the change in the net OPEB liability are recognized immediately as OPEB expense in the statement of revenues, expenses and changes in net position each year. For example, changes in the total OPEB liability resulting from current-period service cost, interest on the total OPEB liability, and changes of benefit terms are required to be included in OPEB expense immediately. The portion of the change in the net OPEB liability attributable to differences between expected and actual experience, changes in assumptions, the net difference between projected and actual earnings on OPEB trust investments, and contributions made after the measurement date are recognized as deferred inflows or outflows of resources. GASB 75 requires changes in expected versus actual investment returns to be amortized into OPEB expense over five years, and actuarial assumption changes and experience differences to be amortized over the average remaining years of active employment for the average working lifetime of all OPEB Plan participants. The impact of this amortization over time may increase volatility in annual amounts recognized as OPEB expense compared to amounts recognized under GASB 45 due to shorter permitted amortization periods over which the impact of changes can be smoothed.

PGW's net OPEB liability was \$208.7 million on August 31, 2023 and \$149.2 million on August 31, 2022. The funded status of PGW's OPEB trust for the period ending December 31, 2023 (i.e., the time period covered in the most recent actuarial report for PGW's OPEB trust), was 77.60% (net position/total OPEB liabilities) (on a fair value of assets basis).

Also see APPENDIX A – “ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEARS ENDED AUGUST 31, 2023 AND 2022 OF THE PHILADELPHIA GAS WORKS – Financial Section – Notes to Financial Statements – (11(e)) – Other Postemployment Benefits – Net OPEB Liability”, for calculations showing the sensitivity of PGW's net OPEB liability to changes in the current discount rate used to measure PGW's total OPEB liability. OPEB expense recognized for the year ended August 31, 2023 was \$4.8 million, and deferred outflows related to the OPEB that will be amortized into expense in future years were \$30.2 million and \$29.3 million as of August 31, 2023 and 2022, respectively.

Financial information presented in the “PGW BUDGETS, RATES AND FINANCES” and “MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE ELEVEN MONTHS ENDED JULY 31, 2024 AND JULY 31, 2023 (UNAUDITED)” sections below reflects the impact of GASB 75 for Fiscal Years 2023 and 2022, and for the eleven-month periods ended July 31, 2024 and July 31, 2023.

PGW has taken steps to mitigate the impact of GASB 75. Currently, PGW provides for the cost of healthcare and life insurance benefits for retirees and their beneficiaries on a pay as you go basis. Also, PGW continues to fund the OPEB Trust with an annual deposit of \$18.5 million.

In FY 2018, PGW retrospectively adopted a new required OPEB standard, GASB 75, as of September 1, 2016. The adoption of this standard resulted in the following:

Recognition of a net OPEB liability for the single employer Philadelphia Gas Works OPEB Plan (OPEB Plan) of \$350.4 million at August 31, 2017, which increased to \$378.9 million at August 31, 2018, decreased to \$336.1 million at August 31, 2019, decreased to \$248.2 million at August 31, 2020, decreased to \$201.6 million at August 31, 2021, decreased to \$149.2 million at August 31, 2022, and increased to \$208.7 million at August 31, 2023.

Recognition of deferred inflows and outflows related to OPEB resulted in balances of \$100.1 million and \$62.6 million in deferred outflows and \$40.4 million and \$102.6 million of deferred inflows on August 31, 2023 and 2022, respectively. These deferred inflows and outflows of resources are related to differences between actual and expected investment returns, assumption changes, demographic factors, differences between expected and actual experience, and contributions made after the measurement date. GASB 75 requires changes in expected versus actual investment returns to be amortized as OPEB expense over five years and actuarial assumption changes and experience differences to be amortized as OPEB expense over the average working lifetime of all OPEB Plan participants. The impact of this amortization over time will be increased volatility in annual amounts recognized as OPEB expense compared to amounts recognized under prior accounting standards.

A decrease in OPEB expense previously reported for the year ended August 31, 2017 of \$8.8 million was reflected in the Statements of Revenues and Expenses and Changes in Net Position as a decrease in administrative and general expense from \$88.9 million and an increase in other postemployment benefits expense from \$7.4 million to \$28.1 million.

OPEB expense was \$(9.3) million and \$(6.4) million for the eleven months ended July 31, 2024 and July 31, 2023, respectively.

*Actual PGW Employer OPEB Contributions for Plan Years 2023 and 2022 and Budgeted Contributions for Plan Years 2024 and 2025*

For the OPEB Plan year ended December 31, 2023, PGW contributed \$23.6 million on a pay-as-you-go basis, \$16.0 million resulting from rate surcharges, and \$2.5 million from PGW’s other resources. For the OPEB Plan year ended December 31, 2022, PGW contributed \$23.9 million on a pay-as-you-go basis, \$16.0 million resulting from rate surcharges, and \$2.5 million from PGW’s other resources.

For the OPEB Plan year ending December 31, 2024, PGW budgeted \$27.3 million for contributions on a pay-as-you-go basis, \$16.0 million resulting from rate surcharges, and \$2.5 million from PGW’s other resources. For the OPEB Plan year ending December 31, 2025, PGW expects to budget \$29.3 million for contributions on a pay-as-you-go basis, \$16.0 million resulting from rate surcharges, and \$2.5 million from PGW’s other resources.

### *Additional OPEB Information*

See APPENDIX A – “ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEARS ENDED AUGUST 31, 2023 AND 2022 OF THE PHILADELPHIA GAS WORKS – Financial Section – Notes to Financial Statements – (11) Other Postemployment Benefits” and APPENDIX C – “THE CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION – PGW Other Post-Employment Benefits” for further information. See also, “GAS SERVICE TARIFF AND RATES – Rates - Surcharges OPEB Surcharge.”

### **Litigation**

In the ordinary course of its business operations, PGW and PFMC are from time to time sued or threatened with litigation. Most frequently such litigation alleges property damage or personal injury to third parties. However, other forms of litigation also arise from time to time. Such litigation, among other possible subjects, may include environmental-related actions and proceedings in which it may be alleged that the PGW is liable for damages, including but not limited to property damage and bodily injury, or that the City should pay fines or penalties or the costs of response or remediation, because of the alleged generation, transport, or disposal of toxic or otherwise hazardous substances by the City, or the alleged disposal of such substances on or to City-owned property. Other than as described in the next paragraphs, (1) PGW is aware of no litigation pending or threatened in which a final adverse determination, singly or in the aggregate, would have a material adverse effect on PGW’s operations or financial condition and (2) PGW believes it has set aside sufficient reserves to meet anticipated liabilities arising out of litigation to the extent not covered by insurance.

See also “LITIGATION - PGW” in APPENDIX C – “THE CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION.”

### **Philadelphia Gas Works, Petitioner v. Pennsylvania Public Utility Commission and SBG Management Services, et al.**

This concerns subsequent appeals from Orders of the Pennsylvania Public Utility Commission (the “Commission” or the “PUC”) issued: (a) December 8, 2016, and the related Opinions and Orders denying reconsideration that were issued on May 18, 2018, and on August 23, 2018; (b) September 20, 2018; and (c) October 4, 2018.

Eight complaints were filed by landlords and by SBG Management Services, Inc. (collectively, "SBG"), the property management company that manages the day to-day operations of certain residential properties owned by the landlords. The complaints - which challenged amounts owned by SBG to PGW that, *inter alia*, were subject to late payment charges by PGW - were divided into three groups by the Commission. The Commission’s Regulations and PGW’s Commission approved tariff authorizes PGW to charge interest (in the form of a late payment charge) at the rate of 1.5% per month on the overdue balance of a utility bill. In addition, if a customer does not pay for natural gas services provided by PGW, a municipal lien (which is created by operation of the Pennsylvania Municipal Claim and Tax Lien Law, 53 P .S. §§ 7101, *et seq.* ("MCTLL")) may be docketed with the appropriate local court. The Commission held that it lacks jurisdiction over unpaid amounts for natural gas service provided by PGW when a municipal lien is docketed under the MCTLL. Based upon that conclusion, the Commission determined that once a lien is docketed, PGW may not apply rules set forth in its Commission-approved tariff to the arrearage amount giving rise to the lien and may not show that arrearage amount on its monthly bills to non-paying customers. The PUC assessed civil penalties in the total amount of \$54,000 against PGW, ordered PGW to refund sums totaling approximately \$1,038,000 to the complainants, correct its practices in the assessment of late payment charges on unpaid balances, and modify the payment application sequence associated with partial payments. This would require PGW to make changes to PGW’s billing system.

In response to the PUC’s determination, PGW filed timely appeals with the Pennsylvania Commonwealth Court from the PUC’s decision in each group of complaints. Oral argument took place on November 12, 2019.

On December 9, 2019, the Pennsylvania Commonwealth Court reversed the orders of the PUC related to amounts owed by SBG Management Services, Inc. to PGW that, inter alia, were subject to late payment charges by PGW.<sup>2</sup> The Commonwealth Court found that (i) the PUC committed an error of law in holding that it lacked jurisdiction over gas charges subject to docketed liens, (ii) the PUC committed an error of law in holding that PGW could not continue to impose late fees of 1.5% per month on delinquent accounts once the City docketed a lien, and (iii) the PUC erred in imposing penalties, ordering refunds of previously imposed late fees, and directing billing changes relating to charges subject to docketed liens.

On January 8, 2020 SBG petitioned the Pennsylvania Supreme Court (“PA Supreme Court”) to reverse the decision of the Commonwealth Court. On June 23, 2020, the PA Supreme Court granted SBG’s petition for appeal. On December 1, 2020, the parties presented oral arguments before the PA Supreme Court. On April 29, 2021, the PA Supreme Court reversed the order of the Commonwealth Court, and held that liens filed of record under Section 7106(b) of the Municipal Claims and Tax Lien Law (53 P.S. § 7106(b)) have the effect of judgments, and accordingly accrue interest at the “lawful rate” of post-judgment interest of 6% per annum. (See 42 Pa.C.S. §8101; 41 P.S. § 202) (see <https://casetext.com/case/phila-gas-works-v-pa-pub-util-commn-3>).

On May 13, 2021 PGW filed an “Application for Reargument” with the PA Supreme Court. In its Application, PGW requested that the PA Supreme Court grant reargument on a number of grounds, including due to PGW’s assertion that the determination of the interest rate on liens was not properly the subject of the appeal before the PA Supreme Court.

On June 15, 2021, Philadelphia Gas Works’ Application for Reargument was granted in part by the PA Supreme Court. The case was remanded to the Commonwealth Court for consideration of any outstanding issues. (PGW’s Application for Relief (including the request for reargument) was denied in all other respects.) On August 3, 2021, the Commonwealth Court issued an order establishing a Supplemental Briefing Schedule for the matter on remand, and also fixed the questions on remand.<sup>3</sup> The parties’ briefs were filed in September/October of 2021. Oral argument took place on February 7, 2022 before the Commonwealth Court, and on March 16, 2022 the Commonwealth Court held that *Phila. Gas Works v. Pa. Pub. Utility Comm’n*, 249 A.3d 963, 974 (Pa. 2021) (“PGW II”) applies retroactively only to the parties of PGW II as well as other proceeding pending at the time PGW II was decided on April 28, 2021. The Commonwealth Court remanded the proceeding to the Commission for a determination of the correct amounts owed to the two property owners who filed the appeals to the PA Supreme Court.

Upon remand to the Commission, PGW filed a motion to dismiss the issue related to the amounts due on docketed liens. PGW argued that the amount due on docketed liens (which are judgments according to PGW II) are outside of the Commission’s jurisdiction. In response, SBG argued that it is proper for the Commission to determine how much SBG was overcharged. The motion was argued before the Administrative Law Judge (the “ALJ”) on November 8, 2022. An evidentiary hearing was held on March 23, 2024. The ALJ issued an initial decision on July 26, 2024. Exceptions to the initial decision were separately filed by PGW and SBG on August 16, 2024. Replies to the exceptions were filed on August 26, 2024. The initial decision (along with the

---

<sup>2</sup> PGW did not appeal the decision of the PUC regarding partial payment application. This matter was independently resolved per a settlement agreement reached with the Office of Consumer Advocate, and approved by the PUC on June 13, 2019, as part of a prior PGW’s base rate case. Per the settlement, PGW agreed to modify its partial payment allocation practices so that no priority is given to the satisfaction of late payment charges.

<sup>3</sup> Questions on remand: 1. Whether the PA Supreme Court’s opinion and order in Appeal of: SBG Management Services, 249 A.3d 963 (Pa. No. 14 EAP 2020, filed April 29, 2021), applies retroactively to the case at bar; 2. Whether the [Commission’s] orders violate [PGW’s] constitutional rights to due process by, without prior notice, announcing, applying and enforcing a new legal interpretation against [PGW] in the context of individual consumer complaints; 3. Whether substantial evidence of record supports the Commission’s imposition of a civil penalty and whether the Commission abused its discretion and acted arbitrarily and capriciously in imposing penalties; 4. Whether the Commission’s mandate for system-wide modifications is arbitrary and capricious and an abuse of the Commission’s discretion; and 5. Whether a remand is appropriate to the Commission for a determination of [PGW]’s compliance with the mandate for system-wide modifications or for imposition of a new period in which [PGW] must comply.

exceptions and replies) will be reviewed by the full Commission. It is impossible to determine when a final decision by the PUC will be rendered.

At this time, PGW cannot predict the outcome of this pending litigation or its impact on PGW's collection practices. As such, PGW can provide no assurances that the impact would not be material to PGW.

***SBG Management Services, Inc. Et Al. v. City of Philadelphia c/o Philadelphia Gas Works, Philadelphia Court of Common Pleas Docket No. 210402801.***

In a separate, but related matter to the SBG matter described above, various and several new SBG entities filed a Praecipe for Writ of Summons against "the City of Philadelphia c/o PGW" in the Philadelphia Court of Common Pleas on April 29, 2021, and docketed a complaint on August 24, 2021. The complaint sets forth a cause of action for "recoupment" (Count I), a claim for unjust enrichment (Count II), a cause of action for fraud (Count III), and a claim for violation of the Pennsylvania Unfair Trade Practices and Consumer Protection Law (UTPCPL) (Count IV). Under SBG's view of the decision of the Pennsylvania Supreme Court (*PGW v. PUC*, 249 A.3d 963 (Pa. 2021)) in the above-described litigation, SBG is entitled to damages based on the amounts paid by them to satisfy the judgments (docketed municipal liens) against them for unpaid gas service. In their complaint, Plaintiffs allege they have incurred hundreds of millions of dollars in damages from PGW's billing practices since at least 2004 and are seeking a refund of late payment charges paid to PGW in excess of \$10,245,000, as well as other substantial (including punitive and treble) damages, interest, costs, fees and penalties based upon allegations of unjust enrichment, fraud, and unfair trade practices arising from PGW's late payment charges. PGW filed its response to the complaint in September 2021, wherein it raised objections and defenses to all of the causes of action raised in the complaint. Additionally, on September 13, 2021 PGW filed Preliminary Objections with the Court. On January 20, 2022, the Court issued an order in response to PGW's Preliminary Objections, dismissing two of SBG's claim with prejudice (fraud and unfair trade practices), and dismissing a third claim (breach of contract) without prejudice, and leave to SBG to amend its complaint. SBG has subsequently filed multiple amended complaints including a Third Amended Complaint ("TAC"). The TAC asserts claims of breach of contract (Count 1) and unjust enrichment (Count II). PGW responded by filing preliminary objections to the TAC. On August 10, 2022, the Court sustained one of PGW's preliminary objections and dismissed the nine other property owners. PGW's other preliminary objections were overruled. PGW filed an answer with new matter on August 30, 2022. SBG's reply was filed on September 23, 2022.

PGW also filed a motion for summary judgment on the ground that all or most of SBG's claims are barred by the applicable statutes of limitations. That motion was denied by the Court on September 3, 2024. Under the Court's Revised Case Management Order, the case was to be ready for trial on or after January 1, 2024. However, the Court has not held a pre-trial conference for this case and has not scheduled a date for the evidentiary hearing.

At this time, PGW cannot predict the outcome of this pending litigation or its impact on PGW's collection practices. As such, PGW can provide no assurances that the impact would not be material to PGW.

***SBG Management Services, et. al., Plaintiffs v. City of Philadelphia c/o Philadelphia Gas Works, et al., Defendant, Philadelphia Court of Common Pleas Docket No. 231101740; Commonwealth Court Docket No. 380 CD 2024.***

SBG Management Services, Inc., the five landlords with active gas accounts who are involved in the previously described litigation (Pennsylvania Supreme Court Docket No. 14 EAP 2020, *et al.*) (collectively "SBG") instituted this new litigation in the Philadelphia Court of Common Pleas via a Complaint in Equity on November 15, 2023 ("Injunction Action"). The Complaint alleges that PGW wrongfully terminated gas service to the landlords based upon disputed outstanding balances. At the same time, SBG filed a Petition for Temporary Injunctive Relief. That Petition seeks to enjoin PGW from enforcing shut-off notices for allegedly unpaid outstanding balances.

On November 17, 2023, the Court held a hearing on the Petition for Temporary Injunctive Relief. PGW restored gas to all five properties as of 10:00 p.m. on November 17, 2023. The Court entered an order on

November 17, 2023 directing, among other things, that the parties engage in mediation. On February 25, 2024, the Court entered another Order prohibiting PGW from terminating gas service at the Landlord properties that were Plaintiffs in the Injunction Action until further order of the Court.

PGW subsequently exercised its right to appeal the Common Pleas Court's February 25<sup>th</sup> Order to the Commonwealth Court (Docket No. 380 CD 2024) alleging that the issues raised in the Injunction Action are within the exclusive or primary jurisdiction of the Commission. PGW's main brief was filed on July 23, 2024. SBG's main brief was dated August 23, 2024. PGW's reply brief was filed on September 5, 2024. Argument has not been scheduled by the Commonwealth Court. By motion of PGW, which was not opposed by the Plaintiffs, the Court stayed all further proceedings in the Injunction Action pending the outcome of the Commonwealth Court appeal.

The pleadings remain open. PGW filed preliminary objections to the Complaint in the Injunction Action on December 6, 2023. The preliminary objections allege, among other things, that the issues raised in the Injunction Action are within the exclusive or primary jurisdiction of the Commission. SBG's response to the preliminary objections was filed on March 18, 2024. The Court's decision on the preliminary objections is stayed pending the outcome of the Commonwealth Court appeal, as noted.

As part of the Injunction Action, SBG has alleged it is owed an unquantified amount of damages for alleged constitutional violations and violations of the Public Utility Code. Additionally, the relief requested by SBG is that PGW be enjoined from terminating service to SBG for non-payment in the future, and as such PGW would be forced to forgo terminating service to the subject properties in an effort to collect unpaid gas bills. PGW has not filed an Answer to the Injunction Action, since PGW's preliminary objections are pending, as noted. At this time, PGW cannot predict the outcome of this pending litigation or its impact on PGW's collection practices. As such, PGW can provide no assurances that the impact would not be material to PGW.

## **Competition**

Under the Gas Choice Act, all of PGW's customers may choose among natural gas suppliers. PGW offers a Purchase of Receivables and Consolidated Billing Program to other natural gas suppliers. PGW developed the Purchase of Receivables and Consolidated Billing Program to better enable other natural gas suppliers to offer gas to PGW residential and small business and industrial customers. PGW also offers a dual-billing program to natural gas suppliers wherein suppliers bill for their own charges to customers of various classes. If a customer selects a gas provider other than PGW, such customer will be required to use PGW's distribution (also referred to as "transportation") system and pay the distribution charge for such use. Such distribution charge for transportation service does not vary significantly from what the charge (less gas cost) would be for such customer were it a sales service customer. As a consequence of this charge structure, PGW does not anticipate that customers moving from sales service to transportation service to cause a material reduction in margin (gross revenues less cost of gas) for PGW.

PGW's competitors are primarily PECO and Vicinity.

PECO is the electric utility and PGW competes with PECO in every aspect of its business; however, customers generally prefer and choose natural gas as their energy choice when it comes to market rate housing and many commercial end uses. Multifamily rentals tend to choose electric due to initial lower capital costs. PGW offers incentives and advantageous tariff rates for new technologies such as combined heat and power ("CHP") and natural gas heat pumps in order to compete in the multifamily segment. No assurances can be provided that such market segment patterns will remain stable.

Vicinity owns and operates a steam loop in Center City Philadelphia. PGW believes it has been competitive in capturing a significant amount of new construction that would otherwise connect to steam as well as competing to convert a number of existing steam loop customers to natural gas. PGW's in-house team provides feasibility studies to potential customers and works with a prospective customer's team to facilitate converting customers over to natural gas.

Table 4 shows a breakdown of the components of the average annual bill for residential customers. Customers who select a provider other than PGW will pay the Distribution Rate and Universal Service and Energy Conservation Surcharge components. Note, though, the table does not reflect the costs of natural gas to a customer that selects a different provider.

**Table 4**  
**AVERAGE COSTS FOR ALL RESIDENTIAL**  
**CUSTOMERS IN A FISCAL YEAR<sup>(1)</sup>**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Distribution Rate <sup>(2)</sup>	\$800	\$849	\$773	\$725	\$807	\$804	\$722	\$726	\$714	\$785
Universal Service and Energy Conservation Surcharge	108	125	125	74	106	123	98	89	106	144
Gas Cost Rate	447	431	261	295	353	345	306	264	471	474
<b>Total</b>	<u>\$1,355</u>	<u>\$1,405</u>	<u>\$1,159</u>	<u>\$1,094</u>	<u>\$1,266</u>	<u>\$1,272</u>	<u>\$1,126</u>	<u>\$1,079</u>	<u>\$1,291</u>	<u>\$1,403</u>

<sup>(1)</sup> Source: PGW's records.

<sup>(2)</sup> Includes the Restructuring and Consumer Education, Efficiency Cost Recovery, OPEB and DSIC surcharges.

PGW customers are classified as residential, commercial, or industrial, with residential and commercial customers accounting for approximately 98.7% of PGW's non-heating customer base and approximately 99.6% of PGW's heating customer base for Fiscal Year 2023. PGW holds in excess of 85% of the home heating market in the City, with fuel oil constituting most of the remaining market share, and its top ten customers comprised less than 4% of PGW's total gas revenues for Fiscal Year 2023. PGW's residential and small to medium-sized commercial market shares are expected to remain stable due to the costs to customers of changing energy sources absent monetary incentives in the form of rebates and related financing mechanisms. Costs of new or replacement residential gas equipment can be affected by many factors such as the U.S. Department of Energy's proposed regulations that could require newly manufactured gas furnaces have a higher efficiency rating than is currently required. The costs of acquiring such gas furnaces as well as any necessary duct work could affect the willingness of customers to convert to or maintain natural gas. Growth in PGW's market share is expected to be limited absent an expansion in PGW's service territory beyond the City and an investment in marketing or incentive programs.

The average number of firm residential non-heating customers (including Customer Responsibility Program ("CRP") customers) is projected to decline from 12,059 in Fiscal Year 2024 to 7,666 in Fiscal Year 2029. The average number of firm residential non-heating customers (including CRP customers) on August 31, 2023 was 12,967. The average number of firm heating customers (including CRP customers) is projected to decrease from 441,452 in Fiscal Year 2024 to 436,812 in Fiscal Year 2029. As of August 31, 2023, the average number of firm heating customers (including CRP customers) was 443,427.

The historical total average number of customers served monthly (for Fiscal Years 2019 through 2023) has been approximately 514,035. PGW's customer base is largest at the end of the peak heating season and decreases afterwards as customers terminate their service until the next heating season begins. The total average number of customers served is projected to decrease from approximately 510,000 in Fiscal Year 2024 to approximately 505,745 in Fiscal Year 2029, a total decrease of about 0.8% over five years. The estimated changes in the total average number of customers are forward-looking statements. Actual results may vary from such estimates due to a number of circumstances, certain of which are beyond the control of PGW to influence.

PGW experiences greater competition in the larger commercial and industrial markets, with interruptible customers (load balancing service, boiler and power plant service and interruptible transportation sale customers) having the ability to utilize alternate energies (such as oil, electric or steam) if the equivalent

price of natural gas is higher than the price of alternative energy. See “GAS SERVICE RATES AND TARIFFS – Gas Service Tariff” herein. Growth in PGW’s commercial and industrial customer base may also be affected by regulations of the Clean Air Act as use of natural gas (instead of fuel oil) may help such customers meet air emission operating permits. In addition, the lower cost of natural gas relative to alternative energy sources has resulted in large commercial and industrial customers switching to natural gas.

PGW’s ability to increase its customer base is limited principally due to its already high market saturation and its fixed geographic territory in which it is permitted to provide its services. The residential and small to mid-size commercial customer segments are fairly stable for PGW. However, opportunities for PGW to increase market share are generally limited in the absence of subsidies or other incentives (e.g., rebates) for potential customers. Recent years’ growth in residential new construction in the City, suggests certain growth opportunity for PGW’s customer base. However, no assurances can be provided as to what the longer-term impact of economic, demographic, lifestyle, and social patterns (e.g., use of remote and hybrid work arrangements) may be on City residential patterns and growth.

In contrast, there typically is more competition in the larger commercial and industrial markets. PGW customers utilizing the interruptible transportation rate (known as “IT”) can switch from other sources of fuel (i.e., oil, electric or steam). Factors that could impact whether such customers switch to natural gas include the equivalent price of natural gas in relation to the alternative fuel choices and the costs of complying with Clean Air Act regulations (i.e., where use of natural gas can aid commercial and industrial consumers in meeting air emission standards).

PGW promotes the use of CHP by its commercial customers both to enhance reliability and reduce operating costs. On-site CHP can reduce electric demand from the grid and use waste heat from the CHP unit for a customer’s cooling and heating requirements. A challenge for CHP projects is high initial capital expenditures for the customer. PGW has also pursued micro-CHP, a small-scale version of CHP which is designed for small commercial customers. Given that this technology is relatively unfamiliar for small commercial customers, funding from PGW, and governmental sources may be required for this product to gain further traction. Smaller commercial projects may be a good market segment for the micro-CHP technology. CHP projects may become increasingly desirable for customers to the extent natural gas prices are relatively lower and stable (and anticipated to remain at such levels) in relation to alternative energy sources.

PGW is promoting the utilization of Natural Gas Vehicles (“NGVs”) internally and externally. From an external perspective, the City has received grants with the guidance of PGW, to purchase a fleet of refuse trucks. In addition, PGW successfully worked with AAA (i.e., the American Automobile Association) in converting part of AAA’s fleet to CNG.

Certain factors are expected by PGW’s management to continue to put downward pressure on load levels and revenues for PGW. These factors include customer conservation efforts, energy efficiency improvements in buildings and gas equipment, customer migration to interruptible transportation service and customers leaving the PGW system. See also “CLIMATE CHANGE.”

## **THE GAS WORKS FACILITIES**

PGW maintains and operates a large number of facilities, including a distribution system of gas mains and service lines, and meters, gas supply facilities (including City gate stations where natural gas is received from pipeline transmission companies), centers to monitor and control gas flow and pressure, and liquid natural gas liquefaction, vaporization and gas storage facilities. For additional information see “NATURAL GAS SALES, COSTS AND SUPPLIES – Gas Supply, Storage and Transportation.” Also, the PGW facilities are described further below. See also, “THE CAPITAL IMPROVEMENT PROGRAM” for a discussion of historical and planned capital expenditures to maintain and improve PGW facilities.



### *Gate Stations and Gas Control Center*

Natural gas is received through nine City gate stations, eight of which are owned by the two interstate pipeline companies serving PGW, Enbridge (Texas Eastern) and Transco-Williams. In addition, there are gas heaters at eight of the City gate stations. These supply facilities are remotely controlled from a gas control center located at PGW's Montgomery Avenue headquarters facility with contingent control capacity at the Richmond Plant. At the gas control center, personnel monitor and control gas flow and pressure from the nine City gate stations to the high-pressure distribution system, as well as provide direction to the LNG production plant operators concerning startup, shutdown, and gas flow output from the LNG facilities. A computer system based in the data center that includes back-up equipment, cooling and power supports operations.

### *LNG Storage and Vaporization Facilities*

The Gas Works includes two LNG facilities – one at the Richmond Plant and one at the Passyunk Plant. The Richmond LNG plant is one of the largest peak shaving facilities in the United States. It includes liquefaction, storage, and vaporization facilities. The liquefaction facility was placed into service in 2005 and replaced the original modified cascade liquefaction facility. Its liquefaction facility has a liquefaction capacity of 16,000 thousand cubic feet (“Mcf”) per day and utilizes open expander technology. This technology utilizes energy from the high-pressure interstate pipeline system to run the expander/compressors, significantly reducing fuel requirements. Further, this technology utilizes significantly fewer components than the previous modified cascade facility and has resulted in lower operation and maintenance costs. The maximum capacity of the open expander liquefaction facility of 16,000 Mcf per day is not available during the summer months because the demand on the PGW system is not sufficient to create the throughput necessary to run at this capacity.

The two storage tanks at the Richmond Plant have a combined gross capacity of 48,970,000 gallons of LNG (4,045,800 Mcf). Regasification of the liquid natural gas is accomplished with six vaporizers having a total output of 500,000 Mcf per day plus 100,000 Mcf per day in reserve. The Richmond Plant also has facilities to receive LNG from and deliver LNG to cryogenic trailer trucks.

The smaller satellite facility at the Passyunk Plant includes LNG storage and vaporization. It receives liquefied gas supply from the Richmond Plant via cryogenic trailer trucks. The Passyunk LNG facility consists of one LNG storage tank of 3,066,000 gallons gross capacity (*i.e.*, the equivalent of 253,300 Mcf) and two LNG vaporizers, each having a capacity of 45,000 Mcf per day, resulting in 45,000 Mcf per day planned capacity and 45,000 Mcf per day reserve.

The highest daily vaporization rate from the LNG facilities was approximately 360,000 Mcf. This occurred when PGW recorded a maximum send out from its system in winter of 1994.

Both the Richmond and the Passyunk plant facilities (the “Richmond Plant” and the “Passyunk Plant,” respectively) have 24-hour a day staffing with security personnel monitoring the facilities. In addition to on-site personnel, each Facility has fire suppression systems, including emergency shutdown mechanisms and high expansion foam and sprinkler systems, as well as other sensors to monitor the areas surrounding each Facility.

The LNG facilities are primarily used to ensure availability of supply needed to serve peak day demand. The LNG facilities provide capacity that would otherwise be needed from flowing gas and off-system storage (*i.e.*, pipeline and storage capacity) to meet peak day demands. The LNG facilities also allow for a nominal reduction in purchases during the higher cost winter period. Based upon current pipeline and storage charges, which have remained relatively constant over the past five years, PGW estimates that utilizing the existing LNG facilities in lieu of additional pipeline and storage capacity saves approximately \$50-75 million per year.

PGW also stores LNG for other parties as a source of additional fees. PGW is offering expanded LNG services at the existing Richmond Plant under PUC-approved (*i.e.*, in relation to gas service tariffs) rate LNG-N effective December 2019.

### *Gas Holder Storage Facilities*

The Richmond Plant had a low-pressure gas holder that was installed in the manufactured gas era and was taken out of service. It was demolished by PGW in 2023.

### *Distribution Facilities*

The principal gas distribution facilities consist of approximately 3,047 miles of main, 473,708 service lines, 197 district regulator stations, 550,000 meters (of which 529,000 are active meters) and miscellaneous distribution valves, instruments, and other appurtenances. PGW operates nine different operating pressure systems; each system is connected to the other by pressure control regulators. See the table captioned "Pressure (PSIG)" under "Distribution Facilities" in APPENDIX B hereto for information concerning the minimum and maximum operating pressures for these systems.

Approximately 77% (by length) of the gas mains in PGW distribution system operate at low pressure (inches W.C.). The majority of PGW customers are served from the low pressure system (approximately 90% of customers).

Approximately 38% (by length) of the gas mains are cast iron, 33% are steel, 4% are ductile iron, and 25% are plastic. Of the steel mains, approximately 53% are wrapped, coated, and cathodically protected. Approximately 22% of the service lines are steel (of which 28% are cathodically protected) and 78% are plastic. See "THE CAPITAL IMPROVEMENT PROGRAM" for information regarding PGW's gas main replacement program.

### *Data Center*

PGW has a state-of-the-art energy efficient data center that includes a dedicated backup generator and two independent power feeds supplying separate redundant uninterruptible power supplies. The modular data center design allows for information technology equipment load growth and provides increased redundancy of cooling systems to N+3 or essentially four systems.

This data center features a highly efficient hot aisle containment system and is hosting state of the art information technology equipment providing a 90+% virtualized compute environment with over 600 servers and one Petabyte (*i.e.*, one million gigabytes) of storage.

PGW is currently constructing an 800 square-foot Tier 3 energy-efficient data center at 5000 Summerdale Avenue in Philadelphia. This new data center will enable some of PGW's applications to operate in an active/active configuration. It will have the same redundant power and cooling as the primary data center discussed above and will communicate with all PGW locations, also providing a separate security network that monitors cameras and entries at all PGW locations. Once completed, the new data center is expected to not only complement the systems running at the primary data center but to also eventually have the ability to function on its own.

### *Combined Heat and Power*

A 200 kW natural gas-fired micro-turbine CHP system produces electricity, heat and cooling for the 800 West Montgomery Avenue headquarters building. PGW estimates that approximately half of the building's electricity is produced by the CHP system at half the cost of electricity purchased from the local distribution grid. Waste heat from the turbine is used to heat the building and a project is in development to install a replacement absorption chiller (the original unit is no longer operable) so that the waste heat can again be used to supply chilled water to the building in the warmer months. The CHP system is also used by PGW Marketing to demonstrate the advantages of CHP systems to customers in the growing CHP service segment.

### *Compressed Natural Gas*

PGW installed a compressed natural gas ("CNG") fueling station at 1849 N. 9<sup>th</sup> Street with 29 gasoline gallon equivalents (Gasoline Gallon Equivalent) of natural gas storage with one fast fill dispenser and four time

fill dispensers. These features provide flexibility in refueling options to make the most of PGW's fleet operation needs. PGW believes that its decision to install the on-site CNG station and purchase 24 CNG vehicles has helped to seed the CNG markets and improve PGW's own fleet operations. PGW's CNG fleet has driven more than 700,000 miles since the vehicles were purchased in 2014, saving over \$65,000 in fuel costs compared to traditional gasoline powered vehicles. PGW's use of the CNG fleet also has benefited the environment by preventing the emission of more than 232,400 pounds of carbon dioxide (when compared to using a traditional gasoline powered vehicle fleet) over the period of time that PGW has employed its CNG fleet.

In addition to providing CNG fuel for PGW's fleet, PGW's station serves as a showcase for companies with fleets that are exploring the use of alternative fuel vehicles. PGW believes it can demonstrate the CNG fueling options, provide design and installation support for the use of CNG, and share with those in its service area the cost savings and environmental benefits of using CNG as an alternative to gasoline and diesel fuel.

PGW's demonstration project played a crucial role in helping convert fleet customers to CNG recently. AAA Mid-Atlantic recently installed a new, time-fill CNG fueling station that serves the 23 CNG vehicles in AAA's fleet. AAA's station produces 450 GGE daily, and allows AAA to fill the fleet trucks overnight. AAA Mid-Atlantic has contracted with a supplier in order to utilize renewable natural gas ("RNG") for their gas commodity. RNG captures methane from an emitting source, like a landfill, and repurposes it for various uses – such as, in this case, a transportation fuel. Filling its trucks with RNG offsets AAA's carbon footprint by over 300 tons of carbon dioxide (CO<sub>2</sub>) per year compared to gasoline.

PGW played a pivotal role in helping the City convert one of its refuse depots to CNG in 2021. PGW assisted the City in securing a \$2 million grant provided by the Delaware Valley Regional Planning Commission ("DVRPC") under the federal Competitive Congestion Mitigation and Air Quality program. The funding enabled the City to purchase the initial nine CNG waste haulers for its fleet, which has since expanded to 27 vehicles. The new vehicles are fueled at the Philadelphia Streets Department's new CNG station at 63rd Street and Passyunk Avenue. The station can accommodate 44 trucks and has the capacity for an additional CNG compressor to accommodate up to 70 trucks. This initial phase of the project has resulted in an additional 16,000 mcf of gas usage per year, the equivalent of 120,000 gallons of diesel fuel annually at an annual margin of \$22,000.

#### *Other Facilities*

PGW's central building complex is located near Temple University in the north central section of Philadelphia. This includes a 180,000 square foot executive and administrative office building located at 800 West Montgomery Avenue which includes PGW's data center, gas control information technology and telecommunications offices.

The North Operations Center, which PGW sub-leases from Philadelphia Municipal Authority (as described further within under "THE CAPITAL IMPROVEMENT PROGRAM – Customer Information System Replacement and Building Consolidation"), located at 5000 Summerdale Avenue, houses operations including: administrative, distribution and field service dispatch centers, dispatching, duplicating center, radio repair shop, training facilities, warehousing, as well as a metal fabrication shop. This location also includes a meter repair shop and the main automotive maintenance and repair facility. The automotive maintenance and repair facility is used for the upkeep of PGW's fleet vehicles, portable compressors, and trailers. PGW also maintains a satellite automobile repair facility at its Porter Station. PGW also maintains the Tioga Station satellite facility for distribution crews and as a warehousing facility.

See also, "THE CAPITAL IMPROVEMENT PROGRAM -- Customer Information System Replacement and Building Consolidation" for a further discussion of PGW's building consolidation efforts.

#### *PGW Regulatory Compliance*

PGW's Federal regulators include the Department of Transportation, Environmental Protection Agency, Federal Emergency Management Agency, and Pipeline and Hazardous Materials Safety

Administration (“PHMSA”). Commonwealth regulators include the Pennsylvania Department of Labor and Industry, Pennsylvania Department of Environmental Protection, and the PUC. Municipal regulators include the Philadelphia Department of Public Health, Philadelphia Air Management Services, and Philadelphia Office of Emergency Management. Set forth below is a description of four operating units of PGW which address certain regulatory matters: Chemical Services, Environmental Compliance, Gas Safety Regulatory Services, and Corporate Preparedness. PGW’s Technical Compliance unit in Regulatory Affairs has 3 employees.

Chemical Services provides chemical and physical analyses focused on compliance with environmental, health, and safety regulations. Chemical Services provides analytical services, including among other things, analyses relating to natural gas composition and BTU (British Thermal Unit) analysis, odorant analysis, LNG analysis, glycol analysis, wastewater, and stormwater analysis, and other analyses as needed. Chemical Services also provides services pertaining to regulated waste management and spill response. The scope of this unit’s services also touch upon permit and regulatory compliance (e.g., with respect to 12 regulated storage tank systems as well as storm water and wastewater permits), industrial hygiene and chemical safety and cleaning services, (i.e., including assessments and remediation related to asbestos, lead, and mold as well as indoor air quality and exposure assessments), and safety data for chemical products and related training. This unit also provides natural gas odorization services, including investigation of atypical conditions.

The Environmental Compliance unit manages environmental regulatory compliance with governmental regulations for all activities conducted at PGW facilities as well as environmental remediation and monitoring efforts among five former manufactured gas plant sites.

The Gas Safety Regulatory Services unit supports PGW operations and provides documentation related to Federal PHMSA advisories, and PUC safety inspections and data requests. This unit also handles official correspondences for PGW’s Gas Processing, Field Services, and Distribution departments and Operator Qualification management and support.

The Corporate Preparedness unit focuses on the ongoing process of identifying and planning for risks of disruption to operations and services. The principal objectives for this unit relate to the protection of human life, the minimization of disruptions of service to PGW and its customers, the minimization of financial loss, and the provision of the timely resumption of service after a disrupting event.

#### *Homeland Security*

PGW has several Tier 1 facilities as defined by the United States Department of Homeland Security (“Homeland Security”). As a result, PGW was mandated to prepare a plan document which was completed and submitted to Homeland Security with the coordinated efforts of several PGW departments that included Security, Operations and Information Technology. This plan is reviewed on a yearly basis by the associated departments for accuracy, relevance, and consistency. This plan is also audited yearly by Homeland Security and a yearly field audit is conducted by Homeland Security to ensure compliance. To date, PGW has met all such compliance requirements.

#### *Management’s Opinion of Condition of PGW Facilities and System*

The following discussion of PGW management’s current views of the condition of PGW facilities and system and related matters are based on PGW’s internal records and observations, and the judgment of PGW’s management (based on management’s experience and knowledge of PGW’s facilities and system and the gas industry in general, and not on the analyses or views of any independent consultant).

PGW’s management believes that all of its facilities, vehicles, equipment and warehouse stock are reasonably maintained and in good operating condition, subject to only minor items not in good operating condition as would be expected during the normal course of operation of a utility such as PGW. The items which are not in good operating condition are either essentially retired in place or in the process of being repaired.

PGW maintains maps and other records of the distribution system which it believes are in good order and utilizes what it considers to be comprehensive written construction, operating and maintenance standards and procedures. PGW in its routine operations enters its facility records (corrosion, service, and leak records) into computer databases, in order to improve the accuracy of, and accessibility of, information. PGW also enters data for the ongoing maintenance of its fleet, plant, and facility operations.

PGW continually monitors its security measures at its major facilities, including the City gate stations, the two LNG facilities, and the headquarters building complex. PGW has established concrete barriers around critical facilities at the Richmond Plant and perimeter fencing around both the Passyunk and Richmond Plants.

Based on PGW's physical observations and other internally generated data, and the level of maintenance expense and capital improvements reflected in PGW's budgets, PGW's management believes that PGW operates and maintains its system in accordance with current Federal, Commonwealth and City regulatory standards and generally accepted industry practices. Based on PGW management's assessment of existing facilities, and under normal operating conditions, PGW's management believes that PGW's currently planned capital expenditures should be sufficient to maintain PGW's facilities and system in good condition through at least the duration of PGW's current Capital Improvement Program.

## **NATURAL GAS SALES, COSTS AND SUPPLIES**

### **PGW Gas Sales and Natural Gas Costs**

PGW serves residential, commercial, and industrial customers with residential and commercial customers accounting for approximately 98.7% of PGW's non-heating customer base and approximately 99.6% of PGW's heating customer base for Fiscal Year 2023. Historical average number of customers (for Fiscal Years 2019 through 2023) has been approximately 514,035. References to gas "sales," "revenues" and "receipts" in this Official Statement generally refer to respectively, volume of gas, billings for gas delivered and payments received from billed customers. See "PHILADELPHIA GAS WORKS – Competition."

PGW provides three categories of heating or non-heating services: (1) firm service to residential, commercial or industrial customers who are given an applicable general service rate, municipal service rate or Philadelphia Housing Authority service rate, (2) interruptible service<sup>4</sup> (mostly boiler and power plant service or load balancing service) to customers who must have an alternate energy source because their service may be interrupted and (3) transportation service to customers (including residential customers) who do not use PGW as its gas provider.

For Fiscal Year 2023, firm customers constituted approximately 93.5% of PGW's customer base and account for 61.9% of its sales volume (representing gas delivered to customers). For Fiscal Years 2024 through 2029, PGW projects that average firm non-heating customers will decline from 15,282 to 11,025, and total average heating customers will decrease from 460,931 to 457,374 and total average transportation customers will increase from 33,439 to 36,956.

See "Table 9: Historical and Projected Average Number of Customers" in APPENDIX B hereto which sets forth certain historical information and projections with respect to certain categories of PGW's total average customers for Fiscal Years 2019 through 2029, inclusive.

For the twelve-month period ended August 31, 2023, approximately 75.9% of gas revenues were derived from residential customers, approximately 21.3% were derived from commercial and industrial customers and approximately 2.8% were derived from municipal and housing authority customers. Gas revenues represent gas for which PGW has billed customers.

PGW's gas sales and gas costs reflect a variety of factors, including natural gas utilization, natural gas prices, pipeline demand charges and refunds, and exercise by customers (including residential customers) of

---

<sup>4</sup> Currently interruptible sales consist of LNG sales, which is priced at the LNG weighed average cost of gas plus the Sales Service Charge plus a negotiated margin, and Cogeneration sales service which is priced at the average commodity cost plus \$0.75/MCF.

their rights under the Gas Choice Act to purchase natural gas from providers other than PGW, though such customers will be required to use PGW’s distribution (also referred to as “transportation”) system and pay a fee for such use. See “PHILADELPHIA GAS WORKS – Competition”). Such choice has been available to commercial, industrial, and municipal customers. Residential customers have not had the option to so choose because there has been no third-party gas supplier offering to serve PGW’s residential customer base. See “PHILADELPHIA GAS WORKS – Competition.” The temperature and other weather conditions greatly affect the gas usage of PGW’s heating customers. Colder than normal weather conditions result in a greater demand for natural gas and warmer than normal weather conditions result in a lower demand for natural gas.

Total percent of gas sales by PGW’s customer type, net of transportation sales, during each of the five Fiscal Years ended August 31, 2019 through August 31, 2023, are shown in the following Table 5:

**Table 5**  
**PERCENT OF GAS SALES**  
**BY CUSTOMER TYPE**  
**THE FISCAL YEARS ENDED AUGUST 31<sup>(1)(2)</sup>**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Residential	75.9	75.9	78.8	79.8	80.1
Commercial and Industrial	21.3	21.2	18.7	18.6	18.4
Municipal and Housing Authority	<u>2.8</u>	<u>2.9</u>	<u>2.5</u>	<u>1.6</u>	<u>1.5</u>
TOTAL	100.0	100.0	100.0	100.0	100.0

<sup>(1)</sup> Source: PGW’s records.

<sup>(2)</sup> Sales represent gas delivered to customers.

Total gas sales for PGW are comprised of sales to firm and interruptible customers. Firm customers receive gas service under various schedules which anticipate no interruptions in the delivery of natural gas. Firm sales represented 61.9% of total gas sales by volume in Fiscal Year 2023. Interruptible sales service is offered to customers under schedules or contracts which anticipate and permit interruptions on short notice, generally in peak load periods. Interruptible gas service, which is sold to high volume commercial and industrial customers, represented 38.1% of total gas sales in Fiscal Year 2023. For information regarding PGW’s gas sales by customer and service type, see “PGW BUDGETS AND FINANCES – Selected Operating Data Regarding Customers and Gas Sales – Table 12 – Selected Operating Data Regarding Customers and Gas Sales.” See “Table 11: Historical and Projected Revenues” in APPENDIX B hereto which sets forth certain historical information and projections regarding gas revenues by customer type for Fiscal Years 2019 through 2029, inclusive.

During the five-year period from Fiscal Year 2019 through Fiscal Year 2023, natural gas sales revenues were affected by the commodity price of natural gas and heating demand caused by weather. The price of natural gas affects sales revenue because a substantial portion of PGW’s revenue is the recovery of natural gas costs. The commodity price of natural gas during this period was trending downward. The major cause of the downward pressure on natural gas prices was the volume of natural gas from additional supply coming online from drilling activity in the Appalachian shale region, over the past several years. It should be noted that total operating revenues are budgeted based on a 20-year heating degree day weather normalization. Heating degree days experienced during Fiscal Year 2019 – Fiscal Year 2023 varied from a low of 3,353 (Fiscal Year 2020) to a high of 4,079 (Fiscal Year 2022). The 20-year average degree days for the period ending in Fiscal Year 2023 was 3,923. Fiscal Years with higher degree days would indicate more demand for heat and higher sales volumes. Sales volumes for the period range from a low of 7,053.3 billion cubic feet (“Bcf”) in Fiscal Year 2020 to a high of 7,216.8 Bcf in Fiscal Year 2022.

Historically, the cost of natural gas has been PGW’s single largest expense. During the five-year period Fiscal Year 2019 through Fiscal Year 2023, natural gas expenses averaged \$202.7 million, with a low of \$146.7 million in Fiscal Year 2020 and a high of \$272.4 million in Fiscal Year 2022. Information regarding PGW’s

natural gas costs and operating revenues during each of Fiscal Years 2019 through 2023 is shown in the following Tables. For information regarding PGW’s natural gas sales volume, see the table entitled “Sales Volume” in APPENDIX A – “ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEARS ENDED AUGUST 31, 2023 AND 2022 OF THE PHILADELPHIA GAS WORKS – Statistical Section.”

**Table 6**  
**NATURAL GAS COSTS FOR THE**  
**FISCAL YEARS ENDED AUGUST 31<sup>(1)</sup>**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Natural Gas Costs (\$ thousands)	\$ 223,978	\$ 272,438	\$163,873	\$146,732	\$206,801
% Natural Gas Costs (Decrease) Increase from Prior Fiscal Year	(17.8)	66.2	11.7	(29.0)	11.0
% Natural Gas Utilization (Decrease) Increase from Prior Fiscal Year Bcf <sup>(2)</sup>	(13.1)	3.5	0.7	(9.1)	(2.3)
% Natural Gas Price (Decrease) Increase	(3.6)	95.3	11.7	(33.0)	14.1
Pipeline Demand Charges (\$ thousands)	\$ 69,783	\$ 73,533	\$65,319	\$74,056	\$62,994
Pipeline Refunds (\$ thousands)	\$ 12,675	\$ 248	\$9	\$18,777	\$7

<sup>(1)</sup> Source: PGW’s records.

<sup>(2)</sup> Billion cubic feet.

#### **Certain Factors that May Lower the Volume of PGW’S Gas Sales**

Demand for gas supplied by PGW can be driven by changing population patterns within the City, significant new commercial or industrial customers, or other changes in consumer habits. The nature and patterns of new residential development and redevelopment within the City can also impact PGW’ s level of gas customers and consumption. New multi-family residential developers may opt to utilize all electric options for appliances and heating and cooling. Based on PGW management’s observations, multi-family rental property developers and owners tend to choose electric heating sources due to initial lower capital costs. Federal, Commonwealth and local laws, including building code provisions, may also constrain or influence developers’ use of gas versus other options.

There are also certain factors that may tend to lower gas consumption per customer over time. These include conscious energy conservation efforts by customers as well as market or regulatory driven technological advances that increase levels of energy efficiency in end use appliances and other devices, including furnaces and stoves and could also lead to declines in per capita energy consumption. PGW has observed a trend where customers are installing more energy efficient equipment and smart thermostats which is leading to lower usage per customer. Better insulation and energy sealing in homes and other buildings (including newly constructed or rehabilitated buildings) within Philadelphia over time should also tend to contribute to reduced per capita energy consumption. Additionally, certain regulatory and legislative bodies have introduced or are considering requirements and/or incentives to reduce energy consumption by a fixed date. Likewise, certain regulatory and legislative bodies have introduced or are considering actions which could limit the use or installation of new natural gas appliances. Consumer demand for PGW services may also be impacted by any price increases, including those driven by factors beyond PGW’s control such as inflation or increased prices in natural gas.

In general terms, “decoupling” refers to a regulatory policy or additions to or changes in service offerings whereby a utility’s profits (or some measure of net revenues in the governmental enterprise context) becomes less dependent upon, or independent of, gas, electricity or water sales. These approaches lead to the removal of, or lessening of, the incentive for a utility to sell more of the unit it produces and/or distributes. While PGW’s management believes that this is a development which may reasonably be anticipated to occur in the gas

markets over the long-term, there are no assurances as to the timing and extent of any such developments as they may impact PGW.

### **Seasonal Considerations**

Historically, PGW has had higher customer sales volumes during the colder weather months of November through April. These typically are the months during PGW's Fiscal Year when it recognizes generally stronger results in terms of operating income, net income and net earnings (*i.e.*, net income minus PGW's contributions to the City). These generally stronger results tend to offset, on an annual Fiscal Year basis, relatively less robust results frequently recognized during the warmer months of the Fiscal Year (*i.e.*, the later spring into the early fall months). Consequently, there is a risk that the overall impact on PGW's operations and financial position due to any deterioration in PGW's collection results, bad debt experience, and other financial metrics, regardless of underlying causes, may be magnified to the extent such deterioration occurs during the cold weather months of PGW's Fiscal Year.

PGW actively works to minimize the potential for adverse customer payment patterns during winter months. PGW has annual campaigns to educate customers regarding assistance programs such as: LIHEAP grants, CRISIS grants, Equal Monthly Payment Plans (Budget Billing), CRP, and other various payment agreement options that are afforded PGW customers. PGW proactively implements these annual campaigns to inform customers of their options if customer payment challenges arise.

[Remainder of Page Intentionally Left Blank]



**Table 7**  
**OPERATING REVENUES**  
**HEAT AND NON-HEAT CUSTOMERS**  
**FISCAL YEARS 2019 THROUGH 2023<sup>(1)(4)</sup>**  
**(THOUSANDS OF U.S. DOLLARS)**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Firm non-heat	\$ 22,617	\$ 24,535	\$21,267	\$20,496	\$23,328
Interruptible gas sales	5,057	6,338	2,085	1,922	1,325
Billed non-heating	27,674	30,873	23,352	22,418	24,653
GCR <sup>(2)</sup> non-heating adjustment	(1,760)	1,191	(230)	(819)	412
Total non-heating	25,914	32,064	23,122	21,599	25,065
Billed heating	622,897	632,372	544,653	540,575	592,730
GCR heating adjustment	(49,080)	30,918	(5,392)	(21,686)	11,040
Total billed heating	573,817	663,290	539,261	518,889	603,770
Weather normalization adjustment (WNA)	28,899	20,523	10,540	9,683	1,347
Total heating	602,716	683,813	549,801	528,572	605,117
Total gas sold	628,630	715,877	572,923	550,171	630,182
Firm transportation (FT) non-heat	5,698	5,428	5,060	4,963	5,328
FT heating	52,265	47,295	46,112	43,259	42,250
WNA FT	3,498	2,637	1,222	1,106	249
Total heating FT	55,763	49,932	47,334	44,365	42,499
Total FT	61,461	55,360	52,394	49,328	47,827
Unbilled adjustment	(2,735)	3,329	181	2,864	320
GTS: transportation <sup>(3)</sup>	1,230	1,177	1,165	1,160	1,161
GTS (customer/customer choice)	11,884	12,695	11,469	10,381	12,664
GTS (supplier/customer choice)	11	11	583	(561)	12
GTS (firm supplier)	2,943	2,467	2,296	2,538	1,901
Total gas operating revenues	<u>\$703,424</u>	<u>\$ 790,916</u>	<u>\$641,011</u>	<u>\$615,881</u>	<u>\$694,067</u>

(1) Source: PGW's records.

(2) GCR=Gas Cost Rate.

(3) GTS=Gas Transportation System.

(4) Also see the table "PGW Historical Revenues by Customer Type" above.

### Gas Supply, Storage and Transportation

PGW uses models that project customer natural gas requirements for the coldest hour, day, and year, using its records since the mid-1970s. These projections form the basis for PGW's decisions regarding capacity commitments for pipeline supply, storage and transportation contracting. In order to deliver gas to its customers, PGW must purchase gas and also arrange capacity on the gas pipelines that deliver gas from the suppliers, many of which can be as far away as the Gulf of Mexico, to the City gate stations.

The cost of gas supply is a function of the price paid and the quantity purchased, both of which are variable. While PGW can set the timing of gas purchases, the prices paid are largely determined in a very competitive and sometimes volatile marketplace. However, PGW uses offsite storage facilities and LNG storage to lower its supply costs.

PGW expects its supplies of natural gas and LNG to be adequate to meet its projected demand on the coldest peak day, hour, and year. See also “Table 2: Peak Day Supply and Demand” and “Table 3: Annual Supply and Demand” in APPENDIX B hereto for certain historical and projected information regarding peak day gas supply and demand and annual supply and demand.

### *Supply*

PGW purchases gas in four different types of transactions: long-term gas transactions, seasonal baseload gas transactions, swing gas transactions and spot gas transactions. To satisfy the projected natural gas requirements, PGW enters winter-only and summer-only supply arrangements with approximately a dozen gas suppliers. These arrangements are base load supply that PGW must purchase. The price of gas under these supply arrangements can be set in months prior to scheduled delivery if PGW determines there is an advantage to doing so, or the price can be set at an index for the month of delivery. PGW also enters year-long swing supply arrangements where PGW can adjust the volume from zero to the maximum contract amount on a daily basis. The price of gas under these supply arrangements is based on daily index pricing. PGW has been increasing its purchasing of Marcellus shale supply due to price. For winter 2023-2024, PGW’s purchases under these winter supply arrangements provided approximately 57% of PGW’s daily firm transportation entitlements. During that same period, approximately 18% of PGW’s natural gas supply portfolio was purchased in the spot market on a 100% gas daily pricing basis that allowed for daily volumetric changes. The source of the remaining 25% of the gas usage was gas in storage facilities, including from three servicers that store and can deliver natural gas through their pipelines and from PGW’s LNG facilities, as an additional source of supply. PGW does not own, lease or operate any gas wells and does not have exclusive rights to all or a portion of the output of any particular gas well pursuant to contractual arrangements.

*Prepay Gas Transactions.* Starting in May 2019, PGW started purchasing gas through long-term gas supply opportunities. As of late Spring 2024, PGW has completed twelve prepaid gas transaction agreements. Each of the long-term gas supply opportunities has a term of 25 to 30 years. A major benefit of these prepaid purchase agreements relates to PGW’s ability to take advantage of gas supplies purchased at discounts ranging from \$0.29 to \$0.61 per Dth from the specified spot market index. All of the long-term transactions are completed through an authorized public authority. In the winter season of 2023 – 2024, PGW received approximately 71,000 Dth per day from the prepaid transactions. In the summer season of 2024, PGW is expected to receive approximately 53,000 Dth per day from the prepaid transactions. These gas supply purchase opportunities are expected to provide approximately 50 percent of PGW’s annual gas supply and are expected to save approximately \$8 million in gas costs in fiscal year 2024, increasing to approximately \$10 million of expected savings in the following fiscal years. PGW is expected to save approximately \$295 million over the term of all of the pre-paid gas supply contracts currently in place.

### *Transportation*

All PGW’s gas purchases are ultimately transported from the sources of supply to the City gate stations through either Texas Eastern pipelines or Transco-Williams pipelines. Injections and withdrawals of gas from off-system storage also rely on these two pipelines. Texas Eastern and Transco-Williams each account for approximately half of PGW’s total contract pipeline capacity of 302,001 dekatherms (Dth) per day. The major contracts for Texas Eastern and Transco-Williams transportation services are being renewed automatically on a year-to-year basis. See “Table 1: *Gas Supply, Transportation and Storage Contracts*” in APPENDIX B hereto for a summary of PGW’s existing transportation and storage agreements with Texas Eastern and Transco-Williams.

### *Storage*

Due to the highly seasonal nature of PGW’s load (demand), gas purchased and delivered through the pipeline transportation service is supplemented using storage services. The principal PGW natural gas supply facilities include nine City gate stations owned in large part by Texas Eastern and Transco-Williams as well as two LNG plants owned by the City. PGW’s supply facilities also include a gas control center, a deactivated propane/air plant, and one gas holder. During periods when PGW’s load is less than the contracted transportation

service, PGW may utilize the available capacity to purchase gas for delivery to off-system storage facilities or to liquefy such gas for storage in its LNG facilities. To the extent that PGW is able to withdraw gas from off-system storage and local LNG facilities, its need to reserve capacity on pipelines to serve higher seasonal loads is diminished. In addition, gas purchased during the lower cost non-winter period, if it can be stored and redelivered from storage during the winter, will be less costly than gas purchased during the generally higher cost winter period. Further, market area storage provides PGW with increased security that gas will be available for customers when needed.

Of PGW's total contract daily storage withdrawal capacity of 200,885 Dth per day, services provided using the Texas Eastern facilities account for 99,012 Dth per day, or approximately 49.3%, and services provided using the Transco-Williams facilities account for 101,873 Dth per day, or approximately 50.7%. Transco-Williams's storage contracts do not include bundled transportation so volumes from this storage must be transported using a transportation contract from a different provider. PGW's remaining storage volume arrangements consist of storage and transportation bundled. This storage capability primarily reduces contract demand for long haul transportation services and reduces the quantity of gas PGW needs to purchase to meet winter peak demand.

#### *Transportation and Storage Costs*

During Fiscal Year 2023, transportation and storage capacity costs accounted for approximately 31% of the total gas supply expenses of \$224.0 million. The prices paid for these services are determined by long-term contracts and tariff rates regulated by the FERC. These components of the gas supply cost represent the purchase of capacity, which generally remains relatively fixed, and is not expected to vary directly with the volumes of gas purchased. See "- Storage" above, "- Gas Supply Demand and Balance" below, "THE GAS WORKS FACILITIES - LNG Storage and Vaporization Facilities" above, and "PGW Gas Supply – Transportation and Storage Services" in APPENDIX B hereto.

See "Table 1: Gas Supply, Transportation, and Storage Contracts" in APPENDIX B hereto for a summary of PGW's existing transportation and storage agreements with Texas Eastern and Transco-Williams.

#### **Gas Supply and Demand Balance**

January 19, 1994 was PGW's highest actual historical peak demand day (a day with 2°F average temperature), with a demand (send out) of 752,707 Mcf. For design purposes, PGW projects total demand based on a 65 heating degree-day ("HDD"). This projection results in a design day average temperature of 0°F. This is the lowest expected temperature that PGW believes could reasonably occur and is supported by PGW historical experience in the 1980's of a design day with an average temperature of 0°F. Pipeline deliveries (flowing gas plus underground storage) for Fiscal Years 2019-2023 have met between 61% and 98% of actual peak day demand. Significantly warmer than normal winters have contributed to these figures during this time period. Since PGW is the supplier of last resort if a customer's supplier cannot deliver natural gas, PGW must maintain these capacity levels. PGW assigns to its firm transportation customers proportionate shares of pipeline capacity and cost. PGW's management believes that PGW currently can meet anticipated demand requirements based upon its capacity.

PGW defines a normal year as one containing 3,923 HDDs for its supply planning purposes. The ten-year average HDDs as recorded at the Richmond Plant provides the basis for the supply planning normal year. A design year consists of 5,280 HDDs according to PGW's definition and is based on the temperatures experienced during the 1977-1978 winter. This winter is utilized due to it being the coldest winter recorded in the previous six decades.

Although 100% of PGW's supply is transported through one of the two interstate pipelines, the supply components are based on the source of gas when ultimately delivered to the customer. Approximately 98.2% of volume, on a normal annual basis, is delivered to end users through the interstate pipeline systems (of which approximately 88.06% is flowing gas (*i.e.*, gas that is purchased at the same time as delivered to customers), and approximately 10.26% is off-system storage), and approximately 1.68% is delivered from PGW's LNG facilities.

See “Table 2: Peak Day Supply and Demand” in APPENDIX B hereto which summarizes the supply mix that was used to meet historical peak day demand from Fiscal Years 2019 through 2023.

### **Transportation Service to PGW Customers**

PGW in Fiscal Year 2023 provided transportation service to 33,022 customers. The increase in transportation customers from 17,989 in Fiscal Year 2019 is attributed mainly to customers switching from sales to transportation service. Grays Ferry and Trigen Cogeneration Facility, during calendar year 2023, accounted for approximately 56.3% of PGW’s transportation throughput and 7.65% of PGW’s transportation revenue. Essentially dedicated facilities provide service to these customers in accordance with a long-term contractual arrangement. Pursuant to this arrangement, PGW received approximately 8 cents per Mcf for each unit transported plus a service charge designed to cover PGW’s cost to operate and maintain the associated facilities necessary to provide service for these customers. Under new tariff effective December 1, 2023, Grays Ferry and Trigen Cogeneration Facility are charged new tariff transportation rate, service charge and other surcharges.

Other customers receive services pursuant to separate individually negotiated contractual arrangements. Transportation customers, in some instances, also receive some service in accordance with the sales rate schedule for a portion of their load.

A substantial number of PGW’s customers continue to take fully bundled service from PGW even though PGW has operated under its Restructuring Compliance Tariff since September 1, 2003 with unbundled rates. A fully bundled service entails the given customer dealing with one provider and paying a single charge for all services. In such instances, PGW packages into a single full-service rate all of the separate services which PGW provides (gas supply, transportation, storage, and distribution).

Under PGW’s restructured rates, customers may continue taking the gas supply, transportation, and storage services from PGW or select a third-party supplier for these services. Whether the customer selects PGW or a third party for these services, the customer remains obligated to take and pay for distribution service from PGW. Under its current tariff arrangement, PGW allocates (with recall rights) components of its pipeline transportation to firm service third party supplier parties such that PGW and its customers who take a fully bundled service will not be adversely affected by paying for capacity that would otherwise be stranded by customers who have selected a third-party supplier. PGW keeps ownership of the transportation capacity due to PGW continuing to be the supplier of last resort. If a firm service third party supplier defaults on, or otherwise no longer can fulfill its obligations, PGW can recall the transportation capacity and provide service to the customers who had chosen service from such third-party supplier. None of PGW’s storage capacity is released to firm service third party suppliers. Balancing services (*i.e.*, reconciling customer gas deliveries with consumption) are provided by PGW from its storage as needed. During the winter season, PGW assesses firm service third party suppliers a storage and peaking charge for storage balancing services which PGW provides. During the summer season, firm service third party suppliers return volumes previously provided from PGW storages.

Due to the unbundled rates, PGW’s margin from firm customers is not affected in any significant way due to a customer decision to choose a third-party supplier or to keep taking the fully bundled service. The distribution and customer charges are still paid to PGW regardless of which service is taken by the applicable customer. PGW is made whole through the GCR mechanism regarding gas supply, transportation, and storage costs. Customers choosing to receive fully bundled service are not adversely impacted by PGW’s ability to assign capacity to the third-party suppliers.

For Fiscal Year 2024, PGW estimates that approximately 31.6 Bcf of commercial, industrial and municipal throughput, or 46% of total throughput for all customers, consisted of gas supply and transportation from a third-party supplier.

## ENVIRONMENTAL MATTERS

### General

PGW's operations and facilities are subject to numerous laws and regulations, including permitting and approval requirements, promulgated by federal agencies such as the United States Department of Transportation ("USDOT"), the United States Environmental Protection Agency ("USEPA"), and the Federal Emergency Management Agency ("FEMA"), by state entities such as the Pennsylvania Department of Labor and Industry ("PADLI") and the Pennsylvania Department of Environmental Protection ("PADEP"), and by local entities such as the Philadelphia Water Department ("PWD"), the Philadelphia Department of Public Health ("PDPH"), Philadelphia Air Management Services ("AMS"), and the Philadelphia Office of Emergency Management ("OEM"). These requirements are subject to change and additional or different requirements may be imposed upon PGW in the future. PGW's Regulatory Compliance Unit in the Customer Affairs Department routinely tracks and notifies relevant personnel of regulatory compliance requirements. See "THE GAS WORKS FACILITIES – Regulatory Compliance." No assurances can be given that PGW will be able to fully comply with changes to existing laws or requirements, or that compliance with such changes in requirements will not materially increase PGW's capital or operating costs or have a material adverse effect on Gas Works Revenues.

PGW (and its predecessors) has been in operation for more than 189 years, and many of its current facilities (the "Current Sites") and other locations where PGW had previously operated facilities used in gas manufacturing ("Legacy Sites") were built decades ago. As a result of internal environmental evaluations of its Current Sites, PGW believes that several Current Sites that had been used in gas manufacturing contain contaminants from those operations or from other sources. Additionally, certain equipment and fixtures that PGW removed from service years ago may no longer comply with current environmental requirements. The Current Sites are comprised of the Tioga facility, the Belfield station (the "Belfield Facility"), the 9th & Diamond meter shop (the "Diamond Facility"), the Richmond Plant and the Passyunk Plant. In order to address these issues, PGW and the City voluntarily approached the PADEP and proposed to resolve these issues at the Current Sites under PADEP's Land Recycling and Environmental Remediation Standards Act ("Act 2").

Currently, PGW is unaware of any remediation efforts occurring at the Legacy Sites, and no remediation activity is presently scheduled for any Legacy Site.

To determine the extent necessary to remediate environmental conditions impacting its Current Sites, PGW commissioned environmental site assessment studies that were conducted by an environmental consulting firm (the "Firm") in 2002, 2003 and most recently in 2004. In 2004, PGW received a set of five remedial investigation reports by the Firm that were based upon the findings of the environmental site assessment studies. These Remedial Investigation Reports (as such term is defined in Act 2) ("RIRs") concerned the characterization of site soil and/or groundwater contaminated with volatile organic compounds ("VOCs") and semi-VOCs at the Current Sites. In each case, the RIRs documented site impacts and recommend remediation at the applicable site to meet the site-specific standards permitted under Act 2.

Based on the RIRs, at the end of 2004, PGW submitted to the PADEP PGW's Notice of Intent to Remediate ("NIR") with copies of the RIRs for review. The remediation actions anticipated by PGW at the time included, but were not limited to, additional site characterizations, risk screenings, groundwater monitoring, soil vapor studies, underground storage tank removals, above ground tank removal, removal of other above ground fixtures, impacted soil removal, and product recovery. PGW has performed monitoring and remedial actions as guided by the reports.

Beginning in 2005, PGW conducted a series of public meetings to inform the public of PGW's upcoming remediation projects at the Current Sites, and also to address any specific concerns raised by local residents regarding PGW's future remediation plans, as required by the Public Involvement Plan Process. As a result of the public meetings, PGW developed a project schedule and budget to address and conduct any necessary remedial work for the impacted Current Sites. PGW expects that this will provide PGW with allocated resources in a manner calculated to avoid any material adverse effect on PGW or on PGW's revenues.

Nevertheless, until the project schedule work plans are finalized with the PADEP, it is not possible to determine what the costs of several remediation projects will be. (See “- **Current Activities**” below).

### **Current Activities**

Currently, an air sparge soil vapor extraction system (“AS/SVE”) is operating on the east side of the Passyunk Plant and similar engineering controls will be evaluated for other facilities. PGW is also operating a remediation system on the west side of the Passyunk Plant that removes light non-aqueous phase liquid (“LNAPL”) from the groundwater. PGW is currently considering removing source material from parts of both the Passyunk Plant and the Tioga Facility, but not from the Richmond Plant. The Passyunk Plant, Richmond Plant and Tioga Facility are being monitored on an ongoing basis for development of remedial action work plans for future submittal to PADEP in connection with its Act 2 program. Pursuant to the requirements of the Pennsylvania Storage Tank and Spill Prevention Act of 1989 (the “Spill Prevention Act”), PGW is currently conducting monitored natural attenuation as a remedial approach with respect to storage tanks at the Belfield Facility and the Diamond Facility with the goal of attaining site closure for past storage tank issues at these facilities by Fiscal Year 2025 and Fiscal Year 2026, respectively. The Spill Prevention Act establishes requirements, standards and procedures for removal and closure of storage tanks, to identify and contain existing contamination and to prevent future releases from storage systems no longer in service. In Fiscal Year 2024, the operating and maintenance expense estimates for environmental remediation were budgeted for \$4.2 million. The average annual costs for these expenses from Fiscal Year 2021 to Fiscal Year 2023 were approximately \$0.9 million.

Over the course of Fiscal Years 2025 through 2055, PGW expects to budget such additional amounts as may be necessary to address and conduct remedial work for impacted PGW Current Sites to the extent such costs are not included in other budget line items. PGW expects that this will provide PGW with required resources without causing a material adverse effect on PGW or on PGW’s revenues. However, until the work plans are finalized with the PADEP and other agencies with jurisdiction over PGW, and remediation activities are completed, costs of several remediation projects cannot be determined.

### **Estimates for Financial Statement Purposes**

The remediation activities described above at the Current Sites are estimated at a net present value of \$23.610 million (as of August 31, 2023) for the 30-year period beginning that date. See APPENDIX A – “ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEARS ENDED AUGUST 31, 2023 AND 2022 OF THE PHILADELPHIA GAS WORKS – **Financial Section** – Notes to Financial Statements – **Note 1(s) – Pollution Remediation**” attached hereto for a description of PGW’s method for estimating remediation obligations.

### **Other Estimate of Environmental Remediation Costs**

For purposes of insurance settlement negotiations (see “- **Insurance Settlements**” below), PGW commissioned a study in 2003, updated as noted below, with different assumptions regarding the type and scope of necessary work and estimate of remediation costs with respect to the Current Sites and Legacy Sites. The higher estimate reflects what PGW considers could be needed at both Current Sites and Legacy Sites if source removal were necessary. This information does not address PGW’s insurance coverage.

#### *Additional Study of Current and Legacy Sites and Associated Remediation Costs*

A second estimate for environmental remediation costs updated as of May 2023 is for \$347 million (including operations and maintenance) for the 30-year period beginning May 2023. It was initially prepared in 2003 by a consultant to PGW for insurance settlement purposes to be a “‘reasonable worst case’ or ‘plausible worst case’ scenario,” rather than an approach that estimates the environmental remediation costs of scenarios thought most likely to occur or associated with a preferred remedy. It was updated in 2012 and then in 2023 primarily to reflect current remediation pricing. It generally includes all of the activities described under the lower cost estimate. However, recognizing that older processing for producing gas and older storage methods make it possible that contaminants exist at the Legacy Sites formerly associated with PGW or its predecessors

and located throughout the City and at some of the Current Sites, it expands the properties included in the remediation costs estimate to both the Current Sites and the Legacy Sites. These more comprehensive and costly remediation measures than those assumed in the lower estimate would include, as appropriate, removal or stabilization of contaminated soils, plus pumping and treating groundwater to remove contaminants and prevent migration, excavation and off-site thermal treatment of contaminated soils and attention to ground water contamination. PGW does not currently plan to undertake many of the activities detailed in this estimate.

### **Actual Costs May Differ Substantially from Estimates**

Estimates of remediation costs may change substantially as additional information becomes available regarding the level of contamination at specific sites, available remediation methods, and changes in price, technology, proposed land use, or applicable regulations.

### **Other Environmental Activities**

#### *Clean Air Act*

The Clean Air Act (as amended, the “Clean Air Act”) requires the County of Philadelphia (which is coterminous with the City) to submit to the USEPA a State Implementation Plan (the “State Implementation Plan”) revision demonstrating that the County has implemented all necessary Reasonably Available Control Technology (as defined in the Clean Air Act) controls on all major stationary sources of VOCs and oxides of nitrogen. The Philadelphia Office of Sustainability currently includes the methane released during PGW’s main leaks in the City’s carbon budget. Such methane has the effect of adding greenhouse gases to the atmosphere, which have been found by scientific consensus to contribute to anthropogenic climate change. As part of PGW’s capital improvement program, PGW is replacing portions of its mains with plastic pipes. See “THE CAPITAL IMPROVEMENT PROGRAM” for information regarding PGW’s gas main replacement program.

On April 18, 2012, the USEPA finalized regulations under the federal Clean Air Act to reduce air pollution from the oil and natural gas industry. The final rules were expected to, among other outcomes, reduce air toxics and emissions of methane, a potent greenhouse gas. Distribution lines such as PGW’s mains have not been affected by the final rules.

#### *Other Remediation Activities*

PGW is conducting abatement of asbestos-containing materials, lead-based paint, and mold at certain of its facilities on an as needed basis. PGW is replacing customer gas regulators with mercury-free regulators. PGW conducts other remediation and abatement projects as needed in conjunction with construction and capital projects among PGW locations and facilities to ensure health and safety during operations and to meet Federal, State, and City regulatory requirements. It is equally sharing the costs of remediation of a former storage facility adjacent to the Passyunk Plant with the present owner for which PGW is only responsible for its own share of the costs.

#### *Voluntary Activities*

No contaminants related to the manufacture of natural gas and other gas works operations were found at or above actionable levels in soil vapor tests conducted voluntarily by PGW at properties adjacent to the Passyunk Plant. Although the tests revealed the presence of chloroform, PGW does not believe that the chloroform was generated by PGW activities. PGW voluntarily assisted USEPA’s soil vapor studies of the affected properties, but has received no further communication from USEPA on this matter since 2015.

### **Regulatory Actions and Suits**

#### *Current Sites*

With respect to the Current Sites, except with respect to underground storage tanks which are subject to mandatory remediation, and minor fines included in “– **Violations**” below, PGW has not received any orders for mandatory remediation measures or been fined or sanctioned by any environmental regulatory agency, nor has

it received any third-party claim for bodily harm or property damage based on environmental issues at the Current Sites. PGW is not aware of any river sediment claim or other natural resource claims.

#### *Legacy Sites*

PGW has not made any on-site investigation or data analysis of the Legacy Sites, nor has it assessed the Legacy Sites for soil, ground water and soil vapor environmental impact. PGW has not conducted environmental remediation or been asked to conduct environmental remediation at any Legacy Site, other than a third-party claim which the claimant has not pursued. PGW is not aware of any river sediment claim or other natural resource claims. It has not been fined or sanctioned for any Legacy Site, nor has it received any third-party claim for bodily harm or property damage at the Legacy Sites.

#### **Violations**

Since 2002, PGW has paid less than \$346,000 in fines for notice of violations and penalties associated with permit and regulatory violations from the USEPA, the PWD, and AMS. The majority of such fines were incurred in connection with USEPA requests for settlements under the Comprehensive Environmental Response, Compensation, and Liability Act resulting from issues at off-site disposal facilities.

#### **Insurance Settlements**

PGW does not currently carry first party environmental coverage which it could use for environmental remediation costs. However, PGW's pre-1986 excess liability policies included certain coverage for environmental liability to third parties. In 2004, PGW began negotiating a buy-out of those policies with the various carriers, agreeing to forgo any future recovery for third-party claims in exchange for obtaining funds for environmental remediation. Through March 2022, PGW had received \$18.4 million in negotiated settlements from various carriers. The process of negotiating such buyouts for funds has substantially been concluded.

#### **Recovery of Environmental Remediation and Other Costs**

The costs of environmental remediation are included in the category of items eligible for inclusion in the Base Rate. However, while there is no express prohibition making the costs of fines or penalties related to environmental matters ineligible for inclusion in the Base Rate, there can be no assurance that the PUC would approve Base Rate increases to cover such costs should they be incurred. PGW's ability to recover expenditures depends on the rates authorized by the PUC. The PUC is obligated by the Gas Choice Act to use the cash flow methodology to determine PGW's "just and reasonable" rates. PGW periodically files rate increase applications, which may or may not be approved, or may be partially approved, and any approval may not occur in a timely manner. See "GAS SERVICE TARIFF AND RATES – Rates – *Base Rate*."

#### **Uncertainty**

Any analysis of the costs and requirements of environmental impacts is subject to certain variables, including the possible future discovery of pre-existing unknown pollution conditions, assertions of claims by government agencies or private litigants, changes in laws, administrative policies, or judicial rulings that create new environmental liabilities or exacerbate existing ones. PGW reserves the right to all defenses of liability with respect to environmental impacts, including, without limitation, seeking contribution from previous operators and/or adjacent site owners.

### **CLIMATE CHANGE**

PGW's management considers that the consequences of climate change may most likely impact PGW in terms of its revenues should certain circumstances coincide. Warmer winters within PGW's service area would tend to lead to decreases in the volume of natural gas used by PGW's customers. However, no assurances can be provided that PGW could fully and timely offset the revenue impacts of such lower load (demand) through its Weather Normalization Charge.



PGW does not have any facilities that PGW's management considers likely to be materially affected by climate change and the related rising water table before the final maturity date for the Bonds. However, while the average winter temperature has historically registered at 41.9 degrees Fahrenheit, climate change predictions suggest increased temperature extremes and more powerful storms that could stress the natural gas pipeline system due to more frequent ground movement. Furthermore, PGW customers do have equipment that is occasionally affected by a rising water table. This occurs at different times with high volumes of rain. The rising water table may infiltrate PGW's customers' equipment, resulting in localized gas outages that must be addressed by PGW Field Operations personnel.

*Methane Reduction Program.* In Fiscal Year 2021, PGW developed a Methane Reduction Program, which outlines its plan to reduce methane emissions by 80 percent by 2050. PGW's management believes that the Methane Reduction Program, along with PGW's energy efficiency and emissions reduction initiatives, will improve the quality of life for those within and beyond PGW's service area and will advance the City's overall sustainability efforts. In Fiscal Year 2021, PGW invested more than \$93.0 million to upgrade its infrastructure and retire nearly 40 miles of maturing pipes from its distribution system, which PGW estimates prevented 187 metric tons of methane emissions from entering the atmosphere.

*Fiscal Year 2024 Greenhouse Gas Emissions Reduction Report.* In February 2024, PGW shared its comprehensive greenhouse gas ("GHG") reduction report (the "Reduction Report") which is publicly available on PGW's website. The Reduction Report indicates that it is intended to build on the efforts related to the Methane Reduction Program and represents PGW's "first public target and plan for achieving actionable comprehensive GHG emission reductions." The Reduction Report noted that in FY 2023, PGW updated its GHG emissions inventories capturing the latest Scope 1 and 2 inventories for calendar year 2019 and calendar year 2022, and compiled its first Scope 3 inventory for calendar year 2022. (Scope 1 refers to emissions generated by sources under PGW's direct control; Scope 2 refers to indirect emissions generated from the purchase of electricity; and Scope 3 refers to indirect emissions upstream and downstream of operations that are outside of PGW's control.) The Reduction Report concluded that the inventories demonstrate that PGW'S main replacement program is the most effective tool for PGW to reduce the greatest portion of its Scope 1 and 2 emissions. The Reduction Report also stated that as of calendar year 2019, based on the then most recently available city-wide data from the City's Office of Sustainability inventory reports, natural gas emissions from customer buildings served by PGW represented approximately 14.8% of Philadelphia's total emissions.

Changes in consumer attitudes and preferences in response to climate change concerns may also accelerate movements to greater use of alternative energy sources and lead to further energy efficiency initiatives which may also impact the level of demand for natural gas. Due to the high proportion of PGW's customers who are residential (as opposed to industrial) and the high proportion of Philadelphia residents that are already PGW natural gas customers, PGW may experience only limited benefits from any shifts in demand from oil to natural gas (*i.e.*, as a less carbon-intensive fossil fuel) within its service area.

*PGW Business Diversification Study.* In December 2021, the City's Office of Sustainability and PGW released a report entitled "Philadelphia Gas Works Business Diversification Study – Identifying Opportunities for Philadelphia Gas Works to Thrive in a Low-Carbon Future" (the "Business Diversification Study").

The Business Diversification Study defines and evaluates certain pathways for PGW to decarbonize by 2050. Such decarbonization is not mandated by Commonwealth law or any PUC requirement. The City noted in connection with the release of the report that, "Each of the pathways presents trade-offs between costs and feasibility that highlight the challenge of decarbonizing a gas utility, a challenge which has not been fully addressed elsewhere in the United States." The City also noted in connection with the release of the Business Diversification Study that the City had evaluated new business models that could provide PGW with additional sources of revenue that are consistent with the City's climate and rate affordability goals, that several of the new strategies were close to existing PGW services, such as weatherization or renewable natural gas supply services, and that other strategies were a departure from PGW's existing business model. The City also commented that, "The analysis provides clear evidence that PGW's complex regulatory structure must be reformed in order to enable the utility to pursue any of the surveyed options."

PGW staff maintains close working relationships with their peers in the City's Sustainability and Energy Offices, and are actively collaborating on several projects, including some identified in the City's master energy plans and the Business Diversification Study. Several of the City's primary recommendations address energy efficiency and conservation, which PGW wholeheartedly supports, most importantly through its EnergySense program, first launched in 2011. Beyond energy efficiency, the City also targets the cleaning of its energy supply, primarily addressing upstream electric generation, which is not directly related to PGW's operations. The City's report cites additional clean energy supply tactics, including Combined Heat and Power (CHP) utilizing natural gas, renewable natural gas (RNG), and geothermal projects, all of which are current and/or potential future business opportunities for PGW. The Business Diversification Study also has identified potential business diversification opportunities related to decarbonized gas and geothermal. PGW is collaborating with various City departments in exploring a potential Philadelphia renewable natural gas (RNG) project, which would aim to leverage PGW's existing energy operational capabilities, identify a potential new PGW business diversification opportunity, and improve local air quality. PGW is also currently developing a geothermal feasibility study to similarly identify the potential PGW business model fit and PGW's role in its deployment. Finally, PGW is also partnering with the City for identifying and evaluating further energy projects beyond those identified in the City's historical plans, providing potential PGW business diversification opportunities while addressing environmental goals. Most notably would be PGW's developing hydrogen proposals within the Department of Energy (DOE) regional hydrogen hub, including a project to support the City in converting 113 sanitation trucks from diesel to hydrogen.

PGW's management currently is not planning to rely on the receipt of any net revenues from these diversification projects to meet its financial covenants or internal financial metrics. No assurances can be provided as to the degree or timing of any success that PGW and the City may have in meeting the applicable engineering, construction, market competition, consumer acceptance, political and regulatory challenges that may arise over time associated with these or similar business diversification projects.

The report is publicly available at <https://www.phila.gov/media/20211207134817/PGW-Business-Diversification-Study-2021-12.pdf> but is not incorporated by specific reference herein.

## **CYBERSECURITY RISK MANAGEMENT**

PGW has established a Cybersecurity Policy and Cyber Incident Response Plan. PGW's cyber security is managed by the Director of Cyber Security, who reports directly to PGW's Chief Information Officer (CIO). PGW's cyber security incident response team consists of senior leaders such as the CIO and the Vice President of Infrastructure and Service Management, and their subordinates. The Director of Cyber Security and/or the CIO will keep the PFMC Board of Directors informed about any current cyber security incidents and provide periodic updates about issues or threats.

Cybersecurity protocols are one prominent component of PGW's overall risk management policies and procedures. PGW maintains a comprehensive Security Threat Level Plan (the "Security Plan"). The Security Plan was developed from the coordinated efforts of several PGW departments that included Security, Operations, and IS (i.e., information systems). This plan is reviewed annually by departments for accuracy, relevance and consistency. The plan is audited by United States Homeland Security annually as part of its compliance cycle. PGW's Director of Cybersecurity also interfaces with Homeland Security on cyber security protocols. To date, to the best of PGW management's knowledge and monitoring, PGW has adhered to all recommendations/requirements and successfully completed all audit visits without issues. PGW also utilizes the services of certain outside consultants for cybersecurity purposes, including testing.

PGW's cyber security practices are regulated by the federal Transportation Security Administration (TSA). PGW has met 100% of the compliance requirements in the Security Directive Pipeline-2021-01B, 02B and 02C issued by the TSA to the nation's most critical gas and liquid pipelines. In November 2023, TSA inspectors performed an inspection of PGW's Critical Cyber Systems and found PGW's cyber security measures to be compliant. No assurances can be provided that PGW will be able to maintain compliance with future requirements of TSA or other applicable regulators or that the security standards and protocols mandated or

recommended by TSA or other regulators will consistently and comprehensively be tailored for adequately meeting risks that may emerge due to rapid changes in technology or other factors.

PGW has faced two relatively notable cyber incidents within the last five years. In neither case was there any compromise or breach of PGW data, disruption in the delivery of PGW's services to its customers, or material financial impact to PGW. In 2021, PGW's telephone service provider was infected with the Kaseya ransomware. This resulted in a disruption of PGW's corporate telephone system over a holiday weekend. This was a supply chain attack on a PGW vendor and not an attack on PGW directly. In response, among other actions, PGW changed how it allows vendors to manage PGW systems. In 2023, PGW faced a cyber attack that caused a temporary outage to internal e-mail as PGW addressed the threat.

## **LEGISLATIVE AND REGULATORY RISKS**

From time to time, elected officials introduce legislation in the Pennsylvania General Assembly and the United States Congress that may impact PGW directly or indirectly. Similarly, executive branch regulatory actions, whether pursuant to existing or yet-to-be enacted statutes, may impact PGW as well. PGW is unable to fully predict whether any introduced legislation will gain passage, and even more so, foresee future legislation that has yet to be introduced. Given the uncertain nature of the regulatory and legislative process, the following are broad areas of activity that may have negative impacts to PGW, particularly over the long-term.

### *Limits or Costs Imposed on Uses of Natural Gas*

In general, legislative and regulatory activity that seeks to limit the amount of natural gas available or used for the major categories of end uses on PGW's system (such as space heating and cooking) could pose a risk for PGW. Although these policies could take on a wide variety of forms, examples of this type of initiative are Pennsylvania's HB1615 (which was passed in the House of Representatives on May 7, 2024 and referred to the Senate) and SB755 (which was referred to committee in June 2023) which provide minimum energy and water efficiency standards for certain products sold or installed in the Commonwealth - specifically commercial and residential appliances. SB755 provides minimum energy efficiency standards and limitations on products applicable to this legislation, along with provisions regarding implementation, compliance and new and revised standards and regulations. Pennsylvania HB 1182 (which was referred to committee in May 2023) implements certain prohibitions on household appliances.

### *Limits on Cost Recovery*

Limits on a public utility's ability to recover costs through rates also poses risks to PGW, particularly considering PGW is municipally controlled, does not have traditional shareholders, and is subject to rate oversight and regulation by the PUC. As an example, Pennsylvania SB1017 (which was passed in the Senate on May 7, 2024 and referred to the House of Representatives) and Pennsylvania HB1077 (which was referred to committee in May 2023) are bills to amend Chapter 14 of Title 66 (Public Utilities) of the Pennsylvania Consolidated Statutes, which protect certain utility customers by, among other things, providing that a public utility may not require a customer or applicant with an income at or below 300% of the Federal poverty level to provide a reconnection fee, and increasing to such 300% of the Federal poverty level, the gross monthly household income threshold at or below which a public utility must waive for customers late charges for delinquent accounts. Chapter 14 is set to expire at the end of 2024 due to a 10-year sunset provision. If Chapter 14 is not reauthorized, PGW collection activities may be impacted due to uncertainty about permissible actions PGW may take and costs associated with formulating and establishing new policies and procedures.

There can be no assurances that there will not be other bills introduced in the future with broad and general provisions that target a utility's ability to recover costs through rates which could negatively impact PGW's financial status.

### *Shopping Cost Reallocation*

Changes in cost allocation between third-party suppliers and PGW could also negatively impact PGW. The allocation of costs between third party suppliers and PGW is regulated and mediated by the PUC.

Any legislation or regulatory policy that would require PGW to take on more costs associated with its supplier of last resort status could have a negative impact on PGW's business.

*Domestic Content Requirements and Other Regulation of Inputs*

Presently, there is legislation under consideration in Pennsylvania, HB2013, to amend the Underground Utility Line Protection Law, requiring the use of steel products produced in the United States. This legislation and similar proposals that may prescribe or restrict sources of products and services may increase PGW's capital and operating costs.

*Reversal of Chevron Deference*

On June 28, 2024, the U.S. Supreme Court in *Loper Bright Enterprises v. Raimondo* ended the 40-year-old precedent of "Chevron deference" whereby federal courts would defer to the expertise of agencies with respect to interpreting ambiguous language in laws concerning the relevant agency's work. PGW's management at this time cannot determine the impact, if any, that this change in judicial doctrine may have upon PGW's affairs as a consequence of impacts on the scope and interpretation of federal statutory and regulatory provisions to which PGW is subject. The *Loper* decision is not expected to impact Commonwealth and other non-federal rulemaking and regulation to which PGW is subject.

**GAS SERVICE TARIFF AND RATES**

**Gas Service Tariff**

PGW recovers the costs of providing natural gas, including the cost of owning and operating its various facilities, funding its various programs, satisfying the Rate Covenant, and providing for amounts sufficient to operate on a day-to-day basis, together with appropriate coverage, through the rates set forth in its Gas Service Tariff approved by and on file with the PUC.

The following is a brief description of PGW's rate requests to the PUC since PGW became subject to PUC jurisdiction and the results of those requests:

[Remainder of Page Intentionally Left Blank]

**PGW RATE CHANGE REQUESTS TO PUC<sup>(1)</sup>**

<b>Date of Request</b>	<b>Type of Relief (Base Rate or Surcharge)</b>	<b>Amount of Relief Requested</b>	<b>Purpose</b>	<b>Date Relief Granted</b>	<b>Amount of Relief Granted</b>
08/08/2000	Base Rate	\$52 million	Interim Rate relief	11/22/2000	\$11 million
01/05/2001	Base Rate	\$65 million	Rate relief	10/12/2001	\$22.6 million
02/25/2002	Base Rate	\$60 million	Base rate relief	04/11/2002	\$36 million
FY 2002	WNA	Charge/(Credit)	Weather Normalization Adjustment	08/08/2002	Approved
12/22/2006	Base Rate	\$100 million	Rate relief	09/28/2007	\$25 million
11/14/2008	Base Rate	\$60 million	Extraordinary rate relief	12/18/2008	\$60 million
12/18/2009	Base Rate	\$60 million	Maintain extraordinary rate relief	07/29/2010	\$60 million granted in 2008 made permanent
12/18/2009	Surcharge	\$42.5 million annually	OPEB funding	07/29/2010	\$16 million annually through 2015
12/18/2009	Surcharge	\$58.3 million	5yr. Demand Side Management Phase I (DSM) <sup>(2)</sup>	07/29/2010	Cost recovery
01/18/2013	Surcharge	DSIC: 5% of non-gas revenues	Distribution system repair, improvement & replacement	05/09/2013	5% of non-gas revenues from 2010 base year estimated to generate \$22 million
December 2014	Surcharge	Automatic adjustment clause extension	DSM Phase II	11/01/2016	Range of \$2.5 million to \$2.8 million annually through Fiscal Year 2020 (excluding CRP Comfort); triennial reauthorization plans authorized for subsequent three-year periods <sup>(5)</sup>
February 2015	Surcharge	\$16 million annually	Continued OPEB funding	07/08/2015	\$16 million annually
April 2015	Surcharge	\$10.7 million	DSM Phase I; extended DSM Phase I until Order was rendered on Phase II	05/07/2015	\$10.7 million through Fiscal Year 2016
September 2015	Surcharge	DSIC: 2.5% of non-gas revenues in addition to the existing 5% cap for a total of 7.5% <sup>(3)</sup>	Distribution system repair, improvement & replacement	01/28/2016	2.5% of non-gas revenues estimated to generate an additional \$11 million for a total DSIC of \$33 million
February 2016	Surcharge	\$11.4 million	Recover under-collection	07/06/2016 Effective 10/01/2016	\$11.4 million over two year period
02/27/2017	Base Rate	\$70.0 million <sup>(4)</sup>	Rate relief	11/28/2017	\$42 million
02/28/2020	Base Rate	\$70 0 million	Rate relief	11/19/2020	\$35 million in three increments of \$10 million (starting 01/01/21), \$10 million (starting 07/01/21) and \$15 million (starting 01/01/22)
02/27/2023	Base Rate	\$85.8 million	Rate relief	12/01/2023	\$26.2 million
02/2024	Surcharge	\$16 million annually	Continued OPEB funding	07/01/2024	\$16 million annually

02/2024	Surcharge	\$9.2 million	Recover under-collection	02/01/2024	\$9.2 million
07/2024	Surcharge	DSIC: 2.5% of non-gas revenues (in addition to existing 5.0% cap for a total of 7.5%)	Distribution system repair, improvement & replacement	07/01/2024	2.5% of non-gas revenues estimated to generate an additional \$9.2 million (for a total DSIC of \$36.7 million)

<sup>(1)</sup> Does not include GCR changes.

<sup>(2)</sup> “DSM” or “Demand Side Management” is a PGW program offering services to assist its customers to get the best value for their energy expenses.

<sup>(3)</sup> Beginning on October 1, 2016, PGW temporarily increased its DSIC surcharge to 8.84% as permitted by the PUC’s July 6, 2016 Order which permitted PGW to recover certain DSIC under collections for the year ending December 31, 2015 over the course of two years. This temporary increase terminated on September 30, 2018.

<sup>(4)</sup> The original amount sought in the February 27, 2017 filing was \$70.0 million. A partial settlement in the amount of \$42.0 million of base rate increases was submitted to the PUC on July 21, 2017 and was approved on November 28, 2017.

<sup>(5)</sup> By its approval of the Phase II Plan, the PUC authorized PGW to continue its DSM programs beyond FY 2020, through the filing of triennial implementation plans. PGW’s 2021 – 2023 DSM Phase III Plan was filed in May 2020. PGW had its DSM Phase IV Plan approved by the PUC in April 2024, which will be implemented from September 2024 through August 2027.

[Remainder of Page Intentionally Left Blank]

PGW's management anticipates that PGW may make its next filing with the PUC for a base rate increase in the fourth quarter of calendar year 2024 for approximately \$70.0 million. No assurances can be provided regarding the timing and final details of any filing, the nature and extent of consumer group and other stakeholder comments and responses, or the timing or details of any ultimate settlement or ruling with respect to the case.

PGW's current Gas Service Tariff sets forth the rules and regulations and practices for gas service and the rates PGW is allowed to charge for such service, including the Base Rate, the Gas Cost Rate (herein defined) and various adjustments and surcharges.

PGW's rates are unbundled such that any customer may choose a commodity supplier that is different from its distribution provider. As of April 30, 2024, the percentages of residential, commercial, industrial, and total customers using alternative suppliers were approximately 46.5%, 16.2%, 32.7% and 7.0%, respectively, and the related respective percentages of load from alternative suppliers were approximately 46.5% (residential), 55.1% (commercial), 97.6% (industrial) and 42.1% (total). See also "PHILADELPHIA GAS WORKS – Competition." PGW's rates generally include a customer charge component, distribution charge component and Gas Cost Rate. Under the unbundled rates, PGW's margin from firm customers is not materially impacted by whether a customer chooses a third-party supplier or elects to continue taking the fully bundled service. A customer will continue to pay the distribution, customer charges and surcharges to PGW even if the customer does not purchase gas service from PGW.

See "Rates" below including the charts under "- Gas Cost Rate" and "- Surcharges" and under "Summary of Existing Tariff Rates."

## Rates

The following types of rates are set forth in the Gas Service Tariff. Each is discussed below in more detail.

- **Base Rate (Customer Charge):** the rate charged by PGW, using the cash flow method (as described under "*Base Rate*" below), to produce a targeted amount of revenue for PGW based on various assumptions, including projected revenues and expenses.
- **Gas Cost Rate ("GCR"):** the current cost of natural gas and all raw materials that are passed through to customers. GCR consists of the purchased gas costs, transportation costs and off-system storage costs, minus the cost directly paid by interruptible sales customers, all subject to various adjustments for actual versus projected values and certain credits.
- **Base Rate (Distribution Charge):** a component of a customer's rate regardless of whether a customer chooses to purchase its gas from PGW or an alternate supplier; the rate charged by PGW, using the cash flow method (as described under "*Base Rate*" below), to produce a targeted amount of revenue for PGW based on various assumptions, including projected revenues and expenses.
- **Surcharges:** Several surcharges are imposed for specific purposes:
  - Universal service and energy conservation (recovery of social program costs)
  - Restructuring and consumer education (recovery of transition costs to customer choice)(this surcharge is under consideration for being eliminated in the current GCR)
  - Efficiency cost recovery (recovery of energy efficiency programs)
  - Other postemployment benefits (recovery of OPEB trust contribution costs)
  - DSIC (recovery of capital costs associated with a portion of PGW's main replacement program)

- **Weather Normalization Adjustment (“WNA”).** Since 2002, the delivery charge (not including GCR or surcharges) has been subject to a WNA which mitigates the risk of a warmer than normal winter season. The WNA adjusts the customer bills upward or downward to reflect differences between actual Heating Degree Days (“HDD”) and normal HDDs. An HDD is the difference between the daily temperature mean (high temperature plus low temperature divided by two) and 65° F.

#### *Base Rate*

The Base Rate is regulated by the PUC, which is obligated by the Gas Choice Act to use the cash flow methodology to determine PGW’s “just and reasonable” rates. Pursuant to the PUC’s April 2010 Order and Final Policy Statement<sup>5</sup> (the “2010 PUC Policy Statement”) with respect to PGW, the determination of just and reasonable rates includes satisfaction of the subsidiary obligation to provide revenue allowances from rates adequate to cover its reasonable and prudent operating expenses, depreciation allowances and debt service, as well as sufficient margins to meet bond coverage requirements and other internally generated funds over and above its bond coverage requirements, as the PUC deems appropriate and in the public interest, for purposes such as capital improvements, retirement of debt and working capital.

In determining just and reasonable rate levels for PGW, the PUC will consider, among other relevant factors: (1) PGW’s test year-end and (as a check) projected future levels of non-borrowed year-end cash, (2) available short term borrowing capacity and internal generation of funds to fund construction, (3) debt to equity ratios and financial performance of similarly situated utility enterprises, (4) level of operating and other expenses in comparison to similarly situated utility enterprises, (5) level of financial performance needed to maintain or improve PGW’s bond rating thereby permitting PGW to access the capital markets at the lowest reasonable costs to customers over time, (6) PGW’s management quality, efficiency and effectiveness, (7) service quality and reliability and (8) the effect on universal service. See “GAS SERVICE TARIFF AND RATES – Rates – *Ratemaking Methodology to Comply with Bond Covenants.*”

To effect any increase to the Base Rate, PGW files a proposed revision to its existing Gas Service Tariff with the PUC setting forth the proposed new rates and effective date, and detailing the data supporting the necessity of the proposed change. In any proceeding upon the motion of the PUC involving any proposed or existing PGW rate or in any proceedings involving any proposed increase in rates, PGW has the burden of proof to show that the rate involved is just and reasonable. A requested rate increase is initially suspended for 60 days and may be suspended for up to seven additional months while the PUC investigates and determines whether the increase is justified. Part of the investigation includes hearings in which interested parties can participate. After the end of the suspension period required by the Public Utility Code, in its discretion, the PUC may adjust PGW’s rate increase request on the basis of the data submitted and consistent with the requirements of the Public Utility Code and, in particular, the Gas Choice Act. If the PUC approves the Base Rate increase, it will determine how to allocate the increase among the different classes of customers.

Since coming under the PUC’s jurisdiction in 2000, PGW had filed nine requests seeking increases in the Base Rate totaling \$562.8 million and the PUC has granted PGW Base Rate increases totaling approximately \$257.8 million. Such increases have included requests to cover various financing costs incurred by PGW, including costs to improve its financial position, enhance its ability to access the financial markets, maintain its bond rating and provide liquidity and financial flexibility, and a portion of the costs of certain OPEB liabilities.

PGW has also filed with the PUC certain requests seeking increases to its gas cost rate (“GCR”). The PUC has approved all of the GCR filing requests made by PGW. The following sub-sections describe certain

---

<sup>5</sup> In the 2010 PUC Policy Statement, the PUC states that “unlike a regulation, [the 2010 PUC Policy Statement] is not enforceable and has no binding effect on [PUC], or on anyone else.” However, it further states that the purpose of the 2010 PUC Policy Statement “is to provide guidance to PGW and all interested parties as to the Commission’s [PUC’s] view on the statutorily mandated ratemaking criteria for PGW and the information that should be considered in determining just and reasonable rates” and, further, that the 2010 PUC Policy Statement “is grounded upon Pennsylvania case law.”



significant cases and orders since 2008 relating to PGW's base rate relief requests, including requests related to the annual OPEB surcharge.

#### *2008 Extraordinary Rate Relief Filing*

PGW, on November 14, 2008, sought extraordinary base rate relief of \$60 million, effective January 1, 2009. The PUC granted the request on December 18, 2008. The principal reason for PGW's request was to improve PGW's access to the financial markets, maintain its bond ratings and provide liquidity and financial flexibility under then-existing credit market conditions. In connection with receiving the extraordinary relief, PGW was required to file a base rate case with the PUC no later than December 31, 2009.

#### *2009 General Rate Relief Filing*

PGW on December 18, 2009 submitted a base rate case filing with the PUC. The filing sought to maintain the \$60 million base rate increase granted by the PUC in 2008 and provide PGW revenues above those resulting from the base rates for funding PGW's previously booked other post-employment benefits (OPEB) liability in the amount of \$105 million over the 2011 through 2015 period. The component related to OPEB was also for the purpose to fully fund, over a 30 year period, PGW's unfunded actuarial accrued OPEB liability. PGW also moved to consolidate PGW's Demand Side Management Plan into the base rate filing. In addition to the need for PGW to comply with the PUC's December 2008 order directing PGW to file a general rate case by the end of 2009, PGW made the filing for purposes of maintain or improving PGW's general financial position, credit rating, liquidity, overall financial flexibility, capital market access and OPEB liability funding.

On May 19, 2010, PGW, along with all active parties to the proceeding, submitted a Petition for Proposed Settlement of the proceeding, which the PUC approved by an order dated July 29, 2010 (the "2010 Order").

Under the 2010 Order, PGW was permitted to maintain virtually all of the extraordinary base rate relief and received an incremental rate increase of \$16 million annually. PGW was required to fund \$18.5 million of the OPEB liability for a five-year period ending with Fiscal Year 2015 with PGW also agreeing to continue funding the OPEB liability at an annual level of \$18.5 million. The increase granted by the Order represented about 38% of the \$42.5 million incremental rate increase as originally requested by PGW. The 2010 Order sought established, more uniform rates by PGW. The 2010 Order also was designed to create a reasonable transition period from "pay-as-you-go" funding to the full funding of OPEB liability. The 2010 Order required the Net OPEB Obligation to be amortized over a thirty-year period.

The 2010 Order also addressed PGW's implementation of its then proposed five-year Demand Side Management ("DSM") Phase I program. Such DSM program was approved generally as proposed. The 2010 Order also allowed PGW to use an automatic adjustment clause mechanism to recover PGW's implementation costs of the DSM program.

#### *2017 General Rate Relief Filing*

PGW made a filing with the PUC on February 27, 2017 which sought an increase in PGW's distribution base rates. The filing sought a general rate increase calculated to produce \$70.0 million (11.6%) in additional annual operating revenues. The filing request was based upon a 10-year normal weather assumption. The proposed increase sought to increase certain parts of the base rates (*i.e.*, the fixed customer charge component and the volumetric delivery charge component). PGW's base rate increase request in this filing was based on a fully projected future test year ("FPFTY") coinciding with PGW's Fiscal Year 2018.

The primary focus on the proceedings centered on the level of base rate increase which would be supportable by applying PGW's required ratemaking methodology – the Cash Flow Method – and maintaining compliance with PGW's bond covenants.

On July 21, 2017, the active parties in the proceeding submitted a joint petition to the PUC for settlement agreeing to a \$42 million rate increase with a 20-year normal weather assumption. The PUC approved the proposed settlement on November 8, 2017. The joint petitioners included: PGW, the Bureau of Investigation and Enforcement and certain consumer and other advocate groups (*i.e.*, the Office of Consumer Advocate, the Office of Small Business Advocate, the Retail Energy Supply Association, the Philadelphia Industrial and Commercial Gas Users Group, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania, and the Tenant Union Representative Network and Action Alliance of Senior Citizens of Greater Philadelphia).

#### *2020 General Rate Relief Filing*

On February 28, 2020, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce \$70 million (10.5 percent) in additional annual operating revenues based upon a 20-year normal weather assumption. The proposed increase sought to increase the fixed customer charge component, as well as the volumetric delivery charge component of base rates. Consistent with its budget process, the base rate increase requested in this filing was based on a fully projected future test year starting on September 1, 2020 and ending on August 31, 2021.

The primary issue in this proceeding was what level of base rate increase is supportable by applying PGW's required ratemaking methodology – the Cash Flow Method – and complying with Section 2212(e) and (f) of the Public Utility Code (regarding PGW's bond covenants), as well as the PUC's Policy Statement, which explained the way in which the PUC intended to apply the PGW Cash Flow Method.

On August 26, 2020, PGW filed a Settlement Agreement for certain issues in the case. The Settlement Agreement was approved by the PUC on November 19, 2020, authorizing a general rate increase of \$35 million in annual operating revenues, calculated using a 20-year average HDDs assumption. PGW was permitted to increase base rates in 3-year increments as follows: (1) \$10 million for service rendered on or after January 1, 2021; (2) additional \$10 million for service rendered on or after July 1, 2021; and (3) \$15 million for service rendered on or after January 1, 2022.

Parties to the proceedings included certain environmental stakeholders, who took the position that PGW's rate increase should have been denied in its entirety because its infrastructure modernization efforts allegedly did not adequately take account of the effects of climate change. Included in this claim was the contention that PGW should prepare and submit to the PUC a "Climate Business Plan" to "significantly" reduce or eliminate greenhouse gas emissions prior to being granted a rate increase. The recommended decision issued on October 5, 2020 found that the environmental stakeholders did not meet their burden of proof but did recommend that PGW in its next base rate case submit "information regarding its planning related to climate change issues." Upon review, the PUC ruled that PGW would not be required to submit information regarding climate change planning in future rate cases, as considering climate issues "extends the Commission's [*i.e.*, PUC] jurisdiction beyond the power the legislature granted to the Commission to establish just and reasonable rates and reasonable and adequate service."

See "PGW RATE CHANGE REQUESTS TO PUC" above.

#### *2023 General Rate Relief Filing*

On February 27, 2023, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce \$85.8 million (10.3 percent) in additional annual operating revenues based upon a 20-year normal weather assumption. The proposed increase sought to increase the fixed customer charge component, as well as the volumetric delivery charge component of base rates. Consistent with PGW's budget process, the base rate increase requested in this filing was based on a fully projected future test year starting on September 1, 2023, and ending on August 31, 2024.

No Settlement Agreement was reached among the parties in this proceeding. On November 9, 2023, the PUC issued a final Order permitting PGW to increase base rates \$26.2 million (3.2 percent) beginning in

December 2023. In its opinion, the PUC indicated that it did not concur with PGW's stated goal of funding incremental capital expenditure equally, using 50% of funds derived from internally generated funds ("IGF") and 50% derived from long-term debt. The PUC stated that it was reducing PGW's IGF claim by \$17.108 million (i.e., from \$53.207 million to \$36.099 million). The PUC stated, "Additionally, while we are mindful that PGW should not be overleveraged... it is important to emphasize that PGW's IGF is cash from ratepayers." PUC also differed with PGW about the appropriate employee headcount levels to assume for purposes of payroll and related expenses and reduced PGW's claimed payroll expense by approximately \$3.582 million for purposes of determining base rates.

PGW took several steps to address the relatively lower award as compared to rulings and settlements in prior rate cases. PGW rescheduled the timing for the issuance of the Bonds, thereby deferring the start of the associated debt service. The bond sale for rate case purposes was effective September 1, 2023. PGW did not achieve the proposed level of full-time equivalents in FY 2024 saving approximately \$8.0 million in wages, not including the associated FICA taxes, pension/401(a) expense, and health care expenses. PGW has also deferred the schedule for certain capital projects which are less time sensitive to manage PGW's level of capital expenditures from internally generated funds. Among these projects are the South Operation Center and projects at the Passyunk and Richmond Plants, as described further within.

See "PGW RATE CHANGE REQUESTS TO PUC" above.

#### *Gas Cost Rate*

The current cost of natural gas and all raw materials are passed through to customers through the Gas Cost Rate (GCR), which consists of the purchased gas costs, transportation costs and off-system storage costs, minus the cost directly paid by interruptible sales customers, all subject to various adjustments for actual versus projected values and certain credits as detailed further below.

PGW adjusts total gas supply costs to reflect changes in the inventory cost of storage for gas supply outside PGW's system and storage for LNG and the cost of power purchased for the LNG facilities. The change in inventory cost is attributable largely to two factors -- changes in volume as well as the price paid for the gas put into storage. PGW divides these costs by the total sales volumes less the volumes attributable to direct billed interruptible sales customers to determine the unit cost of fuel, or sales service charge. PGW then makes a number of adjustments to the sales service charge. An additional adjustment is made for the net over or under collection of natural gas during the previous Fiscal Year resulting from differences between values used to project the prior Fiscal Year's GCR and those values actually experienced. PGW also applies the interest expense or credit on the over or under recovery to calculate the total adjustment. In addition, an interruptible revenue credit ("IRC") for margin realized from interruptible sales is made. In the aggregate, these components comprise the GCR.

The GCR represents a substantial portion of a typical heating bill and can change monthly. PGW evaluates the GCR factor quarterly to reflect the cost PGW expects to pay its suppliers. Once actual gas supply costs are booked, any cost adjustments (i.e., whether over or under) are factored into the Gas Cost Rate factor which results in no profit to PGW. By law, the Gas Cost Rate factor is passed on to customers without any profit or markup for PGW added. Although PGW has the ability, upon thirty days' notice to the PUC, to change the GCR monthly, it usually is adjusted on a quarterly basis.

See "Figure 3: Components of PGW Gas Cost Rate" in APPENDIX B hereto which details components of PGW's Gas Cost Rate in terms of costs, units, and unit costs.

#### *Weather Normalization Adjustment*

PGW's approved commodity charges (exclusive of the cost of gas) is subject to the WNA pursuant to which a customer's bill is adjusted upwards or downwards to reflect differences between the customer's actual heating degree-days and the normal heating degree-days, as calculated from data collected at the Philadelphia

International Airport. The WNA reduces the risk to PGW of not recovering its approved margin under circumstances where winter season weather is warmer than normal. The application of the WNA facilitates the stabilization of annual earnings and cash flow during the winter heating season; it is revenue neutral to PGW. The WNA will remain in effect until discontinued by the PUC. As part of the settlement of PGW's rate case filed with the PUC on February 27, 2017, PGW and the rate case parties settled on a 20-year calculation of normal weather which was approved by the PUC on November 8, 2017.

Since 2002, a WNA clause has been an included component of PGW's Tariff. PGW's approved commodity charges (exclusive of cost of gas) are derived using volumes (*i.e.*, sometimes referred to as "throughput") that is based on the assumption that weather (*i.e.*, particularly temperature levels) will be at normal. If temperatures are warmer than normal, sales decline and in conjunction with that, PGW's revenue margin declines. A number of warmer than normal winters, including one of the warmest winters in PGW's history, created the circumstances that led to PGW's need to file for extraordinary rate relief in 2002.

The WNA is designed to change the customers' bills upwards or downwards to account for differences between actual HDDs and normal HDDs. The WNA provides certain benefits which include stability in earnings and cash flows (particularly during the winter season) which tend to reduce the need for rate case filings to be made or for PGW to undertake short-term financing. The WNA can benefit both PGW and its customers through creating predictability in customers' bills.

In Fiscal Year 2023, heating customers were charged approximately \$32.4 million as a result of the warmer than normal winter period. Refunds were provided to PGW customers for anomalous bills that were issued in June 2022 for a rare warm weather occurrence during May 2022. As a result, PGW dropped the month of May from its weather normalization period to avoid repeating the circumstances that led to the anomalously high customer bills in June 2022. PGW's WNA is calculated for each customer bill rendered between October 1 and April 30. The WNA applies to customers served under its General Service, Municipal Service, and Philadelphia Housing Authority (PHA) rate schedules.

In order for PGW's revenue recovery to occur concurrently with a customer's billing cycle, PGW's WNA changes the customer's bill to reflect conditions during the billing cycle covering that bill. The adjustment is calculated by dividing the normal HDDs during the billing cycle by the actual HDDs during the cycle. The WNA only applies if the actual HDDs deviate by an amount greater than 1% from the normal HDDs during the billing cycle.

### *Surcharges*

Several surcharges exist (or have existed in prior Fiscal Years reported in this Official Statement) to fund various PGW programs and capital improvements. Depending on the surcharge, not all PGW customer classes are affected by the surcharge. Before PGW's rate restructuring in 2003, PGW recovered certain non-fuel expenses through the GCR mechanism. Among these expenses were discounts given to low income customers through the Customer Responsibility Program and funds provided to weatherize the homes for low-income customers through the Conservation Works Program. Presently, PGW utilizes surcharges (which are not components of the GCR) to recover these costs. Due to the surcharge mechanism, these costs can be recovered by PGW regardless of the extent to which a customer purchases gas from PGW.

- Restructuring and Consumer Education Surcharge. Revenues from this surcharge financed the PUC approved costs incurred or to be incurred by PGW to meet requirements of the Gas Choice Act and applicable PUC regulations, orders, and other regulatory requirements. *The Restructuring and Consumer Education Surcharge was withdrawn effective September 1, 2022.*
- Universal Service and Energy Conservation Surcharge. Revenues generated from the application of this surcharge are used to finance discounts to customers in the CRP and the Senior Citizen Discount Program, the costs of the CRP Home Comfort program (the current iteration of the Low Income Usage Reduction Program (LIURP)) and past due arrearages forgiven to certain CRP customers. The Universal Service and Energy Conservation Surcharge

is applicable to all PGW customers (excluding interruptible customers) who are delivered natural gas through PGW's distribution system. PGW automatically adjusts the surcharge quarterly in connection with its Gas Cost Rate filing. PGW's Demand Side Management program ("DSM") is financed principally from this surcharge.

- Efficiency Cost Recovery Surcharge. Revenues generated from the application of this surcharge are used to fund the program costs and the administrative costs of the energy efficiency programs for the firm customers (non-low income DSM), including PGW's voluntary EnergySense program which offers rebates and grants for residential and commercial customers.
- OPEB Surcharge. Revenues generated from the application of this surcharge are designated for payment of PGW's OPEB obligations (the incremental rate increase of \$16.0 million annually is related to an OPEB surcharge which was initially approved in 2010 and then approved to continue beyond 2015 in PGW's 2015-2016 Gas Cost Rate Proceeding; PGW also agreed to continue funding the OPEB liability at \$18.5 million annually).
- DSIC Surcharge. In early 2012, Act 11 was enacted by the Pennsylvania Legislature. Act 11 permitted public utilities to file a request with the PUC for the implementation of a DSIC. A DSIC permits natural gas distribution companies to recover the costs related to main and service replacement not already recovered in base rates. This legislation provides utility companies with a supplemental recovery mechanism for costs related to incremental/accelerated distribution system repair, improvement, and replacement. Act 11 permits gas utilities to recover 5.0% of their non-gas revenues via the recovery mechanism and permits greater percentage increases if approved by the PUC. PGW sought and obtained approval for a DSIC cap of 7.5%. PGW started billing customers a DSIC surcharge as of July 1, 2013. On September 1, 2015, PGW proposed an increase in the DSIC surcharge from 5% to 7.5% of non-gas revenues. The PUC granted PGW's request effective February 1, 2016. The DSIC surcharge is fully reconcilable on a calendar year basis. For additional information, see note 1(h) Revenue Recognition of the basic financial statements within APPENDIX A hereto.

Revenues generated from the application of this charge, which at 7.5% of PGW's non-gas revenues is currently expected to generate approximately \$36.8 million per year, are used to supplement the acceleration of the replacement of at-risk mains which is part of PGW's Long Term Infrastructure Improvement Plan ("LTIIP"). PGW will continue to consider the effectiveness of the accelerated pipeline replacement program funded by the DSIC surcharge, evaluate the effect of the DSIC on customers, and assess PGW's ability to effectively implement the level of accelerated pipeline replacement associated with the 7.5% DSIC surcharge prior to requesting an increase in the DSIC, but no assurance can be given that such request will be made or if made, approved. See "THE CAPITAL IMPROVEMENT PROGRAM."

See "Figure 4: Components of PGW Surcharges" in APPENDIX B which details components of PGW's Surcharges.

[Remainder of Page Intentionally Left Blank]

### *Ratemaking Methodology to Comply with Bond Covenants*

PGW's rates, as set forth in its Gas Service Tariff, are regulated by the PUC pursuant to Section 2212(b) of the Pennsylvania Public Utility Code. Pursuant to Section 2212(e), in determining PGW's revenue requirement and approving overall rates and charges, the PUC is required to follow the same ratemaking methodology and requirements as set forth the Management Agreement and the City's bond and note ordinances for PGW, and such obligation shall continue until the date on which all bonds, which are Approved Bonds (herein defined), issued thereunder have been paid in full, refunded or defeased. Section 2212(e) also states that (i) the PUC shall permit the City to impose, charge or collect rates or charges as necessary to permit the City to comply with its covenants to the holders of any Approved Bonds and (ii) the PUC shall not require the City to take action, or omit taking any actions, pursuant to the Pennsylvania Public Utility Code if such action or omission would have the effect of causing the interest on tax-exempt bonds issued by the City to be includable in the gross income of the holders of such bonds for federal income tax purposes.

"Approved Bonds" consist of (1) bonds issued by the City under The First Class City Revenue Bond Act or The City of Philadelphia Municipal Utility Inventory and Receivables Financing Act that were issued and outstanding as of July 1, 2000, (2) bonds issued on or after July 1, 2000 by the City, unless the City Council declares otherwise in the authorizing ordinance, (3) bonds issued for the purpose of refunding, redeeming, repaying or otherwise defeasing Approved Bonds and (4) bonds issued by a municipal authority for PGW's benefit for purposes other than refunding, redeeming, repaying or otherwise defeasing Approved Bonds, unless the PUC determines, at the time of the registration of a securities certificate, that the bonds should not be Approved Bonds. The Bonds are Approved Bonds.

Further, Section 2212(f) permits PGW to impose, charge or collect rates and charges as necessary to permit PGW to transfer or pay to the City, on an annual basis, such amount as may be specified from time to time in the applicable ordinances of the City or agreements of the City approved by ordinances; provided that if the amount specified exceeds 110% of the amount that was authorized for transfer or payment to the City at the close of the Fiscal Year of the City ending June 30, 2000, such additional amount shall be subject to review and approval of the PUC, which approval shall be given unless such additional amount would not be just and reasonable. The amount currently specified is \$18.0 million, which is the same amount as was authorized for transfer at the close of the City's Fiscal Year 2000. See "GAS SERVICE TARIFF AND RATES – Rates – *Base Rate*" for a description of the 2010 PUC Policy Statement setting forth the factors to be considered in determining PGW rates and revenue allowances.

### **Summary of Existing Tariff Rates**

The current tariff sets forth the rules and regulations for gas service. It also sets out the rates PGW is permitted to charge its customers for various types of service. PUC approval is necessary for changes to be made to this tariff. Currently, PGW primarily provides certain main types of service: firm service, interruptible service, and transportation service. See "Table 7: Existing Tariff Rates" in APPENDIX B hereto which summarize PGW's existing rates and applicable surcharges currently approved by the PUC. PGW's rates are presented without bundling. These rates include the following main charge components: a customer charge, a distribution charge, and the GCR. A component of the distribution charge is a delivery charge. Any applicable surcharges are also included with the distribution charge. Certain firm service customers who transport gas through a qualified natural gas supplier do not have the GCR as a component of their rate charges.

### **Assistance Programs and Grants**

PGW participates in, or partially funds, several assistance programs to, among other things, increase cash flow to PGW and decrease accounts receivables and write-offs. Pursuant to its Gas Service Tariff, PGW recovers the costs of the discounts provided to customers pursuant to the Customer Responsibility Program (the "CRP") and the senior citizen discount program (the "Senior Citizen Discount Program"), arrearage forgiveness provided to CRP customers and a Low Income Usage Reduction Program through the Universal Service and Energy Conservation Surcharge, which is applicable to all PGW firm customers (excluding interruptible customers).

On October 29, 2021, PGW filed its 2023-2027 Universal Service and Energy Conservation Plan with the PUC. This plan was approved by the PUC in March 2023.

*Customer Responsibility Program*

CRP is a customer assistance program for those low-income residential customers who are at or below 150% of the federal poverty level (“FPL”). The PGC adopted the CRP in November 1993, and it became effective in February 1994. The CRP has a number of purposes which include increasing PGW’s collection of revenues, providing an affordable payment plan for low-income customers while emphasizing for customers the importance of payment responsibility, promoting conservation, and increasing the assignment of grant funding for PGW. In short, the goals of the program are to increase PGW’s cash flow and decrease PGW’s accounts receivable.

PGW will forgive 1/36 of the customer’s original pre-CRP debt each month for each CRP bill paid in full. Participants in the CRP are also required to apply for the Low-Income Home Energy Assistance Program (as further described below, “LIHEAP”), if eligible, and designate PGW as the grant recipient. Approximately 57,605 customers were enrolled in CRP as of May 2024. PGW has budgeted that the number of CRP participants will be approximately 53,822 by the end of Fiscal Year 2024. The table below sets forth the approximate aggregate discount and approximate amount of debt forgiveness granted by PGW to CRP participants in Fiscal Years 2019-2023.

**Table 8  
PGW DISCOUNTS AND  
DEBT FORGIVENESS GRANTED TO CRP PARTICIPANTS  
(THOUSANDS OF U.S. DOLLARS)**

<u>Fiscal Year</u>	<u>Discounts to Participants</u>	<u>Debt Forgiveness</u>
2023	\$56,423	\$9,641
2022	\$59,421	\$13,827
2021	\$48,052	\$11,107
2020	\$30,761	\$13,676
2019	\$40,375	\$8,776

Source: PGW’s records.

Monthly bills for CRP customers are based on income to promote affordability for low-income households. A customer’s CRP agreement providing for fixed monthly bills and forgiveness of owed amounts imposes certain requirements upon such CRP customer. Specifically, the CRP customer must agree to accept conservation measures offered in the Home Comfort program, apply for re-certification at certain specified intervals or when certain circumstances change (e.g., when household size or income changes), and make payments on time and in full (a CRP customer is in default when the customer is one full payment past due).

CRP applicants must provide proof of income and identification for the people in the household. There are three percentage of income agreement types, as set forth below tied to percentages of FPL. Further, there is an average bill type for customers whose budget bill is lower than the percentage of income bill.

<u>PGW Annual Bill</u>	<u>Household Income</u>
4% of income	0-50% FPL
6% of income	51-100% FPL
6% of income	101-150% FPL

The minimum payment under a CRP agreement is \$25 per month.

The main costs for PGW associated with the CRP program are the discounts that customers receive (revenue shortfall) and their arrearage forgiveness.

The CRP revenue shortfall to PGW is currently recovered in the Universal Service Surcharge. The amount of shortfall fluctuation primarily is driven by the cost of natural gas supply and CRP participation levels.

#### *Senior Citizen Discount Program*

The Senior Citizen Discount Program has been closed to new participants since September 1, 2003 when it was closed upon being discontinued by the PUC. The Senior Citizen Discount Program provides qualifying residential senior citizens with a discounted General Service Rate approximately equal to a 20% reduction in the participant's total gas bill each month. The number of participants in the Senior Citizen Discount Program decreased from approximately 70,000 in FY 2004 to approximately 5,579 as of May 2024. Continuing decreases in the average monthly enrollment will continue to result in less supplemental revenue being required to fund the program over time. Discounts to participants in the Senior Citizen Discount Program are recovered through the Universal Service and Energy Conservation Surcharge.

#### *Low-Income Home Energy Assistance Program*

LIHEAP is a federally funded program that provides funds to households to ensure continued utility service available. Federal LIHEAP funds are allocated to individual states, which in turn allocate the amount to qualifying residents. PGW's share of LIHEAP funds allocated by the Commonwealth of Pennsylvania has ranged from approximately 10% to 18% since FY 2017. Funds received from LIHEAP are paid directly to PGW for a credit to the customer's account. Since FY 2019, LIHEAP funding has ranged from a low of \$14.8 million in FY 2024 to a high of \$38.9 million in FY 2022. Fiscal Year 2022 was driven by large supplemental funding provided by the federal government.

The City's low-income residential gas consumers can apply for LIHEAP through the Pennsylvania Department of Human Services. Several community organizations and neighborhood energy centers offer assistance with the application process. The LIHEAP program consists of two grant components: cash grants and crisis grants. The latter are made available only to eligible customers whose utility service is off or in danger of being terminated. LIHEAP funds are paid directly to PGW and credited against the customer's account.

PGW encourages eligible residential customers to apply for LIHEAP which PGW considers has contributed to its funding levels. Funding levels are also affected based on Federal allocation and how similar programs in other states are designed.

The Commonwealth of Pennsylvania can adjust the customer eligibility criteria for LIHEAP participation to no lower than 110% of the federal poverty level. During the 2021-2022 grant season, the program in Pennsylvania capped eligibility at 150% of the federal poverty level.

In 2023-2024, Pennsylvania was to receive approximately \$218.5 million in LIHEAP funding by the Federal Government; approximately \$164.8 million of which was available for LIHEAP benefits (cash grants). The remainder was allocated to weatherization assistance (15 percent of total block grant amount) and administration (10 percent of block grant amount). The proposed 2024-2025 LIHEAP budget has been posted on Pennsylvania's DH website but is not incorporated by reference herein.

#### *Certain PGW Undertakings per the PUC for CRP and LIHEAP Programs*

As part of PGW's 2023 base rate case, (Base Rate Case Order in Docket No. R-2023-3037933), PGW was ordered to and filed a Data Sharing and Coordination Plan at that docket. In this plan, PGW committed to doing outreach for CRP as part of its annual Cold Weather Survey (CWS). Each resident contacted as part of the CWS will receive information about CRP and how to apply, in addition to information about the availability



of payment arrangements, hardship funds, and LIHEAP grants. The CWS will also include information about local Neighborhood Energy Centers, where in-person assistance is available. Further, PGW has been mailing a CRP application and making a direct phone call to each customer who received a LIHEAP grant this past season but is not currently on CRP with the goal of urging the customer to enroll in CRP.

Additionally, PGW expects to participate in a data sharing agreement with the Pennsylvania Department of Human Services (DHS), which is the entity that administers LIHEAP grants in Pennsylvania. Through this participation, PGW will receive household size and income information for PGW customers who received a LIHEAP grant. PGW will then engage in expedited enrollment for these customers in which they will provide consent to enroll in CRP if they are not already enrolled. PGW will also use this information for the purposes of auto-recertification to ensure customers who are income eligible remain on CRP.

#### *Vendor Payment Program*

PGW supports a Vendor Payment Program for a group of customers known as Scattered Site Tenants of the Philadelphia Housing Authority (“PHA”) who occupy PHA-owned dwellings for which the Federal Government provides rent subsidies. The Federal Government’s Department of Housing and Urban Development provides funds for a utility allowance to PHA, on behalf of these tenants. PGW receives utility payments for certain of these tenants directly from PHA, while the remaining tenants have responsibility to pay their own utility bills.

#### *Hardship Funds*

Under this program, customers at or below 175% of the FPL are permitted to combine a LIHEAP grant with a grant from PGW up to \$750, and their own payment, if necessary, to eliminate all arrearages in order to avoid termination of service or to restore service. If a program participant is a CRP customer, the participant only has to eliminate CRP arrearages, not pre-program arrearages. To be eligible for a hardship grant, the customer must have already received a notice of impending service termination or already have had utility service terminated. The customer must also apply for LIHEAP and must eliminate the customer’s account balance (*i.e.*, for non-CRP customers). If the total arrearage cannot be satisfied by the combination of LIHEAP, and the PGW grant, then the customer must pay the balance that would remain prior to being approved for the hardship grant.

PGW also continues to support the Dollar Plus Program. Pursuant to this program, PGW’s customers generally are requested to add \$1.00 or more to their gas bill payments to serve as a donation to the Utility Emergency Services Fund.

Also see “– Conservation Programs” below and “GAS SERVICE RATES AND TARIFFS – Collections.”

### **Conservation Programs**

#### *Low Income Usage Reduction Program*

Pursuant to 52 Pa. Code Chapter 58, PGW offers to qualifying low-income residential customers a PUC regulated energy reduction program (“LIURP”) that provides natural gas conservation services to eligible residential customers. For customers living in single-family homes, this program is called Home Comfort. The program is made available to high usage CRP participants who are higher users of gas services. Additionally, there is a pilot program called the Low Income Multifamily Efficiency (“LIME”), which program PGW has operated since 2017 pursuant to the direction of the PUC which offers gas conservation services with respect to multifamily buildings. PGW also implemented the Repair and Renew program beginning in 2023, in which customers whose appliances or gas service has been shut off by PGW for health and safety conditions are eligible for new heating equipment and repairs, in addition to weatherization measures.

The LIURP annual budget was established at a level of approximately \$8.0 million for calendar years 2023-2027 per the approved Universal Service and Energy Conversation Plan. That budget includes the \$230,000 spent annually on LIME and \$250,000 for Repair and Renew. The Universal Services and Energy Conservation Surcharge is the mechanism which enables PGW to recoup LIURP costs.

PGW's Home Comfort Program spending was approximately \$8.0 million for the time period from January 1, 2023 through December 31, 2023. Over the expected useful life of the measures installed, the activity for this period is projected by PGW to achieve 0.89 Bcf of natural gas savings through reduced customer usage. Based on the total resource cost test, net present value spending totaled \$6.5 million, and the program achieved \$6.0 million in present value savings.

#### *Demand Side Management Programs*

PGW's DSM program is marketed as EnergySense. This program is comprised of a group of conservation programs that PGW launched in Fiscal Year 2011. The PUC initially approved the program for a 5-year period. PGW filed for continuations of these programs: DSM Phase II from 2016-2020 and DSM Phase III from 2021 – 2023. PGW had its DSM Phase IV plan approved by the PUC in April 2024, which will be implemented from September 2024 – August 2027. The cost of the program is expected to be \$7.7 million for the September 2024 – August 2027 time period.

PGW's utilizes the Efficiency Cost Recovery Surcharge as a means to recoup costs related to the market rate programs (non-low income). In contrast, the Universal Services and Energy Conservation Surcharge is the vehicle by which PGW recovers costs for the Home Comfort program (*i.e.*, PGW's Low Income Usage Reduction Program).

The related conservation programs, as described below, consist of Residential Equipment Rebates ("RER"), Commercial Equipment Rebates ("CER"), Online Smart Thermostat Marketplace ("Marketplace"), Low Income Smart Thermostat ("LIST"), and Residential Construction Grants ("RCG"). PGW will add two new programs in Phase IV: Small Business Assessments ("SBA") and EnergySense Kits ("ESK"). Residential Equipment Rebates are oriented toward customers who purchase high-efficiency residential-sized heating and hot water equipment and is meant to cover up to 65% of additional costs for high-efficiency equipment for market-rate customers. For low income customers, the RER program offers higher rebate tiers, in which the incentive covers the full incremental cost of the measure. A roof insulation and air sealing rebate will be added to RER in Phase IV. Commercial Equipment Rebates are intended to be available for industrial and commercial customers who purchase high-efficiency commercial-scale gas equipment. Similar to the residential equipment rebate program, this program is set up to provide incentives to cover approximately 60% of additional costs for high efficiency equipment. The Smart Thermostat Online Marketplace ("Marketplace") aims to expand access to a low-cost energy conservation measure by providing instant rebates of up to \$70 to PGW customers purchasing ENERGY STAR certified Wi-Fi enabled thermostats. The Marketplace incentive covers between 56% and 100% of the cost of a new smart thermostat, depending on the specific brand/model. The Low Income Smart Thermostat program is separate from the Marketplace and provides and installs ENERGY STAR certified smart thermostats to eligible low-income PGW customers, at no cost to the customers. Residential Construction Grants are intended to benefit residential building developers and builders. This program incentivizes the design and construction of new residential buildings that exceed the minimum requirements of energy codes and provides \$1,400 per building (residential) and up to \$550 per unit (multifamily) to properties that meet the requirement. The RCG incentives cover up to 81% of the incremental cost of installing high efficiency equipment in residential new construction properties. The Small Business Assessment program will offer free walkthrough energy assessments to small business customers, along with low cost energy efficiency measures. The ESK program will offer residential customers kits of energy efficiency measures shipped to their homes that they can self-install, including low flow showerheads, caulk, and other measures.

During PGW's most recent (2021-2024) DSM phase which ran from September 1, 2020 through August 31, 2023, PGW's EnergySense program spent \$3,480,756. Over the anticipated time period of use for such measures, PGW estimated achieving 1.35 Bcf of natural gas savings on account of lower customer usage, with

net present value spending of \$5.1 million, and \$9.7 million in present value savings with a related net saving to PGW's customers of \$4.7 million. PGW is able to recoup EnergySense costs by means of the Efficiency Cost Recovery Surcharge.

## Collections

PGW utilizes various programs designed to improve collections, including a landlord cooperation program, a commercial lien notification program (the "CLNP"), "soft-off" monitoring, and a risk-based collections strategy, in accordance with all applicable regulations with respect to collections, including Pennsylvania Act 201, entitled the "Responsible Utility Customer Protection Act" and codified in the Pennsylvania Public Utility Code under Title 66, Chapter 14, as amended ("Chapter 14"). PGW utilizes a lien process which is mostly automated to effect the docketing of liens on eligible properties in instances where there are account arrearages. See "PHILADELPHIA GAS WORKS –Litigation" for a description of certain cases relevant to PGW's collections relating to, inter alia, certain billing matters.

The Landlord Cooperation Program ("LCP") is intended to promote collaboration between residential property landlords and PGW to improve PGW collection capabilities with regard to residential tenants (*i.e.*, a focus on obtaining meter access for PGW). The LCP is intended to reduce the incidence of tenant delinquencies whereby PGW's receipt of amounts for a tenant's unpaid balance results in PGW refraining from filing a lien on the landlord's property. As a general matter, the particular property would be made subject to liens in instances where a landlord fails to enroll in the program or otherwise cooperate. LCP had approximately 63,000 registered premises as of May 2024.

The CLNP enables commercial property landlords to cooperate with PGW to enhance PGW's collections from commercial tenants (*i.e.*, a focus on obtaining meter access for PGW). The program is designed for the purpose of lowering tenant delinquencies by providing for additional prior notice of PGW's intended filing of the applicable lien. However, whether or not enrollment in the program occurs, a property will remain subject to the related lien. CLNP had approximately 598 registered premises as of May 2024.

Many of the services integral to soft-off monitoring are now automated. Previously, when a customer moved, PGW used a field service representative to shut off gas service. In frequent instances, the representative would not be able to obtain access to the meter and the service would continue with a related ongoing billing of the out-going customer. This situation had the effect of creating additional receivables which would not be collectable. PGW presently provides a final bill to a customer's account, which effectively transfers the expense responsibility pertaining to future usage to PGW, and monitors the applicable premises diligently for the purpose of avoiding any misappropriation of service or excess usage. In addition to lowering the uncollectible receivables stemming from an unsuccessful attempt to shut off service, the soft-off program enables PGW's Operations department to repurpose field employees to different tasks with concomitant gains in using personnel resources.

PGW undertakes to analyze the patterns of payments made over time by customers as a key component of PGW's risk-based collection strategy. As part of this process, the particular customer is assigned a "score" based largely on three factors: (i) the age of the receivable, (ii) the amount of the receivable, and (iii) the risk that receivable in question will need to be put to the write off process. As a general matter, actual write-off occurs 90 days after the point in time that the shut-off for the particular account occurs and once there are no remaining payments against the last bill. Based on the calculated score for the customer in question, PGW chooses a suitable approach to obtain collection. In those instances where a customer's score is high, the approach using physical shut off is employed. In contrast, if the situation entails a customer with a lower score, PGW may pursue the approach involving more frequent customer communications, and this approach may be sufficient to get PGW paid.

PGW collection management methods also entail a write-off reactivation process designed to provide that prior written-off balances are identified promptly and appropriately moved in cases where the particular customer may again apply for service, and cases where an applicant resided at the property during the period of time covering the point when the debt was incurred.

Chapter 14 specifies, among other things, the circumstances pursuant to which natural gas service may be terminated. Pursuant to Section 1406 of Chapter 14, (i) utility service may be terminated subsequent to the giving of a written notice (which notice will be given at least ten days prior to the date of the proposed termination and remain effective for 60 days) for nonpayment of an undisputed delinquent account, failure to comply with the material terms of a payment arrangement, failure to complete payment of a deposit, provide a guarantee of payment or establish credit or failure to permit access to meters, service connections or other property of the public utility for the purpose of replacement, maintenance, repair or meter reading, and (ii) service may be immediately terminated, without notice, for customer actions such as the unauthorized use of the service delivered on or about the affected dwelling, fraud or material misrepresentation of the customer's identity for the purpose of obtaining service or tampering with meters or other public utility's equipment.

In addition, Chapter 14 specifies that during the winter, (a) after November 30 and before April 1, gas service may be terminated to customers with household incomes exceeding 250% of the federal poverty level, and (b) from January 1 and before April 1 service may be terminated to a customer whose household income exceeds 150% of the federal poverty level but does not exceed 250% of the federal poverty level, who has not paid at least 50% of his charges for each of the prior two months; provided however that termination may not occur if the customer has proven in accordance with the PUC rules that there is someone age 65 or over or 12 or younger in the household, if the customer has obtained a medical certificate in accordance with the PUC rules, or if the customer has paid to PGW at least 15% of the customer's monthly household income for each of the last 2 months. Chapter 14 provisions are scheduled to expire on December 31, 2024 and are currently under legislative consideration to be extended.

In response to COVID-19 and related economic and other concerns, the PUC on March 13, 2020 imposed a moratorium on service terminations for non-safety reasons (the "Termination Moratorium"). On October 13, 2020, the PUC issued an order modifying the Termination Moratorium by providing for it to end effective November 9, 2020, subject to certain customer protections which remained in effect until Spring of 2021. As of April 1, 2021, the Termination Moratorium and related customer protections were ended. Utilities were required to track extraordinary, nonrecurring incremental COVID-19 related expenses, and were authorized to create a regulatory asset for any incremental expenses incurred above those embedded in rates resulting from the directives of the PUC's October 13, 2020 order.

In FY 2021, PGW established a regulatory asset for outstanding delinquent account balances in anticipation that it would recover losses relating to the COVID-19 pandemic. The losses are specifically associated with the PUC moratorium, beginning in March 2020, and ending effective April 1, 2021, on shutting off gas services to customers who otherwise would be eligible for shutoff. In accordance with the PUC's order of November 9, 2023, PGW began the amortization of the \$30.5 million COVID-19 pandemic regulatory asset in December 2023. PGW had sought the recovery of the regulatory asset set up for COVID expenses per the PUC Orders. The recovery of the regulatory asset was proposed by PGW to be billed over a three-year period in level annual amounts. The PUC authorized the full recovery of the regulatory asset over a 53-month period instead of the 36-month period requested by PGW. Amortization of the COVID-19 pandemic regulatory asset will continue until April 2028. See also "PGW BUDGETS AND FINANCES - Provision for Uncollectible Accounts."

No assurances can be provided that PGW may not become subject to other pending or future federal, state or local legislation, regulation or executive action that may limit or otherwise impact PGW's ability to pursue collection actions and undertake other measures to receive payments for its services, and thereby adversely impact PGW's financial position or results of operations.

As of March 31, 2024, PGW achieved an 101.8% collection rate (based on PGW's rolling 12-month average) which was above its stated annual goal of 96.0%. The rate in excess of 100% was principally due to increased collection resources. PGW projects a 96% collection rate for Fiscal Year 2025. The Termination Moratorium in Pennsylvania had been in existence for approximately four months of the calculation period. In response to COVID-19, PGW determined to temporarily stop applying late payment charges on customers' unpaid debt from March 2020 to December 2020. PGW was not prohibited from resuming applying such late

payment charges, and determined to resume applying such late payment charges as of January 2021 based upon its assessment of the ongoing impact of COVID-19 and other related circumstances. PGW undertook in April 2021 non-regulated collection activity to improve its prospects of maintaining its collection rate at then current levels. See also, “PHILADELPHIA GAS WORKS – COVID-19 Response and Impacts.”

For additional information about PGW’s collections see “PGW BUDGETS AND FINANCES – Accounts Receivable” and “MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE ELEVEN MONTHS ENDED JULY 31, 2024 AND JULY 31, 2023 (UNAUDITED).”

#### *Payment Options Used to Reduce Collection Activity*

In addition to its collection efforts, PGW continues to offer customers a number of options to pay bills in order to avoid collection activity costs for both PGW and the customer. Customers can pay PGW at authorized agent locations. These locations are “In Person Payment” centers or utilize commercial payment mechanisms such as BuyPay or Americash Checkfree, and Retail Cash service. Such authorized agents send payments from the customers along to PGW. In addition, PGW offers phone payment options whereby credit card or check payments are accepted through the Interactive Voice Response (“IVR”) system using a 3rd party vendor and by PGW customer service representatives through software provided by such vendor. Customers also can choose to pay PGW through PGW’s website. Furthermore, customers can opt to have monthly payments automatically debited from their bank account. PGW’s alternative payment options give customers the flexibility to make cash payments using Retail Cash which is a free service that allows such payments to be made at certain locations (i.e., CVS, Family Dollar, 7-11, or Speedway).

### **THE CAPITAL IMPROVEMENT PROGRAM**

Through its annual capital planning process, PGW identifies potential capital improvements based upon certain operating and economic assumptions, evaluates these requirements, and establishes priorities considering available financial resources. It considers these factors when developing its capital budget for a Fiscal Year. PGW then develops a Capital Improvement Program for a six-year period based upon the approved capital budget for that Fiscal Year and a forecast for the next five Fiscal Years.

The gas design load forecast is a fundamental tool for PGW to identify capital requirements for PGW’s operating departments. The needs of these departments comprise the biggest part of PGW’s capital needs. The Gas Processing Department’s focus is upon providing and maintaining the necessary facilities to take delivery of pipeline supplies and provide supplemental gas to satisfy peak load requirements. The Distribution Department, in its capital budget process, focuses upon the objective of consistently providing and properly maintaining a distribution network as well as the objective of delivering natural gas according to safety standards and at adequate pressure to satisfy the requirements of the appliances and equipment of PGW’s customers.

Also, of major importance for PGW’s Capital Improvement Program process, is to provide sufficient funding for facilities supporting new gas load opportunities which have been identified in the Marketing Department’s forecast of customer expansion. This forecast is used to establish budget requirements for the Distribution Department for main and service additions, and for Field Services to identify new meter installations. Moreover, funding is identified for technology and systems to improve service and efficiency.

The safety of PGW’s operations and reliability of service are PGW’s major concerns when establishing the priorities of need for capital resources. Also of major importance to PGW is ensuring funding to provide facilities to support new load opportunities. PGW’s highest two expenditure priorities are for capital projects required for maintaining the safety and reliability of PGW’s infrastructure. Priority 3 expenditures relate to enforced main relocations that are based on City, Commonwealth and Federal mandated underground infrastructure projects. Priority 4 expenditures relate to projects that will result in additional revenues from load growth opportunities, while Priority 5 expenditures are associated with business improvements that increase operational efficiencies and/or productivity.

Under the terms of the Management Agreement, PGW provides each year's annual Capital Budget to the City's Director of Finance and the Gas Commission so that they can undertake their reviews, and offer recommendations to City Council, in advance of budget approval. PGW is restricted to undertaking only such capital improvements which have been included in a PGW capital budget approved by the City Council.

PGW has been financing and expects to continue to finance its Capital Improvement Program through a combination of net proceeds of revenue bond and note sales (other than sales of refunding bonds), investment income, and internally generated funds (includes DSIC surcharges). Internally generated funds consist of Gas Works Revenues available after payment of PGW Net Operating Expenses, principal and interest on bonds and notes issued by the City for PGW purposes, amounts due to Credit Facility issuers and under Qualified Swaps and Exchange Agreements, and City Charges. A decline in net revenues reduces internally generated funds available for capital projects and requires that the shortfall be funded from the issuance of bonds or other indebtedness or the incurrence of capital leases.

### **Cast Iron Main Replacement**

A significant part of the Capital Improvement Program is the replacement of PGW's cast iron mains, some of which date back to the 1890s, with more state-of-the-art plastic pipe at an estimated replacement cost of approximately \$1.4 million per mile for smaller diameter pipe, with cost increasing for larger diameter pipe and higher pressure pipe.

PGW's base rates have historically provided annual funding for the replacement each year of approximately 18 miles of cast iron mains. This program was started by PGW based on benchmarking and risk assessment analyses which PGW undertook. The program's cost is being funded by customers under the existing base rates. This 18-mile component of PGW's cast iron main replacement program is supplemented by an accelerated main replacement program. The accelerated program is put forth in PGW's LTIIIP. See the table at the end of this sub-caption regarding certain historical information about PGW's cast iron main replacement program.

PGW's first LTIIIP constituted a five-year plan (covering Fiscal Years 2013 - 2017) for accelerated recovery for distribution facilities. The original LTIIIP accelerated the replacement cycle for PGW's large diameter cast iron mains (*i.e.*, 12-inch and larger diameter high pressure main) and other smaller (and more extensive) diameter cast iron mains (*i.e.*, 8-inch and smaller, low/intermediate pressure main). PGW applied for a waiver from the PUC to permit an increase in its DSIC cap in 2015. Upon approval from the PUC in 2016, PGW filed an amended LTIIIP to reflect the increase in its DSIC cap and the subsequent increase in main replacement. PGW filed with the PUC its second LTIIIP petition in the spring of 2017, which also addressed a five-year period (*i.e.*, Fiscal Year 2018 through Fiscal Year 2022). The PUC approved that petition during the summer of 2017. PGW filed its third LTIIIP petition on May 3, 2022, covering the five-year period for fiscal years 2023 through 2027. This petition was approved by the PUC on August 25, 2022. For forecasting purposes, PGW assumes that this accelerated replacement program will continue throughout the five year period ending August 31, 2027.

The original LTIIIP focused on a number of goals and objectives including: replacing 18 miles per year of small diameter, low/intermediate pressure cast iron main increased by approximately 3 miles per year. The original LTIIIP also focused on replacing large diameter, high pressure, cast iron mains that have been identified as potential risks. (This goal related to 30-inch cast iron mains that have been identified as being in poor condition, and 12-inch cast iron mains, similar to those that have been involved in two separate incidents in PGW's system. Moreover, 12-inch cast iron mains were also involved in an incident within UGI Corporation's service territory.)

On January 16, 2015, the PUC began an examination of PGW's pipeline replacement program, including in terms of critically assessing considerations related to the need for, and any obstacles related to, the expansion of the program. This work resulted in a report to the PUC by Commission Staff. The PUC Commission Staff issued its report "Inquiry into Philadelphia Gas Works' Pipeline Replacement Program" on April 21, 2015. In the Staff's report, it conveyed its view that the then current rate of pipeline replacement

needed be more aggressive. The Staff identified “areas of opportunity that PGW should explore to increase its mains replacement rate”: (i) increasing the DSIC above the 5% cap (approved at that time); (ii) making level and annualizing DSIC eligible costs; (iii) issuing additional debt; (iv) improving PGW’s cash management; (v) seeking the City to waive all or a portion of the \$18 million payment; (vi) making the corporate governance structure more streamlined; and (vii) consolidating facilities.

The DSIC surcharge applies to various customers -- Residential and Public Housing, Commercial and Municipal, and Industrial. The surcharge is calculated as a percentage applied to the delivery charge, surcharges, and customer charge. The percentage is equal to the DSIC revenue requirement divided by the annual non-gas cost revenues of the above customers. This percentage is then applied equally to each of the non-gas rate components of those customers. In contrast, under the original DSIC mechanism, revenues were not fully collected in a given annual period.

The PUC, in the summer of 2016, issued an Opinion and Order that allowed PGW to recover an additional \$11.4 million in DSIC under-collections for the calendar year ending December 31, 2015, over the course of two years (*i.e.*, additional annual revenues of \$5.7 million per each of the two years). Beginning on October 1, 2016, PGW temporarily increased its DSIC surcharge to 8.84% and on January 1, 2017, PGW changed its DSIC surcharge percentage to 8.80%. The DSIC surcharge was also increased on January 1, 2018 to 8.70% until the temporary increase expired on September 30, 2019. Two factors have helped PGW reduce the under collection of DSIC surcharge revenues. First, was the temporary increase to the DSIC mechanism. Second, is the leveled method of recovery. The under collection of DSIC surcharge revenues moved downward from \$16.4 million at the end of Fiscal Year 2016 to \$3.0 million at the end of Fiscal Year 2019. Under collection of DSIC surcharge revenue has since increased to \$9.2 million at the end of calendar year 2023.

At the end of calendar year 2023, PGW’s balance of cast iron mains was 1,176 miles, with a further reduction of 30.4 miles initially forecasted during Fiscal Year 2024. PGW estimates, based on the current replacement rate, that full replacement will be completed by 2058. PGW’s Fiscal Year 2024 replacement rate is based in part upon a DSIC rate of 7.5% (*i.e.*, of the amount billed to customers) which was approved in Fiscal Year 2016. PGW’s optimal replacement strategy is to enhance the safety and performance of underground distribution structures. Also see “PHILADELPHIA GAS WORKS — Governmental Oversight.”

The level of main replacement represents a balance among several factors including prioritizing replacements to areas of highest reported leaks, working within the constraints of a highly populated urban area, providing sufficient supervision and oversight by PGW of internal and external construction crews, and the level of rate or surcharge revenues approved by the PUC to fund the replacements.

Approximately 18 miles of the mains replacement program is covered by the current level of approved base rates (which is approximately \$30.0 million per Fiscal Year). Approximately \$153.2 million (*i.e.*, total for Fiscal Year 2020 through Fiscal Year 2024) was funded through base rates for cast iron replacement. The base rate funded portion of the program was \$28.1 million for Fiscal Year 2023, was budgeted for \$34.2 million in Fiscal Year 2024, and is budgeted at \$36.6 million in Fiscal Year 2025.

Additionally, an accelerated mains replacement program is funded by DSIC at 7.5% of non-gas revenues. This DSIC revenue has been in addition to the amounts funded through base rates for cast iron replacement. Approximately 13 miles of the mains replacement program is replaced through the DSIC surcharge. Approximately \$178.4 million (*i.e.*, total for calendar year 2019 through calendar year 2023) was funded through the DSIC surcharge for cast iron replacement. This DSIC surcharge allowed PGW to recover \$34.6 million in DSIC for calendar year 2023. DSIC revenues are estimated to be approximately \$37 million for calendar year 2024 and are budgeted at \$41 million in Fiscal Year 2025.

PGW has been formally awarded \$10 million, and provisionally awarded \$75 million, in Fiscal Year 2024 through the Natural Gas Distribution Infrastructure Safety and Modernization (“NGDISM”) federal grant program to further accelerate the rate of cast iron replacement. These funds will tentatively be spent in PGW’s Fiscal Years 2025 through 2029. PGW applied for an additional \$40 million in grant funding in Fiscal Year

2024 with an expected notice of award in early Fiscal Year 2025. No assurances can be provided regarding the amount, if any, and timing of any grants which may be awarded to PGW under any federal or other program.

To the extent that PGW and its regulators (*i.e.*, PUC, PGC) agree to further accelerate the level of annual mains (and related service lines) replacement, the preferred method of financing these capital improvements would be through the existing DSIC surcharge mechanism or, as an alternative, through increased base rates.

Currently, when PGW makes improvements and repairs to the System located in the public right of way or thoroughfare, it restores the same in accordance with existing City and Commonwealth specifications. PGW understands that there have been some preliminary discussions within the City Administration about requiring by regulation more extensive restoration (curb to curb) for certain road related construction. Currently, PGW cannot predict if such a change will occur or in what form and therefore cannot predict the impact that such a change would have on PGW's implementation of its capital improvement program and related costs. As such, PGW can provide no assurances that the impact would not be material to PGW.

See "Table 6: Historical Cast Iron Main and Unprotected Steel Service Replacement" in APPENDIX B hereto which sets forth certain historical information for Fiscal Years 2000 through 2023 related to PGW's cast iron main replacement program. As indicated therein, the amount of cast iron mains replaced by PGW showed significant increases around the Fiscal Year 2013 and Fiscal Year 2014 time frame, which PGW attributes to the putting in place of the DSIC. The annual number of unprotected service lines replaced is primarily a function of the number of service lines connected to the mains that are replaced, and the remaining total inventory of unprotected steel service lines.

### **Customer Information System Replacement and Building Consolidation**

The Other Departments category of PGW's Capital Improvement Program includes estimated capital expenditures for Facilities, Fleet, Information Services, Customer Affairs, and other miscellaneous departments. For Fiscal Year 2025, the combined spending of these departments is estimated at \$53.3 million. Two major initiatives are the driving force for this level of spending, replacement of PGW's customer information system ("CIS") and implementation of PGW's efforts to consolidate its buildings ("Building Consolidation"). PGW's current CIS was implemented in 1999. It uses a dated and proprietary software architecture, which in the form deployed at PGW has not found broad market acceptance. PGW plans to replace its current CIS with a highly customizable and flexible modern CIS that leverages best practices of the utility industry and is expected to provide a secure and reliable operating platform for the future. In conjunction with the CIS, PGW will update its Customer Experience Portal and platform for service orders. This new portal is designed to provide capacity to allow customers to pay, view and analyze their bills, purchase a parts and labor plan, and schedule service appointments online. This project is a multiyear initiative that will cost \$92.1 million, of which \$15.1 million is expected to be spent in Fiscal Year 2025, when the new system will go live. The CIS replacement project is currently anticipated to be completed during the first quarter of calendar year 2025. In addition, PGW is also evaluating the implementation of developing utility industry technologies by beginning work on a multi-year advance metering infrastructure project (AMI). AMI will replace the current mobile meter reading vans with a radio frequency reading network. This project is a real-time communications infrastructure that enables two-way communications between a data center and the customer's meter. The establishment of a fixed communications network is expected to increase efficiency, particularly by elimination of mobile meter reading resources, and customers are intended to benefit through improved service from on demand meter reading. Consideration is also being given to installing a remote shut-off valve with the meter. This valve would provide an enhanced level of safety to the customer.

Building Consolidation is also a multiyear project. The project is intended to improve space utilization, reduce costs, improve service levels, and shrink PGW's physical and carbon footprint. To attain these benefits, PGW is (i) subleasing space for its North Operations Center (NOC); (ii) consolidating administrative functions at the existing 800 W. Montgomery facility; and (iii) replacing Porter Street Station, which will serve as PGW's South Operations Center and provide new warehouse space. After completion of the foregoing, PGW will be able to exit five existing buildings. The South Operations Center is currently anticipated to be completed by the



end of calendar year 2025. Upon its completion, PGW’s building consolidation effort will be considered completed.

There are two components to this project. The first component relates to \$63.7 million in expenditures needed to fit out the NOC, restack the 800 West Montgomery Avenue facility, and replace Porter Street Station. The breakdown of these estimated capital costs are as follows:

North Operations Center Fit out - \$18.9 million (exclusive of the landlord’s contribution of \$6.3 million)

Replace Porter Street Station - \$24.7 million

Restacking of 800 West Montgomery Avenue - \$20.1 million.

The second component relates to the \$109.5 million sublease for the NOC. The sublease transaction required separate approval by the Gas Commission and City Council. Under the lease structure, Philadelphia Municipal Authority (“PMA”) entered into a lease with the property owner; and the City sub-leased the property from PMA.

The above lease transaction was approved by the Gas Commission on December 23, 2020 and subsequently approved by City Council.

For further discussion of the Capital Improvement Program, see “PGW BUDGETS AND FINANCES – Budget Approval,” and “GAS SERVICE TARIFF AND RATES – Rates – Surcharges • DSIC Surcharge.” The PUC approved PGW’s original LTIP petition for Fiscal Years 2013-2017 on April 4, 2013. The original LTIP was modified by a PUC Order entered on June 9, 2016 and continued, by its terms, through August 31, 2017. PGW filed its second LTIP petition with the PUC on May 3, 2017 for Fiscal Years 2018-2022, and the second LTIP petition was approved on August 31, 2017. PGW filed its third LTIP petition on May 3, 2022, covering the five-year period for fiscal years 2023 through 2027. This petition was approved by the PUC on August 25, 2022.

The following Table 9 represents information regarding actual net capital expenditures for each of the five Fiscal Years 2019-2023 as well as information (on an unaudited basis) for the first eleven months of Fiscal Years 2024 and 2023, respectively:

[Remainder of Page Intentionally Left Blank]

**Table 9**  
**PHILADELPHIA GAS WORKS CAPITAL EXPENDITURES<sup>(1)</sup>**  
**(THOUSANDS OF U.S. DOLLARS)**

	<b>PERIOD SEPTEMBER 1 THROUGH JULY 31 (UNAUDITED)</b>		<b>FISCAL YEARS ENDED AUGUST 31</b>				
	<b><u>2024</u></b>	<b><u>2023</u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
<b>Uses</b>							
Gas Processing	\$2,962	\$3,807	\$7,027	\$6,162	\$6,611	\$3,520	\$5,198
Distribution	82,066	85,157	97,635	101,471	106,315	82,068	91,126
Field Services	7,813	4,531	5,828	6,114	6,142	3,346	5,805
Fleet	8,355	3,337	5,229	826	1,509	1,262	6,136
Facilities	4,144	7,069	10,854	15,015	5,869	2,257	1,367
Information Services	20,084	17,863	23,595	21,463	11,976	6,721	771
Other Departments	-	<u>57</u>	<u>57</u>	<u>78</u>	<u>82</u>	<u>162</u>	<u>140</u>
<b>Total Uses<sup>(2)</sup></b>	<b><u>125,424</u></b>	<b><u>121,821</u></b>	<b><u>150,225</u></b>	<b><u>151,129</u></b>	<b><u>138,504</u></b>	<b><u>99,336</u></b>	<b><u>110,543</u></b>
<b>Sources</b>							
Capital Fund Drawdowns	43,902	81,000	71,000	72,000	55,000	69,400	45,000
Restricted Fund	-	-	-	-	-	-	-
TXCP <sup>(3)</sup>	-	-	-	-	-	-	-
Internal Funds (including DSIC) <sup>(4)</sup>	81,522	40,821	79,225	79,129	83,504	29,936	65,543
<b>Total Sources</b>	<b><u>\$125,424</u></b>	<b><u>\$121,821</u></b>	<b><u>\$150,225</u></b>	<b><u>\$151,129</u></b>	<b><u>\$138,504</u></b>	<b><u>\$99,336</u></b>	<b><u>\$110,543</u></b>

(1) Source: PGW's records.

(2) Net of reimbursements, contributions, and salvage.

(3) Tax exempt Commercial Paper.

(4) Distribution System Improvement Charge.

[Remainder of Page Intentionally Left Blank]

## PGW BUDGETS AND FINANCES

PGW revenues used to pay debt service on its indebtedness and to fund its operations are derived primarily from the sale of gas distribution and related services to its customers. Rate and tariff charges for the sale of gas services are proposed by PGW based on, among other factors, anticipated revenues, and expenses, required working capital, required debt service coverage, and need for funds for capital expenditures. PGW has established several internal financial metric targets which it utilizes for long-term financial planning including: (i) capital expenditures financed approximately one-half from internally generated funds and one-half from proceeds of debt, (ii) a 2.0x or greater debt service coverage ratio under the 1998 General Ordinance, and (iii) a \$100 million cash balance at the end of each Fiscal Year. These targets are subject to change by PGW in its discretion and PGW has no contractual or other obligation to pursue or meet these targets. PGW has had these financial metric targets in place since Fiscal Year 2005. While PGW has no current expectation of changing these financial metric targets, there can be no assurances that they will not be modified or eliminated or that they will be achieved. PGW's ability to meet these targets is subject to various uncertainties. Among several other potential factors, operating conditions, regulatory developments, weather conditions affecting customer natural gas consumption, variables in the United States and local economies in general and the gas industry in particular, and adequate and timely base rate relief as granted by the PUC are anticipated to be major drivers that affect PGW's ability to achieve these financial metric targets. Such factors, as well as demographic, climate, public health/safety, and technological factors, may be wholly or partially beyond the ability of PGW to control or influence.

PGW reviews its operating and capital budgets and related financial needs on an annual basis and updates its internal forecasts on a more frequent basis. If financial forecasts indicate the need for additional base rate revenues, then PGW anticipates that it would file an additional base rate increase request sooner than otherwise anticipated.

There can be no assurance that any such base rate increases will be approved in whole or in part by the PUC or that the other assumptions utilized by PGW will be realized.

### **Budget Approval**

*General Process for Budgets.* The Management Agreement requires PGW to prepare an annual operating budget and an operating forecast for the four years following the budget year. The operating budget and forecast are subject to the approval of the Gas Commission. PGW also prepares annually a proposed capital budget and a forecast for the five years following the budget year. The Gas Commission and the Director of Finance of the City review the capital budget and forecast and forward it, together with their recommendations, to the City Council for its approval by ordinance.

The Gas Commission holds public hearings on the budgets at which PGW and other interested parties are permitted to present evidence to support their positions. Community Legal Services of Philadelphia, Inc. has been appointed by the Gas Commission to serve as Public Advocate and represents residential customers in budget proceedings. The Gas Commission considers the record accumulated in the budget hearings in deciding whether to accept, modify or reject a proposed annual operating budget; and whether to recommend the approval, modification, or rejection of a proposed capital budget by City Council. The Gas Commission final order regarding the operating budget and the City Council ordinance regarding the capital budget may direct PGW to reduce expenses in certain areas or increase spending on certain items or to undertake specific projects. This process remains unchanged since passage of the Gas Choice Act which provides that the City continues to determine PGW's budget function.

*FY 2025 Operating Budget Process and Approval.* In May 2024, PGW submitted its Fiscal Year 2025 Operating Budget to the Gas Commission for its review and approval. PGW's Fiscal Year 2025 Operating Budget was approved by the Gas Commission at its August 13, 2024 meeting. No other approvals are required for PGW's Fiscal Year 2025 Operating Budget which is now in effect.

Subsequent to the Gas Commission's approval, PGW filed (for certain routine compliance purposes) the operating budget in final form with the Gas Commission within approximately 10 days and posted such budget to PGW's website. Such documents are not incorporated by reference herein. PGW's related Five-Year Forecast for Fiscal Years 2026 through 2030 was approved August 13, 2024.

*FY 2025 Operating Budget – Components.* The approved Fiscal Year 2025 Operating Budget and submitted Five-Year Forecast for Fiscal Years 2026 through 2030, presented budgeted information for Fiscal Year 2025 and forecasted information for Fiscal Years 2026-2030. The budget included a statement of income with itemizations of the different categories of PGW operating revenues, expenses and interest income. It also included a cash flow statement showing both sources and uses of expenditures, a debt service coverage analysis and a balance sheet reflecting assets and equity and liabilities. It also included the principal business assumptions that PGW made when preparing the budget and forecast. These assumptions included certain gas revenues (including LNG sales), weather-related projections, costs of certain commodities and personnel, collections, internally generated funds, and revenue enhancements to support capital improvements.

*Discussion of FY 2025 Operating Budget.* The Fiscal Year 2025 Operating Budget as filed with the Gas Commission projects an ending cash balance of \$60.7 million for FY 2025 (a reduction from the estimated operating fund cash balance of \$115.2 million for FY 2024). PGW's budgeted total operating revenues in FY 2025 are \$694.6 million compared to anticipated total operating revenues of \$691.3 million for Fiscal Year 2024. (The budgeted total operating revenues for Fiscal Year 2024 were \$916.1 million.) Net income is budgeted at \$106.5 million by year-end FY 2025 compared to \$126.3 million estimated for FY 2024. (The budgeted net income for FY 2024 was \$166.4 million.)

PGW anticipates filing for a base rate increase of approximately \$70.0 million in the fourth quarter of calendar year 2024. PGW assumes that such increase would become effective immediately after the completion of Fiscal Year 2025 on September 1, 2025.

*Fiscal Year 2025 Operating Budget Comparative Summary.* Set forth below is a summary of PGW's approved Fiscal Year 2025 Operating Budget with comparative information to its Fiscal Year 2024 Operating Budget.

PGW's Fiscal Year 2024 Operating Budget was filed on May 11, 2023 (and approved by PGC on August 8, 2023). PGW, consistent with its historical practice, did not file any formal amendment to the approved Fiscal Year 2024 Operating Budget.

[Remainder of Page Intentionally Left Blank]

**PHILADELPHIA GAS WORKS**  
**BUDGETED STATEMENT OF INCOME**  
(Dollars in Thousands)

	<b>OPERATING BUDGET FY 2024<sup>(1)</sup></b>	<b>OPERATING BUDGET FY 2025<sup>(2)</sup></b>
<b>OPERATING REVENUES</b>		
Non-Heating	\$ 31,493	\$ 21,403
Gas Transport Service	75,685	84,343
Heating	727,583	580,451
Revenue Enhancement / Cost Reduction – FY 2024	85,833	-
Weather Normalization Adjustment	-	3,693
Appropriation for Uncollectible Reserve	(36,919)	(41,887)
Unbilled Adjustment	<u>(763)</u>	<u>168</u>
Total Gas Revenues	<u>882,912</u>	<u>648,171</u>
Appliance Repair & Other Revenues	7,807	7,886
Other Operating Revenues	25,370	38,576
Total Other Operating Revenues	<u>33,177</u>	<u>46,462</u>
<b>Total Operating Revenues</b>	<u>916,089</u>	<u>694,633</u>
<b>OPERATING EXPENSES</b>		
Natural Gas	323,502	183,037
Other Raw Material	31	31
Sub-Total Fuel	<u>323,533</u>	<u>183,068</u>
<b>CONTRIBUTION MARGINS</b>		
Gas Processing	23,890	26,475
Field Operations	98,811	100,991
Collection	5,087	5,193
Customer Service	21,278	21,718
Account Management	10,515	10,859
Marketing	4,657	4,710
Administrative & General	102,381	98,796
Health Insurance	27,715	25,960
Pandemic Expenses	10,833	-
Capitalized Fringe Benefits	(10,717)	(11,278)
Capitalized Administrative Charges	(31,571)	(30,408)
Pensions	44,759	27,448
Taxes	10,434	10,735
Other Post-Employment Benefits	(10,095)	25,484
Cost / Labor Savings	<u>(302)</u>	<u>(2,715)</u>
Sub-Total Other Operating & Maintenance	307,675	313,968
Depreciation	65,412	63,782
Cost of Removal	6,729	9,879
To Clearing Accounts	-	-
Net Depreciation	<u>72,141</u>	<u>73,661</u>
<b>Sub-Total Other Operating Expenses</b>	<u>379,816</u>	<u>387,629</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>703,349</u>	<u>570,697</u>
OPERATING INCOME	212,740	123,936
<b>Interest Gain / (Loss) and Other Income</b>	<u>7,211</u>	<u>21,597</u>

	<b>OPERATING BUDGET FY 2024<sup>(1)</sup></b>	<b>OPERATING BUDGET FY 2025<sup>(2)</sup></b>
<b>PHILADELPHIA GAS WORKS BUDGETED STATEMENT OF INCOME (continued)</b>		
INCOME BEFORE INTEREST	219,951	145,532
<b>INTEREST</b>		
Long-Term Debt	62,738	58,236
Other	(1,776)	(8,406)
Loss From Extinguishment of Debt	3,348	2,953
<b>Total Interest</b>	<b>64,310</b>	<b>52,783</b>
<b>NON-OPERATING REVENUE</b>		
Federal Grant Revenue (PHMSA)	10,752	13,728
<b>NET INCOME</b>	<b>166,393</b>	<b>106,477</b>
City Payment	18,000	18,000
<b>NET EARNINGS</b>	<b>\$ 148,393</b>	<b>\$ 88,477</b>

<sup>(1)</sup> The Operating Budget FY 2024 column reflects PGW's approved operating budget for FY 2024 and does not reflect any estimate of actual FY 2024 operating and financial results for PGW.

<sup>(2)</sup> Reflects the FY 2025 Operating Budget as approved and filed with the Gas Commission. The FY 2025 Operating Budget was filed with the Gas Commission in May 2024 and does not reflect subsequent events, including any partial-year interim results. The Gas Commission approved the FY 2025 Operating Budget on August 13, 2024.

#### *Capital Budget*

*Fiscal Year 2024.* PGW's Fiscal Year 2024 Capital Budget was submitted to the Gas Commission on January 3, 2023. On March 31, 2023, the Gas Commission staff filed a recommended decision authorizing budget authorization of \$192.432 million. The Gas Commission rendered its decision recommending that City Council approve the FY 2024 Capital Budget on April 25, 2023. City Council final approval was received on June 22, 2023. PGW proposed amendments to the FY 2024 Capital Budget to address additional funding needed for two projects (i.e., building consolidation and CIS initiatives) in addition to budget reauthorizations for certain projects that were anticipated to be completed beyond their two-year authorized lifespans. The proposed amendments to the Fiscal Year 2024 Capital Budget resulted in total capital budget authorization of \$257.883 million. The Gas Commission approved the proposed budget amendments for the building consolidation and CIS initiatives on September 26, 2023 and November 14, 2023, respectively.

*Fiscal Year 2025.* PGW's Fiscal Year 2025 Capital Budget was submitted to the Gas Commission on January 2, 2024. On March 19, 2024, the Gas Commission staff filed a recommended decision authorizing budget authorization of \$194.383 million. The Gas Commission rendered its decision recommending that City Council approve the FY 2025 Capital Budget on April 9, 2024. City Council provided final approval of the Fiscal Year 2025 Capital Budget on June 13, 2024.

The following is excerpted from PGW's Compliance FY 2025 Capital Budget and Five-Year Forecast for FY 2026 through FY 2030, inclusive.

**Table 10**  
**CAPITAL BUDGET**  
**FY 2025 AND FORECAST FOR FY 2026 THROUGH FY 2030<sup>(1)(2)</sup>**

	2025 CAPITAL BUDGET	2026 - 2030 FORECAST <sup>(3)</sup>	TOTAL 6 YEARS
<b>GAS PROCESSING</b>			
Additions	\$ 51,000	\$ 270,000	\$ 321,000
Replacements	13,799,000	258,658,000	272,457,000
<b>TOTAL</b>	<b>13,850,000</b>	<b>258,928,000</b>	<b>272,778,000</b>
<b>DISTRIBUTION</b>			
Additions	16,260,900	93,213,000	109,473,900
Replacements	133,360,000	653,732,000	787,092,000
<b>GROSS TOTAL</b>	<b>149,620,900</b>	<b>746,945,000</b>	<b>896,565,900</b>
<b>FIELD SERVICES</b>			
Additions	3,017,000	16,306,000	19,323,000
Replacements	4,975,000	109,691,000	114,666,000
<b>GROSS TOTAL</b>	<b>7,992,000</b>	<b>125,997,000</b>	<b>133,989,000</b>
<b>FLEET OPERATIONS</b>			
Additions	-	-	-
Replacements	5,980,000	52,514,000	58,494,000
<b>GROSS TOTAL</b>	<b>5,980,000</b>	<b>52,514,000</b>	<b>58,494,000</b>
<b>OTHER DEPARTMENTS</b>			
Additions	11,447,000	3,195,000	14,642,000
Replacements	5,493,000	8,260,000	13,753,000
<b>TOTAL</b>	<b>16,940,000</b>	<b>11,455,000</b>	<b>28,395,000</b>
<b>TOTAL</b>			
Additions	30,775,900	112,984,000	143,759,900
Replacements	163,607,000	1,082,855,000	1,246,462,000
<b>GROSS TOTAL</b>	<b>\$ 194,382,900</b>	<b>\$ 1,195,839,000</b>	<b>\$ 1,390,221,900</b>

<sup>(1)</sup> Source: PGW's records.

<sup>(2)</sup> Reimbursement to PGW for relocating structures and equipment and/or load growth are not included in this Table.

<sup>(3)</sup> Information and statements provided by PGW that are not purely historical are forward-looking statements. Readers should not place undue reliance on forward-looking statements which are inherently subject to various uncertainties. Accordingly, actual results may vary from the forecasts and estimates contained herein.

*Gas Processing Capital Expenditures*

Budgeted capital spending for the Gas Processing Department is focused on the safety and reliability of natural gas measurement and control facilities, plant buildings and grounds, and PGW's LNG capacity. The more significant initiatives in Fiscal Year 2025 include: \$3.3 million to upgrade H-1 Heater Controls at Richmond, \$4.9 million to replace the boiloff gas compressors at Passyunk, and \$1.4 million for a replacement of a heater and addition of a generator at Ivy Hill Meter and Regulator (M&R) Station. Out-year planned expenditures are anticipated for a number of purposes including during Fiscal Year 2027 in a total amount of \$170.0 million to replace the liquefier at the Richmond Plant, and \$5.5 million in Fiscal Years 2027 and 2028

for certain capital replacements at Passyunk. Actual levels of expenditures, including carryover spending to a future Fiscal Year, will be impacted by the particular work patterns and any contingencies relating to a particular project.

#### *Distribution Capital Expenditures*

The traditional 18-mile cast iron replacement program and accelerated main replacement program are central to this category of capital expenditures which is funded through base rates and the DSIC. The base rate funded portion of the program for Fiscal Year 2025 is expected to be approximately \$36.6 million to provide for the removal of approximately 18 miles of cast iron mains. Historically, cast iron pipe was generally used by natural gas utilities. This was particularly true in the case of low-pressure gas mains such as those used by PGW. Leaks tend to result due to aging of this pipe, joint deterioration and increases in the brittleness of such pipe. Replacement options for such cast iron mains include plastic for low-pressure systems as well as wrapped and cathodically protected steel (the latter being used for higher pressure systems).

Estimated capital spending for Fiscal Year 2025 is \$136.7 million for PGW's Distribution Department. This spending level maintains a trend of increased expenditures which began in Fiscal Year 2013. The increase is associated closely with addressing at-risk mains in furtherance of PGW's LTIP. The DSIC enables PGW to recover these capital costs on a pay-as-you-go basis, which reduces or avoids dependence on additional indebtedness to maintain this part of PGW's capital program.

See also "POSSIBLE FUTURE PGW RELATED FINANCINGS – Infrastructure Replacement" and "THE CAPITAL IMPROVEMENT PROGRAM - Cast Iron Main Replacement" above.

#### *Field Services Capital Expenditures*

PGW estimates capital spending for Fiscal Year 2025 for the Field Services Department in the amount of \$7.992 million. These capital expenditures are intended, in part, to implement the automated meter reading ("AMR") system. Specific benefits to PGW from such expenditures for the AMR System include a need for fewer estimated readings, enhanced accuracy, less time required from PGW's employees and fewer customer complaints. The 2025 Capital Budget continues to implement PGW's AMR program.

#### *Fleet Operations Capital Expenditures*

For Fiscal Year 2025, the Fleet Operations Department estimated capital expenditures are in the amount of \$5.980 million. These expenditures generally serve the purpose of replacing vehicles and mobile equipment, particularly in support of critical field operations. In any particular year, spending in this area is based upon the inventory of vehicles to be replaced. The respective useful lives of vehicles are annually analyzed and this analysis, together with PGW's normal replacement criteria, substantially determines the number of vehicles which are replaced. Fiscal Year 2025 spending is based on such analysis and criteria.

See "THE CAPITAL IMPROVEMENT PROGRAM - Customer Information System Replacement and Building Consolidation" above for a detailed discussion of the Other Departments portion of PGW's capital budget.

### **Accounts Receivable**

Net accounts receivable was \$92.0 million at the end of Fiscal Year 2023, a decrease of approximately \$15.0 million or 14.0% from Fiscal Year 2022 due to a decrease in the total operating revenue of 11.7% during FY 2023. Gross accounts receivable on August 31, 2023 was \$200.9 million, a decrease of \$14.3 million compared to the \$215.2 million level in FY 2022. The 24-month collection rate in Fiscal Year 2023 was 97.8% as compared to 96.7% in Fiscal Year 2022. The accumulated provision for uncollectible accounts reflects a balance of \$109.0 million, an increase of \$0.8 million at the end of Fiscal Year 2023, compared to the \$108.2 million balance at the end of Fiscal Year 2022. The reserve for bad debt is for accounts that have not yet been written off. When a receivable is written-off, the bad debt reserve will be reduced by the same amount.



For a further discussion of PGW’s accounts receivable experience, see “MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE ELEVEN MONTHS ENDED JULY 31, 2024 AND JULY 31, 2023 (UNAUDITED) – Assets – *Accounts Receivable*”.

**Provision for Uncollectible Accounts**

The provision for uncollectible accounts in FY 2023 totaled \$40.3 million, an increase of \$15.0 million, or 59.3%, from FY 2022. In FY 2021, PGW established a regulatory asset for outstanding delinquent account balances in anticipation that it would recover losses relating to the COVID-19 pandemic. The losses are specifically associated with the PUC moratorium, beginning in March 2020, and ending in March 2021, on shutting off gas services to customers who otherwise would be eligible for shutoff.

[Remainder of Page Intentionally Left Blank]

**Table 11**  
**ACCOUNTS RECEIVABLE, PROVISION FOR UNCOLLECTIBLE ACCOUNTS, NET**  
**WRITE-OFFS, COLLECTION FACTORS AND REVENUE STATISTICS<sup>(1)</sup>**  
**(THOUSANDS OF U.S. DOLLARS)**

	<b>FISCAL YEAR ENDED AUGUST 31</b>				
	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Billed Gas Revenues <sup>(2)</sup>	\$756,999	\$755,478	\$646,453	\$635,522	\$682,295
Accounts Receivable	200,947	215,187	195,155	164,103	152,740
Less: Reserve for Bad Debt	<u>(108,990)</u>	<u>(108,186)</u>	<u>(113,164)</u>	<u>(80,422)</u>	<u>(66,751)</u>
Net Accounts Receivable	91,957	107,001	81,991	83,681	\$85,989
Bad Debt Reserve/Accounts Receivable	54.2%	50.3%	58.0%	49.0%	43.7%
Net Write-Offs	\$39,466	\$30,265	11,359	30,417	\$29,559
Receivable/Billed Gas Revenues	26.5%	28.5%	30.2%	25.8%	22.4%
Bad Debt	\$40,270	\$25,287	16,261	44,088	\$29,983
Bad Debt/Billed Gas Revenues	5.3%	3.3%	2.5%	6.9%	4.4%
Bad Debt/Accounts Receivable	20.0%	11.8%	8.3%	26.9%	19.6%
<b><u>12-Month Collection Data</u></b>					
Total Customer Receipts	\$794,801	\$768,001	644,186	633,775	\$685,608
Total Customer Billings	\$810,936	\$786,915	673,585	655,922	\$709,940
Collection Factor	98.0%	97.6%	95.6%	96.6%	96.6%
Five-Year Average Collection Factor (2019-2023)	96.9%				

(1) Source: PGW's records.

(2) This is calculated based on Adjusted Total Gas Revenues less Prior Year's Gas Cost Recovery. Accounts receivable is partly driven by sales revenue. Higher sales revenue causes higher accounts receivable balances. During the five-year period between Fiscal Year 2019 and Fiscal Year 2023, the year-end net accounts receivable balance averaged 13.0% of billed revenue, with a low of 12.1% in Fiscal Year 2023 and the high of 14.2% in Fiscal Year 2022. Along with billed revenue, accounts receivable is influenced by the collection rate. PGW calculates the twelve-month collection rate by dividing the total gas receipts collected in a Fiscal Year by the total gas billings that were applied to PGW customers' accounts during the same time period. During the five-year period between Fiscal Year 2019 and Fiscal Year 2023, PGW averaged a 96.9% twelve-month collection rate with a high of 98.0% in Fiscal Year 2023 and a low of 95.6% in Fiscal Year 2021.

PGW calculates the provision for uncollectible accounts based on a financial analysis and a collectability study performed as of each Fiscal Year-end. The same methodology was used for all Fiscal Years between Fiscal Year 2019 and Fiscal Year 2024 and PGW's management intends to continue to use this methodology. This analysis is used to determine the adequacy of the accumulated provision for uncollected accounts. For each Fiscal Year during the stated period, management has provided an accumulated provision for uncollectible accounts in excess of the collectability study results based on its analysis of historical aging data. The actual results of the PGW's twelve-month collection efforts could differ significantly from PGW's estimate. Net write-offs historically have been less than the reserve for bad debt each year due to the effects of the assistance programs and grants described under "GAS SERVICE TARIFF AND RATES – Assistance Programs and Grants."

## Selected Operating Data Regarding Customers and Gas Sales

The following table sets forth certain information regarding PGW customers, gas sales by classification and demand for gas.

**Table 12**  
**SELECTED OPERATING DATA**  
**REGARDING CUSTOMERS AND GAS SALES<sup>(1)</sup>**

	PERIOD SEPTEMBER 1 THROUGH JULY 31		FISCAL YEARS ENDED AUGUST 31				
	2024	2023	2023	2022	2021	2020	2019
<b>Summary of Customers at End of Period</b>							
Residential	451,639	459,208	458,311	467,914	469,879	464,940	467,732
Industrial and Commercial:							
Firm	20,823	21,282	21,246	21,393	21,424	21,430	21,608
Interruptible	2	2	2	2	3	3	3
Municipal and PHA	-	-	-	-	1	2	2
<b>Total Customers<sup>(2)</sup></b>	<b>472,464</b>	<b>480,492</b>	<b>479,559</b>	<b>489,309</b>	<b>491,307</b>	<b>486,375</b>	<b>489,345</b>
<b>Gas Sales by Classification (Mmcf)<sup>(3)</sup></b>							
Residential:							
Heating	26,849	26,961	27,473	30,986	31,778	31,157	34,373
Non-Heating	301	311	321	353	369	419	428
Industrial and Commercial:							
Firm	7,446	7,705	7,945	8,620	8,153	7,424	8,421
Interruptible	435	861	893	1,319	492	588	205
Other (FT)	6,171	5,914	6,060	5,719	5,768	5,985	5,971
<b>Total Gas Sales &amp; Transport</b>	<b>41,202</b>	<b>41,752</b>	<b>42,692</b>	<b>46,997</b>	<b>46,560</b>	<b>45,573</b>	<b>49,398</b>
<b>Average Monthly Usage of Residential Customers (Mcf)<sup>(4)</sup>:</b>							
Heating	5.5	5.5	5.1	5.7	5.8	5.8	6.4
Non-Heating	2.3	2.2	2.1	2.1	2.1	2.2	2.1
<b>Average Monthly Bill of Residential Customers:</b>							
Heating \$	\$99.37	\$117.79	\$110.78	\$110.14	\$94.60	\$93.08	\$100.77
Non-Heating \$	\$50.48	\$53.89	\$51.70	\$49.80	\$42.59	\$43.79	\$43.24
<b>Degree Days<sup>(5)</sup></b>	<b>3,931</b>	<b>3,894</b>	<b>3,740</b>	<b>3,853</b>	<b>3,734</b>	<b>3,353</b>	<b>3,995</b>
Normal Degree Days <sup>(5)</sup>	3,878	3,923	4,336	4,336	3,931	3,956	3,956
	101%	99%	86%	89%	95%	85%	101%
<b>Maximum 24-Hour Sendout (Mcf)</b>	<b>474,445</b>	<b>544,760</b>	<b>544,760</b>	<b>531,582</b>	<b>495,584</b>	<b>461,382</b>	<b>611,853</b>
Peak-day Avg. Temperature (Degrees)	23	16	16	16	26	30	17

(1) Source: PGW's records.

(2) Exclude Interruptible Gas Transportation Service Customers.

(3) Million cubic feet.

(4) Thousand cubic feet.

(5) In FY 2021, the source for degree days changed from PGW's Richmond Plant to National Oceanic and Atmospheric Administration (NOAA) which is measured at the Philadelphia International Airport.

## Summary of Statements of Revenue and Expenses

Information for each of the past five Fiscal Years should be read in conjunction with and was derived from the audited financial statements and notes thereto.

**Table 13**  
**SUMMARY OF STATEMENTS OF REVENUES AND EXPENSES<sup>(1)</sup>**

(THOUSANDS OF U.S. DOLLARS)

	PERIOD SEPTEMBER 1 THROUGH JULY 31 (UNAUDITED)		FISCAL YEARS ENDED AUGUST 31 <sup>(2)</sup>				
	2024	2023	2023	2022	2021	2020	2019
Operating revenues:							
Gas revenues:							
Nonheating	\$20,030	\$24,224	\$25,914	\$32,064	\$23,122	\$21,599	\$25,065
Gas transport service	79,301	74,717	77,530	71,710	67,907	62,846	63,565
Heating	543,704	593,170	599,980	687,142	549,982	531,436	605,437
Provision for uncollectible accounts	(31,160)	(37,747)	(40,270)	(25,287)	(16,261)	(44,088)	(29,983)
Total gas revenues	611,875	654,364	663,154	765,629	624,750	571,793	664,084
Appliance and other revenues	6,341	6,537	7,339	6,656	6,019	6,190	7,908
Other operating revenues	28,282	39,123	40,533	33,152	15,978	6,954	12,736
Total operating revenues	646,498	700,024	711,026	805,437	646,747	584,937	684,728
Operating expenses:							
Natural gas	161,516	222,760	223,996	272,468	163,892	146,754	206,825
Field operations <sup>(3)(5)</sup>	87,371	79,889	89,803	79,542	79,678	76,865	79,341
Gas processing <sup>(3)</sup>	21,594	19,938	25,569	24,085	23,294	24,316	22,028
Collection and account management <sup>(3)</sup>	10,953	11,422	12,894	13,237	13,364	12,408	12,490
Customer services <sup>(3)(5)</sup>	14,819	12,082	13,962	12,825	13,762	13,686	13,983
Marketing <sup>(3)</sup>	3,421	3,469	3,857	4,433	4,113	3,999	4,232
Administrative and general <sup>(3)(5)</sup>	74,773	60,708	66,704	64,535	61,899	67,355	67,649
Pensions	40,290	8,465	31,544	20,675	(3,146)	19,473	30,268
Other postemployment benefits	(9,254)	(6,440)	4,791	(1,242)	(902)	10,862	28,351
Taxes	8,887	8,419	9,121	8,984	8,894	8,957	8,705
Total operating expenses before depreciation	414,370	420,712	482,241	499,542	364,848	384,675	473,872
Depreciation <sup>(3)(5)</sup>	68,916	70,237	81,962	72,342	69,312	64,161	68,186
Less depreciation expense included in operating expenses above	--	--	--	--	--	--	--
Net depreciation	68,916	70,237	81,962	72,342	69,312	64,161	68,186
Total operating expenses	483,286	490,949	564,203	571,884	434,160	448,836	542,058
Operating income	163,212	209,075	146,823	233,553	212,587	136,101	142,670
Interest and other income	12,593	12,489	14,000	(1,523)	1,322	5,594	10,788
Income before interest expense	175,805	221,564	160,823	232,030	213,909	141,695	153,458
Interest expense:							
Long-term debt	39,851	41,303	44,776	47,044	48,475	43,552	46,136
Other <sup>(3)(5)</sup>	(3,574)	(5,715)	(5,886)	(7,447)	(4,561)	(5,962)	(5,245)
Allowance for funds used during construction <sup>(4)</sup>	--	--	--	--	(2,413)	(1,860)	(1,295)
Total interest expense	36,277	35,588	38,890	39,597	41,501	35,730	39,596
Excess of revenues over (under) expenses prior to City Payment	139,528	185,976	121,933	192,433	172,408	105,965	113,862
Distribution to the City of Philadelphia	(16,500)	(16,500)	(18,000)	(18,000)	(18,000)	(18,000)	(18,000)

	PERIOD SEPTEMBER 1 THROUGH JULY 31 (UNAUDITED)		FISCAL YEARS ENDED AUGUST 31 <sup>(2)</sup>				
	2024	2023	2023	2022	2021	2020	2019
	Excess of revenues over expenses	123,028	169,476	103,933	174,433	154,408	87,965
Net position, beginning of the period <sup>(3)(5)</sup>	728,282	624,349	624,349	449,916	295,645	207,562	111,700
Net position, end of the period <sup>(3)(5)</sup>	<u>\$851,310</u>	<u>\$793,825</u>	<u>\$728,282</u>	<u>\$624,349</u>	<u>\$450,053</u>	<u>\$295,527</u>	<u>\$207,562</u>

(1) Source: PGW's records.

(2) Information for each of the past five Fiscal Years is derived from, and should be considered in light of, PGW's audited financial statements and notes thereto which are available within PGW's respective annual Comprehensive Annual Financial Reports ("CAFR") or ACFR, as applicable.

(3) During FY 2022, PGW implemented GASB Statement No. 87, *Leases*, which revises existing standards for measuring and reporting operating and capital leases. GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This change was retroactive to FY 2021.

(4) During FY 2022, PGW implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business type activity or enterprise fund. Beginning on September 1, 2021, PGW no longer capitalizes AFUDC.

(5) During FY 2023, PGW implemented GASB Statement No. 96, *Subscription Based Information Technology Arrangements*, which revises existing standards for measuring and reporting software subscriptions. Under this statement, a lessee, involving software subscriptions, is required to recognize a liability and an intangible right to use asset, and a lessor, involving software subscriptions, is required to recognize a receivable and a deferred inflow of resources. This change was retroactive to FY 2022.

[Remainder of Page Intentionally Left Blank]

### **DEBT SERVICE COVERAGE RATIO**

The annual operating budgets approved by the Gas Commission have estimated the level of revenues required to reach at least the minimum rates and charges mandated by the General Gas Works Revenue Bond Ordinance of 1975, as amended and supplemented, and under which no debt remains outstanding as of August 18, 2015 (the “Retired 1975 General Ordinance”) and the 1998 General Ordinance. The following table presents the historical revenues and regularly scheduled debt service coverage calculated under the Retired 1975 General Ordinance and the 1998 General Ordinance for Fiscal Year 2019 through 2023, inclusive. Payment of City Charges is subordinate to the payment of debt service on bonds issued under the 1998 General Ordinance (and was similarly subordinated to the payment of debt service on bonds issued under the Retired 1975 General Ordinance). See also “Table 19: Projected Debt Service Coverage” in APPENDIX B hereto.

[Table follows on next page.]

**Table 14**  
**DEBT SERVICE COVERAGE<sup>(1)</sup>**  
**(THOUSANDS OF U.S. DOLLARS)**

	2023	2022	2021	2020	2019
<b>FUNDS PROVIDED</b>					
Total Gas Revenues	\$663,154	\$765,629	\$624,750	\$571,793	\$664,084
Other Operating Revenues	47,872	39,808	21,997	13,144	20,644
Total Operating Revenues	711,026	805,437	646,747	584,937	684,728
Other Income Incr. / (Decr.) Restricted Funds	11,596	(2,139)	1,295	12,303	10,787
AFUDC <sup>(6)</sup> (Interest)	-	-	2,413	1,860	1,295
<b>TOTAL FUNDS PROVIDED</b>	<b>722,622</b>	<b>803,298</b>	<b>650,455</b>	<b>599,100</b>	<b>696,810</b>
<b>FUNDS APPLIED</b>					
Fuel Costs	223,996	272,468	163,892	146,754	206,825
Other Operating Costs	340,207	300,109	270,151	302,082	335,233
Total Operating Expenses	564,203	572,577	434,043	448,836	542,058
Less: Non-Cash Expenses	91,079	68,773	46,075	61,105	74,481
<b>TOTAL FUNDS APPLIED</b>	<b>473,124</b>	<b>503,804</b>	<b>387,968</b>	<b>387,731</b>	<b>467,577</b>
Funds Available to Cover Debt Service	\$249,498	\$299,494	\$262,487	\$211,369	\$229,233
Net Available after Prior Debt Service <sup>(2)</sup>	\$249,498	\$299,494	\$262,487	\$211,369	\$229,233
Equipment Leasing Debt Service	-	-	-	-	-
Net Available after Prior Capital Leases	\$249,498	\$299,494	\$262,487	\$211,369	\$229,233
Senior 1998 Ordinance Bonds Debt Service	\$99,144	\$98,430	\$97,383	\$96,182	\$98,417
<b>Debt Service Coverage Senior 1998 Ordinance Bonds</b>	<b>2.52</b>	<b>3.04</b>	<b>2.70</b>	<b>2.20</b>	<b>2.33</b>
Net Available after Senior 1998 Ordinance Debt Service	\$150,354	\$201,064	\$165,104	\$115,187	\$130,816
Subordinate 1998 Ordinance Bond Debt Service	-	-	-	-	-
<b>Debt Service Coverage Subordinate 1998 Ordinance Bonds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Aggregate Debt Service <sup>(3)</sup>	\$99,144	\$98,430	\$97,383	\$96,182	\$98,417
Debt Service Coverage (Combined liens) <sup>(4)</sup>	2.52	3.04	2.70	2.20	2.33
Debt Service Coverage (Combined liens with \$18.0M City Fee) <sup>(5)</sup>	2.33	2.86	2.51	2.01	2.15

<sup>(1)</sup> Source: Annual Comprehensive Financial Report for Fiscal Years Ended August 31, 2023 and 2022 of the Philadelphia Gas Works (attached as APPENDIX A) and PGW's records.

<sup>(2)</sup> No debt remains outstanding as of August 18, 2015 for the General Gas Works Revenue Bond Ordinance of 1975, as amended and supplemented.

<sup>(3)</sup> Aggregate Debt Service = (Debt Service Coverage 1998 Ordinance Bonds + Debt Service Coverage 1998 Subordinate Bonds).

<sup>(4)</sup> Debt Service Coverage (Combined liens) = Funds Available to Cover Debt Service / Aggregate Debt Service.

<sup>(5)</sup> Debt Service Coverage (Combined liens with \$18.0M City Fee) = Funds Available to Cover Debt Service - \$18.0M / Aggregate Debt Service.

<sup>(6)</sup> Allowance for Funds Used During Construction.

[Remainder of Page Intentionally Left Blank]

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND  
FINANCIAL CONDITION FOR THE ELEVEN MONTHS ENDED JULY 31, 2024 AND JULY 31,  
2023 (UNAUDITED)**

The narrative overview and analysis of the financial statements of PGW for the eleven months ended July 31, 2024 and July 31, 2023 have been prepared by PGW’s management. The information presented below is unaudited and should be read in conjunction with additional information contained in PGW’s audited financial statements as of and for the years ended August 31, 2023 and 2022 included in the attached APPENDIX A. Certain unaudited information for the eleven months ended July 31, 2022 is also included for historical comparative purposes. Various numbers, including percentages, included within the narrative and tabular presentation within this management’s discussion and analysis are subject to conventional rounding conventions.

See also “PHILADELPHIA GAS WORKS – COVID-19 Response and Impacts” for a discussion of certain actions taken by PGW in response to the pandemic and an assessment of impacts.

**Financial Highlights**

*Eleven Month Period Ended July 31, 2024*

The eleven-month period ended July 31, 2024 weather reflected a 12.2% warmer than normal winter. The FY 2024 period was 1.8% colder than the prior year and total gas sold was approximately 35.0 Billion Cubic Feet (Bcf). The Weather Normalization Adjustment (WNA) Clause, which was in effect from October 2023 through April 2024, resulted in heating customers receiving charges totaling \$25.6 million. The eleven-month period ended July 31, 2023 weather reflected a 13.7% warmer than normal winter. The FY 2023 period was 2.9% warmer than the prior year and total gas sold was approximately 35.8 Bcf. The WNA Clause, which was in effect from October 2022 through April 2023, resulted in heating customers receiving charges totaling \$32.4 million. Actual degree day data is provided by the National Weather Service and measured at the Philadelphia International Airport.

PGW achieved 24-month collection rates of 99.2% at July 31, 2024, 97.6% at July 31, 2023, and 95.8% at July 31, 2022. For July 31, 2024, the collection rate is calculated by dividing the total gas receipts collected from August 1, 2022 through July 31, 2024 by the total gas billings that were applied to PGW customers’ accounts from August 1, 2022 through July 31, 2024. The same methodology was utilized in the prior periods.

**Table 15  
UNAUDITED  
CONDENSED STATEMENTS OF REVENUES AND EXPENSES  
(THOUSANDS OF U.S. DOLLARS)**

	<b>ELEVEN MONTHS ENDED JULY 31</b>		
	<b>2024</b>	<b>2023</b>	<b>2022</b>
Total gas revenues	\$611,875	\$654,364	\$743,510
Other revenues	34,623	45,660	33,695
Total operating revenues	<u>646,498</u>	<u>700,024</u>	<u>777,205</u>
Fuel expense	161,516	222,760	264,126
All other operating expenses	321,770	268,189	279,612
Total operating expenses	<u>483,286</u>	<u>490,949</u>	<u>543,738</u>
Operating income	163,212	209,075	233,467
Interest and other income	12,593	12,489	(937)
Total interest expense	(36,277)	(35,588)	(36,085)
Distribution to the City of Philadelphia	<u>(16,500)</u>	<u>(16,500)</u>	<u>(16,500)</u>
Excess of revenues over expenses	<u>123,028</u>	<u>169,476</u>	<u>179,945</u>



## Operating Revenues

Operating revenues in the eleven-month period ended July 31, 2024 were \$646.5 million, a decrease of \$53.5 million, or 7.6%, from the eleven-month period ended July 31, 2023. The decrease resulted from a result of lower Gas Cost Rates (GCR), which was driven by decreased commodity prices and an \$11.0 million decrease in other operating revenues, resulting from a decrease of capacity release sales and a decrease in finance charges. Operating revenues in the eleven-month period ended July 31, 2023 were \$700.0 million, a decrease of \$77.2 million, or 9.9%, from the eleven-month period ended July 31, 2022. The decrease was primarily a result of lower GCR, which was driven by decreased commodity prices.

Total sales volumes, including gas transportation deliveries, in the eleven-month periods ended July 31, 2024 and 2023 were 64.5 Bcf. In the eleven-month period ended July 31, 2024, firm gas sales of 34.6 Bcf were a 1.1% decrease from the firm gas sales in the corresponding period in FY 2023. Interruptible gas sales were 0.4 Bcf lower than the similar time period in FY 2023. The volume of natural gas transported for gas transportation customers in the eleven-month period ended July 31, 2024 increased by 0.1 Bcf compared to the level in the corresponding period in FY 2023. Total sales volumes, including gas transportation deliveries, in the eleven-month period ended July 31, 2023 decreased by 4.3 Bcf, or 6.2%, to 64.5 Bcf from the eleven-month period ended July 31, 2022 sales volumes of 68.8 Bcf. In the eleven-month period ended July 31, 2023, firm gas sales of 35.0 Bcf were 4.2 Bcf, or 10.7%, lower than the corresponding period in FY 2022. Interruptible gas sales were 0.4 Bcf lower than the FY 2022 level. The volume of natural gas transported for gas transportation customers in the eleven-month period ended July 31, 2023 increased by 0.1 Bcf compared to the level in the corresponding period in FY 2022.

*Provision for Uncollectible Accounts* – The provision for uncollectible accounts in the eleven-month period ended July 31, 2024 totaled \$31.2 million, a decrease of \$6.5 million, or 17.2%, compared to the eleven-month period ended July 31, 2023. The decrease in the provision for uncollectible accounts in FY 2024 is mainly due to higher collection rates achieved in FY 2024. The provision for uncollectible accounts in the eleven-month period ended July 31, 2023 totaled \$37.7 million, an increase of \$13.4 million, or 55.1%, compared to the eleven-month period ended July 31, 2022. The increase in the provision for uncollectible accounts in the eleven-month period ended July 31, 2024 reflects the cessation of the PUC moratorium and a return to normal collections efforts. In FY 2022, PGW established a regulatory asset for outstanding delinquent account balances in anticipation that it would recover losses relating to the COVID-19 pandemic. The losses are specifically associated with the PUC moratorium, beginning in March 2020, and ending in March 2021, on shutting off gas services to customers who otherwise would be eligible for shutoff.

As of July 31 in the years 2024, 2023, and 2022, the total number of customers served by PGW was approximately 518,700, 519,600, and 522,300, respectively. As of July 31, 2024 there were approximately 25,100 commercial accounts and 500 industrial accounts, reflecting no change from the previous two fiscal years. The number of residential accounts as of July 31, 2024 was approximately 493,100 customers, a decrease of approximately 1,200 customers from July 31, 2023 and a decrease of 3,600 customers from July 31, 2022.

## Operating Expenses

Total operating expenses, including fuel costs, in the eleven-month period ended July 31, 2024 were \$483.3 million, a decrease of \$7.7 million, or 1.6%, from the eleven-month period ended July 31, 2023. The decrease for the eleven-month period ended July 31, 2024 was mainly caused by the decreased cost of fuel. This decrease was partially offset by the increase in pension expense and administrative and general expenses. Total operating expenses, including fuel costs, in the eleven-month period ended July 31, 2023 were \$491.0 million, a decrease of approximately \$52.8 million, or 9.7%, from the eleven-month period ended July 31, 2022. The decrease for the eleven-month period ended July 31, 2023 was mainly caused by the decreased cost of fuel.

### *Fuel Expense*

*Cost of Fuel (price/volume analysis)* – The cost of natural gas utilized decreased by \$61.2 million, or 27.5%, to \$161.5 million in the eleven-month period ended July 31, 2024 compared with \$222.8 million in the eleven-month period ended July, 31 2023. In the eleven-month period of FY 2024 compared to the same time

period in FY 2023, the average commodity price per Thousand Cubic Feet (Mcf) decreased by \$1.95, or \$71.8 million, and the volume of natural gas utilized decreased by 0.2 Bcf, or \$1.1 million. Demand charges in the eleven-month period of FY 2024 were approximately \$0.6 million more than the similar time period in FY 2023. The pipeline supplier refunds in the eleven-month period of FY 2024 were approximately \$11.0 million less as compared to refunds in the similar time period of FY 2023. The cost of natural gas utilized decreased by \$41.3 million, or 15.6%, to \$222.8 million in the eleven-month period ended July, 31 2023 compared with \$264.1 million in the similar time period of FY 2022. In the eleven-month period ended July 31, 2023 compared to the similar period in FY 2022, the average commodity price per Thousand Cubic Feet (Mcf) decreased by \$0.06, or \$2.2 million, and the volume of natural gas utilized decreased by 5.8 Bcf, or \$26.0 million. The pipeline supplier refunds in the eleven-month period ended July 31, 2023 were approximately \$10.7 million more as compared to refunds in similar time period of FY 2022.

#### *All Other Operating Expenses*

Expenditures for street operations, infrastructure improvements, and plant operations in the eleven-month period ended July 31, 2024 were \$109.0 million, a \$9.2 million, or 9.2%, increase from the same period in FY 2023 total of \$99.8 million. The increase in the eleven-month period ended July 31, 2024 was caused primarily by higher labor and purchased services costs. The eleven-month period ended July 31, 2023 total of \$99.8 million was \$7.8 million higher than the eleven-month period ended July 31, 2022 total of \$92.0 million, which was a result of higher information services, maintenance contractors, and purchased services costs.

Additionally, expenses of \$106.9 million related to collection and account management, customer services, marketing, and the administrative area increased by \$12.6 million or 13.4% in the eleven-month period ended July 31, 2024 compared to the same period in FY 2023. The increase was primarily due to higher administrative expenses. This category decreased by \$2.7 million in the eleven-month period ended July 31, 2023 compared to the eleven-month period ended July 31, 2022 primarily due to lower administrative expenses.

Pension expense increased by \$31.8 million to \$40.3 million as of July 31, 2024 as compared to July 31, 2023, primarily due to asset loss. The investment loss was primarily due to the difference between projected and actual investment earnings recognized over a closed five-year period. Pension expense decreased by \$16.2 million or 65.6% to \$8.5 million as of July 31, 2023 as compared to July 31, 2022, primarily due to asset gain. The investment gain was primarily due to the difference between projected and actual investment earnings recognized over a closed five-year period.

OPEB expense decreased by \$2.9 million or 45.3% in the eleven-month period ended July 31, 2024 as compared to the eleven-month period ended July 31, 2023 due primarily to higher than anticipated earnings experienced during the period and changes to assumptions. OPEB expense for the eleven-month period ended July 31, 2023 decreased \$5.3 million when compared to the eleven-month period ended July 31, 2022 due primarily to changes to demographic assumptions.

#### *Net Depreciation Expense*

Net depreciation expense was \$68.9 million for the eleven-month period ended July 31, 2024, a decrease of \$1.3 million as compared to the same period ended July 31, 2023. Net depreciation expense was \$70.2 million for the eleven-month period ended July 31, 2023, an increase of \$7.0 million compared to the same period ended July 31, 2022. The composite depreciation rates were 2.1% for FY 2023 and FY 2022 and such rate was budgeted to be at the same level for FY 2024. Cost of removal is charged to expense as incurred.

#### *Interest and Other Income*

Interest and other income for the eleven-month period ended July 31, 2024 was \$12.6 million, which approximated the July 31, 2023 level. Interest and other income for the eleven-month period ended July 31, 2023 was \$13.4 million higher than such income for the similar time period ended July 31, 2022, as a result of an increase in interest and dividends earned and a \$4.2 million mark to market gain on restricted and unrestricted investments.

*Total Interest Expense*

Total interest expense was \$36.3 million for the eleven-month period ended July 31, 2024, an increase of \$0.7 million when compared to the same period ended July 31, 2023. Interest expense was higher for the eleven-month period ended July 31, 2024, primarily due to interest paid on leased assets. Total interest expense was \$35.6 million for the eleven-month period ended July 31, 2023, a decrease of \$0.5 million when compared to the same period ended July 31, 2022.

[Remainder of Page Intentionally Left Blank]

**Table 16**  
**UNAUDITED**  
**CONDENSED BALANCE SHEETS**  
**(THOUSANDS OF U.S. DOLLARS)**

	<b>AS OF JULY 31</b>		
	<b>2024</b>	<b>2023</b>	<b>2022</b>
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$164,523	\$212,440	\$172,316
Account receivables (net of provisions for uncollectable accounts of \$94,733, \$109,646, and \$109,203 for 2024, 2023, and 2022, respectively)	95,257	104,976	120,809
Gas inventories, materials, and supplies	66,390	77,358	77,797
Current portion of capital improvement fund	-	28,698	21,043
Workers' compensation escrow fund	2,916	2,767	2,664
Other current assets	10,187	9,094	17,258
<b>Total current assets</b>	<b><u>339,273</u></b>	<b><u>435,333</u></b>	<b><u>411,887</u></b>
<b>Non-current assets:</b>			
Utility plant, at original cost:			
In service	2,960,253	2,827,643	2,747,143
In service under capital leases	80,724	80,351	2,541
In service under software subscriptions	10,916	8,437	-
Under construction	225,066	211,990	179,873
Total	3,276,959	3,128,421	2,929,557
Less accumulated depreciation	(1,382,087)	(1,325,770)	(1,294,101)
Less accumulated depreciation lease assets	(5,891)	(2,184)	(1,696)
Less accumulated depreciation software subscriptions	(7,060)	(4,053)	-
Utility plant, net	1,881,921	1,796,414	1,633,760
Sinking fund, revenue bonds	115,389	109,111	104,844
Capital improvement funds	-	4,851	91,322
Unamortized bond insurance costs	642	685	728
Deferred environmental	23,610	28,871	27,572
Regulatory asset - pandemic	25,554	30,485	30,667
Other non-current assets	3,623	4,606	5,890
<b>Total non-current assets</b>	<b>2,050,739</b>	<b>1,975,023</b>	<b>1,894,783</b>
<b>Total assets</b>	<b><u>2,390,012</u></b>	<b><u>2,410,356</u></b>	<b><u>2,306,670</u></b>
<b>Deferred outflows of resources</b>			
Accumulated fair value of hedging derivatives	-	-	10,419
Unamortized losses on reacquired debt	16,707	20,048	23,640
Deferred outflows related to pension	29,060	81,288	24,575
Deferred outflows related to OPEB	100,068	62,576	71,721
<b>Total assets and deferred outflows of resources</b>	<b><u>2,535,847</u></b>	<b><u>2,574,268</u></b>	<b><u>2,437,025</u></b>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Current portion of long-term revenue bonds	72,190	47,262	63,075
Other current liabilities	123,326	135,140	116,179
<b>Total current liabilities</b>	<b>195,516</b>	<b>182,402</b>	<b>179,254</b>
<b>Non-current liabilities:</b>			
Long-term revenue bonds	960,567	1,032,757	1,080,019
Other non-current liabilities	82,681	97,414	51,831
Net pension liabilities	229,433	261,082	138,216
Net OPEB liabilities	182,494	125,832	183,485
<b>Total non-current liabilities</b>	<b>1,455,175</b>	<b>1,517,085</b>	<b>1,453,551</b>
<b>Total liabilities</b>	<b><u>1,650,691</u></b>	<b><u>1,699,487</u></b>	<b><u>1,632,805</u></b>
<b>Deferred inflows of resources</b>			
Deferred inflows related to gain on bond refunding	146	157	169
Deferred inflows related to pension	12,790	-	91,729
Deferred inflows related to OPEB	17,007	79,623	82,324
Deferred inflow related to interest rate swap	3,903	1,176	-
<b>Total liabilities and deferred inflows of resources</b>	<b><u>1,684,537</u></b>	<b><u>1,780,443</u></b>	<b><u>1,807,027</u></b>
<b>Net position</b>			
Restricted (debt service)			
<b>Total net position</b>	<b>851,310</b>	<b>793,825</b>	<b>629,998</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b><u>\$2,535,847</u></b>	<b><u>\$2,574,268</u></b>	<b><u>\$2,437,025</u></b>

## Assets

### *Accounts Receivable*

At July 31, 2024, accounts receivable (net) of \$95.3 million decreased by \$9.7 million, or 9.3%, from July 31, 2023. This correlates with the decrease in total operating revenues of 7.6% for the eleven-month period ended July 31, 2024 compared to the eleven-month period ended July 31, 2023. At July 31, 2023, accounts receivable (net) of \$105.0 million decreased by \$15.8 million, or 13.1%, from July 31, 2022. This correlates with the decrease in total operating revenues of 9.9% for the eleven-month period ended July 31, 2023 compared to the eleven-month period ended July 31, 2022.

### *Cash and Cash Equivalents; Gas Inventories, Materials, and Supplies; Other Current Assets,*

At July 31, 2024, cash and cash equivalents totaled \$164.5 million, a decrease of \$47.9 million from the July 31, 2023 total of \$212.4 million. The decrease in the cash balance at July 31, 2024, as compared to the July 31, 2023 balance, reflects the \$45.9 million or 21.9% decrease in operating income as a result of lower Gas Cost Rates (GCR), which was driven by decreased commodity prices, an \$11.0 million decrease in other operating revenues, an offset by a decrease in cost of fuel, and an increase in operating expenses such as labor, purchased services costs, and administrative expenses. At July 31, 2023, cash and cash equivalents totaled \$212.4 million, an increase of \$40.1 million from the July 31, 2022 total of \$172.3 million. The increase in the cash balance at the end of July 31, 2023 was primarily a result of an increase of receipts from customers and overall increase in net cash provided by operating activities.

At July 31, 2024, gas inventories, materials, and supplies totaled \$66.4 million, a decrease of \$11.0 million, or 14.2% from the July 31, 2023 total of \$77.4 million. At July 31, 2024, gas storage totaled \$49.3 million, a decrease of \$14.1 million when compared to July 31, 2023. The decrease in gas inventory reflects a decrease in commodity price – see explanation for “Fuel Expense” within the operating expenses above. Volumes in storage stayed relatively consistent. Actual volumes in storage as of July 31, 2024 volumes were 15.5 Bcf, a 0.5 Bcf, or 3.4%, increase when compared to July 31, 2023. At July 31, 2023, gas inventories, materials, and supplies totaled \$77.4 million, a decrease of \$0.4 million, or 0.6% from the July 31, 2022 total of \$77.8 million.

Other current assets totaled \$10.2 million at July 31, 2024, an increase of \$1.1 million from July 31, 2023. Other current assets totaled \$9.1 million at July 31, 2023, a decrease of \$8.2 million from July 31, 2022. The decrease in other current assets at July 31, 2023 is primarily a result of a decrease in the deferred gas cost recovery.

### *Restricted Investment Funds*

Restricted Investment Funds include the current portion of the Capital Improvement Fund and the Workers’ Compensation Escrow Fund. Restricted Investment Funds decreased by \$33.5 million at July 31, 2024 compared to July 31, 2023. The balances of the current portion of the Capital Improvement Fund at July 31, 2024, 2023, and 2022 were \$0.0 million, \$28.7 million, and \$21.0 million, respectively. PGW withdrew all funds from the Capital Improvement Fund in September 2024 and does not hold a balance as of July 31, 2024. Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers’ Compensation Self-Insurance policy, the Company has established and maintains a restricted trust account. As of July 31, 2024, 2023, and 2022, the trust account balances were \$2.9 million, \$2.8 million, and \$2.7 million, respectively.

### *Utility Plant and Other Noncurrent Assets*

As of July 31, 2024, noncurrent assets including utility plant, net, the long-term portion of the Capital Improvement Fund, the Sinking Fund, revenue bonds and unamortized bond issuance costs totaled \$2,050.7 million, an increase of \$75.7 million from July 31, 2023. At July 31, 2023 noncurrent assets including utility plant, net, the long-term portion of the Capital Improvement Fund, the Sinking Fund, revenue bonds and unamortized bond issuance costs totaled \$1,975.0 million, an increase of \$80.2 million from July 31, 2022. Utility plant, net, totaled \$1,881.9 million at July 31, 2024, an increase of \$85.5 million or 4.8% compared with the July 31, 2023 balance. Utility plant, net, totaled \$1,796.4 million at July 31, 2023, an increase of \$162.7

million or 10.0% compared with the July 31, 2022 balance. The increases for both periods are due mainly to ongoing capital projects, impacts from PGW's adoption of GASB 87 (capital leases), the largest of which relates to the capital lease for the North Operations Center, and GASB 96 (software subscriptions). In FY 2024, PGW withdrew all funds from the capital improvement fund and did not hold a balance as of July 31, 2024. For additional information on PGW's capital assets, see note 1(g) Utility Plant of the basic financial statements within APPENDIX A hereto.

#### *DSIC; Recovery of Certain Asset Replacement Costs*

In early 2012, Act 11 was enacted by the Pennsylvania Legislature. Act 11 permitted public utilities to file a request with the PUC for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC permits natural gas distribution companies to recover the costs related to main and service replacement not already recovered in base rates. This legislation provides utility companies with a supplemental recovery mechanism for costs related to incremental/accelerated distribution system repair, improvement, and replacement. Act 11 permits gas utilities to recover 5.0% of their nongas revenues via the recovery mechanism and permits greater percentage increases if approved by the PUC. PGW started billing customers a DSIC surcharge as of July 1, 2013. On September 1, 2015, PGW proposed an increase in the DSIC from 5.0% to 7.5% of distribution revenues and to levelize and annualize the DSIC. The PUC issued an Order and Opinion granting PGW's request to increase its DSIC to 7.5% on January 28, 2016 which went into effect on February 1, 2016. As of July 31, 2024, 2023, and 2022, PGW billed customers \$33.8 million, \$33.5 million, and \$35.6 million respectively, for the DSIC surcharge. For additional information regarding the DSIC surcharge, see note 1(h) Revenue Recognition of the basic financial statements within APPENDIX A hereto. See also "GAS SERVICE TARIFF AND RATES – Rates – *Surcharges*."

#### **Deferred Outflows of Resources**

Deferred outflows of resources represent amounts that will result in a reduction of net position in a subsequent period.

##### *Deferred outflows of resources related to hedging derivatives and bond refunding*

Deferred outflows of resources related to hedging derivatives and bond refunding include the accumulated fair value of hedging derivatives that will be recognized in the statement of revenues and expenses and changes in net position upon termination of the hedging relationship, and unamortized losses on bond refunding. Deferred outflows of resources related to hedging derivatives and bond refunding decreased \$3.3 million at July 31, 2024 from the July 31, 2023 total of \$20.0 million. Deferred outflows of resources decreased \$14.0 million at July 31, 2023 from the July 31, 2022 total of \$34.1 million.

##### *Deferred outflows of resources related to pension*

Deferred outflows of resources related to pension include increases in the pension liability that will be amortized into pension expense in future periods. Deferred outflows of resources related to pension decreased \$52.2 million as of July 31, 2024 from the July 31, 2023 total of \$81.3 million. Deferred outflows of resources related to pension increased \$56.7 million as of July 31, 2023 from the July 31, 2022 total of \$24.6 million.

##### *Deferred outflows of resources related to OPEB*

Deferred outflows of resources related to OPEB include increases in the OPEB liability that will be amortized into OPEB expense in future periods. Deferred outflows of resources related to OPEB increased \$37.5 million, or 59.9%, at July 31, 2024 from the July 31, 2023 total of \$62.6 million. Deferred outflows of resources related to OPEB decreased \$9.1 million, or 12.8%, at July 31, 2023 from the July 31, 2022 total of \$71.7 million.

## Liabilities

### *Long-Term Revenue Bonds*

Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled \$1,032.8 million as of July 31, 2024. This was \$47.3 million less than the previous year due to scheduled principal payments. This represents 54.8% of total capitalization as of July 31, 2024. Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled \$1,080.0 million as of July 31, 2023. This was \$63.1 million less than the previous year due to scheduled principal payments. This represents 57.6% of total capitalization as of July 31, 2023. For additional information, see note 8, *Long-Term Debt and Other Liabilities* of the basic financial statements included in APPENDIX A hereto.

### *Current Portion of Revenue Bonds and Notes Payable*

Pursuant to the provisions of the City of Philadelphia Note Ordinances, PGW may issue short-term notes to either support working capital requirements or pay the costs of certain capital projects and other project costs. PGW may issue short-term notes in a principal amount, which, together with interest, may not exceed \$150.0 million outstanding to support working capital requirements. PGW may also sell additional short-term notes in an aggregate principal amount, which may not exceed \$120.0 million outstanding at any time to pay the costs of certain capital projects and other project costs. All notes are supported by a Note Purchase and Credit Agreement and a security interest in PGW's revenues. The Note Purchase and Credit Agreement supporting PGW's combined commercial paper programs set the maximum level of outstanding notes plus interest at \$120.0 million in FY 2024, FY 2023, and FY 2022. There were no Capital Project Notes or Gas Works Revenue Notes outstanding at July 31, 2024, July 31, 2023, or July 31, 2022. The commitment amount is \$120.0 million under the current credit agreement. The expiration date of the credit agreement is June 16, 2026. See also "COMMERCIAL PAPER PROGRAM" and "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS" above.

### *Other Current Liabilities*

At July 31, 2024, other current liabilities totaled \$123.3 million, a decrease of \$11.8 million from July 31, 2023. At July 31, 2023 and 2022, the total was \$135.1 million and \$116.2 million, respectively. A portion of these changes were due to changes in deferred gas cost recovery. At July 31, 2024, 2023, and 2022, deferred gas cost recovery had a balance of \$23.3 million, \$34.8 million, and \$0.6 million, respectively.

### *Other Non-Current Liabilities*

At July 31, 2024, other non-current liabilities totaled \$82.7 million, a decrease of \$14.7 million from July 31, 2023. The decrease is due to a decrease in PGW's environmental remediation liabilities. At July 31, 2024, non-current environmental remediation liabilities had a balance of \$19.4 million compared to the July 31, 2023 balance of \$26.5 million. At July 31, 2023 and 2022, the total for other non-current liabilities was \$97.4 million and \$51.8 million, respectively. A major portion of the change from July 31, 2022 to July 31, 2023 was due to the implementation of a new accounting pronouncement, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. In FY 2023 PGW implemented GASB Statement No. 87 which increased other non-current liabilities by \$58.7 million. The majority of this lease liability was due to the addition of a North Operations Center. For additional information on PGW's GASB implementation, see note 1(u) Pronouncements Effective in the Current Year within the basic financial statements within APPENDIX A hereto.

### *Net OPEB Liability*

The net OPEB obligation was \$182.5 million as of July 31, 2024, a \$56.7 million increase from the \$125.8 million obligation as of July 31, 2023. The net OPEB obligation was \$125.8 million as of July 31, 2023, a \$57.7 million decrease from the \$183.5 million obligation as of July 31, 2022. The changes in FY 2024 and FY 2023 were caused by changes in benefit, demographic, and economic assumptions.

### *Net Pension Liability*

The net pension liability was \$229.4 million as of July 31, 2024, a \$31.6 million decrease from the balance of \$261.1 million as of July 31, 2023. The net pension liability was \$261.1 million as of July 31, 2023, a \$122.9 million increase from the balance of \$138.2 million as of July 31, 2022. The increase reflected a loss during the period. During the period of FY 2023, there was a loss of approximately \$127.2 million.

### **Deferred Inflows of Resources**

Deferred inflows of resources represent amounts that will result in an increase of net position in a subsequent period.

#### *Deferred inflows of resources related to pension*

Deferred inflows of resources related to pension represent the difference between actual and expected earnings on pension plan investments. The increase in deferred inflows of resources related to pension of \$12.8 million as of July 31, 2024, as compared to July 31, 2023, is primarily due to changes in investment performance. The decrease in deferred inflows of resources related to pension of \$91.7 million as of July 31, 2023, as compared to July 31, 2022, is primarily due to changes in investment performance.

#### *Deferred inflows of resources related to OPEB*

Deferred inflows of resources related to OPEB as of July 31, 2024, were \$17.0 million as compared to \$79.6 million as of July 31, 2023. The decrease in deferred inflows of resources related to OPEB of \$62.6 million, or 78.6%, between July 31, 2024 and July 31, 2023 is primarily driven by benefit, demographic, and economic assumptions. There were \$79.6 million in deferred inflows of resources related to OPEB on July 31, 2023. The decrease in deferred inflows of resources related to OPEB of \$2.7 million, or 3.3%, between July 31, 2023 and July 31, 2022 is primarily driven by benefit, demographic, and economic assumptions.

### **PGW Payment to City**

PGW made a payment of \$18.0 million to the City in each of the City's Fiscal Years 2024, 2023 and 2022. The City has the right to obtain such payment from PGW in any lawful manner, including set off against payments the City would otherwise make to PGW.

At the direction of the City's Director of Finance and approval of City Council, PGW can increase its annual payment by an amount equal to or less than 10% (*i.e.*, up to a \$19.8 million annual payment). To the extent that PGW is directed by the City's Finance Director to increase its annual payment to an amount greater than \$19.8 million, PGW must first gain approval from the PUC.

The obligation of PGW to make the payment to the City is subject and subordinate to the pledge and application of "Gas Works Revenues" and "Project Revenues," as such terms are defined in the 1998 General Ordinance and the Act, respectively. See "SECURITY AND SOURCES OF PAYMENT FOR THE 1998 ORDINANCE BONDS – Order of Application of Revenues" herein.

### **THE PGW ACFR**

The "ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEARS ENDED AUGUST 31, 2023 AND 2022 OF THE PHILADELPHIA GAS WORKS" (the "PGW ACFR") is attached as APPENDIX A. The PGW ACFR includes audited Financial Statements (as defined below), required supplemental information and unaudited Introductory and Statistical Sections as reflected in the Table of Contents in APPENDIX A.

PGW is owned by the City, and is accounted for in the City's audited financial statements as a component unit of the City. See APPENDIX C – "THE CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION." The City Controller has examined and expressed opinions on the basic financial statements of the City contained in the City's Annual Comprehensive Financial Report for Fiscal Year



2023 (the “City FY 2023 ACFR”) but not those contained in the PGW ACFR. The City Controller has not participated in the preparation of this Official Statement nor in the preparation of the budget estimates and projections and cash flow statements and forecasts set forth in various tables contained in this Official Statement. Consequently, the City Controller expresses no opinion with respect to any of the data contained in this Official Statement other than what is contained in the City FY 2023 ACFR. Some of the information set forth in APPENDIX C – “THE CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION” was derived from the City FY 2023 ACFR.

### **Independent Auditors**

The basic financial statements of the Philadelphia Gas Works as of and for the Fiscal Years ended August 31, 2023 and August 31, 2022, included in APPENDIX A to this Official Statement (the “Financial Statements”), have been audited by KPMG LLP, as stated in their report appearing therein, dated December 21, 2023. Any financial information regarding the Philadelphia Gas Works other than in the Financial Statements has not been audited by any firm of independent auditors and no opinion on such information is expressed in this Official Statement.

### **Unaudited Statistical Section**

PGW prepared the Statistical Section of the PGW ACFR to present comparative information to assist readers to better understand the Financial Statements, note disclosure and required supplementary information that appear elsewhere in the PGW ACFR and to more fully comprehend PGW’s overall financial health. The information in the Statistical Section is presented for the past ten Fiscal Years.

The Statistical Section contains information regarding PGW’s financial trends, revenue capacity, and debt capacity, certain demographic and economic information and operating information.

## **TAX MATTERS**

### **Federal**

#### *Exclusion of Interest from Gross Income*

In the opinion of Eckert Seamans Cherin & Mellott, LLC and Andre C. Dasent, P.C. (“Co-Bond Counsel”), under existing statutes, regulations, rulings and court decisions, interest on the Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, assuming continuing compliance by the City with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”).

In rendering their opinions, Co-Bond Counsel have assumed compliance by the City with the covenants contained in the 1998 General Ordinance and the Tax Compliance Agreement that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Bonds after issuance thereof to the extent necessary to effect or maintain the exclusion from federal gross income of the interest on the Bonds. These covenants relate to, inter alia, the use of and investment of proceeds of the Bonds and the rebate to the United States Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants could result in interest on the Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Bonds.

#### *Other Federal Tax Matters*

Ownership or disposition of the Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, taxpayers who have an initial basis in the Bonds greater or less than the principal amount thereof, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers, including banks, thrift institutions and other financial institutions subject to Section 265 of the Code, who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds.

**Co-Bond Counsel are not rendering any opinion as to any federal tax matters other than those described under the caption “Exclusion of Interest from Gross Income” and expressly stated in the form of the opinions of Co-Bond Counsel included as APPENDIX H hereto. Prospective purchasers of the Bonds should consult their independent tax advisors with regard to all federal tax matters.**

### **State**

In the opinion of Co-Bond Counsel, under the laws of the Commonwealth as presently enacted and construed, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax; however, under the laws of the Commonwealth, as enacted and construed on the date hereof, any profits, gains or income derived from the sale, exchange or other disposition of the Bonds will be subject to Pennsylvania taxes and local taxes within the Commonwealth. The Bonds and interest thereon may also be subject to state or local taxes in jurisdictions other than the Commonwealth under applicable state or local laws.

**Co-Bond Counsel are not rendering any opinion as to any Commonwealth of Pennsylvania tax matters other than those described under the caption “TAX MATTERS – Pennsylvania” and expressly stated in the form of the opinions of Co-Bond Counsel included as APPENDIX H hereto. Prospective purchasers of the Bonds should consult their independent tax advisors with regard to all Commonwealth of Pennsylvania tax matters.**

### **Other**

The Bonds and interest thereon may be subject to state and local taxes in jurisdictions other than the Commonwealth of Pennsylvania under applicable state or local tax laws.

Purchasers of the Bonds should consult their independent tax advisors with regard to all state and local tax matters.

### **Changes in Federal and Pennsylvania Tax Law**

From time to time, there are legislative proposals in the Congress and in state legislatures that, if enacted, could alter or amend the treatment of the Bonds for federal and state tax purposes or adversely affect the market value or marketability of the Bonds. It cannot be predicted whether or in what form any such proposals might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. The opinions of Co-Bond Counsel speak only to federal and Commonwealth laws in effect on the date of issuance of the Bonds. In addition, from time to time regulatory actions are announced or proposed, and litigation is threatened or commenced, which, if implemented or concluded in a particular manner, could adversely affect the market value or marketability of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, whether any particular litigation or judicial action will be commenced or, if commenced, how it will be resolved, or whether the Bonds or the market value or marketability thereof would be affected thereby.

### **General**

The foregoing is only a general summary of certain provisions of the Code and Pennsylvania law as enacted and in effect on the date of this Official Statement and does not purport to be complete. Holders and prospective purchasers of the Bonds, especially those subject to special rules, should consult their own tax advisors as to the effects, if any, of the Code and state and local tax matters, including any pending or proposed legislation, regulatory initiatives, or litigation in their particular circumstances.

The opinions expressed by Co-Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of delivery of the Bonds, and Co-Bond Counsel undertake no obligation to update such opinions or to express any opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

## **RATINGS**

Moody's, S&P and Fitch have assigned the Bonds underlying ratings of "A3" (Stable outlook), "A" (Stable outlook), and "A-" (Positive outlook), respectively.

Moody's and S&P are each expected to assign the Insured Series A Bonds ratings of "A1" (stable outlook), and "AA" (stable outlook), respectively, based upon the delivery of the Policy to be issued by AG in connection with the issuance and delivery of the Insured Series A Bonds.

A rating, including any related outlook with respect to potential changes in such rating, reflects only the view of the rating agency giving such rating and is not a recommendation to buy, sell or hold the Bonds. An explanation of the procedure and methodology used by each rating agency and the significance of the rating it assigns to the Bonds may be obtained only from the rating agency furnishing the rating.

Ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by any rating agency. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

None of the City, PGW and the Underwriters has undertaken any responsibility to assure the maintenance of any particular rating on the Bonds or shall have any liability if a rating is lowered, withdrawn or suspended.

The City has agreed, in the Continuing Disclosure Agreement, to report actual rating changes on the Bonds. See "CONTINUING DISCLOSURE" herein.

## **NO LITIGATION**

To the knowledge of the City of Philadelphia Law Department and, solely with respect to (E) below, based upon certain representations from PGW's General Counsel, after customary inquiry, no litigation is pending against the City before any court, public board or agency, or threatened in writing against the City (A) to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, (B) which contests the validity or enforceability of the Bonds or any proceedings of the City taken with respect to the issuance, sale, execution or delivery thereof, (C) which contests the pledge or application of any moneys or security provided for the payment of the Bonds, (D) which challenges the existence or powers of the City or (E) other than the named cases described in detail under "PHILADELPHIA GAS WORKS –Litigation" in which a final adverse determination, singly or in the aggregate, would have a material and adverse effect on PGW's operations or financial condition.

## **CERTAIN LEGAL MATTERS**

All legal matters incident to the authorization, issuance and sale of the Bonds are subject to approval of the legality of the issuance of the Bonds by Eckert Seamans Cherin & Mellott, LLC and Andre C. Dasent, P.C., both of Philadelphia, Pennsylvania, Co-Bond Counsel. The proposed form of such opinions is included herein as APPENDIX H. Certain legal matters will be passed upon for the Underwriters by Ballard Spahr LLP, of Philadelphia, Pennsylvania, Counsel to the Underwriters. Certain legal matters will be passed upon for the City by the City Solicitor. Certain legal matters will be passed upon for PGW by the Office of General Counsel of Philadelphia Gas Works and Eckert Seamans Cherin & Mellott, LLC of Harrisburg, Pennsylvania. Cozen O'Connor and Ahmad Zaffarese LLC, both of Philadelphia, Pennsylvania, as Co-Disclosure Counsel to the City for PGW, will each deliver a letter to the City and the Underwriters regarding certain matters related to PGW. Hawkins Delafield & Wood LLP, of Washington, D.C., as Disclosure Counsel to the City, will deliver a letter to the City and the Underwriters regarding certain matters relating to the information contained in APPENDIX C and APPENDIX D.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the law firms rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the law firm does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction.

Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction. These legal opinions, generally, are based on existing law and fact and each law firm expressly disclaims any obligation to update its opinions if there are changes in law or facts subsequent to the date of such opinions.

### **CO-FINANCIAL ADVISORS**

PFM Financial Advisors LLC and Phoenix Capital Partners, LLP both of Philadelphia, Pennsylvania, have served as financial advisors (the “Financial Advisors”) to the City in respect of the issuance of the Bonds. The Financial Advisors assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring, and issuance of the Bonds.

The Financial Advisors have received and reviewed but have not independently verified information in this Official Statement for accuracy or completeness (except, as to each Financial Advisor, the information in this section). Investors should not draw any conclusions as to the suitability of the Bonds from, or base any investment decisions upon, the fact that the Financial Advisors have advised the City with respect to the Bonds. The Financial Advisors’ fees for this issue are contingent upon the sale and issuance of the Bonds.

The Financial Advisors are financial advisory and consulting organizations and are registered municipal advisors and are not engaged in the business of underwriting, marketing, or trading of municipal securities or any other negotiable instruments.

### **CERTAIN RELATIONSHIPS**

PFM Financial Advisors LLC, financial advisor to the City, acts as a consultant to PGW on certain management and labor relations issues and has provided testimony before the PUC on several PGW rate cases. Eckert Seamans Cherin & Mellott, LLC and Andre C. Dasent, P.C. each provides certain legal services to the City and to PGW. Cozen O’Connor and Ahmad Zaffarese LLC each provides certain legal services to the City on unrelated matters. Ballard Spahr LLP, counsel to the underwriters, provides certain legal services to the City on unrelated matters.

JPMorgan Chase Bank, N.A. (“JPMorgan Chase”), an affiliate of the senior managing underwriter for the Bonds, is the counterparty to the City for the interest rate swaps related to certain of the City’s Senior 1998 Ordinance Bonds.

### **UNDERWRITING**

The underwriters listed on the cover page to this Official Statement (the “Underwriters”), subject to the terms and conditions of the Bond Purchase Contract between the City and Underwriters, have agreed to purchase: (i) the Series A Bonds at a purchase price of \$351,583,191.88 (which is equal to the par amount of the Series A Bonds of \$314,960,000.00 plus original issue premium of \$37,880,118.20, less an Underwriters’ discount of \$1,256,926.32) and (ii) the Series B Bonds at a purchase price of \$121,427,066.87 (which is equal to the par amount of the Series B Bonds of \$109,290,000.00 plus original issue premium of \$12,423,358.10, less an Underwriters’ discount of \$286,291.23).

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the Underwriters and their affiliates may have certain creditor and/or other rights against the City in connection with such activities.

In the course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own accounts and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City (directly, as collateral securing other obligations or otherwise)

and/or persons and entities with relationships with the City or PGW. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Series A Bonds and Series B Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase the Series A Bonds and Series B Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any of the Series A Bonds and Series B Bonds that such firm sells.

Academy Securities, Inc. has entered into third-party distribution agreements with Commonwealth Financial Network, R. Seelaus & Co., The GMS Group LLC, InspereX LLC, Mountainside Securities LLC, World Equity Group, Inc., CINCaP Investment Group LLC, National Securities Corp, Essex Securities LLC, Isaak Bond Investments, and Institutional Securities Corporation for the retail distribution of certain municipal securities, which may include the Bonds, at the original issue prices. Pursuant to these third-party distribution agreements, Academy Securities may share a portion of its underwriting compensation with these firms.

The City will use a portion of the proceeds from the Series A Bonds to redeem certain Gas Revenue Capital Project Commercial Paper Notes. The City will use a portion of the proceeds from the Series B Bonds to redeem and refund the Refunded Bonds. To the extent an Underwriter or an affiliate thereof is an owner of any such Capital Project Commercial Paper Notes, or the Refunded Bonds, such Underwriter or its affiliate, as applicable, would receive a portion of the proceeds from the issuance of the Bonds contemplated herein in connection with such Capital Project Commercial Paper Notes and Refunded Bonds being redeemed and refunded by the City. See “CERTAIN RELATIONSHIPS” above.

### **CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, the City, as obligated person, (i) will enter into a Continuing Disclosure Agreement with Digital Assurance Certification, L.L.C., as dissemination agent for the benefit of the Registered Owners (as defined in such agreement) of the Bonds, to be dated the date of delivery of the Bonds, the form of which is attached hereto as APPENDIX F and (ii) has provided the disclosures in the following paragraphs.

During the last five years, the City has not fully satisfied its obligations to file annual updates to certain tables in APPENDIX C by the deadlines provided in its continuing disclosure agreements (either February 25 or February 28, as applicable). Such annual updates were made through incorporation by reference to the City’s offering documents, but, in some instances, were done so after the applicable filing deadline. The City engaged a third-party vendor to monitor its continuing disclosure obligations and was not aware that the annual updates made through incorporation by reference to the City’s offering documents were not compliant in all respects. The City is undertaking a comprehensive review of its process for providing annual updates to the tables in APPENDIX C to ensure future compliance. On December 23, 2019, the City filed a failure to file notice describing the foregoing circumstances. Such notice was subsequently amended to provide further clarification.

The Philadelphia Parking Authority (the “PPA”), as the issuer, and the City, as an obligated person, entered into separate continuing disclosure agreements relating to the PPA’s Parking System Revenue Bonds, Series 1999A (the “1999A PPA Bonds”). For the City’s continuing disclosure agreement relating to such bonds, it is required to file (i) its ACFR and (ii) annual updates to certain financial information and operating data of the type included in APPENDIX C. During the previous five years, the City’s ACFRs were properly filed for the 1999A PPA Bonds when due. However, the annual updates to certain financial information and operating data of the type included in APPENDIX C, which are made through incorporation by reference to the City’s offering documents, were not properly linked to the 1999A PPA Bonds. Such error has been corrected. The

1999A PPA Bonds' purposes and security and sources of payment are unrelated to PGW and the security and sources of payment for the Bonds.

The City has reviewed, updated, and is implementing with respect to PGW, disclosure policies and procedures to assist the City in complying with its continuing disclosure undertakings in the future. The City also maintains, and periodically assesses and may update, disclosure policies and procedures with respect to the City's General Fund-supported bond programs and other enterprise revenue bonds programs.

#### **CERTAIN REFERENCES**

All summaries of the provisions of the Bonds and the security therefor, the Act, the Inventory and Receivables Financing Act, the Gas Choice Act, the Constitution and other laws of the Commonwealth, the 1998 General Ordinance, the Sixteenth Supplemental Ordinance, the Fifteenth Supplemental Ordinance, the Fourteenth Supplemental Ordinance, the Thirteenth Supplemental Ordinance and the Bond Committee Authorization, set forth herein, including APPENDIX E hereto, and all summaries and references to other materials not purported to be quoted in full, are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Copies of the Act, the 1998 General Ordinance, the Sixteenth Supplemental Ordinance, the Fifteenth Supplemental Ordinance, the Fourteenth Supplemental Ordinance, and the Thirteenth Supplemental Ordinance are available from the Office of the Director of Finance, Municipal Services Building, 1401 John F. Kennedy Boulevard, Suite 1330, Philadelphia, Pennsylvania 19102. Reference is made hereby to the complete documents relating to such matters for the complete terms and provisions thereof. So far as statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are made merely as such and not as representations of fact.

#### **MISCELLANEOUS**

This Official Statement is made available only in connection with the sale of the Bonds and may not be used in whole or in part for any other purpose. **This Official Statement is not to be construed as a contract or agreement between the City, PGW or the Underwriters and the purchasers or owners of any of the Bonds.** Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact. No representation is made that any opinions or estimates herein will be realized. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of PGW or the City since the date hereof. The City will provide financial and other information regarding PGW from time to time to S&P, Moody's, and Fitch in connection with securities ratings assigned by those rating agencies to obligations payable from Gas Works Revenues.

The attached Appendices are an integral part of this Official Statement and should be read in their entirety together with the foregoing statements.

[Remainder of Page Intentionally Left Blank]

This Official Statement has been duly executed and delivered by the following officer on behalf of The City of Philadelphia.

**THE CITY OF PHILADELPHIA, PENNSYLVANIA**

By: /s/ Rob Dubow  
Name: Rob Dubow  
Title: Director of Finance

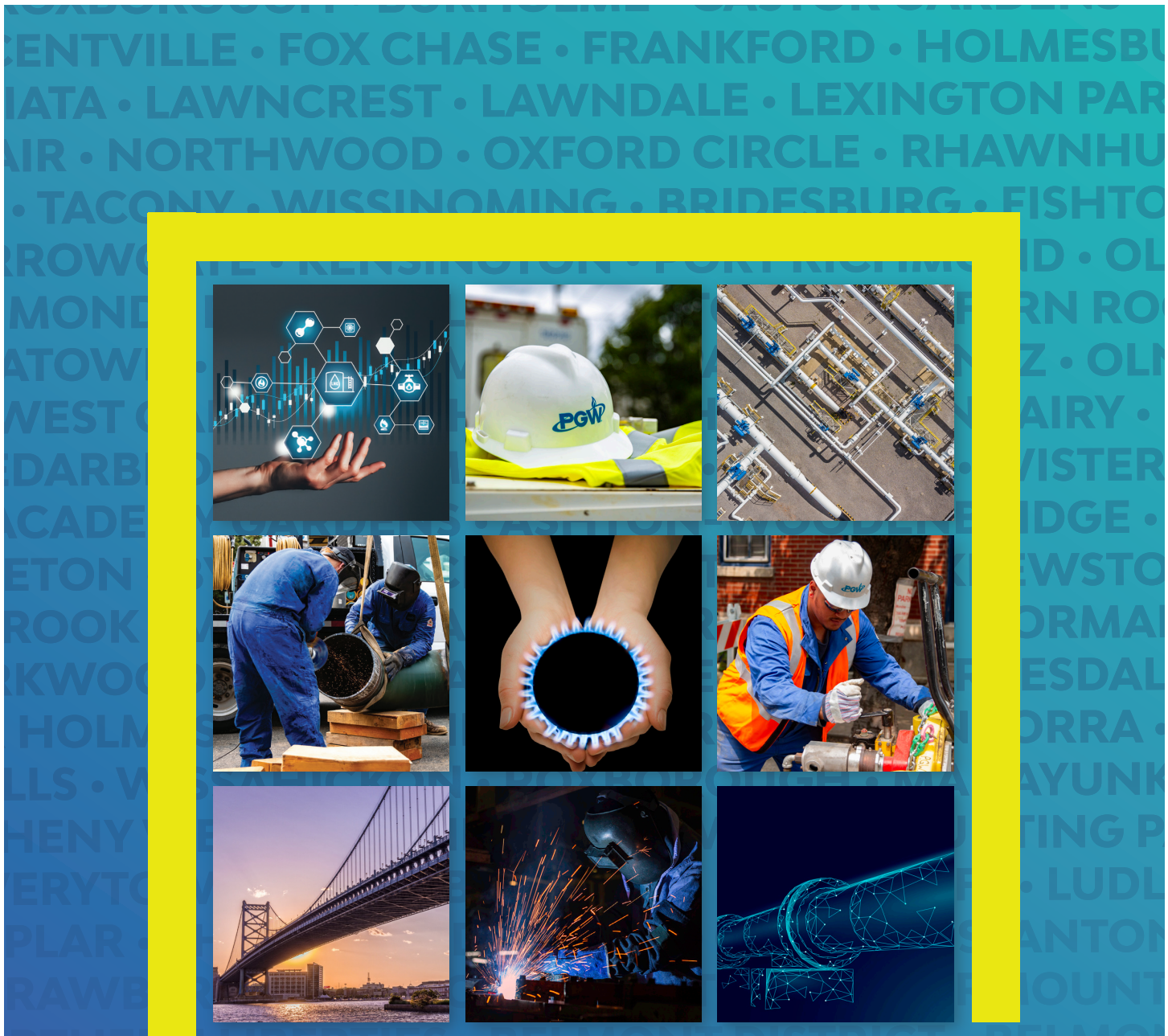
[THIS PAGE INTENTIONALLY LEFT BLANK]



**APPENDIX A**

**ANNUAL COMPREHENSIVE FINANCIAL REPORT  
FOR FISCAL YEARS ENDED AUGUST 31, 2023 AND 2022  
OF THE PHILADELPHIA GAS WORKS**

[THIS PAGE INTENTIONALLY LEFT BLANK]



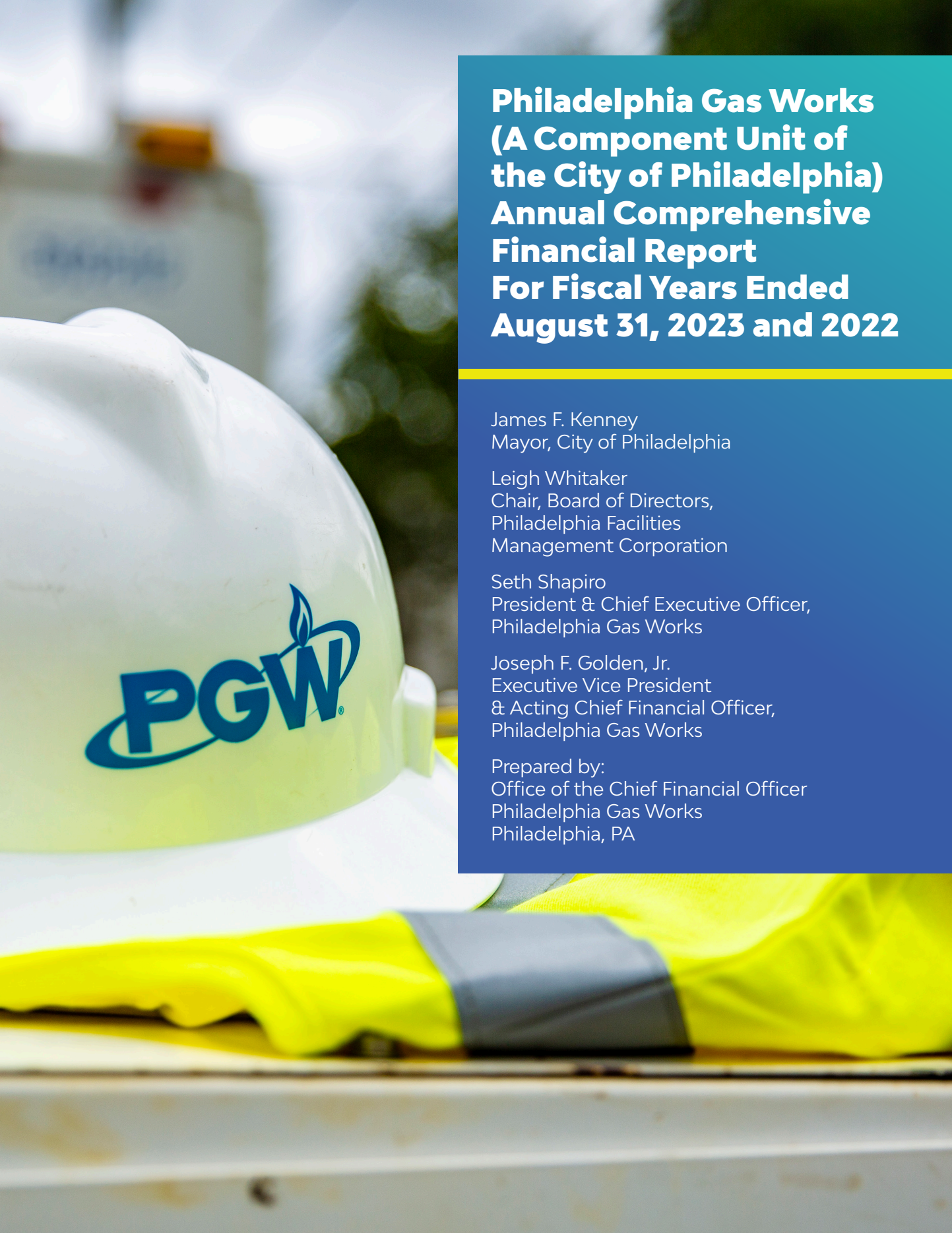
# ACCELERATING INNOVATION

## Philadelphia Gas Works

(A Component Unit of the City of Philadelphia)  
Annual Comprehensive Financial Report  
For Fiscal Years Ended August 31, 2023 and 2022

[www.pgworks.com](http://www.pgworks.com)  
800 West Montgomery Avenue  
Philadelphia, PA 19122





# **Philadelphia Gas Works (A Component Unit of the City of Philadelphia) Annual Comprehensive Financial Report For Fiscal Years Ended August 31, 2023 and 2022**

James F. Kenney  
Mayor, City of Philadelphia

Leigh Whitaker  
Chair, Board of Directors,  
Philadelphia Facilities  
Management Corporation

Seth Shapiro  
President & Chief Executive Officer,  
Philadelphia Gas Works

Joseph F. Golden, Jr.  
Executive Vice President  
& Acting Chief Financial Officer,  
Philadelphia Gas Works

Prepared by:  
Office of the Chief Financial Officer  
Philadelphia Gas Works  
Philadelphia, PA

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
**Table of Contents**

	<b>Page</b>
Introductory Section:	
Letter of Transmittal	i
Organizational Chart and Leadership	vii
Certificate of Achievement for Excellence in Financial Reporting	ix
Financial Section:	
Independent Auditors' Report	1
Management's Discussion and Analysis, August 31, 2023 and 2022 (Unaudited)	5
Basic Financial Statements:	
Balance Sheets, August 31, 2023 and 2022	11
Statements of Revenues and Expenses and Changes in Net Position, Years ended August 31, 2023 and 2022	20
Statements of Cash Flows, Years ended August 31, 2023 and 2022	21
Statements of Fiduciary Net Position, Years ended December 31, 2022 and 2021	22
Statements of Revenues and Expenses and Changes in Net Position, Years ended December 31, 2022 and 2021	23
Notes to Basic Financial Statements, August 31, 2023 and 2022	24
Required Supplementary Information (Unaudited):	
Schedule of Changes in Net Pension Liability and Related Ratios	85
Schedule of Pension Contributions	86
Schedule of Changes in Net OPEB Liability and Related Ratios	87
Schedule of OPEB Contributions	88
Statistical Section:	
Description of Schedules	90
Financial Trends:	
Balance Sheets, last ten fiscal years	91
Debt to Total Capitalization Ratio, Utility Plant, Long-Term Debt	95
Net Position	96
Statements of Revenues and Expenses, last ten fiscal years	97
Operating Revenues and Natural Gas Expense	99
Excess of Revenues Over Expenses, Prior to City Payment	100
Revenue Capacity:	
Average Number of Customers Billed by System, last ten fiscal years	101
Operating Revenues, last ten fiscal years	103
Sales Volumes, last ten fiscal years	105
Gas Cost Rate, last ten fiscal years	107
Debt Capacity:	
Ratios of Outstanding Debt by Type, last ten fiscal years	109
Debt Service through 2050	111
Debt Service Coverage, last ten fiscal years	113
Demographic and Economic Information:	
Principal Employers, 2022 and 2013	115
Demographic and Economic Statistics, last ten calendar years	116
Operating Information:	
Approved Budgeted Full-Time Personnel by Department, last ten fiscal years	117
Actual Full-Time Personnel by Department, last ten fiscal years	119
Operating Indicators, last ten fiscal years	121
Capital Asset Information, last ten calendar years	123
Ten Largest Customers, Current Fiscal Year and Nine Years Ago	125



## INTRODUCTORY SECTION

In FY 2023, over 42,000 residential customer accounts received Low Income Home Energy Assistance Program (LIHEAP) grants, which give customers up to \$1,000 to pay their heating bills. Additionally, over 55,000 customers in FY 2023 were enrolled in PGW's Customer Responsibility Program, which cuts customer bills in half. By assisting customers through a variety of initiatives, PGW maintained a 97.8% collection rate in FY 2023.



**PHILADELPHIA GAS WORKS**

**Joseph F. Golden, Jr. • Executive Vice President and Acting Chief Financial Officer**

800 West Montgomery Avenue • Philadelphia, PA 19122

Phone: 215-684-6464

Email: JGolden@pgworks.com

To the Board of Directors of the Philadelphia Facilities Management Corporation, Stakeholders, and People of the City of Philadelphia:

The Annual Comprehensive Financial Report (ACFR) of the Philadelphia Gas Works (PGW) for the years ended August 31, 2023 and 2022 is attached hereto. The financial statements included were prepared in accordance with Generally Accepted Accounting Principles in the United States of America (U.S. GAAP).

PGW management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud. The internal controls are subject to periodic evaluation by management in order to determine their adequacy. This evaluation recognizes that: (1) the cost of a control should not exceed the benefits to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

The financial statements were audited by KPMG LLP (KPMG), a firm of licensed certified public accountants. The annual audit was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that KPMG plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PGW's internal control over financial reporting. Accordingly, no such opinion was expressed as to PGW's internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

KPMG's opinion was unqualified and states, in part, that the financial statements "present fairly, in all material respects, the respective financial position of the business-type activities of the Company as of August 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles." The Independent Auditors' Report is presented as the first component of the financial section of this report and should be read in its entirety.

Management has provided a narrative to accompany the basic financial statements. This narrative is known as Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. This letter and the MD&A should be read in their entireties.

---

Note: Certain statements in this letter that are not purely historical are forward-looking statements. Such statements can be identified, in some cases, by terminology such as "will", "anticipates", "expects", "projects", or comparable terms. Forward-looking statements are necessarily based on various assumptions and subject to uncertainties. Accordingly, actual results may vary.

## PROFILE OF PHILADELPHIA GAS WORKS

With over 500,000 customers and 6,000 miles of pipeline, PGW is a force in the energy field. PGW's 1,600-member strong workforce collaborates to advance the energy industry and deliver safe, reliable, and affordable natural gas in an environmentally responsible way.

PGW's efforts have not gone unrecognized. In July of 2023, PGW received the American Public Gas Association's (APGA) prestigious System Operational Achievement Recognition (SOAR) award for excellence in its operations. The award considers system integrity, system improvement, employee safety and workforce development.

## ACCELERATING INNOVATION

In Fiscal Year (FY) 2023, PGW began consolidating its eight district field operations centers into two central locations – with the opening of the North Operations Center (NOC). By combining these centers, PGW will both reduce operating expenses and reduce the carbon footprint of the eight centers it replaces by 50% in Scope 1 and 2 emissions, directly benefiting PGW customers and the environment.

Housing 40% of PGW employees, the NOC is home to state-of-the-art energy efficiency technologies to lower emissions and save money:

**PGW NORTH OPERATIONS CENTER EFFICIENCIES**

Natural gas heat pump provides simultaneous heating and cooling.

Energy Recovery Ventilation Unit uses building exhaust to heat and cool.

**PGW'S NORTH OPERATIONS CENTER is now home to state-of-the-art technologies to reduce PGW's carbon footprint and save money:**

- A** Thermal stratification fans for energy-efficient heating.
- B** Future installation of electric vehicle charging stations infrastructure.
- C** High efficiency, water-saving plumbing fixtures.
- D** Stormwater management retention basins and underground drainage.
- E** Five new electric vehicles (EVs) were added to PGW's fleet in FY 2023 thanks to a \$28,000 Alternative Fuels Incentive Grant from the Pennsylvania Department of Environmental Protection (PA DEP).
- F** LED lighting fixtures that use less electricity and improve safety.



### ***Pipeline Replacement***

In FY 2023, PGW was provisionally awarded a \$10.0 million Natural Gas Distribution Infrastructure Safety and Modernization (NGDISM) grant from the U.S. Department of Transportation's (DOT) Pipeline and Hazardous Materials Safety Administration (PHMSA), established by the Infrastructure Investment and Jobs Act. This grant money will predominantly go to installing modern, durable (polyethylene) plastic natural gas lines to increase safety and enhance natural gas service reliability.

Replacing aging cast iron pipes with material that does not rust or corrode and eliminates methane escape will help PGW meet the City of Philadelphia's (the City) goal of reducing methane emissions by 80% by 2050.

In FY 2023, PGW replaced 32.03 miles of natural gas lines, and reduced methane emissions by 6,640 metric tons of carbon dioxide equivalent (CO<sub>2</sub>e). The PHMSA funding contributes to PGW's expected goal of completing the replacement of its cast iron pipelines by 2060. Overall, in FY 2023, PGW invested \$92.4 million in asset replacements.

### ***An Innovating Voice in the Energy Sector***

In February 2023, PGW held its inaugural Energy Innovation Symposium, hosting leading voices in Philadelphia's clean energy landscape. The symposium featured three panels: The Future Hydrogen Economy; Low-Carbon Energy Technologies; and Our Clean Energy Future.

In addition to the Energy Innovation Symposium, PGW mentored three energy startups in its Energy Innovation Lab (the Lab), a small business incubator that hosts entrepreneurs whose ground-breaking products or services have the potential to reimagine the energy sector.

The Lab's FY 2023 participants, ATP-PA LLC and Metal Light, each have sustainable energy concepts that could help meet Philadelphia's growing energy needs, promote energy efficiency and affordability, as well as help the City accomplish its 2050 goal of reducing methane emissions by 80%. In FY 2023, PGW announced the newest participant in the Lab: Hydropore.

### ***Customer Responsibility***

Natural gas is consistently a more affordable source of energy compared to electric, according to the U.S. Department of Energy, and PGW is proud to continue to purchase gas at very competitive prices.

The typical annual natural gas bill for PGW's residential customers decreased by \$98.86 effective June 1, 2023. The decrease follows PGW's filing with the Pennsylvania Public Utility Commission (PUC) to adjust the Gas Cost Rate (GCR) for residential customers from \$4.9740 to \$3.5516 per one thousand cubic feet (Mcf).

While lowering gas bills, PGW keeps homes warm through customer payment assistance programs. In FY 2023, over 42,000 residential customer accounts received Low Income Home Energy Assistance Program (LIHEAP) grants, which give customers up to \$1,000 to pay their heating bills. Additionally, over 55,000 customers in FY 2023 were enrolled in PGW's Customer Responsibility Program, which cuts customer bills in half. By assisting customers through a variety of initiatives, PGW maintained a 97.8% collection rate in FY 2023.

Customers facing the rising costs of living and experiencing financial strain can avoid the unpredictable costs of repairing or replacing faulty or broken appliances by enrolling in PGW's Parts & Labor Plan (PLP). In FY 2023, PGW sold 26,992 PLP packages with over \$4.5 million generated in gross revenue; 69% of PLP packages were renewals from FY 2022. In FY 2023, year-round enrollment was offered for PLP for the first time. Between April 1 and August 31, 2023, over 500 customers signed up for PLP. This makes up 2% of sales that would have otherwise been lost if PLP enrollment closed in April, as in previous years.

### ***New Customer Tools***

PGW is excited to now offer a simple and easy way for customers to manage their natural gas account with the new PGW My Account mobile app, launched in FY 2023. The one-stop mobile app, available on both Apple and Android devices, offers convenient access to:

- View important account information.
- Make payments and manage accounts.
- Analyze and compare gas usage to become more efficient.
- Setup notifications via email or text.
- Explore energy efficiency rebates and programs to unlock more savings.

### ***Moving Forward***

Five new electric vehicles (EVs) are being added to PGW's fleet thanks to a \$28,000 Alternative Fuels Incentive Grant from the Pennsylvania Department of Environmental Protection (PA DEP). Adding the EVs to PGW's fleet operations is estimated to reduce PGW's gasoline usage by over 3,400 gallons per year and reduce its carbon footprint by over 24 tons a year. Two EVs were added to PGW's fleet in FY 2023, and the other three are anticipated to arrive in FY 2024.

PGW is embarking on an ambitious effort which will, for the first time, identify, quantify, and reduce its direct and indirect Scope 3 greenhouse gas emissions (GHG) across its footprint. Scope 3 measures a broad range of criteria such as emissions from contractors, transportation, and customers' end use of natural gas.

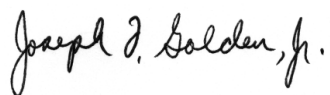
In FY 2024, PGW is poised to advance hydrogen technology thanks to a \$7 billion Hydrogen Hub grant, of which \$750 million is being allocated to the Philadelphia region. The grant, announced in October 2023, is intended to accelerate research and implementation of hydrogen as an energy source. From ideation through the Energy Innovation Symposium and the Lab, to initiatives that enable PGW to reduce methane emissions, PGW is well situated to accelerate innovation in the energy field.

## **ACKNOWLEDGEMENTS**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PGW for its ACFR for the fiscal year ended August 31, 2022. This was the eleventh straight year that PGW received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an ACFR that satisfies both U.S. GAAP and legal requirements. The Certificate of Achievement is valid for a period of one year only. PGW believes that its current report continues to conform to the Certificate of Achievement program requirements and is submitting it to the GFOA for consideration for another certificate. This report for FY 2023 is PGW's twelfth submission to the program. The preparation of the ACFR on a timely basis was made possible by the dedicated service of the entire staff of the Office of the Chief Financial Officer as well as various other departments within PGW. Each has my sincere appreciation for their valuable contributions.

On behalf of Philadelphia Gas Works, which has proudly served the needs of Philadelphia, its residents and its businesses since 1836, I am pleased to present PGW's ACFR, for the fiscal year ended August 31, 2023.

Respectfully submitted,

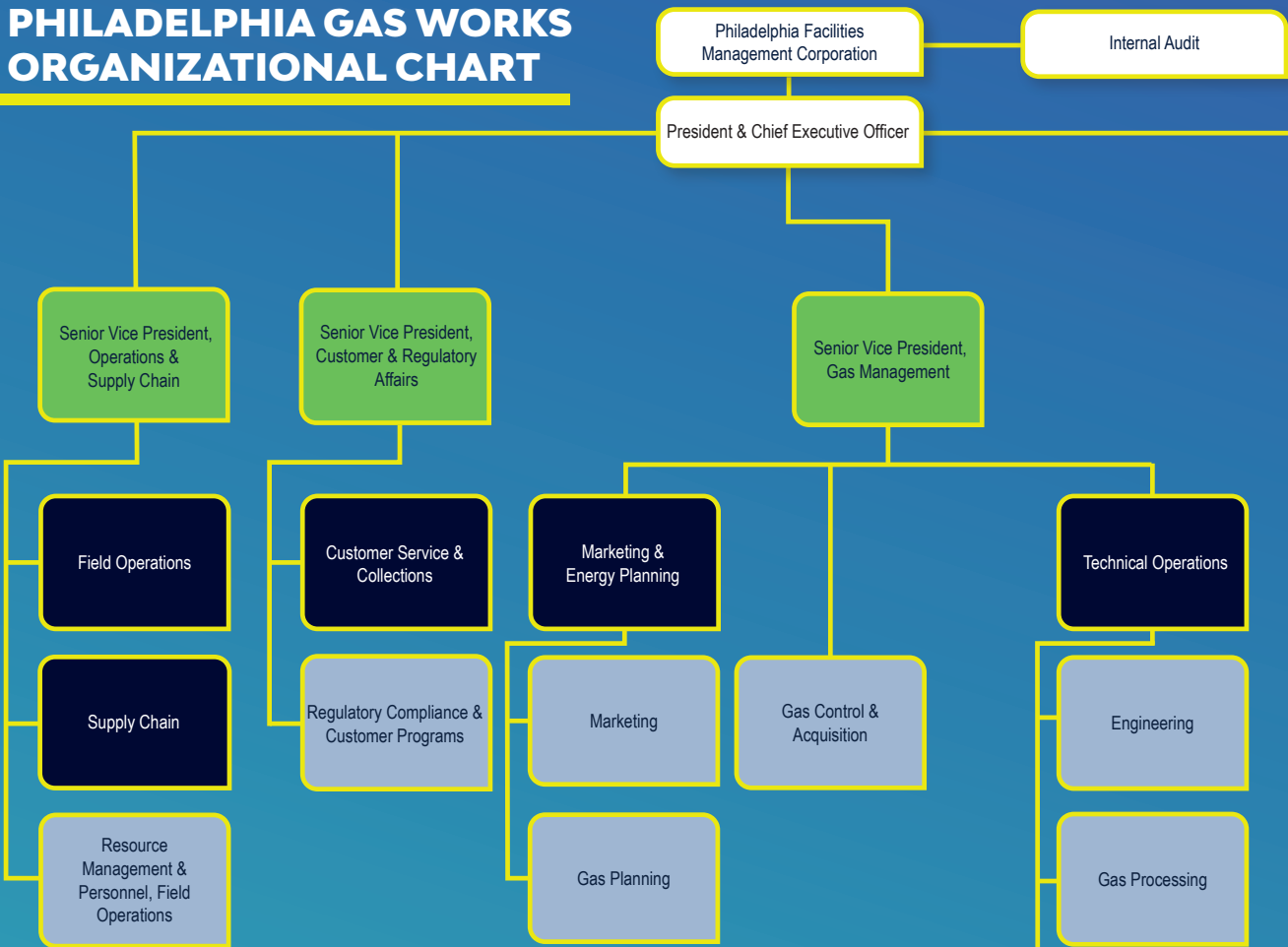
A handwritten signature in black ink that reads "Joseph F. Golden, Jr." in a cursive script.

Joseph F. Golden, Jr.  
Executive Vice President and Acting Chief Financial Officer

February 23, 2024

(This page has been intentionally left blank)

# PHILADELPHIA GAS WORKS ORGANIZATIONAL CHART



## LEADERSHIP<sup>1</sup>

**Seth A. Shapiro**  
President & Chief Executive Officer

**Joseph F. Golden, Jr.**  
Executive Vice President &  
Acting Chief Financial Officer

**Denise Adamucci**  
Senior Vice President,  
Customer & Regulatory Affairs

**Raquel N. Guzmán, Esquire**  
Senior Vice President,  
Administration & General Counsel

**Melanie O. McCottry**  
Chief of Staff and  
Senior Vice President, Corporate  
Communications & External Affairs

**Robert K. Smith**  
Senior Vice President,  
Operations & Supply Chain

**Frank Weigert**  
Senior Vice President,  
Information Services,  
Chief Information Officer

**John C. Zuk**  
Senior Vice President,  
Gas Management

**William J. Ambrose, Jr.**  
Vice President,  
Human Resources &  
Organizational Development

**Daniel J. Cassidy**  
Vice President,  
Technical Operations

**Bernard L. Cummings**  
Vice President,  
Customer Service & Collections

**Daniel M. Furtek**  
Vice President,  
Data Analytics & Reporting

**William J. Gallagher**  
Vice President,  
Budget & Strategic Development

**Elliott S. Gold**  
Vice President,  
Corporate Planning

**Joseph R. Hawkinson**  
Vice President,  
Field Operations

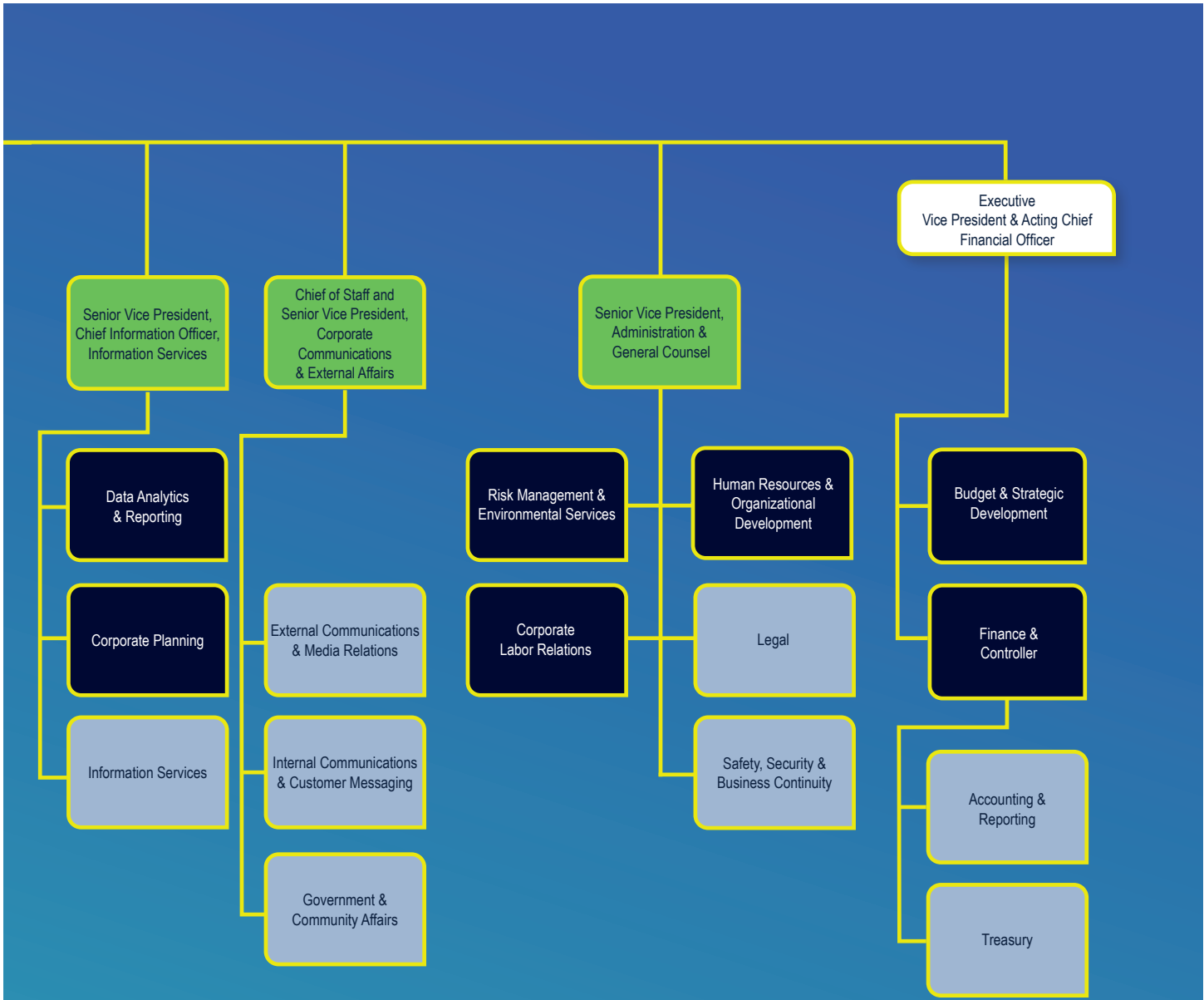
**Jane E. Lamb**  
Vice President,  
Risk Management &  
Environmental Services

**Daniel E. Leonard, Jr.**  
Vice President,  
Finance & Controller

**Anthony P. Mauro**  
Vice President,  
Supply Chain

**Vaneeda L. McDonald**  
Vice President,  
Corporate Labor Relations

**Florian Teme**  
Vice President,  
Marketing & Energy Planning



## BOARD OF DIRECTORS<sup>2</sup>



**Leigh N. Whitaker, Esq.**

*Principal – Government Relations, Buchanan Ingersoll & Rooney PC*

*Board Chair Audit/Finance Committee Compensation and Workforce Development Committee*



**James Engler, Esq.**

*Chief of Staff, ChristianaCare*

*Board Vice-Chair Chair, Compensation and Workforce Development Committee*



**Lauren Gilchrist**

*Executive Vice President, Market Leader, Newmark*

*Board Secretary Compensation and Workforce Development Committee*



**Albert Mezzaroba, Esq.**

*Of Counsel, Genova Burns*

*Chair, Audit/Finance Committee*



**Christina Hernandez, Esq.**

*Former Chief of Staff to Mayor James F. Kenney*



**Natalia Dominguez Buckley**

*Director, Bureau of Redevelopment Capital & Debt at Commonwealth of Pennsylvania*

*Audit/Finance Committee*

<sup>2</sup> As of February 23, 2024



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Philadelphia Gas Works  
Pennsylvania**

For its Annual Comprehensive  
Financial Report  
For the Fiscal Year Ended

August 31, 2022

*Christopher P. Morill*

Executive Director/CEO



## FINANCIAL SECTION

In FY 2023, PGW was provisionally awarded a \$10.0 million Natural Gas Distribution Infrastructure Safety and Modernization (NGDISM) grant from the U.S. Department of Transportation's (DOT) Pipeline and Hazardous Materials Safety Administration (PHMSA), established by the Infrastructure Investment and Jobs Act. This grant money will predominantly go to installing modern, durable (polyethylene) plastic natural gas lines to increase safety and enhance natural gas service reliability.





KPMG LLP  
1601 Market Street  
Philadelphia, PA 19103-2499

## Independent Auditors Report

The Controller of the City of Philadelphia and  
Chairman and members of Philadelphia Facilities  
Management Corporation  
Philadelphia, Pennsylvania:

### *Opinions*

We have audited the financial statements of the business-type activities and fiduciary activities of Philadelphia Gas Works (the Company), a component unit of the City of Philadelphia, as of and for the years ended August 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Company, as of August 31, 2023 and 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

We did not audit the financial statements of the Philadelphia Gas Works OPEB Trust (the Trust), which represents 100% of the fiduciary activities as of and for the years ended December 31, 2022 and 2021. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Trust, are based solely on the report of the other auditors.

### *Basis for Opinions*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that Management's discussion and analysis and the required supplementary information related to the pension and other postemployment benefit obligations as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



*Other Information*

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

KPMG LLP

Philadelphia, Pennsylvania  
December 21, 2023

(This page has been intentionally left blank)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Management's Discussion and Analysis  
August 31, 2023 and 2022 (Unaudited)

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2023 and 2022 have been prepared by PGW's management. The information presented here is unaudited and should be read in conjunction with additional information contained in PGW's basic financial statements and notes to basic financial statements.

**Financial Highlights**

- The Fiscal Year (FY) 2023 weather reflected a 13.7% warmer than normal winter. The FY 2023 period was 2.9% warmer than the prior year and firm gas sales were approximately 36.6 Billion Cubic Feet (Bcf). The Weather Normalization Adjustment (WNA) Clause, which was in effect from October 2022 through April 2023, resulted in heating customers receiving charges totaling \$32.4 million. The FY 2022 weather reflected a 11.1% warmer than normal winter. The FY 2022 period was 6.2% warmer than FY 2021 and firm gas sales were approximately 40.0 Bcf. The WNA Clause, which was in effect from October 2021 through April 2022, resulted in heating customers receiving charges totaling \$23.2 million. Actual degree day data is provided by the National Weather Service and measured at the Philadelphia International Airport.
- PGW achieved 24-month collection rates of 97.8% in FY 2023, 96.7% in FY 2022, and 96.1% in FY 2021. For FY 2023, the collection rate is calculated by dividing the total gas receipts collected from September 1, 2021 through August 31, 2023 by the total gas billings that were applied to PGW customers' accounts from September 1, 2021 through August 31, 2023. The same methodology was utilized in FY 2022 and FY 2021.
- PGW continues to have various business initiatives that pertain to improving collections, productivity, and operational efficiencies throughout the Company. PGW, at the end of FY 2023, FY 2022, and FY 2021, had no Gas Works Revenue Capital Project Commercial Paper Notes (Capital Project Notes) or Gas Works Revenue Notes outstanding. The cash balances at the end of FY 2023, FY 2022, and FY 2021 were \$139.3 million, \$115.6 million, and \$158.3 million, respectively.
- At December 15, 2023 and 2022, \$120.0 million was available from the commercial paper program. The cash balance on December 15, 2023 and on December 15, 2022 was \$114.5 million and \$95.7 million, respectively.
- The Company's FY 2023 Capital Budget was approved by the City Council of the City of Philadelphia in an amount not to exceed \$192.4 million and funding was provided to continue the implementation of an 18-mile Cast Iron Main Replacement (CIMR) Program. The CIMR Program cost for FY 2024 is expected to be \$31.5 million. The total six-year cost of the CIMR Program is forecasted to be \$193.9 million.
- On February 27, 2023, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce \$85.8 million, or 10.3%, in additional annual operating revenues based upon a twenty-year normal weather assumption. The filing also requested to increase the fixed monthly customer charge component, as well as the volumetric delivery charge component of base rates. PGW and all other rate case parties did not reach a settlement agreement, leading to litigation of the rate case issues. On September 5, 2023, the Administrative Law Judges (ALJ) issued their Recommended Decision for a \$22.3 million, or 2.7%, increase over present rates. On September 15, 2023, PGW submitted Exceptions to the ALJ's Recommended Decision. On November 9, 2023, the PUC entered its Order and Opinion in the case, which approved an annual operating revenue increase of \$26.2 million, or 3.15% over present rates. The Order and Opinion granted, in part, exceptions filed by the Office of Consumer Advocate (OCA), the Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, the Philadelphia

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Management's Discussion and Analysis  
August 31, 2023 and 2022 (Unaudited)

Industrial and Commercial Gas Users Group (PICGUG), and PGW. PGW filed the new tariff November 28, 2023 with rate increase for service rendered on or after November 29, 2023.

- In FY 2023, the Company adopted the following provisions of the Governmental Accounting Standards Board (GASB):
  - GASB Statement No. 91, *Conduit Debt Obligation*, had no impact on PGW's current accounting practices nor its financial reporting.
  - GASB Statement No. 94, *Public Private and Public Partnerships and Availability Payment Arrangements*, had no impact on PGW's current accounting practices nor its financial reporting.
  - GASB Statement No. 93, *Replacement of Interbank Offered Rates*. As originally scheduled, certain accounting and financial reporting provisions of GASB 93 would have taken effect for periods beginning after June 15, 2020 (the Company's fiscal year ending August 31, 2021). GASB 95 postponed the effective date of GASB 93 by twelve months and the requirements of GASB 93 were to take effect for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). However, GASB Statement No. 99, Omnibus (GASB 99) offers an extension of the use of LIBOR until fiscal years beginning after June 15, 2023 (the Company's fiscal year ending August 31, 2024). The Company early adopted this GASB, which had no material impact on PGW's financial reporting.
  - GASB Statement No. 96, *Subscription Based Information Technology Arrangements*, was effective for PGW's fiscal year ending August 31, 2023 with restatement, to the extent practical, of all periods presented.

For further information, see Note 1(u), New Accounting Pronouncements.

### **Overview of the Financial Statements**

The discussion and analysis are intended to serve as an introduction and overview of PGW's basic financial statements. PGW's financial statements comprise the following:

*Basic financial statements* provide both long-term and short-term information about PGW's overall financial condition, results of operations, and cash flows.

*The notes to basic financial statements* provide additional information that is essential for a full understanding of the data presented in PGW's financial statements. The notes can be found immediately following the basic financial statements.

The financial statements report information about PGW as a whole using accounting methods similar to those used by private sector business. The three statements presented are as follows:

*The balance sheets* include all PGW's assets, liabilities, and deferred inflows and outflows of resources, with the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources reported as net position. Over time, increases or decreases in net position are indicators of whether PGW's financial position is improving or deteriorating.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Management's Discussion and Analysis  
August 31, 2023 and 2022 (Unaudited)

*The statements of revenues and expenses and changes in net position* present revenues and expenses and their effects on the change in net position during the fiscal year. These changes in net position are recorded as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid.

*The statements of cash flows* provide relevant information about the cash receipts and cash payments of an enterprise during a period and the impact on PGW's financial position.

**Condensed Statements of Revenues and Expenses and Changes in Net Position**

(Thousands of U.S. dollars)

		<b>As of August 31</b>		
		<b>2023</b>	<b>2022(a)</b>	<b>2021</b>
Total gas revenues	\$	663,154	765,629	624,750
Other revenues		47,872	39,808	21,997
Total operating revenues		<u>711,026</u>	<u>805,437</u>	<u>646,747</u>
Fuel expense		223,996	272,468	163,892
All other operating expenses		340,207	299,416	270,268
Total operating expenses		<u>564,203</u>	<u>571,884</u>	<u>434,160</u>
Operating income		146,823	233,553	212,587
Investment gain (loss) and other income		14,000	(1,523)	1,322
Total interest expense		(38,890)	(39,597)	(41,501)
Distribution to the City of Philadelphia		(18,000)	(18,000)	(18,000)
Excess of revenues over expenses		103,933	174,433	154,408
Net position, beginning of year		624,349	450,053	295,527
Implementation of GASB 87		—	—	118
Implementation of GASB 96		—	(137)	—
Net position, end of year	\$	<u><u>728,282</u></u>	<u><u>624,349</u></u>	<u><u>450,053</u></u>

(a) Restated as a result of the implementation of GASB 96 (see note 1(u) to the basic financial statements).

*Operating Revenues*

Operating revenues in FY 2023 were \$711.0 million, a decrease of \$94.4 million, or 11.7%, from FY 2022. The decrease was primarily a result of lower Gas Cost Rates (GCR), which was driven by decreased commodity prices, and a \$15.0 million, or 59.3%, increase in the appropriation for uncollectible accounts. Operating revenues in FY 2022 were \$805.4 million, an increase of \$158.7 million, or 24.5%, from FY 2021. The increase was primarily a result of higher GCR, which was driven by increased commodity prices, offset by a \$9.0 million, or 55.2%, increase in the appropriation for uncollectible accounts.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Management's Discussion and Analysis  
August 31, 2023 and 2022 (Unaudited)

Total sales volumes, including gas transportation deliveries, in FY 2023 decreased by 3.9 Bcf, or 5.4%, to 67.6 Bcf from the FY 2022 sales volumes of 71.5 Bcf. In FY 2023, firm gas sales of 35.7 Bcf were 4.2 Bcf, or 10.6%, lower than FY 2022 and interruptible gas sales approximated the FY 2022 level. The volume of natural gas transported for gas transportation customers in FY 2023 decreased by 0.3 Bcf compared to the FY 2022 level. Total sales volumes, including gas transportation deliveries, in FY 2022 decreased by 0.3 Bcf, or 0.4%, to 71.5 Bcf from the FY 2021 sales volumes of 71.8 Bcf. In FY 2022, firm gas sales of 40.0 Bcf were 0.3 Bcf, or 0.8%, lower than FY 2021 and interruptible gas sales were 0.8 Bcf higher than the FY 2021 level. The volume of natural gas transported for gas transportation customers in FY 2022 increased by 0.2 Bcf compared to the FY 2021 level.

*Provision for Uncollectible Accounts* – The provision for uncollectible accounts in FY 2023 totaled \$40.3 million, an increase of \$15.0 million, or 59.3%, compared to FY 2022. The increase in the provision for uncollectible accounts in FY 2023 reflects the cessation of the PUC moratorium and a return to normal collections efforts. In FY 2022, PGW established a regulatory asset for outstanding delinquent account balances in anticipation that it would recover losses relating to the COVID-19 pandemic. The losses are specifically associated with the PUC moratorium, beginning in March 2020, and ending in March 2021, on shutting off gas services to customers who otherwise would be eligible for shutoff. The provision for uncollectible accounts in FY 2022 totaled \$25.3 million, an increase of \$9.0 million, or 55.2%, compared to FY 2021. PGW is committed to continuing its collection efforts in an attempt to reduce outstanding delinquent account balances and to provide assistance to those customers who qualify for low-income grants and payment programs to maintain their gas services.

In FY 2023, the total number of customers served by PGW decreased from the previous year and was approximately 518,000 customers. The total number of customers served by PGW at the end of FY 2022 was 522,000 and 2021 was approximately 524,000. In FY 2023, there were approximately 25,000 Commercial accounts and 500 Industrial accounts, reflecting no change from the previous two fiscal years. The number of residential accounts in FY 2023 was approximately 493,000 customers, a decrease of approximately 3,400 customers from the FY 2022 level and 5,100 customers from the FY 2021 level.

*Operating Expenses*

Total operating expenses, including fuel costs, in FY 2023 were \$564.2 million, a decrease of \$7.7 million, or 1.3%, from FY 2022. The decrease for FY 2023 was mainly caused by the decreased cost of fuel. This decrease was partially offset by the increase in amortization of the unfunded actuarially determined pension and other postemployment benefits liability and an increase in net depreciation expense. Total operating expenses, including fuel costs, in FY 2022 were \$571.9 million, an increase of \$137.7 million, or 31.7%, from FY 2021. The increase for FY 2022 was mainly caused by the increased cost of fuel and the increased amortization of the unfunded actuarially determined pension liability.

*Cost of Fuel* – The cost of natural gas utilized decreased by \$48.5 million, or 17.8%, to \$224.0 million in FY 2023 compared with \$272.5 million in FY 2022. In FY 2023 compared to FY 2022, the average commodity price per Thousand Cubic Feet (Mcf) decreased by \$0.16, or \$6.3 million, and the volume of natural gas utilized decreased by 5.7 Bcf, or \$26.0 million. Demand charges in FY 2023 were approximately \$3.7 million less in FY 2023 when compared to the same period in FY 2022. The pipeline supplier refunds in FY 2023 were approximately \$12.4 million as compared to refunds of \$0.3 million in FY 2022. The cost of natural gas utilized increased by \$108.6 million, or 66.3%, to \$272.5 million in FY 2022 compared with \$163.9 million in FY 2021. In FY 2022 compared to FY 2021, the average commodity price per Mcf increased by \$2.22, or \$100.6 million,

(Continued)



**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Management's Discussion and Analysis  
August 31, 2023 and 2022 (Unaudited)

and the volume of natural gas utilized increased by 1.5 Bcf, or 3.5%. The pipeline supplier refunds in FY 2022 were approximately \$0.3 million as compared to refunds of \$0.01 million in FY 2021.

Variations in the cost of purchased gas are passed through to customers under the GCR provision of PGW's rate schedules. Over recoveries or under recoveries of purchased gas costs are subtracted from or added to gas revenues and are included in other current assets or other current liabilities on the balance sheets, thereby eliminating the effect that recovery of gas costs would otherwise have on net income.

The average natural gas commodity prices for utilized natural gas for FY 2023, FY 2022, and FY 2021 were \$4.39, \$4.55, and \$2.33 per Mcf, respectively.

*Other Operating Expenses* – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2023 were \$115.4 million, a \$10.7 million, or 10.2%, increase from the FY 2022 total of \$104.7 million. The increase in FY 2023 was caused primarily by higher material costs, higher tools and uniforms cost, and information services costs. Expenditures for street operations, infrastructure improvements, and plant operations in FY 2022 were \$104.7 million, a \$1.8 million, or 1.7%, increase from the FY 2021 total of \$103.0 million. The increase in FY 2022 was caused primarily by higher utility gas costs, material costs, and engineering costs.

Additionally, expenses of \$97.5 million related to collection and account management, customer services, marketing, and the administrative area increased by \$2.6 million, or 2.7%, in FY 2023 primarily as compared to FY 2022 due to higher expenses relating to security and risk management, including higher purchased services cost and higher appropriations to the reserve. Expenses related to collection and account management, customer services, marketing, and the administrative area were \$94.9 million in FY 2022, which was an increase of \$1.7 million, or 1.8%, compared to FY 2021. The increase was primarily due to higher expenses relating to risk management, including insurance cost and higher appropriations to the reserve.

Pension expense increased by \$10.8 million to \$31.5 million in FY 2023 as compared to FY 2022. Pension expense increased by \$23.8 million to \$20.7 million in FY 2022 as compared to FY 2021. Both years increased year-over-year primarily due to the increase of amortization of our unfunded liability. The increase in the unfunded liability in FY 2023 and FY 2022 was due primarily to lower than anticipated earnings experienced during the respective period.

OPEB expense increased by \$6.0 million to \$4.8 million in FY 2023 as compared to FY 2022. The increase in 2023 was due primarily to lower than anticipated earnings experienced during the respective periods and changes to demographic assumptions. OPEB expense (income) decreased by \$0.3 million to (\$1.2) million in FY 2022 as compared to FY 2021. The decrease in 2022 was due primarily to higher than anticipated earnings experienced during the respective periods and changes to demographic assumptions.

*Net Depreciation Expense* – Net depreciation expense increased by \$9.7 million in FY 2023 compared with FY 2022. Net depreciation expense increased by \$3.0 million in FY 2022 compared with FY 2021. The composite depreciation rates were 2.1% for FY 2023, FY 2022, and FY 2021. Cost of removal is charged to expense as incurred.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Management's Discussion and Analysis  
August 31, 2023 and 2022 (Unaudited)

*Investment Gain (Loss) and Other Income* – Investment gain (loss) and other income in FY 2023 was \$15.5 million higher than FY 2022. The increase was primarily due to a \$6.9 million increase in interest and dividends earned and a \$4.3 million mark to market gain on restricted and unrestricted investments. Investment gain (loss) and other income in FY 2022 was \$2.8 million lower than FY 2021 reflecting a \$1.8 million mark to market loss on restricted and unrestricted investments.

*Interest Expense* – Total interest expense was \$38.9 million in FY 2023, a decrease of \$0.7 million, or 1.8%, when compared with FY 2022. Interest on long-term debt was \$44.8 million, a decrease of \$2.2 million, or 4.7%, lower in FY 2023 when compared to FY 2022. Interest expense was lower in FY 2023 due to the normal amortization of long-term debt. Total interest expense was \$39.6 million in FY 2022, a decrease of \$1.9 million, or 4.6%, when compared with FY 2021. Interest on long-term debt was \$47.0 million, a decrease of \$1.5 million, or 3.1%, lower in FY 2022 when compared to FY 2021. Interest expense was lower in FY 2022 due to the normal amortization of long-term debt.

*Excess of Revenues over Expenses* – In FY 2023, the Company's excess of revenues over expenses was \$103.9 million, a decrease of \$70.5 million from FY 2022. This decrease is primarily due to lower contribution margins, a \$9.7 million increase in depreciation, and a \$31.3 million increase in operating expenses, excluding the cost of fuel. In FY 2022, the Company's excess of revenues over expenses was \$174.4 million, an increase of \$20.0 million from FY 2021. This decrease is primarily due to lower contribution margins of gas offset by lower pension and OPEB expenses.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Management's Discussion and Analysis  
August 31, 2023 and 2022 (Unaudited)

**Condensed Balance Sheets**

(Thousands of U.S. dollars)

<b>Assets and Deferred Outflows of Resources</b>	<b>As of August 31</b>		
	<b>2023</b>	<b>2022 (a)</b>	<b>2021</b>
<b>Current assets:</b>			
Accounts receivable (net of accumulated provision for uncollectible accounts of \$108,990, \$108,186, and \$113,164 for 2023, 2022, and 2021, respectively)	\$ 91,957	107,001	81,991
Restricted investment funds	46,508	110,489	96,340
Cash and cash equivalents, cash designated for capital expenditures, gas inventories, materials, and supplies and other current assets	234,141	224,704	224,376
Total current assets	<u>372,606</u>	<u>442,194</u>	<u>402,707</u>
<b>Noncurrent assets:</b>			
Utility plant, net	1,815,469	1,657,809	1,566,708
Unamortized bond insurance costs	681	725	784
Capital improvement fund	—	4,851	91,322
Sinking fund, revenue bonds	109,581	106,188	107,684
Other assets	57,760	64,192	65,996
Total noncurrent assets	<u>1,983,491</u>	<u>1,833,765</u>	<u>1,832,494</u>
Total assets	<u>2,356,097</u>	<u>2,275,959</u>	<u>2,235,201</u>
<b>Deferred outflows of resources:</b>			
Accumulated fair value of hedging derivatives	—	—	9,117
Unamortized losses on bond refunding	19,763	23,321	27,487
Deferred outflows related to pension	29,060	68,189	24,575
Deferred outflows related to OPEB	100,068	62,576	71,721
Total deferred outflows	<u>148,891</u>	<u>154,086</u>	<u>132,900</u>
Total assets and deferred outflows of resources	<u>\$ 2,504,988</u>	<u>2,430,045</u>	<u>2,368,101</u>

(a) Restated as a result of the implementation of GASB 96 (see note 1(u) to the basic financial statements).

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Management's Discussion and Analysis  
August 31, 2023 and 2022 (Unaudited)

**Condensed Balance Sheets**

(Thousands of U.S. dollars)

<b>Net Position, Liabilities, and Deferred Inflows of Resources</b>	<b>As of August 31</b>		
	<b>2023</b>	<b>2022 (a)</b>	<b>2021</b>
Net position:			
Net investment in capital assets	\$ 825,211	674,529	591,091
Restricted	112,359	108,855	110,424
Unrestricted	(209,288)	(159,035)	(251,462)
Total net position	728,282	624,349	450,053
Noncurrent liabilities:			
Long-term revenue bonds	980,578	1,050,687	1,122,609
Other noncurrent liabilities	82,992	38,811	51,831
Net pension liability	229,433	261,082	138,216
Net OPEB liability	208,706	149,231	201,588
Total noncurrent liabilities	1,501,709	1,499,811	1,514,244
Current liabilities:			
Current portion of revenue bonds	70,110	64,202	65,417
Other current liabilities	159,155	130,492	140,807
Total current liabilities	229,265	194,694	206,224
Deferred inflows of resources:			
Deferred inflows related to gain on bond refunding	156	168	181
Deferred inflows related to pension	—	5,937	94,514
Deferred inflows related to OPEB	40,372	102,608	102,885
Deferred inflows related to interest rate swap	5,204	2,478	—
Total deferred inflows	45,732	111,191	197,580
Total net position, liabilities, and deferred inflows of resources	\$ 2,504,988	2,430,045	2,368,101

(a) Restated as a result of the implementation of GASB 96 (see note 1(u) to the basic financial statements).

**Assets**

*Accounts Receivable* – In FY 2023, accounts receivable (net) of \$92.0 million decreased by \$15.0 million, or 14.0%, from FY 2022. This correlates with the decrease in total operating revenues of 11.7% compared to FY 2022. Customer accounts receivables at August 31, 2023 reflect a balance of \$190.7 million, a decrease of \$8.7 million compared to \$199.4 million balance at August 31, 2022. Accrued gas revenues at August 31, 2023 reflect a balance of \$8.6 million, a decrease of \$2.7 million compared to the \$11.3 million balance at August 31,

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Management's Discussion and Analysis  
August 31, 2023 and 2022 (Unaudited)

2022. The accumulated provision for uncollectible accounts at August 31, 2023 reflects a balance of \$109.0 million, an increase of \$0.8 million compared to the \$108.2 million balance at August 31, 2022. In FY 2022, accounts receivable (net) of \$107.0 million increased by \$25.0 million, or 30.5%, from FY 2021 due to a higher GCR, which was driven by increased commodity prices, and a decrease in the accumulated provision for uncollectible accounts. The customer accounts receivable at August 31, 2022 reflect a balance of \$199.4 million, an increase of \$16.9 million compared to the \$182.5 million balance at August 31, 2021. Accrued gas revenues at August 31, 2022 reflects a balance of \$11.3 million, an increase of \$3.3 million compared to the \$8.0 million balance at August 31, 2021. The accumulated provision for uncollectible accounts at August 31, 2022 reflects a balance of \$108.2 million, a decrease of \$5.0 million compared to the \$113.2 million balance at August 31, 2021. Net write-offs for FY 2023 were \$39.5 million as compared to \$30.3 million in FY 2022 and \$11.4 million in FY 2021.

*Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies, and Other Current Assets* – In FY 2023, cash and cash equivalents totaled \$139.3 million, an increase of \$23.7 million from the FY 2022 total of \$115.6 million. The increase in the cash balance at the end of FY 2023 was primarily a result of an increase of receipts from customers and overall increase in net cash provided by operating activities. In FY 2022, cash and cash equivalents totaled \$115.6 million, a decrease of \$42.7 million from the FY 2021 total of \$158.3 million. The decrease in the cash balance at the end of FY 2022 was primarily a result of an increase in capital spending funded by internally generated funds.

In FY 2023, gas inventories, materials, and supplies totaled \$79.5 million, a decrease of \$13.4 million, or 14.4% from the FY 2022 total of \$92.9 million. In FY 2023, gas storage totaled \$65.3 million, a decrease of \$16.2 million when compared to FY 2022. The decrease in gas inventory reflects a decrease in the weighted average cost of gas stored in inventory. The weighted average cost of gas as of August 31, 2023 decreased approximately \$1.13 per Mcf, or 21.6%, compared to August 31, 2022. Volumes in storage stayed relatively consistent. Actual volumes in storage as of August 31, 2023 volumes were 15.3 Bcf, a 0.4 Bcf, or 2.4%, increase when compared to FY 2022. In FY 2022, gas inventories, materials, and supplies totaled \$92.9 million, an increase of \$39.5 million, or 74.0% from the FY 2021 total of \$53.4 million. In FY 2022, gas storage totaled \$81.5 million, an increase of \$40.7 million when compared to FY 2021. The increase in gas inventory reflects an increase in the price per Mcf of gas stored in inventory. Actual volumes in storage as of August 31, 2022 were 15.0 Bcf, a 0.3 Bcf, or 2.0%, increase when compared to FY 2021.

Other current assets totaled \$15.4 million in FY 2023, a decrease of \$0.8 million, from FY 2022. Other current assets totaled \$16.2 million in FY 2022, an increase of \$3.5 million from FY 2021. The increase in other current assets in FY 2022 is primarily a result of an increase in the deferred GCR, which was partially offset by a decrease in accrued reimbursables.

*Restricted Investment Funds* – Restricted Investment Funds include the current portion of the Capital Improvement Fund and the Workers' Compensation Escrow Fund. The balances of the current portion of the Capital Improvement Fund at August 31, 2023, 2022, and 2021 were \$43.7 million, \$107.8 million, and \$93.6 million, respectively. Restricted Investment Funds decreased by \$64.0 million in FY 2023 compared to FY 2022. PGW withdrew \$81.0 million, \$72.0 million, and \$55.0 million to finance various capital initiatives in FY 2023, FY 2022, and FY 2021, respectively. As of October 21, 2020, PGW funded the Capital Improvement Fund in the amount of \$240.0 million with the new issuance of the 16th Series Bonds. Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Management's Discussion and Analysis  
August 31, 2023 and 2022 (Unaudited)

Company has established and maintains a restricted trust account. As of August 31, 2023, 2022, and 2021, the trust account balances were \$2.8 million, \$2.7 million, and \$2.7 million, respectively.

*Utility Plant and Other Noncurrent Assets* – In FY 2023, noncurrent assets including utility plant, net, the long-term portion of the Capital Improvement Fund, the revenue bonds' Sinking Fund, and unamortized bond insurance costs, totaled \$1,983.5 million, an increase of \$149.7 million from FY 2022. This increase is due to the large amounts of capital projects placed in service in FY 2023. In FY 2022, noncurrent assets including utility plant, net, the long-term portion of the Capital Improvement Fund, the revenue bonds' Sinking Fund, and unamortized bond insurance costs, totaled \$1,833.8 million, an increase of \$1.3 million from FY 2021.

Utility plant, net, totaled \$1,815.5 million in FY 2023, an increase of \$157.7 million, or 9.5%, compared with the FY 2022 balance. Utility plant, net, totaled \$1,657.8 million in FY 2022, an increase of \$91.1 million, or 5.8%, compared with the FY 2021 balance. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were \$150.2 million in FY 2023 compared to \$151.1 million in FY 2022 and \$138.5 million in FY 2021. In FY 2023, PGW added a capital lease for the Company's North Operations Center ("NOC"), which contributed approximately \$78.0 million to the increase of utility plant, net. For additional information on the Company's capital assets, see note 1(g) *Utility Plant* of the basic financial statements.

In early 2012, Act 11 was enacted by the Pennsylvania Legislature. Act 11 permitted public utilities to file a request with the PUC for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC permits natural gas distribution companies to recover the costs related to main and service replacement not already recovered in base rates. This legislation provides utility companies with a supplemental recovery mechanism for costs related to incremental/accelerated distribution system repair, improvement, and replacement. Act 11 permits gas utilities to recover 5.0% of their nongas revenues via the recovery mechanism and permits greater percentage increases if approved by the PUC. The Company started billing customers a DSIC surcharge as of July 1, 2013. On September 1, 2015, PGW proposed an increase in the DSIC from 5.0% to 7.5% of distribution revenues and to levelize and annualize the DSIC. The PUC issued an Order and Opinion granting PGW's request to increase its DSIC to 7.5% on January 28, 2016 which went into effect on February 1, 2016. In FY 2023, FY 2022 and FY 2021, the Company billed customers \$34.6 million, \$36.8 million, and \$34.6 million respectively, for the DSIC surcharge. The DSIC surcharge is fully reconcilable on a calendar-year basis. For additional information, see note 1(h) *Revenue Recognition* of the basic financial statements.

*Deferred Outflows of Resources Related to Hedging Derivatives and Bond Refunding* – Deferred outflows of resources related to hedging derivatives and bond refunding represent amounts that will result in a reduction of net position in a subsequent period. Deferred outflows of resources related to hedging derivatives and bond refunding include the accumulated fair value of hedging derivatives that will be recognized in the statement of revenues and expenses and changes in net position upon termination of the hedging relationship, and unamortized losses on bond refunding. Deferred outflows of resources related to hedging derivatives and bond refunding decreased \$3.5 million in FY 2023 from the FY 2022 total of \$23.3 million. Deferred outflows of resources related to hedging derivatives and bond refunding decreased \$13.3 million in FY 2022 from the FY 2021 total of \$36.6 million.

*Deferred Outflows of Resources Related to Pension* – Deferred outflows of resources related to pensions represent amounts that will result in a reduction of net position in a subsequent period. Deferred outflows of

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Management's Discussion and Analysis  
August 31, 2023 and 2022 (Unaudited)

resources related to pension include increases in the pension liability that will be amortized into pension expense in future periods. Deferred outflows of resources related to pension decreased \$39.1 million in FY 2023 from the FY 2022 total of \$68.2 million. Deferred outflows of resources related to pension increased \$43.6 million in FY 2022 from the FY 2021 total of \$24.6 million.

*Deferred Outflows of Resources Related to OPEB* – Deferred outflows of resources related to OPEB represent amounts that will result in a reduction of net position in a subsequent period. Deferred outflows of resources related to OPEB include increases in the OPEB liability that will be amortized into OPEB expense in future periods. Deferred outflows of resources related to OPEB increased \$37.5 million, or 59.9%, in FY 2023 from the FY 2022 total of \$62.6 million. Deferred outflows of resources related to OPEB decreased \$9.1 million, or 12.7%, in FY 2022 from the FY 2021 total of \$71.7 million.

*Liabilities*

*Long-Term Revenue Bonds* – Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled \$1,050.7 million as of August 31, 2023. This was \$64.2 million less than the previous year due to scheduled principal payments and the normal amortization of bond discounts and premiums. This represents 59.1% of total capitalization as of August 31, 2023. Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled \$1,114.9 million as of August 31, 2022. This was \$73.1 million less than the previous year due to scheduled principal payments. This represents 64.1% of total capitalization as of August 31, 2022. Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled \$1,188.0 million as of August 31, 2021. This was \$188.2 million more than the previous year and was a result of issuing the Sixteenth Series Bonds. This represents 72.5% of total capitalization as of August 31, 2021. For additional information, see note 8, *Long-Term Debt and Other Liabilities* of the basic financial statements.

*Debt Service Coverage Ratio and Ratings* – PGW has a mandatory debt service coverage ratio of 1.50 times debt service on the 1998 Ordinance Bonds. On August 31, 2023, debt service coverage on Senior 1998 Ordinance Bonds was 2.52 times, compared to 3.04 and 2.70 times on August 31, 2022 and 2021, respectively. PGW's current bond ratings are "A3" from Moody's Investors Service (Moody's), "A" from Standard & Poor's Rating Service (S&P), and "A-" from Fitch Ratings.

*Notes Payable* – Pursuant to the provisions of the City of Philadelphia Note Ordinances, PGW may issue short-term notes to either support working capital requirements or pay the costs of certain capital projects and other project costs. PGW may issue short-term notes in a principal amount, which, together with interest, may not exceed \$150.0 million outstanding to support working capital requirements. PGW may also sell additional short-term notes in an aggregate principal amount, which may not exceed \$120.0 million outstanding at any time to pay the costs of certain capital projects and other project costs. All notes are supported by a Note Purchase and Credit Agreement and a security interest in PGW's revenues. The Note Purchase and Credit Agreement supporting PGW's combined commercial paper programs set the maximum level of outstanding notes plus interest at \$120.0 million in both 2023 and 2022. The commitment amount is \$120.0 million under the current credit agreement. The expiration date of the credit agreement is June 16, 2026.

*Other Current Liabilities* – As of August 31, 2023, other current liabilities totaled \$48.0 million, an increase of \$41.8 million from FY 2022. The increase in FY 2023 is primarily due to the overrecovery of GCR and surcharges compared to FY 2022. As of August 31, 2022, and 2021, other current liabilities were \$6.2 million

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Management's Discussion and Analysis  
August 31, 2023 and 2022 (Unaudited)

and \$35.4 million, respectfully. As of August 31, 2023, accounts payable totaled \$80.6 million, a decrease of \$16.2 million, or 16.7%, compared with FY 2022 primarily due to a decrease of general accounts payable, natural gas payables, and unbilled liabilities. As of August 31, 2022, accounts payable totaled \$96.8 million, an increase of \$16.9 million, or 21.2%, compared with FY 2021 primarily due to an increase in natural gas payables and unbilled liabilities.

*Other Noncurrent Liabilities* – As of August 31, 2023, other noncurrent liabilities totaled \$24.4 million, a decrease of \$12.5 million compared to August 31, 2022. As of August 31, 2023, noncurrent lease asset liabilities totaled \$58.6 million, an increase of \$58.5 million. The increase is due to the addition of the lease liability for the NOC. As of August 31, 2022, other noncurrent liabilities totaled \$36.9 million, a decrease of \$14.8 million compared to August 31, 2021. The decrease in FY 2022 is primarily due to the changes in the valuation of the interest rate swaps.

*Net OPEB Liability* – The net OPEB obligation was \$208.7 million as of August 31, 2023, a \$59.5 million increase from the \$149.2 million obligation as of August 31, 2022. The net OPEB obligation was \$149.2 million as of August 31, 2022, a \$52.4 million decrease from the \$201.6 million obligation as of August 31, 2021. The changes in FY 2023 and FY 2022 were caused by changes in benefit, demographic, and economic assumptions.

*Net Pension Liability* – The net pension liability was \$229.4 million as of August 31, 2023, a decrease of \$31.7 million, or 12.1%, from the \$261.1 million liability as of August 31, 2022. The decrease is primarily due to net investment gain in FY 2023 compared to the net investment loss in FY 2022. There was an increase in the net pension liability of \$122.9 million, or 88.9%, in FY 2022 as compared to FY 2021. The increase reflected a loss of approximately \$127.2 million on the rate of return during the period.

*Deferred Inflows of Resources Related to Pension* – Deferred inflows of resources related to pension represent amounts that will result in an increase of net position in a subsequent period. Deferred inflows of resources related to pension represent the difference between actual and expected earnings on pension plan investments. The decrease in deferred inflows of resources related to pension of \$5.9 million as of August 31, 2023, as compared to August 31, 2022, is primarily due to changes in investment performance. The decrease in deferred inflows of resources related to pension of \$88.6 million as of August 31, 2022, as compared to August 31, 2021, is primarily related to asset loss in FY 2022. There were \$94.5 million in deferred inflows of resources related to pension on August 31, 2021.

*Deferred Inflows of Resources Related to OPEB* – Deferred inflows of resources related to OPEB represent amounts that will result in an increase of net position in a subsequent period. Deferred inflows of resources related to OPEB as of August 31, 2023, were \$40.4 million as compared to \$102.6 million as of August 31, 2022. The decrease in deferred inflows of resources related to OPEB of \$62.2 million, or 60.6%, between FY 2023 and FY 2022 is primarily driven by benefit, demographic, and economic assumptions. There were \$102.9 million in deferred inflows of resources related to OPEB on August 31, 2021. The decrease in deferred inflows of resources related to OPEB of \$0.3 million, or 0.3%, between FY 2022 and FY 2021 is primarily driven by benefit, demographic, and economic assumptions.

(Continued)



**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Management's Discussion and Analysis  
August 31, 2023 and 2022 (Unaudited)

*Net Position* – On August 31, 2023, total net position totaled \$728.3 million, an increase of \$104.0 million compared to August 31, 2022. The increase in FY 2023 is due to an excess of revenues over expenses generated by PGW operations during FY 2023. As of August 31, 2023, unrestricted net position totaled negative \$209.3 million, an increase of \$50.3 million compared to August 31, 2022. On August 31, 2022, total net position totaled \$624.3 million, an increase of \$174.2 million compared to August 31, 2021. The increase in FY 2022 is due to an excess of revenues over expenses generated by PGW operations during FY 2022. As of August 31, 2022, unrestricted net position totaled negative \$159.0 million, a decrease of \$92.5 million compared to August 31, 2021. Due to the long-term nature of the Company's net pension and OPEB liability, the Company's negative unrestricted net position is not indicative of its near-term liquidity.

**Upcoming Accounting Pronouncements**

GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of PGW upon implementation. The Company has not yet evaluated the effect of the implementation of these standards.

<b>GASB Statement No.</b>	<b>GASB Accounting Standard</b>	<b>Effective Fiscal Year</b>
99	<i>Omnibus 2022</i>	2024
100	<i>Accounting Changes and Error Corrections- an amendment of GASB Statement No. 62</i>	2024
101	<i>Compensated Absences</i>	2025

**Contacting the Company's Financial Management**

This financial report is designed to provide the citizens of Philadelphia, customers, investors, and creditors with a general overview of PGW's finances and to demonstrate PGW's accountability for the money it receives. If you have questions pertaining to this report or need additional financial information, please contact Philadelphia Gas Works, 800 W. Montgomery Avenue, Philadelphia, PA 19122 Attn: Vice President, Finance and Controller or on the Web at [www.pgworks.com](http://www.pgworks.com).

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)

Balance Sheets

August 31, 2023 and 2022

(Thousands of U.S. dollars)

<b>Assets</b>	<b>2023</b>	<b>2022</b>
<b>Current assets:</b>		
Cash, cash equivalents, and short-term investments	\$ 139,302	115,637
Accounts receivable (net of provision for uncollectible accounts of \$108,990 and \$108,186 for 2023 and 2022, respectively)	91,957	107,001
Gas inventories, materials, and supplies	79,454	92,876
Current portion of capital improvement fund	43,730	107,822
Workers' compensation escrow fund	2,778	2,667
Other current assets	15,385	16,191 *
Total current assets	372,606	442,194
<b>Noncurrent assets:</b>		
Utility plant, at original cost:		
In service	2,902,469	2,810,896
Lease assets	80,351	1,202
Software subscriptions	8,135	8,438 *
Under construction	161,751	141,469
Total	3,152,706	2,962,005
Less accumulated depreciation	1,329,678	1,299,288
Less accumulated depreciation – lease assets	2,488	855
Less accumulated depreciation – software subscriptions	5,071	4,053 *
Utility plant, net	1,815,469	1,657,809
Capital improvement fund	—	4,851
Sinking fund, revenue bonds	109,581	106,188
Unamortized bond insurance costs	681	725
Regulatory asset – environmental	23,610	28,871
Regulatory asset – pandemic	30,485	30,674
Other noncurrent assets	3,665	4,647
Total noncurrent assets	1,983,491	1,833,765
Total assets	2,356,097	2,275,959
<b>Deferred Outflows of Resources</b>		
Unamortized losses on bond refunding	19,763	23,321
Deferred outflows related to pension	29,060	68,189
Deferred outflows related to OPEB	100,068	62,576
Total deferred outflows of resources	148,891	154,086
Total assets and deferred outflows of resources	\$ 2,504,988	2,430,045

\* FY 2022 has been restated as a result of the implementation of GASB 96 (see note 1(u) to the basic financial statements).

See accompanying notes to basic financial statements.

**PHILADELPHIA GAS WORKS**  
A Component Unit of the City of Philadelphia)

Balance Sheets

August 31, 2023 and 2022

(Thousands of U.S. dollars)

<b>Liabilities</b>	<b>2023</b>	<b>2022</b>
Current liabilities:		
Current portion of revenue bonds	\$ 70,110	64,202
Accounts payable	80,632	96,764
Current portion of long-term liabilities	7,947	5,927
Customer deposits	2,653	2,262
Current portion of lease liabilities	1,329	131
Current portion of software subscription liabilities	1,838	1,856 *
Other current liabilities	47,970	6,164
Accrued accounts:		
Interest, taxes, and wages	13,786	14,388
Distribution to the City	3,000	3,000
Total current liabilities	<u>229,265</u>	<u>194,694</u>
Noncurrent liabilities:		
Long-term revenue bonds	980,578	1,050,687
Long-term lease liabilities	58,642	114
Long-term software subscription liabilities	—	1,770 *
Other noncurrent liabilities	24,350	36,927
Net pension liability	229,433	261,082
Net OPEB liability	208,706	149,231
Total noncurrent liabilities	<u>1,501,709</u>	<u>1,499,811</u>
Total liabilities	<u>1,730,974</u>	<u>1,694,505</u>
<b>Deferred Inflows of Resources</b>		
Deferred inflows related to gain on bond refunding	156	168
Deferred inflows related to pension	—	5,937
Deferred inflows related to OPEB	40,372	102,608
Accumulated fair value of hedging derivatives	5,204	2,478
Total deferred inflows of resources	<u>45,732</u>	<u>111,191</u>
Total liabilities and deferred inflows of resources	<u>1,776,706</u>	<u>1,805,696</u>
<b>Net Position</b>		
Net investment in capital assets	828,274	678,913 *
Restricted (debt service)	109,581	106,188
Restricted (workers' compensation)	2,778	2,667
Unrestricted	<u>(212,351)</u>	<u>(163,419) *</u>
Total net position	<u>728,282</u>	<u>624,349</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,504,988</u>	<u>2,430,045</u>

\* FY 2022 has been restated as a result of the implementation of GASB 96 (see note 1(u) to the basic financial statements).

See accompanying notes to basic financial statements.

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)

Statements of Revenues and Expenses and Changes in Net Position

Years ended August 31, 2023 and 2022

(Thousands of U.S. dollars)

	<b>2023</b>	<b>2022</b>
Operating revenues:		
Gas revenues:		
Non-heating	\$ 25,914	32,064
Gas transport service	77,530	71,710
Heating	599,980	687,142
Provision for uncollectible accounts	(40,270)	(25,287)
Total gas revenues	663,154	765,629
Appliance and other revenues	7,339	6,656
Other operating revenues	40,533	33,152
Total operating revenues	711,026	805,437
Operating expenses:		
Natural gas	223,996	272,468
Gas processing	25,569	24,085
Field operations	89,803	79,542 *
Collection and account management	12,894	13,237
Customer services	13,962	12,825 *
Marketing	3,857	4,433
Administrative and general	66,704	64,535 *
Pensions	31,544	20,675
Other postemployment benefits	4,791	(1,242)
Taxes	9,121	8,984
Total operating expenses before depreciation	482,241	499,542
Depreciation	81,962	72,342 *
Total operating expenses	564,203	571,884
Operating income	146,823	233,553
Investment gains (losses) and other income	14,000	(1,523)
Income before interest expense	160,823	232,030
Interest expense:		
Long-term debt	44,776	47,044
Other	(5,886)	(7,447) *
Total interest expense	38,890	39,597
Distribution to the City of Philadelphia	(18,000)	(18,000)
Excess of revenues over expenses	103,933	174,433
Net position, beginning of year	624,349	449,916 *
Net position, end of year	\$ 728,282	624,349 *

\* FY 2022 has been restated as a result of the implementation of GASB 96 (see note 1(u) to the basic financial statements).

See accompanying notes to basic financial statements.

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)

Statements of Cash Flows

Years ended August 31, 2023 and 2022

(Thousands of U.S. dollars)

	<b>2023</b>	<b>2022</b>
Cash flows from operating activities:		
Receipts from customers	\$ 802,200	782,300
Payments to suppliers	(437,337)	(487,069) *
Payments to employees	(139,739)	(135,576)
Claims paid	(2,671)	(2,536)
Other receipts	20,957	13,851
Net cash provided by operating activities	243,410	170,970
Cash flows from non-capital financing activities:		
Income (loss) from non-utility operations	6,497	(2,513)
Interest and fees	(469)	849 *
Distribution to the City of Philadelphia	(18,000)	(18,000)
Net cash (used in) noncapital financing activities	(11,972)	(19,664)
Cash flows from investment activities:		
Sinking fund reserve deposits	(3,390)	(40,853)
Sinking fund reserve withdrawals	—	42,346
Capital improvement fund deposits	(10,000)	—
Capital improvement fund withdrawals	78,943	72,249
Interest income / capital gain from short-term investments	5,185	374
Interest income / capital gain on capital improvement fund	1,028	431
Interest income / capital gain on sinking fund	1,291	185
Net cash provided by investment activities	73,057	74,732
Cash flows from capital and related financing activities:		
Redemption, refunding or defeasance of long-term debt	—	(10,865)
Purchases of capital assets	(159,256)	(156,917)
Principal paid on long-term debt	(53,770)	(50,745)
Interest paid on long-term debt	(45,374)	(47,685)
Principal paid on lease liability	(20,021)	(577)
Principal paid on software subscription liability	(2,409)	(1,877) *
Net cash (used in) capital and related financing activities	(280,830)	(268,666)
Net increase (decrease) in cash and cash equivalents	23,665	(42,628)
Cash and cash equivalents at beginning of year	115,637	158,265
Cash and cash equivalents at end of year	\$ 139,302	115,637
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 146,822	233,552 *
Adjustments to reconcile operating income to net cash provided by operating activities:		
Effect of change in accounting principle	—	128 *
Depreciation and amortization expense	81,962	72,342 *
Provision for uncollectible accounts	40,270	25,287
Change in assets and liabilities:		
Receivables, net	(25,226)	(50,298)
Gas inventories, materials, and supplies	13,422	(39,503)
Other current assets	806	(4,620) *
Other assets and deferred outflows of resources	8,069	(23,548)
Accounts payable	(16,132)	16,836
Customer deposits	391	604
Other current liabilities	43,826	(28,824)
Accrued accounts	(602)	(363)
Other liabilities, deferred inflows of resources, net OPEB and pension liabilities	(50,198)	(30,623)
Net cash provided by operating activities	\$ 243,410	170,970

\* FY 2022 has been restated as a result of the implementation of GASB 96 (see note 1(u) to the basic financial statements).

See accompanying notes to basic financial statements.

**PHILADELPHIA GAS WORKS OPEB TRUST**  
(A Fiduciary Fund of the Philadelphia Gas Works)

Statements of Fiduciary Net Position

Years ended December 31, 2022 and 2021

(Thousands of U.S. dollars)

	<b>2022</b>	<b>2021</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 1,713	2,244
Accrued interest income	120	106
Total cash and accrued income	1,833	2,350
<b>Investments, at fair value:</b>		
Domestic equity	151,110	180,800
International equity	74,856	81,416
Fixed income	94,531	101,449
Total investments	320,497	363,665
Total assets	322,330	366,015
<b>Liabilities:</b>		
Accrued expenses	54	42
Pending cash	1,641	29
Total liabilities	1,695	71
Net position held in trust for other postemployment benefits	\$ 320,635	365,944

**PHILADELPHIA GAS WORKS OPEB TRUST**  
(A Fiduciary Fund of the Philadelphia Gas Works)

Statements of Changes in Fiduciary Net Position

Years ended December 31, 2022 and 2021

(Thousands of U.S. dollars)

	<b>2022</b>	<b>2021</b>
Additions:		
Contributions:		
Philadelphia Gas Works – contribution to OPEB Trust	\$ 18,500	18,500
Philadelphia Gas Works – benefits paid	25,677	25,197
Investment income:		
Net realized gains	3,080	25,241
Interest and dividend income	6,955	6,036
Net unrealized gains (losses)	(73,669)	10,252
Net investment (loss) income	(63,634)	41,529
Total (reductions) additions	(19,457)	85,226
Deductions:		
Benefits paid	25,677	25,197
Administrative expenses and bank fees	68	52
Investment management expenses	107	112
Total deductions	25,852	25,361
Change in net assets	(45,309)	59,865
Net position held in trust for other postemployment benefits – beginning of year	365,944	306,079
Net position held in trust for other postemployment benefits – end of year	\$ 320,635	365,944

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

**(1) Summary of Significant Accounting Policies**

The accounting methods employed by the Philadelphia Gas Works (the Company or PGW) are in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and are in conformity with reporting requirements for the City of Philadelphia (the City).

As described in note 2, the Company is accounted for as a component unit of the City, and consequently follows accounting principles promulgated by the Governmental Accounting Standards Board (GASB) as they apply to business type activities. Under the Regulated Operations guidance within GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB 62), assets or liabilities may be created by certain actions of regulatory bodies.

Philadelphia Gas Works' fiduciary activities are accounted for using the flow of economic resources measurement focus and accrual basis of accounting. Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position are accounted for in a fiduciary fund with investments recorded at fair value and benefits paid directly from its general resources on a pay-as-you-go basis.

The principal accounting policies within this framework are described as follows:

**(a) Regulation**

Pursuant to the passage of the Pennsylvania Natural Gas Choice and Competition Act (the Act), the Company came under the regulatory jurisdiction of the Pennsylvania Public Utility Commission (PUC). Under the PUC's jurisdiction, the Company filed a restructuring plan, which among other things, provided for an unbundled tariff permitting customer choice of the commodity supplier. Under the Act, the PUC is required to follow the same ratemaking methodology and requirements that were previously applicable to the Philadelphia Gas Commission (PGC) when determining the Company's revenue requirements and approving overall rates and tariffs. Tariff rates are designed to maintain revenue neutrality and the tariff rules and regulations are designed to comport with the Pennsylvania Public Utility Code. For additional information related to PGW's tariff and base rates, see note 1(d) Base Rates.

The PGC continues to approve the Company's Operating Budget and review its Capital Budget. The Company's Capital Budget must also be approved by Philadelphia City Council.

**(b) Operating Budget**

On May 11, 2023, PGW filed a proposed Fiscal Year (FY) 2024 Operating Budget with the PGC. The PGC Hearing Examiners conducted Informal Discovery (ID) sessions on May 25, 2023 and on June 5, 2023. On June 26, 2023, a public hearing was convened via Zoom. On July 18, 2023, a recommended decision was rendered by the Hearing Examiners, which proposed adjustments to the Operating Budget as filed. On August 8, 2023, the PGC approved, with adjustments, PGW's FY 2024 Operating Budget. PGW filed a Compliance Budget with the PGC on August 17, 2023.

On May 5, 2022, PGW filed a proposed FY 2023 Operating Budget with the PGC. The PGC Hearing Examiners conducted ID sessions on May 31, 2022 and on June 7, 2022. On June 29, 2022 a public hearing was convened via Zoom, due to the COVID-19 pandemic and related government shutdown

(Continued)



**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

orders. On July 22, 2022, a recommended decision was rendered by the Hearing Examiners, which proposed adjustments to the Operating Budget as filed. On August 9, 2022, the PGC approved, with adjustments, PGW's FY 2023 Operating Budget. PGW filed a Compliance Budget with the PGC on August 18, 2022.

**(c) Capital Budget**

On January 3, 2023, PGW filed with the PGC its proposed FY 2024 Capital Budget in the amount of \$212.4 million. After a due diligence review and related ID process on January 31, 2023 and February 14, 2023, a public hearing was held on March 7, 2023. The PGC's review culminated in the endorsement at a public hearing on March 31, 2023 of a FY 2024 Capital Budget in an amount not to exceed \$192.4 million. The endorsed budget was approved by City Council on June 22, 2023 and signed by the Mayor on July 12, 2023. On June 2, 2023 and July 24, 2023, PGW filed a request to the PGC to amend the FY 2024 Capital Budget to reauthorize three projects in the FY 2022 Capital Budget to extend the two-year lifespan to complete the projects, as well as two new projects to be added to the Capital Budget FY 2024 bringing the total Capital Budget to \$225.4 million. On September 12, 2023, the PGC endorsed PGW's request to amend the FY 2024 Capital Budget. PGW is awaiting final approval by City Council and Mayor.

On January 3, 2022, PGW filed with the PGC its proposed FY 2023 Capital Budget in the amount of \$190.2 million. After a due diligence review and related ID process on February 9, 2022 and February 16, 2022, a public hearing was held on March 8, 2022. The PGC's review culminated in the endorsement at a public hearing on April 26, 2022 of the FY 2023 Capital Budget in an amount not to exceed \$187.4 million. The endorsed budget was approved by City Council on June 23, 2022 and signed by the Mayor on June 27, 2022. On May 10, 2022 and August 4, 2022, PGW filed a request to the PGC to amend the FY 2023 Capital Budget to reauthorize four projects in the FY 2021 Capital Budget to extend the two-year lifespan to complete the projects. On October 11, 2022, the PGC approved PGW's request to amend the FY 2023 Capital Budget for the reauthorization of the four projects in the FY 2021 Capital Budget. The amended budget was approved by City Council on March 23, 2023, and signed by the Mayor on April 12, 2023.

**(d) Base Rates**

On February 27, 2023, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce \$85.8 million, or 10.3%, in additional annual operating revenues based upon a twenty-year normal weather assumption. The filing also requested to increase the fixed monthly customer charge component as well as the volumetric delivery charge component of base rates.

PGW and all other rate case parties did not reach a settlement agreement, leading to litigation of the rate case issues. On September 5, 2023, the Administrative Law Judges (ALJ) issued their Recommended Decision for a \$22.3 million, or 2.7%, increase over present rates. On September 15, 2023, PGW submitted Exceptions to the ALJ's Recommended Decision.

On November 9, 2023, the PUC entered its Order and Opinion in the case, which approved an annual operating revenue increase of \$26.2 million, or 3.15% over present rates. The Order and Opinion granted, in part, exceptions filed by the Office of Consumer Advocate (OCA), the Grays Ferry

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

Cogeneration Partnership and Vicinity Energy Philadelphia, the Philadelphia Industrial and Commercial Gas Users Group (PICGUG), and PGW. PGW filed the new tariff November 28, 2023 with rate increase for service rendered on or after November 29, 2023.

**(e) Weather Normalization Adjustment Clause**

The Weather Normalization Adjustment (WNA) Clause was approved by the PUC. The purpose of the WNA Clause is to neutralize the impact of weather on the Company's revenues. This allows the Company to achieve the recovery of appropriate costs as authorized by the PUC. The WNA Clause results in neither a rate increase nor a rate decrease but acts as a billing adjustment. The main benefits of the WNA Clause are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA Clause adjustment is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The WNA Clause adjustment for the years ended August 31, 2023 and 2022 was an increase in billings of \$32.4 million and \$23.2 million, respectively.

On April 27, 2023, PGW filed an Emergency Petition to revise its Gas Service Tariff, effective May 1, 2023, eliminating all May 2023 usage for residential and commercial customers from the WNA calculation. On April 28, 2023, the PUC approved the Emergency Petition to allow PGW to remove May 2023 usage from the formula used currently for the Company's approved WNA clause. As a result of the PUC ruling, no WNA charges or credits were assessed on residential and commercial customers relating to May 2023 usage.

For the year ended August 31, 2022, an anomaly occurred in the application of the WNA, which caused approximately \$12.8 million of additional billings. This produced unusually large and unanticipated charges to customers in the majority of billing cycles with May usage. PGW filed a petition with the PUC seeking to reverse the WNA charges that were applied to May billings and the petition was approved by the PUC. The \$12.8 million of additional billings were reversed and are not included in the FY 2022 WNA adjustment of \$23.2 million.

**(f) Gas Cost Rate**

The Company's single greatest operating expense is the cost of natural gas. The rate charged to the Company's customers to recover these costs is called the Gas Cost Rate (GCR). The GCR reflects the increases or decreases in natural gas costs and other applicable GCR costs. This GCR mechanism provides the flexibility to rapidly reflect current conditions without the time delay inherent in full base rate alteration. The intent is to achieve an annual balance between the costs incurred for fuel and their pass-through to customers.

At the end of the fiscal year, costs recovered through the GCR and surcharges are compared to the actual cost of fuel and other applicable costs. Customers are then credited or charged for the over recovery or under recovery of costs. The GCR and surcharges charge or credit may be updated quarterly or in the subsequent fiscal year to reflect the under recovery or over recovery. Changes in the GCR impact the reported amounts of gas revenues but do not affect operating income or net income because they are passed through to the customer without markup. At August 31, 2023, approximately \$44.6 million was recorded in other current liabilities for the over recovery of the GCR and surcharges. At August 31, 2022, approximately \$6.3 million was recorded in other current assets for the under

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

recovery of the GCR and surcharges. The GCR comprises the purchased gas costs plus the gas adjustment charge minus the interruptible revenue credit.

**GCR Effective Dates and Rates**

(Amounts in U.S. dollars)

Effective date	GCR rate per Mcf*	Change
December 1, 2023	\$ 4.0030	0.4974
September 1, 2023	3.5056	(0.0460)
June 1, 2023	3.5516	(1.4224)
March 1, 2023	4.9740	(3.0502)
December 1, 2022	8.0242	(0.6129)
September 1, 2022	8.6371	(0.3686)
June 1, 2022	9.0057	3.3934
March 1, 2022	5.6123	(0.3977)
December 1, 2021	6.0100	1.1355
September 1, 2021	4.8745	(0.2017)

\*Mcf – thousand cubic feet

**(g) Utility Plant**

Utility plant is stated at original cost. The cost of additions, replacements, and betterments of units of property is capitalized and included in the utility plant accounts in the balance sheets. The cost of property sold or retired is removed from the utility plant accounts and accumulated depreciation. Normal repairs, maintenance, the cost of minor property items, and expenses associated with retirements are charged to operating expenses as incurred.

In a previous rate order, the PGC disallowed the accrual of the net negative salvage component in depreciation. Cost of removal in the amounts of \$9.2 million and \$5.4 million was charged to expense as incurred in FY 2023 and FY 2022, respectively, and is included in depreciation in the statements of revenues and expenses and changes in net position. Depreciation is calculated on an asset-by-asset basis on the estimated useful lives of plant and equipment on a straight-line method. The composite rate for both FY 2023 and FY 2022 was 2.1%. The composite rates are supported by a depreciation study of utility plant as of August 2020. The effective composite depreciation rates, as a percentage of cost, for FY 2023 were as follows:

Production plant	1.3 %
Transmission, distribution, and storage	1.9 %
General plant	3.1 %

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

The most recent depreciation study was completed in FY 2020 for the plant activity subsequent to the last depreciation study and through FY 2019. It is anticipated that PGW will complete the next depreciation study in FY 2025 for the plant activity subsequent to the last depreciation study and through FY 2024.

Allowance for Funds Used During Construction (AFUDC) is an estimate of the cost of funds used for construction purposes. The AFUDC, as calculated on borrowed funds, reduces interest expense. In FY 2022, PGW implemented GASB 89 which required interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred. Beginning on September 1, 2021, PGW no longer capitalizes AFUDC. PGW did not retrospectively apply the new GASB for FY 2021 and prior.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2023 and 2022 (thousands of U.S. dollars):

	<b>August 31, 2023</b>			
	<b>Beginning balance</b>	<b>Additions and transfers</b>	<b>Retirements and transfers</b>	<b>Ending balance</b>
Capital assets not being depreciated:				
Land	\$ 5,595	—	—	5,595
Under construction	141,469	150,225	(129,943)	161,751
Total capital assets not being depreciated	<u>147,064</u>	<u>150,225</u>	<u>(129,943)</u>	<u>167,346</u>
Other capital assets:				
Distribution and collection systems	2,213,798	98,652	(1,915)	2,310,535
Buildings and equipment (including software)	591,502	31,457	(36,620)	586,339
Leased assets	1,202	79,746	(597)	80,351
Software subscription assets	8,438	620	(923)	8,135
Total other capital assets	<u>2,814,940</u>	<u>210,475</u>	<u>(40,055)</u>	<u>2,985,360</u>
Less accumulated depreciation for:				
Distribution and collection systems	(1,035,533)	(44,241)	1,312	(1,078,462)
Buildings and equipment (including software)	(263,755)	(14,253)	26,792	(251,216)
Leased assets	(854)	(2,231)	597	(2,488)
Software subscription assets	(4,053)	(1,941)	923	(5,071)
Total accumulated depreciation	<u>(1,304,195)</u>	<u>(62,666)</u>	<u>29,624</u>	<u>(1,337,237)</u>
Utility plant, net	<u>\$ 1,657,809</u>	<u>298,034</u>	<u>(140,374)</u>	<u>1,815,469</u>

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)

Notes to Basic Financial Statements

August 31, 2023 and 2022

- \* Cost of removal of approximately \$9.2 million was charged to depreciation as incurred in FY 2023 and is not included in accumulated depreciation.

	<b>August 31, 2022</b>			
	<b>Beginning balance</b>	<b>Additions and transfers</b>	<b>Retirements and transfers</b>	<b>Ending balance</b>
Capital assets not being depreciated:				
Land	\$ 5,595	—	—	5,595
Under construction	105,321	151,129	(114,981)	141,469
Total capital assets not being depreciated	110,916	151,129	(114,981)	147,064
Other capital assets:				
Distribution and collection systems	2,110,072	107,329	(3,603)	2,213,798
Buildings and equipment (including software)	584,388	8,246	(1,132)	591,502
Leased assets	2,541	118	(1,457)	1,202
Software subscription assets	—	8,438	—	8,438
Total other capital assets	2,697,001	124,131	(6,192)	2,814,940
Less accumulated depreciation for:				
Distribution and collection systems	(991,131)	(42,791)	(1,611)	(1,035,533)
Buildings and equipment (including software)	(248,382)	(14,969)	(404)	(263,755)
Leased assets	(1,696)	(615)	1,457	(854)
Software subscription assets	—	(4,053)	—	(4,053)
Total accumulated depreciation	(1,241,209)	(62,428)	(558)	(1,304,195)
Utility plant, net	\$ 1,566,708	212,832	(121,731)	1,657,809

- \* Cost of removal of approximately \$5.4 million was charged to depreciation as incurred in FY 2022 and is not included in accumulated depreciation.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

The following is a summary of the amount of lease assets by major classes of assets as of August 31, 2023 and 2022 (thousands of U.S. dollars):

	<b>Ending balance as of August 31,</b>	
	<b>2023</b>	<b>2022</b>
Lease equipment	\$ 2,399	1,101
Less accumulated depreciation	(929)	(759)
Total lease equipment, net	1,470	342
Lease building	77,952	101
Less accumulated depreciation	(1,559)	(95)
Total lease building, net	76,393	6
Total lease assets less accumulated depreciation	\$ 77,863	348

**(h) Revenue Recognition**

The Company is primarily a natural gas distribution company. Operating revenues include revenues from the sale of natural gas to residential, commercial, and industrial heating and non-heating customers. The Company also provides natural gas transportation services on behalf of outside natural gas providers. Appliance and other revenues primarily consist of revenue from the Company's parts and labor repair program. Revenue from this program is recognized on a monthly basis for the life of the individual parts and labor plans. Additional revenue is generated from collection fees, reconnection charges, and bulk liquefied natural gas sales contracts. Other operating revenues primarily consist of finance charges assessed on delinquent accounts.

In 2012, Act 11 was enacted by the Pennsylvania Legislature, which permitted public utilities to file a request with the PUC for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC permits natural gas distribution companies to recover the costs related to main and service replacement not already recovered in base rates. This legislation provides utility companies with a supplemental recovery mechanism for costs related to incremental/accelerated distribution system repair, improvement, and replacement. Act 11 permits gas utilities to recover 5.0% of their nongas revenues via the recovery mechanism and permits greater percentage increases if the PUC approves. The Company started billing customers a DSIC surcharge as of July 1, 2013. On September 1, 2015, PGW proposed an increase in the DSIC from 5.0% to 7.5% of distribution revenues and to levelize and annualize the DSIC. The PUC issued an Order and Opinion granting PGW's request to increase its DSIC to 7.5% on January 28, 2016 which went into effect on February 1, 2016. In FY 2023 and FY 2022, the Company billed customers \$34.6 million and \$36.8 million for the DSIC surcharge, respectively. The DSIC surcharge is fully reconcilable on a calendar year basis.

The Company bills customers for the cost of natural gas and the related costs incurred through the processing, distribution, and delivery of natural gas to residential, commercial, and industrial heating and non-heating customers.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

Revenues include amounts related to gas that has been used by customers but has not yet been billed. Revenues are recognized as gas is distributed. Estimated revenues from gas distributed and unbilled, less estimated uncollectible amounts are accrued and included in operating revenues on the statements of revenues and expenses and changes in net position and were \$8.6 million and \$11.3 million for the years ended August 31, 2023 and 2022, respectively.

**(i) Operating Expenses**

The Company recognizes costs incurred as part of the Company's regular business activities on the statements of revenues and expenses and changes in net position as operating expenses. These costs include field operations, marketing, gas processing, and other similar costs.

Costs incurred that do not involve normal business operations are recognized as nonoperating expenses.

**(j) Provision for Uncollectible Accounts**

The Company estimates its accumulated provision for uncollectible accounts based on a financial analysis and a collectability study performed as of the fiscal year end. For FY 2023 and FY 2022, management has provided an accumulated provision for uncollectible accounts in excess of the collectability study results based on its analysis of historical aging data. The actual results of the Company's collection efforts could differ significantly from the Company's estimate.

Due to the seasonal nature of the business, the Company carries credit balances in accounts receivable primarily as a result of prepayment by budget customers. Credit balances of \$28.2 million and \$32.1 million as of August 31, 2023 and 2022, respectively, have been reclassified to accounts payable in the balance sheets.

**(k) Gas Inventories, Materials, and Supplies**

Gas inventories, materials, and supplies, consisting primarily of fuel stock, gas stored to meet peak demand requirements, and spare parts, are stated at average cost at August 31, 2023 and 2022, as follows (thousands of U.S. dollars):

	<b>2023</b>	<b>2022</b>
Gas inventory	\$ 65,315	81,467
Material and supplies	14,139	11,409
Total	\$ 79,454	92,876

**(l) Unamortized Bond Insurance Costs, Debt Discount, and Premium**

Discounts or premiums and bond insurance costs arising from the sale of revenue bonds are amortized using the interest method over the term of the related bond issue. Other costs of bond issuance are expensed as incurred.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

***(m) Unamortized Losses on Bond Refunding***

Gains and losses on bond refunding are recorded as deferred inflows of resources and deferred outflows of resources, respectively, and amortized, using the interest method, to interest expense over the shorter of the life of the refunding bond issue or the remaining original amortization period.

***(n) Pensions and Postemployment Benefits***

As described in note 10, the City sponsors a single employer defined benefit pension plan, the Philadelphia Gas Works Pension Plan (the Pension Plan), to provide pension benefits for certain current and former PGW employees and their beneficiaries. As described in note 11, PGW sponsors a single employer defined benefit healthcare plan, the Philadelphia Gas Works OPEB Plan (the OPEB Plan), to provide postemployment healthcare and life insurance benefits to substantially all current and former PGW employees and their beneficiaries.

In May 2010, the PUC approved a surcharge proposed by PGW to fund its OPEB liability resulting in charges to customer bills of \$16.0 million annually, and required PGW to use that \$16.0 million and an additional \$2.5 million of its resources to contribute \$18.5 million to the Trust in each of the years 2011 through 2015. The Trust, which is irrevocable, was established on July 13, 2010 to receive these and other contributions from PGW. In July 2015, the PUC approved the continuance of the OPEB surcharge beyond August 31, 2015. The Trust is managed by five Trustees, consisting of the City of Philadelphia Director of Finance; the Chief Finance Officer of PGW; the Vice President of Human Resources of PGW; the Chair of the Finance Committee of the Philadelphia Facilities Management Corporation Board (PFMC), which serves as the Board of Directors for PGW; and the President of Gas Works Employees Union of Philadelphia, Local 686, representing the majority of PGW's bargaining unit employees. The Trust exists to accumulate assets for the Plan, and the Trust does not independently have the capacity to raise funds. Responsibility for determining and funding the benefits rests with PGW management.

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the Pension and OPEB Plans, and the Pension and OPEB Plans expense, information about the fiduciary net position of the Pension Plan and OPEB Plan, and additions to or deductions from the Pension and OPEB Plans' fiduciary net position are determined on the same basis as they are reported by the Pension and OPEB Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. With the exception of deferred outflows of resources related to employer contributions made after the measurement date, deferred inflows and outflows of resources related to the Pension and OPEB Plans are amortized over a closed five-year period or the average remaining service life of employees in the pension plan. Deferred outflows of resources related to employer contributions made after the measurement date will be recognized as a reduction of the net liability in the next fiscal year.

(Continued)



**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

**(o) Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly.
- Level 3 – pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity or involvement.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level that is significant to the entire measurement.

The categorization of a financial instrument within the hierarchy is based upon pricing transparency and is not necessarily an indication of the Company's perceived risk of that instrument.

The following is a description of the valuation methodologies used for investments measured at fair value:

- U.S. government obligations – The fair value of government obligations are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 1 inputs.
- U.S. government agencies and instrumentalities – The fair value of government agencies and instrumentalities are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 2 inputs.
- Corporate obligations – The fair value of corporate bonds are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 2 inputs.
- Foreign obligations – The fair value of foreign bonds are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 2 inputs.

**(p) Cash, Cash Equivalents, and Short-Term Investments**

For the purpose of reporting cash and cash equivalents, all highly liquid investments with original maturities of three months or less are considered cash equivalents, except those held for long-term purposes in the Sinking Fund Reserve, Workers' Compensation Escrow Fund, and Capital Improvement Fund as described in note 3.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

**(q) Reserve for Injuries and Damages**

The Company is principally insured through insurance carriers. However, the Company is required to cover settlement of claims, which are excluded under the provisions of such insurance policies. An estimated liability has been established, in accordance with PGC regulations, for settlements to be paid by the Company in the next fiscal year.

Estimated losses from claims for occurrences not covered by insurance, which will not be paid in the next fiscal year, have been accrued. Such liabilities have been established based upon Company history and consultation with counsel. Such expenses are expected to be recovered through future rates. Reductions to the reserve are made as claims are settled.

**(r) Segment Information**

All of the Company's assets and operations are employed in only one segment, local transportation, and distribution of natural gas in the City.

**(s) Pollution Remediation**

The Company estimates its pollution remediation obligation using the expected cash flow method, in which measurement is based on the outlays expected to be incurred as a sum of probability weighted amounts in a range of possible estimated amounts. The Company's liability is based on a combination of internal and external cost estimates for the specific remediation activities agreed to as part of Pennsylvania Act 2, Land Recycling and Environmental Remediation Standards Act of 1995 and Pennsylvania Act 32, Storage Tank and Spill Prevention Act of 1989.

Estimated site liabilities are determined based upon existing remediation laws and technologies, specific site consultants' engineering studies, or by extrapolating experience with environmental issues at comparable sites. Estimates may change substantially as additional information becomes available regarding the level of contamination at specific sites, available remediation methods, and changes in price, technology, proposed land use, or applicable regulations.

**(t) Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the Company's financial statements include the accumulated provision for uncollectible accounts, the fair value of interest rate swap agreements, the self-insurance liability, and the valuation of total pension and OPEB liabilities.

**(u) Pronouncements Effective in the Current Year**

GASB Statement No. 91, *Conduit Debt Obligation* (GASB 91), provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. Under this statement, a conduit obligation is defined as a debt instrument where (1) three parties involved, (2) the issuer and the third-party obligor are not within the same financial reporting

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

entity, (3) the debt obligation is a not parity bond of the issuer, nor is it cross collateralized with other debt, (the third-party obligor or its agent, not the issuer, receives the proceeds from the debt issuance, 5) the third-party obligor, not the issuer, is primary obligated for the payment of all amounts associated with the debt obligation. GASB 91 requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. As originally scheduled, certain accounting and financial reporting provisions of GASB 91 would have taken effect for periods beginning after December 15, 2020 (the Company's fiscal year ending August 31, 2023). GASB 95 postponed, the effective date of GASB 91 by twelve months and the requirements of GASB 91 have now taken effect for periods beginning after December 15, 2021 the Company's fiscal year ending August 31, 2023). The adoption of GASB 91 had no impact on PGW's current accounting practices nor its financial reporting.

GASB Statement No. 93, *Replacement of Interbank Offered Rates* (GASB 93), establishes accounting and financial reporting requirements related to the replacement of interbank offered rates (IBORs) in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate IBOR - most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either (a) changing the reference rate or (b) adding or changing fallback provisions related to the reference rate. As originally scheduled, certain accounting and financial reporting provisions of GASB 93 would have taken effect for periods beginning after June 15, 2020 (the Company's fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 93 by twelve months and the requirements of GASB 93 will now take effect for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). However, GASB Statement No. 99, *Omnibus* (GASB 99), offers an extension of the use of LIBOR. GASB 93 will now take effect for fiscal years beginning after June 15, 2023 (the Company's fiscal year ending August 31, 2024). The early adoption of GASB 93 did not have a material impact on the financial statements.

GASB Statement No. 94, *Public Private and Public Partnerships and Availability Payment Arrangements* (GASB 94), improves financial reporting by addressing issues related to public private and public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period, in an exchange or exchange like transaction. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period in an exchange or exchange like transaction. The requirements of this Statement are effective for periods beginning after June 15, 2022 (the Company's fiscal year ending August 31, 2023). The adoption of GASB 94 had no impact on PGW's current accounting practices nor its financial reporting.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

GASB Statement No. 96, *Subscription Based Information Technology Arrangements* (GASB 96), provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right to use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for periods beginning after June 15, 2022 (the Company’s fiscal year ending August 31, 2023). PGW’s 2022 audited financial statements have been restated to reflect both SBITA assets and SBITA liabilities related to its subscription activities.

As a result of the adoption of GASB 96, the following adjustments were made to the opening unrestricted net position as of September 1, 2021 (thousands of U.S. dollars):

	<b>Originally reported, August 31, 2021</b>	<b>As adjusted, September 1, 2021</b>
Utility plant, software subscription assets	\$ —	8,310
Accumulated depreciation, software subscription assets	—	(2,031)
Other current assets	12,738	11,697
Current portion of software subscription liabilities	—	(1,749)
Long-term software subscription liabilities	—	(3,626)
Net investment in capital assets	(591,091)	(597,498)
Unrestricted net position	251,462	258,006

For the year ended August 31, 2022, previously reported amounts on the Statements of Revenues and Expenses and Changes in Net Position changed as a result of the implementation of GASB 96 as follows (thousands of U.S. dollars):

	<b>Originally reported, August 31, 2022</b>	<b>As adjusted, August 31, 2022</b>
Field operations	\$ 80,640	79,542
Customer services	13,996	12,825
Administrative and general	64,982	64,535
Depreciation	70,319	72,342
Other interest expense	(7,693)	(7,447)

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

As of and for the year ended August 31, 2022, previously reported amounts on the balance sheet changed as a result of the implementation of GASB 96 as follows (thousands of U.S. dollars):

	<u>Originally reported, August 31, 2022</u>	<u>As adjusted, August 31, 2022</u>
Other current assets	\$ 16,640	16,191
Utility plant, software subscription assets	—	8,438
Accumulated depreciation, software subscription assets	—	(4,053)
Current portion of software subscription liabilities	—	(1,856)
Long-term software subscription liabilities	—	(1,770)
Net investment in capital assets	(674,529)	(678,913)
Unrestricted net position	159,345	163,419

**(v) Pronouncements Effective in Future Years**

(i) *Effective for the Year Ending August 31, 2024*

GASB Statement No. 99, *Omnibus* (GASB 99), establishes or amends accounting and financial reporting requirements for specific issues related to financial guarantees, derivative instruments, leases, public-public and public-private partnerships (PPPs), subscription-based information technology arrangements (SBITAs), the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP) (formerly, food stamps), nonmonetary transactions, pledges of future revenues, the focus of government-wide financial statements, and terminology. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023. (the Company's fiscal year ending August 31, 2024). The Company early adopted financial reporting requirements regarding SBITAs and LIBOR and is currently evaluating the impact of the remaining parts of GASB 99 on its financial statements.

GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62* (GASB 100), supersedes Statement No. 62 and establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements (error correction). The requirements of this Statement do not apply to the initial application of U.S. generally accepted accounting principles (GAAP) established by the GASB as a financial reporting framework in circumstances in which a government is asserting for the first time that its financial statements are prepared in accordance with U.S. GAAP established by the GASB. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023. (the Company's fiscal year ending August 31, 2024). The Company is currently evaluating the impact of GASB 100 on its financial statements.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

(ii) *Effective for the Year Ending August 31, 2025*

GASB Statement No. 101, *Compensated Absences* (GASB 101), establishes standards of accounting and financial reporting for (a) compensated absences and (b) associated salary-related payments, including certain defined contribution pensions and defined contribution other postemployment benefits (OPEB). The requirements of this Statement apply to the financial statements of all state and local governments. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023. (the Company's fiscal year ending August 31, 2025). The Company is currently evaluating the impact of GASB 101 on its financial statements.

**(2) Ownership and Management and Related-Party Transactions and Balances**

The Company is accounted for as a component unit of the City. As of January 1, 1973, under the terms of a two-year agreement automatically extended for successive two-year periods unless canceled upon 90 days' notice by the City, the Company is being managed by the Philadelphia Facilities Management Corporation (PFMC). The agreement, as amended, provides for reimbursement to PFMC of actual costs incurred in managing the Company, not to exceed a total of the prior fiscal year's maximum amount adjusted to reflect the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U) All Items Index, Philadelphia, Pennsylvania, United States Department of Labor, Bureau of Labor Statistics, as most recently published and available to the Director of Finance of the City on March 1 of each such fiscal year. In FY 2023 and FY 2022, the applicable maximum amount was calculated to be \$1.6 million and \$1.5 million, respectively. The agreement requires the Company to make annual payments of \$18.0 million to the City. In FY 2023 and FY 2022, the Company made the annual payment of \$18.0 million to the City.

The Company engages in various other transactions with the City. The Company provides gas service to the City. Operating revenues include \$30.2 million and \$27.1 million in FY 2023 and FY 2022, respectively, relating to sales to the City. Net amounts receivable from the City were \$12.9 million and \$2.5 million at August 31, 2023 and 2022, respectively. Water and sewer services and licenses are purchased from the City. Such purchases totaled \$1.5 million and \$1.8 million in FY 2023 and FY 2022, respectively.

Certain activities of the PGC are paid for by the Company. Such payments totaled \$1.0 million in FY 2023 and \$0.7 million in FY 2022.

**(3) Cash, Cash Equivalents, and Short-Term Investments**

**(a) Cash, Cash Equivalents, and Short-Term Investments**

Cash and cash equivalents consist primarily of bank deposits, money market accounts, and investments purchased through various brokerage relationships. Bank balances of such deposits, accounts, and investments at August 31, 2023 and August 31, 2022 were \$139.3 million and \$115.6 million, respectively. Book balances of such deposits and accounts at August 31, 2023 and August 31, 2022 were \$139.3 million and \$115.6 million, respectively. Short-term investments with a carrying amount (at fair value) of \$94.7 million and \$108.2 million at August 31, 2023 and August 31, 2022, respectively, are included in the balances presented above. Federal depository insurance on these balances at August 31, 2023 and August 31, 2022 was \$0.4 million and \$0.7 million, respectively.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

The remaining balances are not insured. Investments are primarily in money market accounts, Treasury Obligations, U.S. government agencies and instrumentalities, and corporate obligations (short-term investments).

The following is a schedule that details the Company's short-term investments and investment maturities (thousands of U.S. dollars):

Investment type	2023 Investment Maturities (In Years)				
	Fair value	<1	1-5	6-10	>10
Treasury obligations	\$ 41,636	41,636	—	—	—
U.S. government agencies	17,906	17,906	—	—	—
Corporate obligations	4,992	4,992	—	—	—
Commercial paper	30,172	30,172	—	—	—
Total fair value of investments	\$ 94,706	94,706	—	—	—

Investment type	2022 Investment Maturities (In Years)				
	Fair value	<1	1-5	6-10	>10
Treasury obligations	\$ 65,306	65,306	—	—	—
U.S. government agencies	18,957	18,957	—	—	—
Commercial paper	22,670	22,670	—	—	—
Money market mutual funds	1,256	N/A	N/A	N/A	N/A
Total fair value of investments	\$ 108,189	106,933	—	—	—

The following table is a schedule that details the fair value hierarchy of the Company's short-term investments (thousands of U.S. dollars):

Investment type	August 31, 2023			
	Total fair value	Level 1	Level 2	Level 3
Treasury obligations	\$ 41,636	41,636	—	—
U.S. government agencies	17,906	—	17,906	—
Corporate obligations	4,992	4,992	—	—
Commercial paper	30,172	30,172	—	—
Total fair value of investments	\$ 94,706	76,800	17,906	—

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

Investment type	August 31, 2022			
	Total fair value	Level 1	Level 2	Level 3
Treasury obligations	\$ 65,306	65,306	—	—
U.S. government agencies	18,957	—	18,957	—
Commercial paper	22,670	22,670	—	—
Money market mutual funds	1,256	1,256	—	—
Total fair value of investments	\$ 108,189	89,232	18,957	—

**(b) Sinking Fund Reserve, Capital Improvement Fund, and Workers' Compensation Escrow**

The investments in the Company's Sinking Fund Reserve, Capital Improvement Fund and Workers' Compensation Escrow Fund consist primarily of U.S. Treasury and government agency obligations, corporate obligations, municipal obligations, and money market accounts. These investments are maintained by the City or in the Company's name by its agent.

The Sinking Fund Reserve is required by bond ordinance to hold an amount equal to the greatest amount of debt service required by bonds secured by the Sinking Fund Reserve in any fiscal year. The balance of the Company's Sinking Fund Reserve at August 31, 2023 and 2022 was \$109.6 million and \$106.2 million, respectively. Interest income on these funds, to the extent not drawn, is reflected as an increase in the Sinking Fund Reserve and approximated \$1.3 million in FY 2023 and \$0.2 million in FY 2022.

The balance in the Capital Improvement Fund at August 31, 2023 and 2022 was \$43.7 million and \$112.7 million, respectively. Interest income on these funds, to the extent not drawn, is reflected as an increase in the Capital Improvement Fund and was approximately \$1.0 million in FY 2023 and \$0.4 million in FY 2022. PGW withdrew \$81.0 million during FY 2023 and \$72.0 million during FY 2022 to finance various capital projects.

Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has established and maintained a restricted trust account. As of August 31, 2023 and 2022, the trust account balances were \$2.8 million and \$2.7 million, respectively.

Investments are recorded at fair value except for certain money market funds recorded at amortized cost. The adjustment to the fair value for the Sinking Fund Reserve, Capital Improvement Fund, and Workers' Compensation Escrow Fund resulted in gains/(losses) of \$3.2 million and (\$2.2) million in FY 2023 and FY 2022, respectively.

(Continued)



**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)

Notes to Basic Financial Statements

August 31, 2023 and 2022

The following tables are schedules that detail the Company's investments and investment maturities in the Sinking Fund Reserve (thousands of U.S. dollars):

Investment type	Fair value	2023 Investment Maturities (In Years)			
		<1	1-5	6-10	>10
Treasury obligations	\$ 27,824	20,998	6,826	—	—
U.S. government agencies	42,250	12,972	29,278	—	—
Corporate obligations	8,241	5,421	2,820	—	—
Foreign obligations	3,442	2,021	1,421	—	—
Commercial paper	27,610	27,610	—	—	—
Money market mutual funds	214	N/A	N/A	N/A	N/A
Total fair value of investments	\$ 109,581	69,022	40,345	—	—

Investment type	Fair value	2022 Investment Maturities (In Years)			
		<1	1-5	6-10	>10
Treasury obligations	\$ 57,470	—	57,470	—	—
U.S. government agencies	18,752	2,457	16,295	—	—
Corporate obligations	13,250	13,250	—	—	—
Commercial paper	15,019	15,019	—	—	—
Money market mutual funds	1,697	N/A	N/A	N/A	N/A
Total fair value of investments	\$ 106,188	30,726	73,765	—	—

The following tables are schedules that detail the Company's investments and investment maturities in the Capital Improvement Fund (thousands of U.S. dollars):

Investment type	Fair value	2023 Investment Maturities (In Years)			
		<1	1-5	6-10	>10
Treasury obligations	\$ 42,784	42,784	—	—	—
Commercial paper	900	900	—	—	—
Money market mutual funds	46	N/A	N/A	N/A	N/A
Total fair value of investments	\$ 43,730	43,684	—	—	—

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)

Notes to Basic Financial Statements

August 31, 2023 and 2022

Investment type	Fair value	2022 Investment Maturities (In Years)			
		<1	1-5	6-10	>10
Treasury obligations	\$ 80,456	80,456	—	—	—
Corporate obligations	3,729	3,729	—	—	—
Foreign obligations	250	250	—	—	—
Municipal obligations	6,147	6,147	—	—	—
Commercial paper	13,947	13,947	—	—	—
Money market mutual funds	8,144	N/A	N/A	N/A	N/A
Total fair value of investments	\$ 112,673	104,529	—	—	—

The following is a schedule that details the Company's investments and investment maturities in the Workers' Compensation Escrow Fund (thousands of U.S. dollars):

Investment type	Fair value	2023 Investment Maturities (In Years)			
		<1	1-5	6-10	>10
Treasury obligations	\$ 2,656	2,656	—	—	—
Money market mutual funds	113	N/A	N/A	N/A	N/A
Total fair value of investments	\$ 2,769	2,656	—	—	—

Investment type	Fair value	2022 Investment Maturities (In Years)			
		<1	1-5	6-10	>10
Treasury obligations	\$ 2,666	2,666	—	—	—
Money market mutual funds	1	N/A	N/A	N/A	N/A
Total fair value of investments	\$ 2,667	2,666	—	—	—

The following tables are schedules that detail the fair value hierarchy of the Company's investments in the Sinking Fund Reserve (thousands of U.S. dollars):

Investment type	August 31, 2023			
	Total fair value	Level 1	Level 2	Level 3
Treasury obligations	\$ 27,824	27,824	—	—
U.S. government agencies	42,250	—	42,250	—
Corporate obligations	8,241	—	8,241	—
Foreign obligations	3,442	—	3,442	—
Commercial paper	27,610	27,610	—	—
Money market mutual funds	214	214	—	—
Total fair value of investments	\$ 109,581	55,648	53,933	—

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)

Notes to Basic Financial Statements

August 31, 2023 and 2022

<b>August 31, 2022</b>				
<b>Investment type</b>	<b>Total fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Treasury obligations	\$ 57,470	57,470	—	—
U.S. government agencies	18,752	—	18,752	—
Corporate obligations	13,250	—	13,250	—
Commercial paper	15,019	15,019	—	—
Money market mutual funds	1,697	1,697	—	—
Total fair value of investments	\$ 106,188	74,186	32,002	—

The following table is a schedule that details the fair value hierarchy of the Company's investments in the Capital Improvement Fund (thousands of U.S. dollars):

<b>August 31, 2023</b>				
<b>Investment type</b>	<b>Total fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Treasury obligations	\$ 42,784	41,884	900	—
Commercial paper	900	900	—	—
Money market mutual funds	46	46	—	—
Total fair value of investments	\$ 43,730	42,830	900	—

<b>August 31, 2022</b>				
<b>Investment type</b>	<b>Total fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Treasury obligations	\$ 80,456	80,456	—	—
Corporate obligations	3,729	—	3,729	—
Foreign obligations	250	—	250	—
Municipal obligations	6,147	—	6,147	—
Commercial paper	13,947	13,947	—	—
Money market mutual funds	8,144	8,144	—	—
Total fair value of investments	\$ 112,673	102,547	10,126	—

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

The following tables are schedules that detail the fair value hierarchy of the Company's investments in the Workers' Compensation Escrow Fund (thousands of U.S. dollars):

August 31, 2023				
Investment type	Total fair value	Level 1	Level 2	Level 3
Treasury obligations	\$ 2,656	2,656	—	—
Money market mutual funds	113	113	—	—
Total fair value of investments	\$ 2,769	2,769	—	—

August 31, 2022				
Investment type	Total fair value	Level 1	Level 2	Level 3
Treasury obligations	\$ 2,666	2,666	—	—
Money market mutual funds	1	1	—	—
Total fair value of investments	\$ 2,667	2,667	—	—

**(c) Interest Rate Risk**

It is the policy of the City to diversify its investment portfolios. Portfolio diversification is employed as a way to control risk. Investments shall be diversified as to maturities and as to kind of investments to minimize the risk of loss, which might result from over concentration of assets in a specific maturity, in a specific kind of a security, or from a specific issuer or industry.

**(d) Credit Risk**

The City has adopted an investment policy relating to the investments of the Company. Per the investment policy, the Company's allowable investments are as follows:

- Bonds or notes of the U.S. government.
- U.S. Treasury obligations, including separate trading of registered interest and principal securities; receipts indicating an undivided interest in such U.S. Treasury obligations; and stripped coupons held under book entry with the New York Federal Reserve Bank.
- Investments in U.S. treasury and U.S. agency floating rate securities are allowed. The maturity limitation is two years and ten days from the trade date.
- Obligations of the following U.S. government sponsored agencies: Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit System, Federal Home Loan Bank, Resolution Funding Corporation, and Tennessee Valley Authority.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

- Collateralized banker's acceptances and certificate of deposit denominated in U.S. dollars and issued by a city code authorized depository certificates of deposit that must be secured by acceptable collateral with a total market value equal to 102.0% of the deposit.
- Commercial paper with a stated maturity of 397 days or less, which is rated P1 by Moody's or A1+ by Standard & Poor's (S&P). The senior long-term debt of the commercial paper issuer, or the entity providing an explicit guarantee, must be rated not lower than A2 by Moody's or A by S&P.
- Asset backed commercial paper (ABCP), which does not have a long-term rating, is an allowable investment if it meets the short-term rating requirements but is only allowed up to the ABCP sublimit.
- General obligation bonds of corporations rated Aa2 or better by Moody's or AA or better by S&P with a final maturity of two years or less.
- Collateralized mortgage obligations and pass through securities directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States and with a final maturity of two years or less, the rating must be no lower than Aa2 by Moody's or AA by S&P.
- Money market mutual funds, as defined by the Securities and Exchange Commission, such money market funds must have assets over \$15.0 billion, have the highest rating from Moody's, S&P, and Fitch, and contain only government securities.
- Repurchase agreements that are fully collateralized in bonds or notes of the U.S. government pledged to the City and held in the City's name and deposited at the time the investment is made with an entity or a third-party selected and approved by the City the market value of the collateral shall be at least 102.0% of the funds being disbursed.
- Obligations of the Commonwealth of Pennsylvania (the Commonwealth) or any municipality or other political subdivision of the Commonwealth with a final maturity of two years or less and a rating of at least 'A' by Moody's or S&P provided that the entity has no NSRO taking lower than 'A'.

The Company's investments as of August 31, 2023 and 2022 were in compliance with the investment policy and were at investment grade or better.

Authorized investments for Sinking Fund Portfolios are dictated by the First Class City Revenue Bond Act of the General Assembly of the Commonwealth of Pennsylvania, approved October 18, 1972. This also includes any investment vehicle permitted for any Commonwealth state agency.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

The Company's investment policy provides for the following percentage limitations of authorized investments, valued at market:

	<u>Percent of portfolio allowed</u>	<u>Percent of portfolio per issuer</u>	<u>Percent of outstanding securities per issuer</u>
U.S. government Treasury obligations	100	100	N/A
U.S. agencies and instrumentalities	100	33	N/A
Banker's acceptances and certificates of deposit	15	3	3
Commercial paper	30	3	3
Corporate bonds	30	3	3
Collateralized mortgage obligations and pass-through securities	5	3	3
Commonwealth of PA and subdivisions of Commonwealth of PA	15	3	3
Money market mutual funds	25	10	3
Repurchase agreements	25	10	N/A

Approximately 94.7% of the Company's short-term investments as of August 31, 2023 are in the following: U.S. Treasury bills (44.0%), Commercial Paper (31.9%), and Federal Home Loan Bank Bonds (18.9%). These investments are in accordance with the investment policy.

**(e) Custodial Credit Risk**

The Company has selected, as custodial bank, a member of the Federal Reserve System, to hold its investments. Delivery of the applicable investment documents to the Company's custodian is required for all investments. For secured transactions, such as repurchase agreements, either the title to or a perfected security interest in the securities, along with any necessary transfer documents, must be transferred to the custodian. Such transactions will always use delivery versus payment procedures.

**(4) Recoverable Costs**

In compliance with orders issued by the PGC, the cost of projects that produce benefits over an extended period is recorded on the balance sheets as a recoverable cost in other assets. There is no return on the asset being charged to the customers. The unamortized costs included in other noncurrent assets were \$0.6 million and \$0.2 million as of August 31, 2023 and 2022, respectively.

The Company has recognized the long-term portion of its environmental remediation liability as a regulatory asset, because based on available evidence, it is probable that the previously incurred costs will be recovered through rates. The Company estimates additional expenditures to be approximately \$23.6 million.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

The Company has recognized COVID-19 pandemic expenses as a regulatory asset because it is probable that the previously incurred costs will be recovered through rates. COVID-19 pandemic costs, provisions for uncollectible accounts, and waived reconnection and finance charges were de minimis in FY 2023 and \$0.1 million in FY 2022 and recorded on the balance sheets as a recoverable cost in other noncurrent assets. In May 2023, PGW received \$0.2 million from Federal Emergency Management Agency (FEMA) which was used to offset a portion of the pandemic expenses. In June 2022, PGW received \$2.0 million from Commonwealth of Pennsylvania which was used to offset a portion of the pandemic expenses. The recoverable pandemic costs reported in other noncurrent assets were \$30.5 million and \$30.7 million as of August 31, 2023 and 2022, respectively.

**(5) Deferred Compensation Plan**

The Company offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Company employees with at least 30 days of service, permits them to defer a portion of their salary until future years. The Company provides an annual 50.0% matching contribution of applicable wages, up to a maximum of \$1,000, that immediately vests to the employee. The Company contributed \$1.1 million and \$0.4 million in FY 2023 and in FY 2022, respectively. PGW's contributions are accounted for as part of administrative and general expenses on the statements of revenues and expenses and changes in net position.

**(6) Notes Payable**

Pursuant to the provisions of the City of Philadelphia Note Ordinances, PGW may issue short-term notes to either support working capital requirements or pay the costs of certain capital projects and other project costs. PGW may issue short-term notes in a principal amount, which, together with interest, may not exceed \$150.0 million outstanding to support working capital requirements. PGW may also issue additional short-term notes in an aggregate principal amount, which may not exceed \$120.0 million outstanding at any time to pay the costs of certain capital projects and other project costs. All notes are supported by a Note Purchase and Credit Agreement and a security interest in PGW's revenues. The Note Purchase and Credit Agreement supporting PGW's combined commercial paper programs set the maximum level of outstanding notes plus interest at \$120.0 million in both 2023 and 2022. The commitment amount is \$120.0 million under the current credit agreement. The expiration date of the credit agreement is June 16, 2026.

There were no Gas Works Revenue Capital Project Commercial Paper Notes (Capital Project Notes) or Gas Works Revenue Notes outstanding at August 31, 2023 and 2022.

**(7) GCR Tariff Reconciliation**

During the fiscal year ended August 31, 2023, the Company's actual gas costs were lower than its billed gas costs by approximately \$47.1 million. This amount was netted with other applicable costs and recorded in other current liabilities on the balance sheet at August 31, 2023. Actual gas costs were \$5.8 million higher than billed gas costs in FY 2022. This amount was netted with other applicable costs and recorded in other current assets on the balance sheet at August 31, 2022.

(Continued)





**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

**(a) Principal Maturities and Scheduled Interest and Swap Payments**

Principal maturities and scheduled interest payments for revenue bonds and estimated payments on the interest rate swaps are as follows (thousands of U.S. dollars):

	<b>Revenue bonds</b>			<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Net swap amount</b>	
Fiscal year ending				
August 31:				
2024	\$ 60,255	44,117	(152)	104,220
2025	56,480	41,248	(126)	97,602
2026	58,975	38,634	(98)	97,511
2027	59,850	35,907	(68)	95,689
2028	62,570	33,198	(35)	95,733
2029–2033	186,525	132,804	—	319,329
2034–2038	197,690	85,976	—	283,666
2039–2043	122,730	49,708	—	172,438
2044–2048	113,530	21,783	—	135,313
2049–2050	24,645	1,864	—	26,509
Total	<u>\$ 943,250</u>	<u>485,239</u>	<u>(479)</u>	<u>1,428,010</u>

This table assumes that there are no draws on letters of credit supporting variable rate debt issuances resulting in bank bonds. Bank bonds are subject to accelerated payment terms and increased interest rates. Variable rate debt issuances represent \$152.8 million of the outstanding principal at August 31, 2023.

Future debt service is calculated using rates in effect at August 31, 2023 for variable rate bonds, which ranged from 2.96% to 4.47% in the month of August. The variable bond rate was 4.01% as of August 31, 2023. The variable rate received under the swaps is 70% of one month Secured Overnight Financing Rate (SOFR) plus 0.0801% until maturity, which was 3.80% at August 31, 2023.

**(b) Bond Issuances – Refunding of Bonds and Defeasance of Bonds**

*(i) Tenth Series Bonds (1998 Ordinance) Defeasance*

The Company's Eight Series B variable rate bonds are backed by an irrevocable letter of credit, which had an original stated expiration date of August 24, 2024. On July 21, 2022, this letter of credit was extended for an additional four year term from the original stated expiration date resulting in a new stated expiration date of August 12, 2028.

The Company's Eight Series C variable rate bonds are backed by an irrevocable letter of credit. The existing letter of credit was scheduled to expire on September 1, 2022. On July 21, 2022, a replacement letter of credit was issued with an expiration date of August 12, 2028.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

The Company's Eight Series D variable rate bonds are backed by an irrevocable letter of credit, which had an original stated expiration date of August 12, 2023. On July 21, 2022, this letter of credit was extended for an additional five year term from the original stated expiration date resulting in a new stated expiration date of August 12, 2028.

The Company's Eight Series E variable rate bonds are backed by an irrevocable letter of credit, which had an original stated expiration date of August 1, 2024. On July 21, 2022, this letter of credit was extended for an additional four year term from the original stated expiration date resulting in a new stated expiration date of August 12, 2028.

The Company's Fifth Series A 2 variable rate bonds are backed by an irrevocable letter of credit, which had an original stated expiration date of December 21, 2019. On April 22, 2019, this letter of credit was extended for a five year term from the original stated expiration date resulting in a new stated expiration date of December 21, 2024.

In the event that the letter of credit agreements supporting the Eighth and Fifth Series bonds are not extended or replaced prior to their expiration dates, a mandatory tender of the then outstanding bonds will occur. If such mandatory tender results in draws on the letters of credit, the bonds will become bank bonds subject to accelerated payment terms and increased interest rates.

Interest rates and maturities of the outstanding revenue bonds are detailed as follows (thousands of U.S. dollars):

	Interest rates	Maturity date (fiscal year)	Balance outstanding August 31	
			2023	2022
5th Series A-2	Variable *	2035	\$ 30,000	30,000
8th Series B	Variable *	2028	27,370	27,370
8th Series C	Variable *	2028	27,225	27,225
8th Series D	Variable *	2028	40,845	40,845
8th Series E	Variable *	2028	27,370	27,370
13th Series	3.00%–5.00%	2034	119,925	139,215
14th Series	2.00%–5.00%	2038	183,160	208,435
15th Series	2.00%–5.00%	2047	240,855	245,955
16th Series A	4.00%–5.00%	2050	199,854	200,345
16th Series B	4.00%–5.00%	2040	46,655	50,260
			\$ 943,259	997,020

\* As of August 31, 2023, the SOFR based rate was 3.80%

**(c) Debt Coverage and Sinking Fund Requirements**

Under the terms of both general ordinances, the City is required to maintain rates to allow the Company to satisfy 1975 and 1998 revenue bond debt coverage ratio requirements. Upon issuance of the Thirteenth Series Bonds, no debt under the 1975 General Ordinance remains outstanding.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

Also provided by both general ordinances is the establishment of a Revenue Bond Sinking Fund Reserve into which deposits are made in an amount equal to the maximum annual debt service requirement on the bonds of each respective general ordinance in any fiscal year.

Funds in the Revenue Bond Sinking Fund Reserve are to be applied to the payment of debt service if, for any reason, other funds in the Sinking Fund, which operates as a debt service payment fund into which debt service payments are deposited as they come due, should be insufficient.

The revenue bonds are, and will be, equally and ratably collateralized by a security interest in all of the Company's project revenues, as defined in the general ordinances, and monies in the Sinking Fund, including the Sinking Fund Reserve.

Portions of certain revenue bonds were issued as zero-coupon securities. Interest on these securities is accrued and compounded on the payment dates of the current interest bonds within the issue. The accrued interest in the amount of \$6.6 million and \$7.2 million in FY 2023 and FY 2022, respectively, is reported as a component of accrued accounts.

**(d) Interest Rate Swap Agreements**

*Objective* – In January 2006, the City entered into a fixed rate pay or floating rate receiver interest rate swap to create a synthetic fixed rate for the Sixth Series Bonds. The interest rate swap was used to hedge interest rate risk.

*Terms* – The swaps had an original termination date of August 1, 2031, which was subsequently amended to August 1, 2028. The swaps require the City to pay a fixed rate of 3.6745% and receive a variable rate equal to 70.0% of one month SOFR plus 0.0801% until maturity.

In August 2016, the underlying variable rate bonds maturing in FY 2017 through FY 2023 were refunded with fixed rate bonds and the related portions of the swaps, totaling \$102.7 million in notional amount, were terminated. PGW made a termination payment of \$13.9 million to fund this partial termination of the swaps which is included in unamortized loss on bond refunding on the Company's balance sheet.

As of August 31, 2023, the swaps had a notional amount of \$122.8 million and the associated variable rate debt had a \$122.8 million principal amount, broken down by series as follows:

- The Series B swap had a notional amount of \$27.4 million and the associated variable rate bonds had a \$27.4 million principal amount.
- The Series C swap had a notional amount of \$27.2 million and the associated variable rate bonds had a \$27.2 million principal amount.
- The Series D swap had a notional amount of \$40.8 million and the associated variable rate bonds had a \$40.8 million principal amount.
- The Series E swap had a notional amount of \$27.4 million and the associated variable rate bonds had a \$27.4 million principal amount.

The final maturity date for all swaps is August 1, 2028.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

Fair Value – As of August 31, 2023, the swaps had a combined negative fair value of approximately \$1.9 million. The fair values of the interest rate swaps were estimated using the zero coupon method and are classified as Level 2 within the fair value hierarchy as described in note 1. That method calculates the future net settlement payments required by the swap, assuming current forward rates are implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the swaps.

Risks – As of August 31, 2023, the City is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the City would be exposed to credit risk in the amount of the swaps' fair value. The swaps include a termination event additional to those in the standard International Swaps and Derivatives Association, Inc. master agreement based on credit ratings. The swaps may be terminated by the City if the rating of the counterparty falls below A3 or A – (Moody's/S&P), unless the counterparty has (i) assigned or transferred the swap to a party acceptable to the City; (ii) provided a credit support provider acceptable to the City whose obligations are pursuant to a credit support document acceptable to the City; or (iii) executed a credit support annex, in form and substance acceptable to the City, providing for the collateralization by the counterparty of its obligations under the swaps.

The swaps may be terminated by the counterparty if the rating on the City of Philadelphia Gas Works Revenue Bonds falls below Baa2 or BBB (Moody's/S&P). However, because the City's swap payments are insured by Assured Guaranty Municipal Corporation, as long as Assured Guaranty Municipal Corporation is rated at or above A2 or A (Moody's/S&P), the termination event based on the City's ratings is stayed. At the present time, the rating for Assured Guaranty Municipal Corporation is at A2/AA (Moody's/S&P).

The City is exposed to (i) basis risk, as reflected by the relationship between the rate payable on the bonds and 70.0% of one month SOFR plus 0.0801% received on the swap, and (ii) tax risk, a form of basis risk, where the City is exposed to a potential additional interest cost in the event that changes in the federal tax system or if marginal tax rates cause the rate paid on the outstanding bonds to be greater than the 70.0% of one month SOFR plus 0.0801% received on the swap.

The impact of the interest rate swaps on the financial statements as of and for the years ended August 31, 2023 and 2022 is as follows (thousands of U.S. dollars):

	<u>Interest rate swap liability</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Balance, August 31, 2022	\$ (6,044)	—	(2,477)
Change in fair value through August 31, 2023	4,147	—	(4,147)
Amortization of terminated hedge	—	—	1,420
Balance, August 31, 2023	<u>\$ (1,897)</u>	<u>—</u>	<u>(5,204)</u>

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

	<u>Interest rate swap liability</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Balance, August 31, 2021	\$ (19,058)	9,117	—
Change in fair value through August 31, 2022	13,014	(9,117)	(3,897)
Amortization of terminated hedge	—	—	1,420
Balance, August 31, 2022	<u>\$ (6,044)</u>	<u>—</u>	<u>(2,477)</u>

Because the original hedging relationship was terminated when the Sixth Series Bonds were refunded by the Eighth Series Bonds in 2009, there is a difference between the interest rate swap liability and the related deferred outflows of resources. The difference is being amortized on a straight line basis to expense over the life of the hedge.

The interest rate swap liability is included in other noncurrent liabilities on the balance sheets.

There are no collateral posting requirements associated with the swap agreements.

**(9) Leases and software subscriptions**

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset, as specified in the contract for a period of time in an exchange or exchange-like transaction. PGW leases nonfinancial assets such as land, buildings, office equipment, vehicles, and machinery.

A software subscription, also known as subscription-based information technology arrangements (SBITAs), is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The related obligations are presented in the amounts equal to the present value of the lease/software subscription payments, payable during the remaining lease and software subscription term. As the lessee, the lease and software subscription assets and the respective liabilities are recognized on PGW's balance sheets. In addition, the interest and depreciation expenses are recognized on PGW's statement of revenues and expenses.

There are no variable payment clauses in any of PGW's lease and software subscription agreements. Lease and software subscription payments are discounted using a fixed interest rate if implicit in the contract. In instances where an interest rate was not readily implicit in the contract, PGW used a fixed long-term borrowing rate of 4.6% to determine the present value of the of the lease and software subscription obligations in fiscal year 2023 and 2022.

PGW did not incur expenses related to its leasing and software subscription activities related to residual value guarantees, termination penalties, or losses due to impairment. PGW did not enter into any lease and software subscription arrangements with third parties in which PGW was a sublessee. As a lessee, there are currently no agreements that include sale-leaseback and lease-leaseback transactions. As of

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

August 31, 2023, PGW had minimum principal and interest payment requirements for its leasing activities, with a remaining term greater than one year, as follows (thousands of U.S. dollars):

		<b>Lease liability</b>					
		<b>Beginning balance</b>	<b>Additions</b>	<b>Principal payments</b>	<b>Interest payments</b>	<b>Total payments</b>	<b>Ending balance</b>
Fiscal year ending August 31:							
2023	\$	246	79,746	20,021	1,563	21,584	59,971
2024		59,971	—	1,329	3,139	4,468	58,642
2025		58,642	—	1,367	3,069	4,436	57,275
2026		57,274	—	1,411	2,999	4,410	55,863
2027		55,863	—	1,000	2,925	3,925	54,863
Total	\$			<u>25,128</u>	<u>13,695</u>	<u>38,823</u>	

As of August 31, 2023, PGW had minimum principal and interest payment requirements for its software subscription activities, with a remaining term greater than one year, as follows (thousands of U.S. dollars):

		<b>Software subscription liability</b>					
		<b>Beginning balance</b>	<b>Additions</b>	<b>Principal payments</b>	<b>Interest payments</b>	<b>Total payments</b>	<b>Ending balance</b>
Fiscal year ending August 31:							
2023	\$	3,626	620	2,408	165	2,573	1,838
2024		1,838	—	1,838	85	1,923	—
2025		—	—	—	—	—	—
2026		—	—	—	—	—	—
2027		—	—	—	—	—	—
Total	\$			<u>4,246</u>	<u>250</u>	<u>4,496</u>	

Currently there are no leasing and software subscription agreements where PGW is the lessor.

**(10) Defined Benefit Pension Plan**

**(a) Plan Description**

The single employer Pension Plan provides pension benefits for all eligible employees of PGW and other eligible class employees of PFMC and PGC.

The Pension Plan provides retirement payments for vested employees at age 65 or earlier under various options, which includes a disability pension provision, a preretirement spouse or domestic partner's death benefit, a reduced pension for early retirement, various reduced pension payments for the election of a survivor option, and a provision for retirement after thirty years of service without penalty for reduced age. In accordance with Resolutions of the PGC, Ordinances of City Council, and as prescribed by the City's Director of Finance, the Pension Plan is being funded with contributions by

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

PGW to the Sinking Fund Commission of the City, which serves as the Trustee. Management believes that the Pension Plan is in compliance with all applicable laws.

**(b) Benefits Provided**

Normal Retirement Benefits: The Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after five years of credited service. Employees who retire at or after age 65 are entitled to receive an annual retirement benefit, payable monthly, in an amount equal to the greater of:

- 1.25% of the first \$6,600 of Final Average Earnings plus 1.75% of the excess of Final Average Earnings over \$6,600, times years of credited service, with a maximum of 60.0% of the highest annual earnings during the last ten years of credited service, or
- 2.0% of total earnings received during the period of credited service plus 22.5% of the first \$1,200 annual amount, applicable only to participants who were employees on or prior to March 24, 1967.

Death Benefits: Before retirement, the death beneficiary of deceased active participants or of deferred vested participants are entitled to vested benefits provided such participants died after having attained age 45 and completed at least fifteen years of Credited Service and whose age plus years of credited service equals at least 65 or whom have completed at least fifteen years (effective May 15, 2015 – formerly twenty years) of Credited Service regardless of age. The benefit is payable for the death beneficiary's remaining lifetime equal to the amount the participant would have received had the participant retired due to a disability on the day preceding his/her death and elected the 100% contingent annuitant option.

Disability Benefits: Disability benefits are the same as the Normal Retirement Benefits and are based on Final Average Compensation and Credited Service as of the date of disability.

Final Average Earnings are the employee's average pay, over the highest five years of the last ten years of credited service. Employees with fifteen years of credited service may retire at or after age 55 and receive a reduced retirement benefit. Employees with thirty years of service may retire without penalty for reduced age.

Except as noted in the following paragraph, covered employees are not required to contribute to the Pension Plan.

In December 2011, the Pension Plan was amended by Ordinance and a new deferred compensation plan was authorized by Ordinance as well. Newly hired employees have an irrevocable option to join either a new deferred compensation plan created in accordance with Internal Revenue Code Section 401 or the existing defined-benefit plan. The defined-contribution plan provides for an employer contribution equal to 5.5% of applicable wages. The defined-benefit plan provides for a newly hired employee contribution equal to 6.0% of applicable wages. The Ordinance did not affect the retirement benefits of active employees, current retirees and beneficiaries, or terminated employees entitled to benefits but not yet receiving them.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

**(c) Employees Covered by Benefit Terms**

At June 30, 2023, the date of the most recent actuarial valuation, the Pension Plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	2,528
Participants:	
Vested	829
Nonvested	290
Total participants	1,119
Total membership	3,647

**(d) Contributions**

The Pension Plan funding policy provides for periodic employer contributions at actuarially determined amounts that are sufficient to accumulate assets to pay benefits when due considering employee contributions required for new hires after December 2011 who elect to participate in the Pension Plan. The employer contribution is determined using the Projected Unit Credit actuarial funding method. For the fiscal years ended August 31, 2023 and 2022, the actuarially determined employer contribution was \$26.1 million and \$26.2 million, respectively. For each of the fiscal years ended August 31, 2023 and 2022, PGW contributed \$30.0 million. The contributions for fiscal years ended August 31, 2023 and 2022 were based on the direction of the City of Philadelphia Director of Finance. Employee contributions were approximately \$2.2 million and \$1.9 million in the plan year ended June 30, 2023 and June 30, 2022, respectively.

**(e) Net Pension Liability**

The Company's net pension liability as of August 31, 2023 and 2022 was measured as of June 30, 2023 and 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023 and June 30, 2022, respectively.

(Continued)



**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

The total pension liability was determined using the entry age normal actuarial method and the following actuarial assumptions:

	<u>2023</u>	<u>2022</u>
Inflation	2.00 %	2.00 %
Investment rate of return	7.00 %	7.00 %
Salary increases:		
Years of service		
0	8.86	8.86
1	8.59	8.59
2	8.31	8.31
3	8.04	8.04
4	7.77	7.77
5	7.49	7.49
6	7.22	7.22
7	6.94	6.94
8	6.67	6.67
9	6.39	6.39
10	6.12	6.12
11	5.84	5.84
12	5.57	5.57
13	5.29	5.29
14	5.02	5.02
15	4.74	4.74
16	4.54	4.54
17	4.33	4.33
18	4.12	4.12
19	3.91	3.91
20 or more	3.71	3.71

*Mortality rates:* Mortality rates for FY 2023 and FY 2022 were based on the Pri-2012 mortality tables projected generationally from the central year using Scale MP-2021.

*Long-term rate of return:* The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Pension Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for FY 2023 are summarized in the following table:

<u>Asset class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Target</u>	<u>Expected annual return</u>
Domestic equity	35.0 %	55.0 %	41.5 %	9.0 %
International equity	10.0	30.0	18.5	9.0
Fixed income	25.0	45.0	32.5	4.1
Alternatives	—	10.0	7.5	—
Cash equivalents	—	10.0	—	—
			<u>100.0 %</u>	

*Discount rate:* The discount rate used to measure the total pension liability at June 30, 2023 and 2022 was 7.0% in each year. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Company contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee contributions. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in Net Pension Liability**

(Thousands of U.S. dollars)

	<u>Increase (decrease)</u>		
	<u>Total pension liability</u>	<u>Plan fiduciary net position</u>	<u>Net pension liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a)-(b)</u>
Balances at September 1, 2022	\$ 826,830	565,748	261,082
Changes for the year:			
Service cost	8,713	—	8,713
Interest	56,413	—	56,413
Differences between expected and actual experience	1,923	—	1,923

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)

Notes to Basic Financial Statements

August 31, 2023 and 2022

**Changes in Net Pension Liability**

(Thousands of U.S. dollars)

	<b>Increase (decrease)</b>		
	<b>Total pension liability (a)</b>	<b>Plan fiduciary net position (b)</b>	<b>Net pension liability (a)-(b)</b>
Contributions – employer	\$ —	30,000	(30,000)
Contributions – employee	—	2,215	(2,215)
Net investment income	—	66,844	(66,844)
Benefit payments, including refunds of employee contributions	(60,313)	(60,313)	—
Administrative expenses	—	(361)	361
Net changes	<u>6,736</u>	<u>38,385</u>	<u>(31,649)</u>
Balances at August 31, 2023	<u>\$ 833,566</u>	<u>604,133</u>	<u>229,433</u>

**Changes in Net Pension Liability**

(Thousands of U.S. dollars)

	<b>Increase (decrease)</b>		
	<b>Total pension liability (a)</b>	<b>Plan fiduciary net position (b)</b>	<b>Net pension liability (a)-(b)</b>
Balances at September 1, 2021	\$ 811,758	673,542	138,216
Changes for the year:			
Service cost	7,152	—	7,152
Interest	55,276	—	55,276
Differences between expected and actual experience	9,665	—	9,665
Contributions – employer	—	30,043	(30,043)
Contributions – employee	—	1,854	(1,854)
Net investment income	—	(80,989)	80,989
Benefit payments, including refunds of employee contributions	(58,502)	(58,502)	—
Administrative expenses	—	(200)	200
Change in assumptions	1,481	—	1,481
Net changes	<u>15,072</u>	<u>(107,794)</u>	<u>122,866</u>
Balances at August 31, 2022	<u>\$ 826,830</u>	<u>565,748</u>	<u>261,082</u>

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

*Sensitivity of the net pension liability to changes in the discount rate:* The following table presents the net pension liability, in thousands of U.S. dollars, of the Company at June 30, 2023, calculated using the discount rate of 7.00%, as well as what the Company's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.00%) or one-percentage-point higher (8.00%) than the current rate:

	<b>1% Decrease 6.00%</b>	<b>Current discount rate 7.00%</b>	<b>1% Increase 8.00%</b>
Net pension liability	\$ 318,179	229,433	154,328

*Sensitivity of the net pension liability to changes in the discount rate:* The following table presents the net pension liability, in thousands of U.S. dollars, of the Company at June 30, 2022, calculated using the discount rate of 7.00%, as well as what the Company's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.00%) or one-percentage-point higher (8.00%) than the current rate:

	<b>1% Decrease 6.00%</b>	<b>Current discount rate 7.00%</b>	<b>1% Increase 8.00%</b>
Net pension liability	\$ 349,404	261,082	186,360

*Pension Plan's fiduciary net position:* Detailed information about the Pension Plan's fiduciary net position is available in the separately issued Pension Plan financial report. Requests for additional information should be addressed to Chief Investment Officer, Philadelphia Board of Pensions and Retirements, 1500 John F. Kennedy Boulevard, Two Penn Center Plaza, 17th Floor, Philadelphia, PA 19102.

**(f) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the years ended August 31, 2023 and 2022, the Company recognized pension expense of \$31.5 million and \$20.7 million, respectively. At August 31, 2023 and 2022, the Company reported

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

deferred outflows of resources and deferred inflows of resources related to the pension from the following sources (thousands of U.S. dollars):

	<u>August 31, 2023</u>		<u>August 31, 2022</u>	
	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ 6,003	—	7,887	645
Changes of assumptions	4,734	—	11,429	5,292
Net difference between projected and actual earnings on pension plan investments	11,927	—	42,477	—
Contributions made after measurement date	<u>6,396</u>	<u>—</u>	<u>6,396</u>	<u>—</u>
Total	<u>\$ 29,060</u>	<u>—</u>	<u>68,189</u>	<u>5,937</u>

The \$6.4 million reported as deferred outflows of resources related to employer contributions made after the measurement date as of June 30, 2023 will be recognized as a reduction of the net pension liability in the Company's FY 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (thousands of U.S. dollars):

Fiscal year:	
2024	\$ 9,520
2025	(1,314)
2026	20,103
2027	(5,647)

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

**(g) Fair Value Measurements**

The following table sets forth by level, within the fair value hierarchy described in note 1(o), the plan's assets at fair value as of June 30, 2023 (thousands of U.S. dollars):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate bonds	\$ —	58,158	—	58,158
Common and preferred stock	423,381	—	2	423,383
U.S. government securities	40,498	49,626	—	90,124
Financial agreements	—	9,004	—	9,004
Asset backed securities	987	—	—	987
Municipal obligations	—	260	—	260
	<u>\$ 464,866</u>	<u>117,048</u>	<u>2</u>	<u>581,916</u>

The following table sets forth by level, within the fair value hierarchy described in note 1, the plan's assets at fair value as of June 30, 2022 (thousands of U.S. dollars):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate bonds	\$ —	62,260	—	62,260
Common and preferred stock	381,246	1	3	381,250
U.S. government securities	53,000	29,696	—	82,696
Financial agreements	—	7,916	—	7,916
Asset backed securities	779	—	—	779
Municipal obligations	—	343	—	343
	<u>\$ 435,025</u>	<u>100,216</u>	<u>3</u>	<u>535,244</u>

**(11) Other Postemployment Benefits**

**(a) Plan Description**

The Company sponsors a single employer defined benefit healthcare plan, which provides postemployment healthcare and life insurance benefits to retirees and their beneficiaries and dependents in accordance with their retiree medical program.

The OPEB Plan comprises of (1) the PGW OPEB Trust (the Trust), which is used to receive, hold, and disburse assets accumulated to pay for some of the postemployment benefits other than pensions provided by PGW to its eligible retired employees and other eligible beneficiaries and (2) OPEB expenses paid for directly by PGW out of its general resources rather than through the Trust. The Trust was established for the exclusive benefit of PGW's retired employees and other eligible beneficiaries designated under the plan. Management believes that the OPEB Plan is in compliance with all applicable laws.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

**(b) Benefits Provided**

*Medical Benefits:* For pre-65 retirees, a choice of medical plans is offered through Independence Blue Cross, including Personal Choice, Blue Cross Blue Shield with Major Medical, or Keystone HMO's. Employees who retire after December 1, 2001 are provided the Keystone 5 Plan at PGW's expense and they can buy up to a more expensive plan. Employees who retire on or after September 1, 2007 are provided the Keystone 10 Plan at PGW's expense, and they can buy up to a more expensive plan. Union employees who retired between January 1, 2023 and August 31, 2023 are provided the Keystone 10 plan at PGW's expense, and they can buy up to a more expensive plan. Management employees who retire after August 31, 2011 continue to receive the Keystone 10 as the base plan and can buy up to a more expensive plan.

Reinsurance provides specific stop-loss coverage of \$0.3 million on pre-65 Medical and Prescription Drug claims.

Eligible pre-65 retirees who relocate outside of the Keystone coverage area may elect to participate in the PGW Retiree Health Reimbursement Arrangement (HRA). Under the HRA, the Keystone base plan premium-equivalent will be credited to a participant's HRA account and will be available to reimburse the participant for eligible medical insurance premiums.

Medicare eligible retirees are provided a fully insured Medicare Supplement Plan through Independence Blue Cross.

Opt-out benefits of \$1,500 per year for single coverage and \$3,000 per year for married coverage are available to eligible retirees. This benefit is not available to a married couple who both retired from PGW and who are eligible for Medicare benefits. Retirees can maintain prescription drug and dental coverage even if they opt out of medical coverage.

*Prescription Drug Benefits:* Employees who retired on or after April 15, 1976 and prior to December 1, 2001, are offered a Prescription Drug Plan that has been established specifically for retirees and is separate from the plan that is offered to active employees. The retiree Prescription plan consists of a \$2 copay for generic drugs, a \$2 copay for brand name drugs when no generic drugs are available, and a \$15 copay for brand name drugs when generic drugs are available. There are no deductibles and no lifetime maximums. Employees who retired prior to April 15, 1976 or on or after December 1, 2001 but before September 1, 2007 have a \$5 copay for generics and a \$10 copay for brand drugs. Employees who retire on or after September 1, 2007 have a \$5 copay for generics and a \$15 copay for brand drugs.

Effective, January 1, 2012, PGW moved Medicare eligible retirees into an Employee Group Waiver Plan arrangement. Covered drugs and copays remain the same. Prescription drug benefits are self-funded for all retirees.

*Dental Benefits:* For employees who retired after April 15, 1978, a basic dental plan is offered at no cost to the retiree. For employees who retired after June 1, 1984, an enhanced dental plan is offered. For eligible retirees who enroll in the enhanced dental plan, the retiree must pay the difference between the basic and enhanced plans. The dental plans were fully insured through August 31, 2016. Effective September 1, 2016, the dental benefits are self-funded.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

*Death Benefits:* Nonunion employees are offered voluntary life insurance equal to two times their salary at retirement. At age 65, the life insurance benefit decreases by 5.0% per year for fifteen years until the benefit equals 25.0% of the original life insurance benefit at age 65. PGW pays the cost of the first \$75,000 of coverage. Retirees in this category pay \$0.35 per \$1,000 per month for coverage in excess of \$75,000.

Union employees are offered voluntary life insurance equal to one times their salary at retirement. At retirement, the life insurance benefit decreases by 10.0% per year for five years until the benefit equals 50.0% of the original life insurance benefit at retirement. Retirees in this category pay \$0.35 per \$1,000 of coverage per month and PGW pays the balance.

Upon the death of an active employee prior to satisfying the requirements for Preretirement Spouse's Death Benefits, surviving spouses and dependents are entitled to receive two years of health coverage paid by PGW. Upon the death of an active employee on or after satisfying the requirements for Preretirement Spouse's Death Benefits, surviving spouses and dependents are entitled to receive health coverage for life (or for five years if hired on or after May 21, 2011 if Union or hired on or after December 21, 2011 if Nonunion) paid by PGW. Dependents are entitled to receive health coverage up to age 19 or age 23 for full-time students.

*Contributions:* The OPEB Plan pays the full cost of medical, basic dental, and prescription coverage for employees who retired prior to December 1, 2001. Employees who retire after December 1, 2001 are provided the Keystone 5, Keystone 10, or Keystone 15 plan at PGW's expense and can buy up to a more expensive plan. Retirees also contribute toward enhanced medical, dental plan and life insurance coverage as described above. PGW pays 100.0% of the cost for the prescription drug plan after drug copays.

**(c) Participants Covered**

At December 31, 2022, the date of the latest actuarial valuation, the OPEB Plan's combined membership consisted of the following:

	<b>Number</b>
Retirees	1,480
Beneficiaries	369
Active employees – Union	1,021
Active employees – Management	494
Total number of participants	3,364

**(d) Contributions**

Contributions to the OPEB Plan are the amounts received (additions) from PGW as sponsor of the Plan. These contributions include both amounts paid by PGW out of general resources to fund benefits on a pay-as-you-go basis, and contributions related to rate surcharges approved by the PUC in May 2010 and continued in July 2015. For the OPEB Plan year ended December 31, 2022, PGW contributed \$25.7 million on a pay-as-you-go basis, \$16.0 million resulting from rate surcharges, and

(Continued)



**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

\$2.5 million of its resources. For the OPEB Plan year ended December 31, 2021, PGW contributed \$25.2 million on a pay-as-you-go basis, \$16.0 million resulting from rate surcharges, and \$2.5 million of its resources.

**(e) Net OPEB Liability**

The Company's net OPEB liability as of August 31, 2023 and 2022 was measured as of December 31, 2022 and 2021, and the OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2022 and 2021, respectively. The valuation and measurement date was December 31, 2022.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and are subject to continual revision as actual amounts are compared to past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The total OPEB liability was determined using the entry age, level percent of pay actuarial method and the following actuarial assumptions used to value the postemployment medical liabilities can be categorized into the following three groups:

- *Benefit assumptions:* the initial per capita cost rates for medical coverage, and the face amount of employer-paid life insurance.
- *Demographic assumptions:* including the probabilities of retiring, dying, terminating (without a benefit), becoming disabled, recovery from disability, election (participation rates) and coverage levels.

The demographic assumptions were based on a review of plan experience during the period December 31, 2021 to December 31, 2022.

- *Economic assumptions:* the discount rate and health care cost trend rates.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

Benefit assumptions:

- *Per capita claims:* Using actuarial standards, specifically Actuarial Standard of Practice No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions*, the annual age specific per capital claims cost rate were projected at the following assumed trend rates for future years (whole U.S. dollars):

Age	Medical		
	Medical	Prescription drug	Dental
50	\$ 6,876	2,328	180
55	8,760	2,976	180
60	10,992	3,732	180
64	13,260	4,500	180
65	2,700	4,956	180
70	2,592	4,764	180
75	2,772	5,088	180

- *Life insurance:* The claims cost for life insurance is based on the actuarial present value of projected life insurance claims.
- *Morbidity:* The below healthcare cost for prescription drug coverage and pre-65 medical coverage reflects the following changes due to increased or decreased usage as a result of aging:

Ages	Blended Medical/Rx
50–54	5.03 %
55–59	4.84
60–64	4.68
65–69	(1.01)
70–74	1.09
75–79	1.70
80–84	1.87
85+	—

Demographic assumptions:

- *Mortality rates:* Mortality rates for FY 2023 is assumed to follow:
  - Preretirement Mortality – Pri-2012 Total Employee Headcount Weighted Table, projected with SOA Scale MP-2021.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

- Postretirement Mortality – Pri-2012 Total Retiree Headcount Weighted Table, projected with SOA Scale MP-2021.
- Disabled Retirement Mortality – Pri-2012 Total Disabled Retiree Headcount Weighted Table, Projected with SOA Scale MP-2021.

Mortality rates for FY 2022 is assumed to follow the sex-distinct, Pri-2012 Employee, Healthy Annuitant, and Disabled Retiree Mortality Tables projected with scale MP-2020.

- *Salary Scale:* Salary Scale is based on years of service as follows:

Years of service	Annual increase	Years of service	57 increase
0	8.86 %	11	5.84 %
1	8.59	12	5.57
2	8.31	13	5.29
3	8.04	14	5.02
4	7.77	15	4.74
5	7.49	16	4.54
6	7.22	17	4.33
7	6.94	18	4.12
8	6.67	19	3.91
9	6.39	20 or more	3.71
10	6.12		

- *Retirement rates:* Retirement rates applicable once an employee is eligible for retirement benefits vary by age and service with rates as follows:

Age	Service < 30	Service > 30	Age	Service < 30	Service > 30
50	— %	15.00 %	61	10.00 %	15.00 %
51	—	15.00	62	10.00	40.00
52	—	15.00	63	10.00	25.00
53	—	15.00	64	10.00	25.00
54	—	15.00	65	20.00	25.00
55	5.00	15.00	66	20.00	40.00
56	5.00	15.00	67	20.00	40.00
57	10.00	15.00	68	20.00	40.00
58	10.00	15.00	69	20.00	40.00
59	10.00	15.00	70+	100.00	100.00
60	10.00	15.00			

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)

Notes to Basic Financial Statements

August 31, 2023 and 2022

- *Withdrawal rates:* Turnover rates applicable before an employee is eligible for retirement benefits vary by age and service with illustrative rates as follows:

Age	Service < 1 year	1 year of service	2 years of service	3 years of service	4 years of service	Service > 4 years
18–37	25.00 %	15.00 %	12.00 %	10.00 %	7.00 %	3.00 %
38	23.00	15.00	12.00	9.00	6.60	2.80
39	21.00	15.00	12.00	8.00	6.20	2.60
40	19.00	15.00	12.00	7.00	5.80	2.40
41	17.00	15.00	12.00	6.00	5.40	2.20
42	15.00	15.00	12.00	5.00	5.00	2.00
43	14.00	14.00	10.60	4.60	4.60	3.00
44	13.00	13.00	9.20	4.20	4.20	3.00
45	12.00	12.00	7.80	3.80	3.80	3.00
46	11.00	11.00	6.40	3.40	3.40	3.00
47	10.00	10.00	5.00	3.00	3.00	3.00
48	10.00	10.00	5.00	2.80	2.80	3.00
49	10.00	10.00	5.00	2.60	2.60	3.00
50	10.00	10.00	5.00	2.40	2.40	3.00
51	10.00	10.00	5.00	2.20	2.20	3.00
52+	10.00	10.00	5.00	2.00	2.00	3.00

- *Participation rate:* Participation assumes 100% of future retirees who meet the eligibility requirements will participate in the postemployment welfare plans upon retirement.
- Disability rates vary by age with illustrative rates as follows:

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

<u>Age</u>	<u>Males</u>	<u>Females</u>	<u>Age</u>	<u>Males</u>	<u>Females</u>
18–27	0.03 %	0.03 %	47	0.23 %	0.33 %
28	0.03	0.04	48	0.28	0.37
29	0.03	0.04	49	0.31	0.40
30	0.03	0.04	50	0.37	0.45
31	0.03	0.06	51	0.43	0.49
32	0.03	0.06	52	0.51	0.55
33	0.03	0.07	53	0.59	0.60
34	0.03	0.07	54	0.68	0.66
35	0.04	0.08	55	0.77	0.71
36	0.04	0.09	56	0.86	0.77
37	0.06	0.10	57	0.96	0.83
38	0.07	0.11	58	1.06	0.89
39	0.08	0.13	59	1.17	0.95
40	0.09	0.14	60	1.28	1.00
41	0.10	0.17	61	1.40	1.07
42	0.11	0.19	62	1.54	1.13
43	0.13	0.21	63	1.68	1.17
44	0.16	0.25	64	1.83	1.22
45	0.18	0.27	65+	—	—
46	0.20	0.30			

Economic assumptions:

- *Long-term rate of return:* The long-term expected rate of return on OPEB Plan investments was determined using a building block method in which expected future real rates of returns (expected returns, net of OPEB Plan investment expense and inflation) are developed for each major asset class. The calculated investment rate of return was set equal to the expected 12-year compound (geometric) real return plus inflation (rounded to the nearest 25 basis points, where appropriate). The table below provides the long-term expected real rates of return by asset class (based on published capital market assumptions). The target allocation for each major asset class as of December 31, 2022 is summarized in the following table:

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)

Notes to Basic Financial Statements

August 31, 2023 and 2022

<u>Asset class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Target</u>	<u>Expected annual return</u>
Domestic equity large cap	27.5 %	37.5 %	32.5 %	8.1 %
Domestic equity small cap	10.0	15.0	12.5	8.4
Emerging market equity	5.0	10.0	7.5	10.4
International equity	15.0	20.0	17.5	10.0
Fixed income	10.0	45.0	30.0	5.0
Commodities/real assets	—	10.0	—	3.4
Cash equivalents	—	5.0	—	2.6
			<u>100.0 %</u>	

- *Inflation Rate: 2.5%*
- *Healthcare cost trend:*

<u>Year</u>	<u>Medical (Pre-65)</u>	<u>Medical (Post-65)</u>	<u>Prescription drugs</u>	<u>Dental</u>
2023	6.25 %	4.50 %	7.25 %	4.00 %
2024	5.75	4.50	6.75	4.00
2025–2029	5.25	4.50	6.50	4.00
2030–2039	5.00	4.00	6.25	4.00
2040–2049	4.75	4.00	5.75	4.00
2050–2069	4.50	4.00	5.25	4.00
2070+	4.00	4.00	4.50	4.00

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

- *Discount rate:* The discount rate used for determining the total OPEB liability is the long-term expected rate of return on plan investments of 7.0% as of December 31, 2022 and December 31, 2021, which represents the long-term expected rate of return on Plan investments at the applicable measurement date.

**Changes in Net OPEB Liability**

(Thousands of U.S. dollars)

	Increase (decrease)		
	Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB liability (a)-(b)
Balances at September 1, 2022	\$ 515,175	365,944	149,231
Changes for the year:			
Service cost	6,597	—	6,597
Interest	35,641	—	35,641
Differences between expected and actual experience	695	—	695
Assumption changes	(3,089)	—	(3,089)
Benefit payments	(25,677)	—	(25,677)
Contributions-employer	—	44,177	(44,177)
Project investment return on year	—	(63,740)	63,740
Benefit payments	—	(25,677)	25,677
Administrative expenses and bank fees	—	(68)	68
Net changes	14,167	(45,308)	59,475
Balances at August 31, 2023	\$ 529,342	320,636	208,706

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

**Changes in Net OPEB Liability**

(Thousands of U.S. dollars)

	<b>Increase (decrease)</b>		
	<b>Total OPEB liability (a)</b>	<b>Plan fiduciary net position (b)</b>	<b>Net OPEB liability (a)-(b)</b>
Balances at September 1, 2021	\$ 507,667	306,079	201,588
Changes for the year:			
Service cost	5,762	—	5,762
Interest	36,577	—	36,577
Differences between expected and actual experience	(25,286)	—	(25,286)
Assumption changes	15,652	—	15,652
Benefit payments	(25,197)	—	(25,197)
Contributions-employer	—	43,697	(43,697)
Project investment return on year	—	23,012	(23,012)
Plan asset gain/(loss)	—	18,405	(18,405)
Benefit payments	—	(25,197)	25,197
Administrative expenses and bank fees	—	(52)	52
Net changes	<u>7,508</u>	<u>59,865</u>	<u>(52,357)</u>
Balances at August 31, 2022	<u>\$ 515,175</u>	<u>365,944</u>	<u>149,231</u>

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate:* The following presents the Net OPEB liability, in thousands of U.S. dollars, of the Company at December 31, 2022, as well as what the Net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate:

	<b>1% Decrease</b>	<b>Current discount rate</b>	<b>1% Increase</b>
	<b>6.00%</b>	<b>7.00%</b>	<b>8.00%</b>
Net OPEB liability	\$ 280,881	208,706	149,770

(Continued)



**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate:* The following presents the Net OPEB liability, in thousands of U.S. dollars, of the Company at December 31, 2021, as well as what the Net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate:

	<u>1% Decrease</u> <b>6.00%</b>	<u>Current discount rate</u> <b>7.00%</b>	<u>1% Increase</u> <b>8.00%</b>
Net OPEB liability	\$ 220,489	149,231	91,183

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates:* The following presents the Net OPEB liability, in thousands of U.S. dollars, of the Company at December 31, 2022, as well as what the Net OPEB liability would be if it were calculated using healthcare cost trend rates are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current healthcare cost trend rates</u>	<u>1% Increase</u>
Net OPEB liability	\$ 150,328	208,706	280,737

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates:* The following presents the Net OPEB liability, in thousands of U.S. dollars, of the Company at December 31, 2021, as well as what the Net OPEB liability would be if it were calculated using healthcare cost trend rates are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current healthcare cost trend rates</u>	<u>1% Increase</u>
Net OPEB liability	\$ 91,216	149,231	221,130

*OPEB Plan's fiduciary net position:* Detailed information about the OPEB Plan's fiduciary net position is available in the separately issued OPEB Plan financial report. Requests for additional information should be addressed to Administrator – PGW OPEB Trust, 800 W. Montgomery Avenue, Philadelphia, Pennsylvania 19122.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

**(f) OPEB Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to Other Postemployment Benefits**

For the years ended August 31, 2023 and 2022, the Company recognized OPEB expense of \$4.8 million and \$(1.2) million, respectively. At August 31, 2023 and 2022, the Company reported deferred outflows of resources and deferred inflow of resources related to other postemployment benefits from the following sources (thousands of U.S. dollars):

	<u>August 31, 2023</u>		<u>August 31, 2022</u>	
	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ 580	32,875	—	58,253
Changes of assumptions	23,481	7,497	33,260	9,829
Difference between projected and actual earnings on OPEB plan investments	45,824	—	—	34,525
Contributions made after measurement date	<u>30,183</u>	<u>—</u>	<u>29,316</u>	<u>—</u>
Total	<u>\$ 100,068</u>	<u>40,372</u>	<u>62,576</u>	<u>102,607</u>

The \$30.2 million and \$29.3 million reported as deferred outflows of resources related to employer contributions made after the measurement date as of December 31, 2022 and 2021, respectively, will be recognized as a reduction of the net OPEB liability in FY 2023 and FY 2022, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (thousands of U.S. dollars):

Fiscal year:	
2024	\$ (6,002)
2025	7,931
2026	12,397
2027	16,077
2028	(851)
Thereafter	(39)

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

**(g) Fair Value Measurements**

The following table sets forth by level, within the fair value hierarchy described in note 1(o), the plan's assets at fair value as of December 31, 2022 (thousands of U.S. dollars):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Domestic equity mutual funds	\$ 151,110	—	—	151,110
International equity mutual funds	74,856	—	—	74,856
Corporate bonds	—	431	—	431
U.S. treasuries	7,778	—	—	7,778
U.S. government agency	—	1,138	—	1,138
Bond mutual funds	67,204	—	—	67,204
Municipal bonds – mutual funds	17,980	—	—	17,980
	<u>\$ 318,928</u>	<u>1,569</u>	<u>—</u>	<u>320,497</u>

The following table sets forth by level, within the fair value hierarchy described in note 1(o), the plan's assets at fair value as of December 31, 2021 (thousands of U.S. dollars):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Domestic equity mutual funds	\$ 180,800	—	—	180,800
International equity mutual funds	81,417	—	—	81,417
Corporate bonds	—	519	—	519
U.S. treasuries	9,297	1,880	—	11,177
U.S. government agency	—	1,030	—	1,030
Bond mutual funds	71,412	—	—	71,412
Municipal bonds – mutual funds	17,310	—	—	17,310
	<u>\$ 360,236</u>	<u>3,429</u>	<u>—</u>	<u>363,665</u>

Mutual funds consist of open-end mutual funds that are registered with the SEC and are valued daily using quoted prices in active markets as provided by the pricing vendor for these securities (Level 1 inputs).

Fixed income consists of corporate bonds, U.S. Government and agency securities, and mortgage/asset backed securities. The fair values of these investments are determined using third party pricing services using quoted prices in active markets (Level 1 inputs) or prices derived from observable market inputs such as benchmark curves, broker/dealer quotes, and other industry and economic factors (Level 2 inputs).

**(h) Investment Policy**

The Trust's investment policy in regard to the allocation of invested assets is defined in its Statement of Investment Guidelines (the Guidelines) developed in conjunction with the Trust's Board and its financial advisors. The long-term goals of the Guidelines are to manage the assets in a manner in the best of

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

interest of participants, produce investment return that meets the actuarially assumed rate, and to produce consistent performance to protect against excessive volatility. There has not been any significant change in the Trust's investment policy during the reporting period.

The asset allocation strategy was as follows (as adjusted in February 2019):

	<u>Target</u>	<u>Actual</u>
Domestic equity large cap	32.5 %	32.5 %
Domestic equity small cap	12.5	14.4
Emerging market international equity	7.5	5.8
Developed market international equity	17.5	17.4
Fixed income	30.0	29.3
Cash and cash equivalents	—	0.6

(i) *Rate of Return*

For the years ended December 31, 2022 and 2021, the annual money-weighted rate of return on investments, net of investment expense, was (16.97)% and 13.15%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(ii) *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's.

(iii) *Custodial Credit Risk*

The assets of the Plan are held by the Trust.

Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned to the Trust. The cash and cash equivalents held by the Trust at December 31, 2022 and 2021 were not covered by federal deposit insurance.

Custodial credit risk for investments is the risk that, in the event of a failure to a counterparty to a transaction, the value of the investment or collateral securities that are in possession of an outside party may not be recovered. Investments are exposed to custodial credit risk if the securities are uninsured, are not held in the name of the Trust, or are held by either the counterparty or the counterparty's trust department or agent but not in the Trust's name. The Trust's investments are not exposed to custodial credit risk as they are held by the Trust's custodian in the name of the Trust.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

(iv) *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income investments. The Trust's investment policy does not specifically address limitations on the maturities of investments.

(v) *Investment Concentration Risk*

Investment concentration risk is the risk that the investment portfolio is disproportionately exposed to market changes in specific sectors or securities. As of December 31, 2022, the Trust held the following investments in excess of 5.0% of the fair value of the Trust's net position: DFA US Small Cap Fund, American Funds Europac Growth R6 Fund, Vanguard Total Stock Market Index Fund, Vanguard Total Bond Market Index Fund, Baird Core Bond Fund and MainStay MacKay High Yield Fund. As of December 31, 2021, the Trust held the following investments in assets in excess of 5.0% of the fair value of the Trust's net position: DFA US Small Cap Fund, American Funds Europac Growth R6 Fund, Vanguard Total Stock Market Index Fund, and Baird Core Bond Fund.

**(12) Defined Contribution Pension Plan**

PGW contributes to a defined-contribution pension plan for all employees hired after May 21, 2011 (Union) or December 8, 2011 (Nonunion) who elect not to contribute to the defined-benefit plan. The Defined Contribution Plan (DC) is administered by the PGW Investment Committee. Benefit terms, including contribution requirements, for the DC Plan are established and may be amended by Ordinance of the City. For each employee in the DC Plan, the Company is required to contribute annually 5.5% of applicable wages to an individual employee account. Employees are not required to make contributions to the plan. For the years ended August 31, 2023 and 2022, the Company recognized pension expense of \$2.1 million and \$1.9 million, respectively, related to contributions to the DC Plan.

Participants are immediately vested in Company contributions and earnings on Company contributions.

The Company had no accrued liabilities for contributions payable to the DC Plan at August 31, 2023 and 2022.

The DC Plan is a "tax-qualified" 401 (a) plan that is designed to comply with appropriate federal tax laws under the Internal Revenue Code (Tax Code). The DC Plan is a "defined contribution" plan as defined by the Tax Code. It is considered a "defined contribution" plan because the benefit consists of a defined contribution made by PGW for the benefit of the employee. The defined contribution is calculated as an amount equal to five- and one-half percent (5.5%) of the employee's applicable wages. These amounts are deposited into an account for the benefit of the employee under the guidelines of the plan. The Company contributed \$2.1 million and \$1.9 million in FY 2023 and FY 2022, respectively. PGW's contributions are accounted for as part of administrative and general expenses in the statements of revenues and expense and changes in net position.

**(13) Pollution Remediation Obligation**

The pollution remediation obligations at August 31, 2023 and 2022 were \$23.6 million and \$28.6 million, respectively, which reflect the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

The Company recorded a decrease in the total liability for pollution remediation obligations of \$5.0 million in FY 2023 and an increase in the total liability for pollution obligations of \$0.4 million in FY 2022. The pollution remediation liability is reflected in other noncurrent and current liabilities in the balance sheets. In accordance with U.S. GAAP for regulated entities, the Company has also recognized the long-term portion of its environmental remediation liability as a regulatory asset, because based on available evidence; it is probable that the previously incurred costs will be recovered through rates. The regulatory asset is reflected in regulatory asset – environmental on the balance sheets.

**(14) Risk Management**

The Company is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. While self-insured for many risks, the Company purchases insurance coverage where appropriate. The Company's real and personal property is insured against the risk of loss or damage in the amount of \$250.0 million, subject to a \$0.3 million per accident deductible at the Richmond and Passyunk Plants and a \$0.1 million per accident deductible at all other locations. There are separate sublimits for flood and earth movement at select locations. The Company's Property Insurance includes coverage for damage incurred from a terrorist attack. In addition, the Company maintains Blanket Crime, which is a form of Property Insurance.

The Company maintains \$210.0 million in liability (including terrorism) coverage, insuring against the risk of damage to property, or injury to the public with a \$1.0 million per occurrence self-insured retention.

The Company maintains statutory limits for Workers' Compensation (including terrorism) with a \$0.5 million per occurrence self-insured retention.

The Company maintains a \$30.0 million Public Officials Liability (Directors and Officers Liability) policy with a \$0.5 million retention as well as a \$60.0 million Fiduciary Liability policy with a \$0.2 million self-insured retention.

The Company maintains \$5.0 million in coverage for liability arising from nonowned Disposal Sites subject to each incident deductible of \$0.1 million. During FY 2023, the Company maintained Cyber (Privacy) Liability coverage, with a limit of \$11 million with a \$0.4 million retention covering costs arising from a data or security breach through August 31, 2023. Effective September 1, 2023, and through September 1, 2024, the limit on this coverage is \$11.0 million with a \$0.3 million retention covering costs arising from a data or security breach.

The Company maintains a medical stop-loss insurance program for its self-insured healthcare plans. The coverage provides for a \$0.4 million deductible per covered participant.

The Company has evaluated all open claims as of August 31, 2023 and has appropriately accrued for these claims on the balance sheets.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

Claims and settlement activity for occurrences excluded under the provisions of insurance policies for injuries and damages are as follows (thousands of U.S. dollars):

	<u>Beginning of year reserve</u>	<u>Current year claims and adjustments</u>	<u>Claims settled</u>	<u>End of year reserve</u>	<u>Current liability amount</u>
Fiscal year ended August 31:					
2023	\$ 8,253	1,207	(2,671)	6,789	3,769
2022	9,981	792	(2,520)	8,253	3,917
2021	9,442	2,384	(1,845)	9,981	4,584

**(15) Commitments and Contingencies**

*Commitments*

Commitments for major construction and maintenance contracts were approximately \$70.9 million and \$76.8 million, as of August 31, 2023 and 2022, respectively.

The Company, in the normal course of conducting business, has entered into long-term contracts for the supply of natural gas, firm transportation, and long-term firm gas storage service. The Company's cumulative obligations for demand charges for all of these services are approximately \$5.8 million per month in perpetuity.

The Company has entered into long-term and seasonal contracts with suppliers providing the Company with natural gas. The Company has the ability to fix the price of the purchase of natural gas with these contracts.

The Company's FY 2024 Capital Budget was approved by City Council in the amount of \$192.4 million. Within this approval, funding was provided to continue the implementation of an 18-mile CIMR Program. The cost for this program in FY 2024 is expected to be \$31.5 million. The total six-year cost of the CIMR Program is forecasted to be \$193.9 million. In addition to the 18-mile CIMR Program, the FY 2024 Capital Budget includes funding for an accelerated CIMR Program which PGW will include in its DSIC surcharge. This incremental program in FY 2024 is expected to cost \$41.0 million. The total six-year cost of this incremental program is forecasted to be \$246.0 million. The FY 2024 Capital Budget also includes \$1.2 million for the purchase of smartpoint devices for the Automatic Meter Infrastructure (AMI) units, which will replace the Automatic Meter Reading (AMR) devices. The total six-year cost of this program to replace AMR units is approximately \$1.8 million.

The Company's FY 2023 Capital Budget was approved by City Council in the amount of \$187.4 million. Within this approval, funding was provided to continue the implementation of an 18-mile CIMR Program. The cost for this program in FY 2023 is expected to be \$28.4 million. The total six-year cost of the CIMR Program is forecasted to be \$186.3 million. In addition to the 18-mile CIMR Program, the FY 2023 Capital Budget includes funding for an accelerated CIMR Program which PGW will include in its DSIC surcharge. This incremental program in FY 2023 is expected to cost \$38.0 million. The total six-year cost of this incremental program is forecasted to be \$228.0 million. The FY 2023 Capital Budget also includes \$1.4 million for the purchase of smartpoint devices for the Automatic Meter Infrastructure (AMI) units, which

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

will replace the Automatic Meter Reading (AMR) devices. The total six-year cost of this program to replace AMR units is approximately \$2.4 million.

*Contingencies*

The Company's material legal proceedings are as described below. The Company believes that it has valid defenses to these legal proceedings and intends to defend them vigorously. PGW records reserves for estimated losses from contingencies when information available indicates that a loss is probable and the amount of the loss, or range of loss, can be reasonably estimated. Management has assessed the following matters based on current information and made a judgment concerning their potential outcomes, considering the nature of the claim, the amount and nature of damages sought, and the probability of success. The Company is unable to predict the outcome of these legal proceedings or reasonably estimate the scope or amount of any associated costs and potential liabilities.

*Philadelphia Gas Works, Petitioner v. Pennsylvania Public Utility Commission and SBG Management Services, et. al., Respondents*, Pennsylvania Commonwealth Court Docket Nos. 1291 CD 2018, 1405 CD 2018 and 1404 CD 2018. These are an appeal by PGW dated October 19, 2018 from the Orders of the PUC issued (a) December 8, 2016, and the related Opinions and Orders denying reconsideration that were issued on May 18, 2018 and on August 23, 2018; (b) September 20, 2018; and (c) October 4, 2018.

Eight complaints were filed by landlords and by SBG Management Services, Inc. (collectively, SBG), the property management company that manages the day-to-day operations of certain residential properties owned by the landlords. The complaints which challenged amounts owned by SBG to PGW that, inter alia, were subject to late payment charges by PGW were divided into three groups by the Commission. The Commission's Regulations and PGW's Commission approved tariff authorizes PGW to charge interest (in the form of a late payment charge) at the rate of 1.5% per month on the overdue balance of a utility bill. In addition, if a customer does not pay for natural gas services provided by PGW, a municipal lien (which is created by operation of the Pennsylvania Municipal Claim and Tax Lien Law, 53 P.S. §§ 7101, et. seq. (MCTLL)) may be docketed with the appropriate local court. The Commission held that it lacks jurisdiction over unpaid amounts for natural gas service provided by PGW when a municipal lien is docketed under the MCTLL. Based upon that conclusion, the Commission determined that once a lien is docketed, PGW may not apply rules set forth in its Commission-approved tariff to the arrearage amount giving rise to the lien and may not show that arrearage amount on its monthly bills to nonpaying customers. The PUC assessed civil penalties in the total amount of approximately \$0.1 million against PGW, ordered PGW to refund sums totaling approximately \$1.0 million to the complainants, correct its practices in the assessment of late payment charges on unpaid balances, and modify the payment application sequence associated with partial payments. This would require PGW to make changes to PGW's billing system.

In response to the PUC's determination, PGW filed timely appeals with the Pennsylvania Commonwealth Court from the PUC's decision in each group of complaints. Oral argument took place on November 12, 2019.

(Continued)



**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

On December 9, 2019, the Pennsylvania Commonwealth Court reversed the orders of the PUC related to amounts owed by SBG Management Services, Inc. to PGW that, inter alia, were subject to late payment charges by PGW.<sup>1</sup> The Commonwealth Court found that (i) the PUC committed an error of law in holding that it lacked jurisdiction over gas charges subject to docketed liens, (ii) the PUC committed an error of law in holding that PGW could not continue to impose late fees of 1.5% per month on delinquent accounts once the City docketed a lien, and (iii) the PUC erred in imposing penalties, ordering refunds of previously imposed late fees, and directing billing changes relating to charges subject to docketed liens.

On January 8, 2020 SBG petitioned the Pennsylvania Supreme Court (“PA Supreme Court”) to reverse the decision of the Commonwealth Court. On June 23, 2020, the PA Supreme Court granted SBG’s petition for appeal. On December 1, 2020, the parties presented oral arguments before the PA Supreme Court. On April 29, 2021, the PA Supreme Court reversed the order of the Commonwealth Court, and held that liens filed of record under Section 7106(b) of the Municipal Claims and Tax Lien Law (53 P.S. § 7106(b)) have the effect of judgments, and accordingly accrue interest at the “lawful rate” of post-judgment interest of 6% per annum. (See 42 Pa.C.S. §8101; 41 P.S. § 202) (see <https://casetext.com/case/phila-gas-works-v-pa-pub-util-commn-3>).

On May 13, 2021 PGW filed an “Application for Reargument” with the PA Supreme Court. In its Application, PGW requested that the PA Supreme Court grant reargument on a number of grounds, including due to PGW’s assertion that the determination of the interest rate on liens was not properly the subject of the appeal before the PA Supreme Court.

---

<sup>1</sup> PGW did not appeal the decision of the PUC regarding partial payment application. This matter was independently resolved per a settlement agreement reached with the Office of Consumer Advocate, and approved by the PUC on June 13, 2019, as part of a prior PGW’s base rate case. Per the settlement, PGW agreed to modify its partial payment allocation practices so that no priority is given to the satisfaction of late payment charges.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

On June 15, 2021, Philadelphia Gas Works' Application for Reargument was granted in part by the PA Supreme Court. The case was remanded to the Commonwealth Court for consideration of any outstanding issues. (PGW's Application for Relief (including the request for reargument) was denied in all other respects.) On August 3, 2021, the Commonwealth Court issued an order establishing a Supplemental Briefing Schedule for the matter on remand, and also fixed the questions on remand.<sup>2</sup> The parties' briefs were filed in September/October of 2021. Oral argument took place on February 7, 2022 before the Commonwealth Court, and on March 16, 2022 the Commonwealth Court held that PGW II applies retroactively only to the parties of PGW II as well as other proceeding pending at the time PGW II was decided on April 28, 2021. The Commonwealth Court remanded the proceeding to the Commission for a determination of the correct amounts.

Upon remand to the Commission, PGW filed a motion to dismiss the issue related to the amounts due on docketed liens. PGW argued that the amount due on docketed liens (which are judgments according to PGW II) are outside of the Commission's jurisdiction. In response, SBG argued that it is proper for the Commission to determine how much SBG was overcharged. The motion was argued before the Administrative Law Judge (the "ALJ") on November 8, 2022. An evidentiary hearing is scheduled for January 19, 2023.

*SBG Management Services, Inc. Et Al. v. City of Philadelphia c/o Philadelphia Gas Works.* In a separate, but related matter to the SBG matter described above, various and several new SBG entities filed a Praecipe for Writ of Summons against "the City of Philadelphia c/o PGW" in the Philadelphia Court of Common Pleas on April 29, 2021, and docketed a complaint on August 24, 2021. The complaint sets forth a cause of action for "recoupment" (Count I), a claim for unjust enrichment (Count II), a cause of action for fraud (Count III), and a claim for violation of the UTPCPL (Count IV). Under SBG's view of the decision of the Pennsylvania Supreme Court (PGW v. PUC, 249 A.3d 963 (Pa. 2021)) in the above-described litigation, SBG is entitled to damages based on the amounts paid by them to satisfy the judgments (docketed municipal liens) against them for unpaid gas service. In their complaint, Plaintiffs allege they have incurred hundreds of millions of dollars in damages from PGW's billing practices since at least 2004 and are seeking a refund of late payment charges paid to PGW in excess of \$10.2 million, as well as other substantial (including punitive and treble) damages, interest, costs, fees and penalties based upon allegations of unjust enrichment, fraud, and unfair trade practices arising from PGW's late payment charges. PGW filed its response to the complaint in September 2021, wherein it raised objections and defenses to all of the causes of action raised in the complaint. On January 20, 2022, the Court issued an order in response to PGW's Preliminary Objections, dismissing two of SBG's claim with prejudice (fraud

---

<sup>2</sup> Questions on remand: 1. Whether the PA Supreme Court's opinion and order in Appeal of: SBG Management Services, 249 A.3d 963 (Pa. No. 14 EAP 2020, filed April 29, 2021), applies retroactively to the case at bar; 2. Whether the [Commission's] orders violate [PGW's] constitutional rights to due process by, without prior notice, announcing, applying and enforcing a new legal interpretation against [PGW] in the context of individual consumer complaints; 3. Whether substantial evidence of record supports the Commission's imposition of a civil penalty and whether the Commission abused its discretion and acted arbitrarily and capriciously in imposing penalties; 4. Whether the Commission's mandate for system-wide modifications is arbitrary and capricious and an abuse of the Commission's discretion; and 5. Whether a remand is appropriate to the Commission for a determination of [PGW]'s compliance with the mandate for system-wide modifications or for imposition of a new period in which [PGW] must comply.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

and unfair trade practices), and dismissing a third claim (breach of contract) without prejudice, and leave to SBG to amend its complaint. SBG has subsequently filed multiple amended complaints including a

Third Amended Complaint (“TAC”). The TAC asserts claims of breach of contract (Count 1) and unjust enrichment (Count II). PGW responded by filing preliminary objections to the TAC. On August 10, 2022, the Court sustained one of PGW’s preliminary objections and dismissed the nine other property owners. PGW’s other preliminary objections were overruled. PGW filed an answer with new matter on August 30, 2022. SBG’s reply was filed on September 23, 2022. Under the Court’s Revised Case Management Order, the case will be ready for trial on or after April 3, 2023.

*Pennsylvania Public Utility Commission, Bureau of Investigation and Enforcement v. Philadelphia Gas Works. Docket No. C-2019-3013933.* On December 19, 2019, an explosion occurred on the 1400 Block of South Eighth Street in Philadelphia that resulted in two fatalities. The Commission’s Bureau of Investigation and Enforcement (“BI&E”) conducted an investigation. Part of the investigation is to gather physical evidence at the scene as described in 49 CFR 190.203.

On July 15, 2022, BI&E filed a formal complaint against PGW alleging violations of the Public Utility Code arising from the incident. The formal complaint seeks corrective actions and civil penalties of \$1,311,882. PGW responded to the complaint on August 23, 2022, denying the allegations. The proceeding is in the discovery phase. Evidentiary hearings are currently scheduled for April 2023.

**(16) Subsequent Events**

The Company has evaluated events and transactions that occurred between August 31, 2023 and December 21, 2023, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements and noted the following:

*Rate Case*

On November 9, 2023, the PUC entered its Order and Opinion in the case, which approved an annual operating revenue increase of \$26.2 million, or 3.15% over present rates. The Order and Opinion granted, in part, exceptions filed by the Office of Consumer Advocate (OCA), the Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, the Philadelphia Industrial and Commercial Gas Users Group (PICGUG), and PGW. PGW filed the new tariff November 28, 2023 with rate increase for service rendered on or after November 29, 2023. See note 1(d) for more information regarding the rate case. The Commission will review PGW’s request to reconsider points from the Order. PGW is expecting a final Order at the December 21, 2023 public meeting.

(Continued)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Notes to Basic Financial Statements  
August 31, 2023 and 2022

*WNA Order*

PGW filed a Petition with the commission on August 2, 2022, to become effective October 1, 2022. On December 6, 2022, PGW voluntarily agreed to move the suspension deadline to October 5, 2023. In the Petition, PGW requested: (1) approval of tariff modifications on less than the statutorily established notice of sixty (60) days; and (2) to revise its Gas Service Tariff by adding a control cap to its WNA, to prevent customers from being billed a WNA charge or credit that is greater than 25% of total delivery charges excluding the WNA, on any given bill. In the Order dated September 21, 2023, the Administrative Law Judge (ALJ) found that the elimination of May from the WNA calculation is just and reasonable. This means that the new applicable period for the WNA to be applied will be October 1 through April 30. The ALJ affirmed that removing May from the WNA formula will help eliminate rate shock resulting from abnormal weather patterns. Additionally, the ALJ found that although the removal of May from the WNA calculation is an effective fix to the issues with the WNA in the short-term, a more in-depth review of the WNA mechanism, as it functions for PGW's customers, should be undertaken in the future. Accordingly, the ALJ recommended that the Commission direct PGW to address issues with the WNA when it files its next Base Rate Case after 2023.

*Retirees*

Effective September 1, 2023, PGW provides its Medicare eligible retirees a Blue Medicare Advantage Secure Preferred (PPO) Medical plan. The new plan will replace PGW's Medicare supplemental insurance called Medigap Plan F. The change was estimated to save PGW almost \$2.4 million over a two year period.

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)

Required Supplementary Information (Unaudited)

Schedule of Changes in Net Pension Liability and Related Ratios

(Thousands of U.S. dollars)

	Fiscal year ending									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability:										
Service cost	\$ 8,713	7,152	7,178	6,400	6,554	6,103	5,823	5,399	4,890	8,924
Interest cost	56,413	55,276	55,454	56,893	57,241	55,718	55,443	55,903	52,377	47,098
Differences between expected and actual experience	1,923	9,665	2,057	(3,034)	(12,089)	15,706	2,182	(8,840)	17,961	59,326
Changes in assumptions	—	1,481	22,923	(24,891)	(1,834)	(3,864)	(7,952)	26,748	44,876	—
Benefit payments	(60,313)	(58,502)	(56,647)	(55,061)	(53,893)	(52,627)	(51,376)	(50,447)	(46,917)	(42,913)
Net change in total pension liability	6,736	15,072	30,965	(19,693)	(4,021)	21,036	4,120	28,763	73,187	72,435
Total pension liability (beginning)	826,830	811,758	780,793	800,486	804,507	783,471	779,351	750,588	677,401	604,966
Total pension liability (ending)	833,566	826,830	811,758	780,793	800,486	804,507	783,471	779,351	750,588	677,401
Plan fiduciary net position:										
Contributions – employer	30,000	30,043	29,728	29,414	28,570	29,143	27,918	21,123	21,106	24,934
Contributions – employee	2,215	1,854	1,607	1,520	1,249	1,078	852	602	393	239
Net investment income (loss)	66,844	(80,989)	155,840	14,286	34,260	44,310	61,003	2,872	24,472	75,303
Benefit payments	(60,313)	(58,502)	(56,647)	(55,061)	(53,893)	(52,627)	(51,376)	(50,447)	(46,917)	(42,913)
Administrative expense	(361)	(200)	(217)	(168)	(192)	(184)	(129)	(1,611)	(1,480)	(732)
Net change in fiduciary net position	38,385	(107,794)	130,311	(10,009)	9,994	21,720	38,268	(27,461)	(2,426)	56,831
Plan fiduciary net position (beginning)	565,748	673,542	543,231	553,240	543,246	521,526	483,258	510,719	513,145	456,314
Plan fiduciary net position (ending)	604,133	565,748	673,542	543,231	553,240	543,246	521,526	483,258	510,719	513,145
Net pension liability (ending)	\$ 229,433	261,082	138,216	237,562	247,246	261,261	261,945	296,093	239,869	164,256
Net position as a percentage of total pension liability	72.48 %	68.42 %	82.97 %	69.57 %	69.11 %	67.53 %	66.57 %	62.01 %	68.04 %	75.75 %
Covered payroll for the year ended June 30,	\$ 102,709	97,435	97,959	95,934	98,453	101,271	94,767	90,860	95,187	103,530
Net pension liability as a percentage of covered payroll	223.38 %	267.96 %	141.10 %	247.63 %	251.13 %	257.98 %	276.41 %	325.88 %	252.00 %	158.66 %

Notes to schedule:

The amounts presented in each fiscal year were determined as of the June 30 that occurred within the fiscal year.

Historical information:

The Company has presented the information noted above for those years for which information is available.

Ten-year trend information will be presented prospectively.

Changes in assumptions:

Investment Rate of Return: 7.00% in 2021-2023, 7.30% in 2016-2020, 7.65% in 2015, and 7.95% in 2014.

Mortality Rates Adopted:

PRI-2012 mortality tables projected generationally from the central year using Scale MP-2021 in FY 2023 and FY 2022.

PRI-2012 mortality tables projected generationally from the central year using Scale MP-2020 in FY 2020 and FY 2021.

RP-2014 static mortality table in FY 2016 generationally projected with scale MP-2015 in FY 2016, MP-2016 in FY 2017, MP-2017 in FY 2018, and MP-2018 in FY 2019.

RP-2000 static mortality projected to the year of valuation prior to FY 2018.

Unaudited – see accompanying independent auditors' report.

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Required Supplementary Information (Unaudited)  
Schedule of Pension Contributions  
(Thousands of U.S. dollars)

<u>Fiscal year ending</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 26,084	26,151	23,492	26,844	28,797	28,395	29,260	26,476	21,526	24,385
Contributions made	30,000	30,000	30,000	29,227	28,797	28,395	29,260	26,476	21,526	24,385
Contribution deficiency/(excess)	\$ (3,916)	(3,849)	(6,508)	(2,383)	—	—	—	—	—	—
Covered payroll for the year ended August 31,	\$ 99,076	92,374	93,601	94,634	99,494	97,431	91,176	87,416	91,579	99,606
Contributions as a percent of covered payroll	30.28 %	32.48 %	32.05 %	30.88 %	28.94 %	29.14 %	32.09 %	30.29 %	23.51 %	24.48 %

Notes to schedule:

Actuarial Valuation Date: July 1 for FY 2015-2023 and September 1 for prior periods.

Methods and assumptions used to determine contributions:

Actuarial Cost Method: Projected Unit Credit.

Asset Valuation Method: Assets smoothed over a five-year period beginning in FY 2016 and Market Value in FY 2015 and prior periods.

Amortization Method: Contributions based on greater of 20-year level dollar open amortization method or 30-year level dollar closed amortization method.

Salary Increases:

Varies by participant years of service (see Note 10(e)).

4.5% in 2019 and prior periods.

General Inflation: 2.00%.

Investment Rate of Return: 7.00% in FY 2023-2021, 7.30% in FY 2020-2016, 7.65% in FY 2015, and 7.95% in FY 2014 and prior.

Mortality Rates: Adopted RP-2014 static mortality table in FY 2016 generationally projected.

PRI-2012 mortality tables projected generationally from the central year using Scale MP-2021 in FY 2023 and FY 2022.

PRI-2012 mortality tables projected generationally from the central year using Scale MP-2020 in FY 2020 and FY 2021.

RP-2014 static mortality table in FY 2016 generationally projected with scale MP-2015 in FY 2016, MP-2016 in FY 2017, MP-2017 in FY 2018, and MP-2018 in FY 2019.

RP-2000 static mortality projected to the year of valuation prior to FY 2018.

Unaudited – see accompanying independent auditors' report.

**PHILADELPHIA GAS WORKS**

(A Component Unit of the City of Philadelphia)

Required Supplementary Information (Unaudited)

Schedule of Changes in the Net OPEB Liability and Related Ratios

(Thousand of U.S. Dollars)

	Fiscal year ending						
	2023	2022	2021	2020	2019	2018	2017
Total OPEB liability:							
Service cost	\$ 6,597	5,762	4,999	5,867	6,268	5,180	5,315
Interest cost	35,641	36,577	35,387	37,374	40,262	38,182	39,961
Differences between expected and actual experience	695	(25,286)	(30,648)	(16,787)	(64,606)	(5,345)	(30,973)
Changes in assumptions	(3,089)	15,652	31,995	(24,572)	7,707	61,382	(6,481)
Benefit payments	(25,677)	(25,197)	(27,636)	(28,845)	(28,729)	(29,747)	(30,370)
Net change in total OPEB liability	14,167	7,508	14,097	(26,963)	(39,098)	69,652	(22,548)
Total OPEB liability (beginning)	515,175	507,667	493,570	520,533	559,631	489,979	512,527
Total OPEB liability (ending)	\$ 529,342	515,175	507,667	493,570	520,533	559,631	489,979
Plan fiduciary net position:							
Contributions – employer	\$ 44,177	43,697	46,136	47,345	47,229	48,247	48,870
Investment income	(63,740)	41,417	42,258	42,444	(14,754)	22,669	10,710
Benefit payments	(25,677)	(25,197)	(27,636)	(28,845)	(28,729)	(29,747)	(30,370)
Administrative, investment management expenses and bank fees	(68)	(52)	(40)	(37)	(35)	(49)	(30)
Net change in plan fiduciary net position	(45,308)	59,865	60,718	60,907	3,711	41,120	29,180
Plan fiduciary net position (beginning)	365,944	306,079	245,361	184,454	180,743	139,623	110,443
Plan fiduciary net position (ending)	320,636	365,944	306,079	245,361	184,454	180,743	139,623
Net OPEB liability (ending)	\$ 208,706	149,231	201,588	248,209	336,079	378,888	350,356
Plan fiduciary net position as a percentage of the total OPEB liability	60.6 %	71.0 %	60.3 %	49.7 %	35.4 %	32.3 %	28.5 %
Covered employee payroll as of December 31,	121,467	115,798	127,907	125,270	120,132	118,636	109,440
Net OPEB liability as a percentage of covered employee payroll	171.82 %	128.87 %	157.61 %	198.14 %	279.76 %	319.37 %	320.14 %

Notes to Schedule:

The amounts presented for each fiscal year were determined as of the calendar-year end that occurred within the fiscal year.

Historical information:

The Company has presented the information noted above for those years for which information is available.

Ten-year trend information will be presented prospectively.

Changes in assumptions:

Salary increases: ranges from 8.86% for new hires to 3.71% for employees with 20+ years of service.

Discount rate: 7.00% in 2023 and 2022; 7.30% in 2021, 2020, 2019, 2018, and 2017.

Inflation Rate: 2.5% in 2023; 2.0% in 2022, 2021, 2020, 2019, 2018, and 2017.

Mortality Rates:

Preretirement Mortality is assumed to follow Pri-2012 Total Employee Headcount Weighted Table, Projected with SOA Scale MP-2021 in 2022.

Preretirement Mortality is assumed to follow Pri-2012 Total Employee Amount Weighted Table, Projected with SOA Scale MP-2020 in 2021.

Postretirement Mortality is assumed to follow Pri-2012 Total Retiree Headcount Weighted Table, Projected with SOA Scale MP-2021 in 2022.

Postretirement Mortality is assumed to follow Pri-2012 Total Retiree Amount Weighted Table, Projected with SOA Scale MP-2020 in 2021.

Disabled Retirement Mortality is assumed to use Pri-2012 Total Disabled Retiree Headcount Weighted Table, Projected with SOA Scale MP-2021 in 2022.

Disabled Retirement Mortality is assumed to use Pri-2012 Total Disabled Retiree Amount Weighted Table, Projected with SOA Scale MP-2020 in 2021.

Mortality is assumed to follow the sex distinct, Pri-2012 Employee, Healthy Annuitant, and Disabled Retiree Mortality Tables projected with scale MP-2020 in 2022.

Mortality is assumed to follow the sex distinct, Pri-2012 Employee, Healthy Annuitant, and Disabled Retiree Mortality Tables projected with scale MP-2019 in 2021 and 2020.

Adopted the sex-distinct U.S. Public Pension General (PUB-G) Employee, Healthy Annuitant and Disabled Retiree Mortality Tables in 2019.

Adopted the sex-distinct RP-2014 Employee, Healthy Annuitant and Disabled Retiree in 2018 and 2017.

Mortality Tables: (head-count weighted) projection with scale MP-2021 in 2022, MP-2020 in 2021 and 2020, MP-2019 in 2019, MP-2018 in 2018, and MP-2017 in 2017.

Unaudited – See accompanying independent auditors' report.

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Required Supplementary Information (Unaudited)  
Schedule of OPEB Contributions  
(Thousand of U.S. Dollars)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 23,271	19,085	22,541	25,972	33,405	37,638	37,639	41,782	37,980	38,062
Contributions made	45,044	42,248	44,880	47,104	47,548	47,114	48,065	49,551	48,847	44,362
Contribution deficiency/(excess)	\$ (21,773)	(23,163)	(22,339)	(21,132)	(14,143)	(9,476)	(10,426)	(7,769)	(10,867)	(6,300)
Covered employee payroll as of August 31,	140,442	136,105	135,243	131,595	128,642	130,171	119,667	112,956	114,074	115,174
Contributions as a percent of covered employee payroll	32.07 %	31.04 %	33.18 %	35.79 %	36.96 %	36.19 %	40.17 %	43.87 %	42.82 %	38.52 %

Notes to schedule:

Actuarial Valuation Date: December 31, 2022, 2021 and 2020 for fiscal year 2023, 2022, and 2021, respectively, September 1 (beginning of each fiscal year) in prior periods.

Methods and assumptions used to determine contributions:

Actuarial Cost Method: Entry Age Level Percent of Pay Cost Method FY 2023 and FY 2022; Entry Age Normal Cost Method for FY 2021 and prior.

Asset Valuation Method: Market Value

Per Capita Claims: ASOP Actuarial Standards

Salary Increases: Varies by participant years of service (see Note 11(e)) in FY 2023, FY 2022, and FY 2021; 4.5% in FY 2015 through FY 2020; and 3.0% in prior periods.

General Inflation: 2.5% in FY 2023; 2.0% in FY 2022, FY 2021 and FY 2020; 3.0% in prior period.

Participation Rates: Assumed 100.0% of future retirees who meet the eligibility requirements will participate in the OPEB plan. Current retirees who have opted out of coverage are assumed to continue to receive opt out payments in the future.

Life Insurance: The claims cost for life insurance is based on the actuarial present value of projected life insurance claims in FY 2023 and FY 2022.

Life Insurance: The claims cost for life insurance is based on the actuarial present value of projected life insurance claims increased by 15.0% to reflect the cost of the insurance funding vehicle in prior fiscal years.

Discount rate: 7.00% in 2023 and 2022; 7.30% in 2021 through 2017; 7.95% in FY 2016 through FY 2013; 8.00% in FY 2012.

Mortality Rates: Adopted:

Preretirement Mortality is assumed to follow Pri-2012 Total Employee Headcount Weighted Table, Projected with SOA Scale MP-2021 in 2022.

Preretirement Mortality is assumed to follow Pri-2012 Total Employee Amount Weighted Table, Projected with SOA Scale MP-2020 in 2021.

Postretirement Mortality is assumed to follow Pri-2012 Total Retiree Headcount Weighted Table, Projected with SOA Scale MP-2021 in 2022.

Postretirement Mortality is assumed to follow Pri-2012 Total Retiree Amount Weighted Table, Projected with SOA Scale MP-2020 in 2021.

Disabled Retirement Mortality is assumed to use Pri-2012 Total Disabled Retiree Headcount Weighted Table, Projected with SOA Scale MP-2021 in 2022.

Disabled Retirement Mortality is assumed to use Pri-2012 Total Disabled Retiree Amount Weighted Table, Projected with SOA Scale MP-2020 in 2021.

Mortality is assumed to follow the sex distinct, Pri-2012 Employee, Healthy Annuitant, and Disabled Retiree Mortality Tables projected with scale MP-2020 in 2022.

Mortality is assumed to follow the sex distinct, Pri-2012 Employee, Healthy Annuitant, and Disabled Retiree Mortality Tables projected with scale MP-2019 in 2021 and 2020.

Sex-distinct U.S. Public Pension General (PUB-G) Employee, Healthy Annuitant and Disabled Retiree Mortality Tables in 2019.

Sex-distinct RP-2014 Employee, Healthy Annuitant and Disabled Retiree Mortality tables (head-count weighted) projection with scale MP-2018 in FY 2019, MP-2017 in FY 2018, MP-2016 in FY 2017, MP-2015 in FY 2016, and MP-2014 in FY 2015.

2014 Static Annuitant and Non-Annuitant Mortality table as set forth in Treasury Regulation Section 1.430(h)(3)-1e in FY 2014.

See accompanying independent auditors' report.





## STATISTICAL SECTION

In February 2023, PGW held its inaugural Energy Innovation Symposium, hosting leading voices in Philadelphia's clean energy landscape. Additionally, FY 2023 saw PGW replace 32.03 miles of natural gas lines, and reduce methane emissions by 6,640 metric tons of CO<sub>2</sub>e.

From ideating the future of energy technologies, to initiatives that enable PGW to reduce methane emissions, PGW is well situated to accelerate innovation in the energy field.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Statistical Section  
Description of Schedules  
August 31, 2023

This section of the Company's comprehensive annual financial report presents comparative information in order to better understand the financial statements, note disclosures, and required supplementary information and to more fully comprehend the Company's overall financial health.

**Financial Trends**

These schedules contain trend information to help the reader understand how the Company's financial performance and wellbeing have changed over time.

**Revenue Capacity**

These schedules contain information to help the reader assess the Company's revenue.

**Debt Capacity**

These schedules present information to help the reader assess the affordability of the Company's current levels of outstanding debt and its ability to issue additional debt in the future.

**Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Company's financial activities take place.

**Operating Information**

These schedules contain service and infrastructure data to help the reader understand how the information in the Company's financial report relates to the services the Company provides and the activities it performs.

**Sources**

Unless otherwise noted, the information in these schedules is derived from the audited financial statements for the relevant year.

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Balance Sheets  
Fiscal Years 2014 through 2023  
(Thousands of U.S. dollars)

<b>Assets</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Current assets:</b>			
Cash and cash equivalents	139,302	115,637	158,265
Cash designated for capital expenditures	-	-	-
Accounts receivable (net of provision for uncollectible accounts)	91,957	107,001	81,991
Gas inventories, materials, and supplies	79,454	92,876	53,373
Current portion of capital improvement fund	43,730	107,822	93,600
Workers' compensation escrow fund	2,778	2,667	2,740
Health insurance escrow fund	-	-	-
Other current assets <sup>(3) (4)</sup>	15,385	16,191	12,738
Total current assets	<u>372,606</u>	<u>442,194</u>	<u>402,707</u>
<b>Noncurrent assets</b>			
Utility plant, at original cost:			
In service	2,902,469	2,810,896	2,700,055
Lease assets <sup>(3)</sup>	80,351	1,202	2,541
Software subscriptions <sup>(4)</sup>	8,135	8,438	-
Under construction	161,751	141,469	105,321
Total	<u>3,152,706</u>	<u>2,962,005</u>	<u>2,807,917</u>
Less accumulated depreciation	1,329,678	1,299,288	1,239,513
Less accumulated depreciation - lease assets <sup>(3)</sup>	2,488	855	1,696
Less accumulated depreciation - software subscriptions <sup>(4)</sup>	5,071	4,053	-
Utility plant, net	<u>1,815,469</u>	<u>1,657,809</u>	<u>1,566,708</u>
Unamortized bond issuance costs	681	725	784
Capital improvement fund	-	4,851	91,322
Sinking fund, revenue bonds	109,581	106,188	107,684
Regulatory asset - environmental	23,610	28,871	27,572
Regulatory asset - pandemic	30,485	30,674	32,497
Other noncurrent assets	3,665	4,647	5,927
Total noncurrent assets	<u>1,983,491</u>	<u>1,833,765</u>	<u>1,832,494</u>
Total assets	<u>2,356,097</u>	<u>2,275,959</u>	<u>2,235,201</u>
<b>Deferred outflows of resources</b>			
Accumulated fair value of hedging derivatives	-	-	9,117
Unamortized losses on bond refunding	19,763	23,321	27,487
Deferred outflows related to pension <sup>(1)</sup>	29,060	68,189	24,575
Deferred outflows related to OPEB <sup>(2)</sup>	100,068	62,576	71,721
Total deferred outflows of resources	<u>148,891</u>	<u>154,086</u>	<u>132,900</u>
Total assets and deferred outflows of resources	<u>2,504,988</u>	<u>2,430,045</u>	<u>2,368,101</u>

(1) During FY 2015, the Company implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, that improves accounting and financial reporting by state and local governments for pensions, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This change was retroactive to FY 2014.

(2) During FY 2018, the Company implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for purposes of measuring the net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB Plans, and the OPEB Plans expense, information about the fiduciary net position of the OPEB Plan, and additions to/deductions from the OPEB Plans' fiduciary net position are determined on the same basis as they are reported by the OPEB Plans. This change was retroactive to FY 2017.

Source - PGW's Audited Financial Statements

2020	2019	2018	2017	2016	2015	2014
172,267	124,145	131,051	88,535	91,743	114,327	105,734
-	-	-	-	-	-	10,000
83,681	85,989	82,611	82,028	73,563	86,853	101,457
46,706	51,691	52,364	55,414	47,891	50,908	69,989
-	68,634	61,000	55,000	-	-	-
2,736	2,711	2,646	2,616	2,603	2,597	2,597
-	-	-	-	-	3,223	3,223
18,485	18,143	18,002	28,714	31,017	13,596	19,221
323,875	351,313	347,674	312,307	246,817	271,504	312,221
2,585,092	2,486,973	2,394,302	2,244,731	2,178,632	2,093,112	2,018,234
-	-	-	-	-	-	-
-	-	-	-	-	-	-
86,349	87,826	75,953	105,393	73,531	64,254	57,206
2,671,441	2,574,799	2,470,255	2,350,124	2,252,163	2,157,366	2,075,440
1,180,021	1,123,329	1,066,299	1,012,009	967,353	924,996	881,888
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,491,420	1,451,470	1,403,956	1,338,115	1,284,810	1,232,370	1,193,552
233	258	290	322	512	3,473	14,136
-	-	50,815	110,000	-	-	-
102,824	106,509	103,255	102,202	86,652	90,141	105,909
33,758	37,102	31,593	30,010	28,425	-	-
-	-	-	-	-	-	-
7,242	6,054	9,057	11,301	6,364	37,646	37,528
1,635,477	1,601,393	1,598,966	1,591,950	1,406,763	1,363,630	1,351,125
1,959,352	1,952,706	1,946,640	1,904,257	1,653,580	1,635,134	1,663,346
13,888	10,332	594	7,911	14,763	20,948	18,879
31,947	36,776	42,054	47,614	57,175	37,471	37,051
24,408	14,421	24,943	39,400	88,043	78,128	46,131
61,198	91,175	81,048	33,076	-	-	-
131,441	152,704	148,639	128,001	159,981	136,547	102,061
2,090,793	2,105,410	2,095,279	2,032,258	1,813,561	1,771,681	1,765,407

- (3) During FY 2022, the Company implemented GASB Statement No. 87, *Leases*, that revises existing standards for measuring and reporting operating and capital leases. GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This change was retroactive to FY 2021.
- (4) During FY 2023, the Company implemented GASB Statement No. 96, *Subscription Based Information Technology Arrangements (SBITA)*, that revises existing standards for measuring and reporting software subscriptions. Under this statement, SBITA's end user is required to recognize a liability and an intangible right to use asset, and a software vendor, involving software subscriptions, is required to recognize a receivable and a deferred inflow of resources. This change was retroactive to FY 2022.

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Balance Sheets  
Fiscal Years 2014 through 2023  
(Thousands of U.S. dollars)

<b>Fund Equity and Liabilities</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Current liabilities:			
Notes payable	-	-	-
Current portion of revenue bonds	70,110	64,202	65,417
Accounts payable	80,632	96,764	79,928
Current portion of long-term liabilities	7,947	5,927	5,552
Customer deposits	2,653	2,262	1,659
Current portion of lease liabilities <sup>(3)</sup>	1,329	131	554
Current portion of software subscription liabilities <sup>(4)</sup>	1,838	1,856	-
Other current liabilities	47,970	6,164	35,363
Accrued accounts:			
Interest, taxes, and wages	13,786	14,388	14,751
Distribution to the City	3,000	3,000	3,000
Total current liabilities	<u>229,265</u>	<u>194,694</u>	<u>206,224</u>
Non current liabilities:			
Long-term revenue bonds	980,578	1,050,687	1,122,609
Long-term lease liabilities <sup>(3)</sup>	58,642	114	150
Long-term software subscription liabilities <sup>(4)</sup>	-	1,770	-
Other noncurrent liabilities <sup>(2)</sup>	24,350	36,927	51,681
Net pension liability <sup>(1)</sup>	229,433	261,082	138,216
Net OPEB liability <sup>(2)</sup>	208,706	149,231	201,588
Total noncurrent liabilities	<u>1,501,709</u>	<u>1,499,811</u>	<u>1,514,244</u>
Total liabilities	<u>1,730,974</u>	<u>1,694,505</u>	<u>1,720,468</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows related to gain on bond refunding	156	168	181
Deferred inflows related to pension <sup>(1)</sup>	-	5,937	94,514
Deferred inflows related to OPEB <sup>(2)</sup>	40,372	102,608	102,885
Accumulated fair value of hedging derivatives	5,204	2,478	-
Total deferred inflows of resources	<u>45,732</u>	<u>111,191</u>	<u>197,580</u>
Total liabilities and deferred inflows of resources	<u>1,776,706</u>	<u>1,805,696</u>	<u>1,918,048</u>
<b>Net position</b>			
Excess (deficiency) of net investment in capital assets <sup>(3)(4)</sup>	828,274	678,913	591,091
Restricted (debt service and workers' compensation)	112,359	108,855	110,424
Unrestricted <sup>(1)(2)(3)(4)</sup>	<u>(212,351)</u>	<u>(163,419)</u>	<u>(251,462)</u>
Total net position	<u>728,282</u>	<u>624,349</u>	<u>450,053</u>
Total liabilities, deferred inflows of resources, and net position	<u>2,504,988</u>	<u>2,430,045</u>	<u>2,368,101</u>

(1) During FY 2015, the Company implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, that improves accounting and financial reporting by state and local governments for pensions, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This change was retroactive to FY 2014.

(2) During FY 2018, the Company implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for purposes of measuring the net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB Plans, and the OPEB Plans expense, information about the fiduciary net position of the OPEB Plan, and additions to/deductions from the OPEB Plans' fiduciary net position are determined on the same basis as they are reported by the OPEB Plans. This change was retroactive to FY 2017.

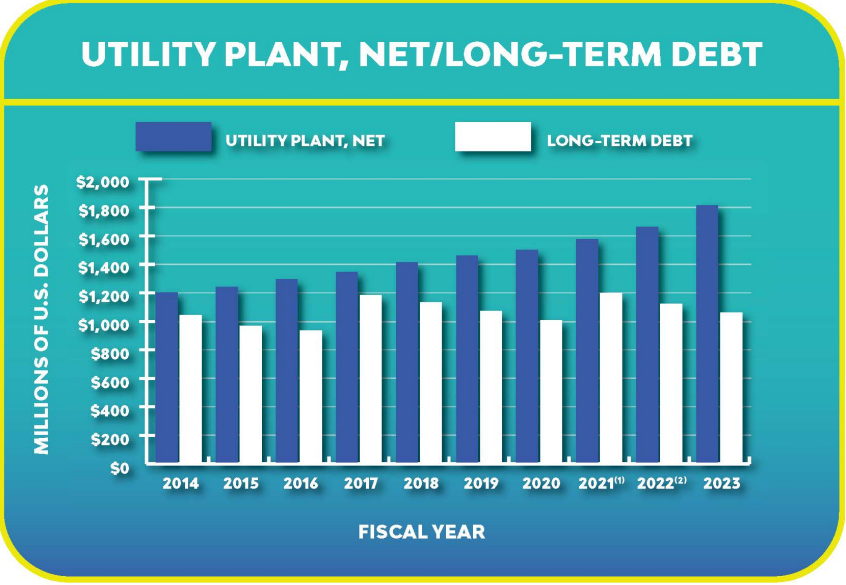
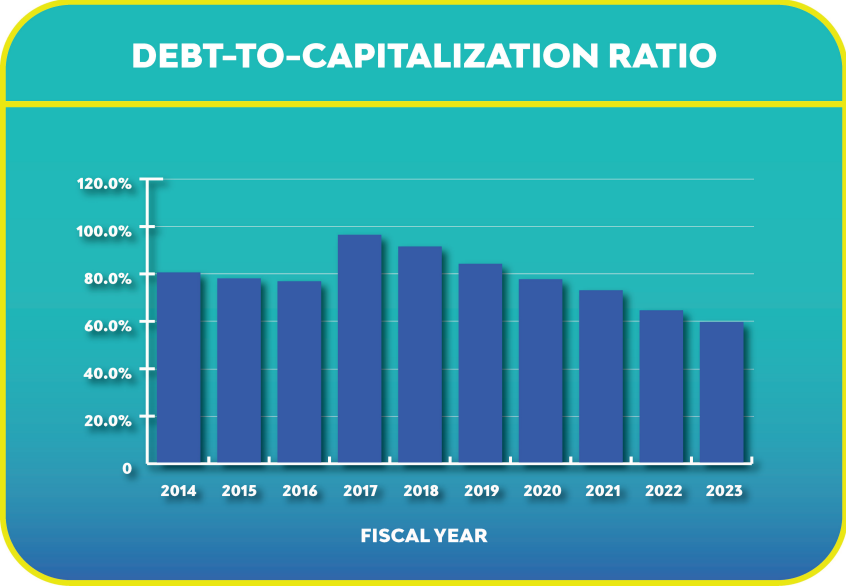
Source - PGW's Audited Financial Statements

2020	2019	2018	2017	2016	2015	2014
-	-	-	-	71,000	30,000	-
63,103	62,946	62,709	49,890	44,803	43,030	53,227
69,657	67,530	72,620	54,922	55,870	56,027	58,888
6,463	6,313	7,216	5,828	6,808	-	-
2,282	3,090	2,644	3,385	3,308	2,858	2,245
-	-	-	-	-	-	-
-	-	-	-	-	-	-
31,088	6,178	15,220	6,005	6,983	14,091	19,321
14,115	12,406	11,969	12,956	6,417	10,051	14,646
3,000	3,000	3,000	3,000	3,000	3,000	3,000
189,708	161,463	175,378	135,986	198,189	159,057	151,327
936,721	999,474	1,062,763	1,125,473	881,620	914,719	980,749
-	-	-	-	-	-	-
-	-	-	-	-	-	-
63,395	65,482	55,889	65,686	149,621	168,399	179,265
237,562	247,246	261,261	261,945	296,093	239,869	164,256
248,209	336,079	378,888	350,356	-	-	-
1,485,887	1,648,281	1,758,801	1,803,460	1,327,334	1,322,987	1,324,270
1,675,595	1,809,744	1,934,179	1,939,446	1,525,523	1,482,044	1,475,597
-	-	-	-	-	-	-
28,147	18,230	13,266	12,275	-	11,653	31,808
91,524	69,874	36,134	30,920	-	-	-
-	-	-	-	-	-	-
119,671	88,104	49,400	43,195	-	11,653	31,808
1,795,266	1,897,848	1,983,579	1,982,641	1,525,523	1,493,697	1,507,405
523,543	494,460	432,354	375,366	415,561	274,621	159,576
105,560	109,220	105,901	104,818	89,255	95,962	111,729
(333,576)	(396,118)	(426,555)	(430,567)	(216,778)	(92,599)	(13,303)
295,527	207,562	111,700	49,617	288,038	277,984	258,002
2,090,793	2,105,410	2,095,279	2,032,258	1,813,561	1,771,681	1,765,407

(3) During FY 2022, the Company implemented GASB Statement No. 87, *Leases*, that revises existing standards for measuring and reporting operating and capital leases. GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This change was retroactive to FY 2021.

(4) During FY 2023, the Company implemented GASB Statement No. 96, *Subscription Based Information Technology Arrangements (SBITA)*, that revises existing standards for measuring and reporting software subscriptions. Under this statement, SBITA's end user is required to recognize a liability and an intangible right to use asset, and a software vendor, involving software subscriptions, is required to recognize a receivable and a deferred inflow of resources. This change was retroactive to FY 2022.

**PHILADELPHIA GAS WORKS**  
 (A Component Unit of the City of Philadelphia)  
 Debt to Total Capitalization Ratio and  
 Utility Plant, Net/Long-Term Debt  
 Fiscal Years 2014 through 2023



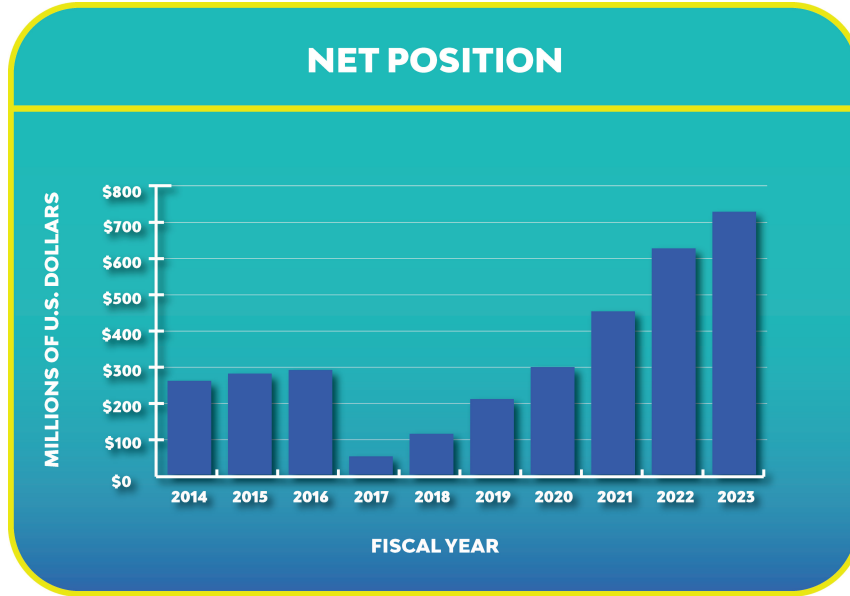
(1) For FY 2021 and forward Utility Plant, Net includes lease assets due to the implementation of GASB Statement No. 87, *Leases*.

(2) For FY 2022 and forward Utility Plant, Net includes software subscription assets due to the implementation of GASB Statement No. 96, *Subscription Based Information Technology Arrangements*.

Note: The total for debt includes revenue bonds, unamortized discounts, and unamortized premiums.



**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Net Position  
Fiscal Years 2014 through 2023



**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
**Statements of Revenues and Expenses**  
Fiscal Years 2014 through 2023  
(Thousands of U.S. Dollars)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues:			
Gas revenues:			
Nonheating	25,914	32,064	23,122
Gas transport service	77,530	71,710	67,907
Heating	599,980	687,142	549,982
Provision for uncollectible accounts <sup>(3)</sup>	<u>(40,270)</u>	<u>(25,287)</u>	<u>(16,261)</u>
Total gas revenues	663,154	765,629	624,750
Appliance and other revenues	7,339	6,656	6,019
Other operating revenues	40,533	33,152	15,978
Total operating revenues	<u>711,026</u>	<u>805,437</u>	<u>646,747</u>
Operating expenses:			
Natural gas	223,996	272,468	163,892
Gas processing <sup>(5)</sup>	25,569	24,085	23,294
Field operations <sup>(4) (5) (7)</sup>	89,803	79,542	79,678
Field services <sup>(4)</sup>	-	-	-
Distribution <sup>(4)</sup>	-	-	-
Collection and account management <sup>(5)</sup>	12,894	13,237	13,364
Provision for uncollectible accounts <sup>(3)</sup>	-	-	-
Customer services <sup>(5) (7)</sup>	13,962	12,825	13,762
Marketing <sup>(5)</sup>	3,857	4,433	4,113
Administrative and general <sup>(2) (4) (5) (7)</sup>	66,704	64,535	61,899
Pensions <sup>(1)</sup>	31,544	20,675	(3,146)
Other postemployment benefits <sup>(2)</sup>	4,791	(1,242)	(902)
Taxes	9,121	8,984	8,894
Total operating expenses before depreciation	<u>482,241</u>	<u>499,542</u>	<u>364,848</u>
Depreciation <sup>(5) (7)</sup>	81,962	72,342	69,312
Less depreciation expense included in operating expenses above	-	-	-
Net depreciation	<u>81,962</u>	<u>72,342</u>	<u>69,312</u>
Total operating expenses	<u>564,203</u>	<u>571,884</u>	<u>434,160</u>
Operating income	146,823	233,553	212,587
Investment gain (loss) and other income	14,000	(1,523)	1,322
Income before interest expense	<u>160,823</u>	<u>232,030</u>	<u>213,909</u>
Interest expense:			
Long-term debt	44,776	47,044	48,475
Other <sup>(5) (7)</sup>	(5,886)	(7,447)	(4,561)
Allowance for funds used during construction <sup>(6)</sup>	-	-	(2,413)
Total interest expense	<u>38,890</u>	<u>39,597</u>	<u>41,501</u>
Excess of revenues over expenses prior to City Payment	121,933	192,433	172,408
Distribution to the City of Philadelphia	<u>(18,000)</u>	<u>(18,000)</u>	<u>(18,000)</u>
Excess of revenues over expenses <sup>(1)</sup>	103,933	174,433	154,408
Net position, beginning of the year <sup>(1) (2) (5) (7)</sup>	<u>624,349</u>	<u>449,916</u>	<u>295,645</u>
Net position, end of the year <sup>(1) (2) (5) (7)</sup>	<u><u>728,282</u></u>	<u><u>624,349</u></u>	<u><u>450,053</u></u>

(1) During FY 2015, the Company implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, that improves accounting and financial reporting by state and local governments for pensions, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This change was retroactive to FY 2014.

(2) During FY 2018, the Company implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for purposes of measuring the net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB Plans, and the OPEB Plans expense, information about the fiduciary net position of the OPEB Plan, and additions to/deductions from the OPEB Plans' fiduciary net position are determined on the same basis as they are reported by the OPEB Plans. This change was retroactive to FY 2017.

(3) Starting in FY 2016, the Company reported provision for uncollectible accounts as a reduction of revenue as required by the GASB. Prior to FY 2016, the Company reported provision for uncollectible accounts as an expense.

(4) Presentation of the FY 2018 Statement of Revenue and Expenses was restated in FY 2019 to reflect Distribution, Field Services, and Operations Support Services (OSS) as a single line item – Field operations. Prior to FY 2019 and the FY 2018 restatement, Distribution and Field Services were reported on separate line and OSS was reported as a part of the Administrative and General line of the Statement of Revenue and Expenses.

2020	2019	2018	2017	2016	2015	2014
21,599	25,065	23,492	21,694	21,873	30,753	39,610
62,846	63,565	51,724	44,370	41,008	39,588	41,217
531,436	605,437	583,864	552,342	509,467	605,686	655,311
(44,088)	(29,983)	(30,826)	(29,992)	(27,133)	-	-
571,793	664,084	628,254	588,414	545,215	676,027	736,138
6,190	7,908	8,121	8,199	7,961	8,727	8,317
6,954	12,736	11,124	9,598	10,928	12,493	14,681
584,937	684,728	647,499	606,211	564,104	697,247	759,136
146,754	206,825	186,265	179,230	146,524	252,169	304,051
24,316	22,028	21,644	16,789	17,948	18,180	19,637
78,699	79,341	88,105	-	-	-	-
-	-	-	37,715	36,277	36,874	37,577
-	-	-	41,318	37,173	38,629	36,929
12,408	12,490	11,975	11,200	10,913	11,192	11,273
-	-	-	-	-	34,833	38,848
13,686	13,983	13,904	13,230	12,432	12,262	11,187
3,999	4,232	3,751	3,644	3,671	6,956	7,783
65,521	67,649	63,206	59,372	99,652	93,347	85,872
19,473	30,268	43,159	54,826	62,336	43,748	27,214
10,862	28,351	32,889	28,062	9,929	6,726	11,228
8,957	8,705	8,758	7,890	7,521	7,823	7,687
384,675	473,872	473,656	453,276	444,376	562,739	599,286
64,161	68,186	63,970	54,347	51,679	49,371	47,428
-	-	7,516	6,770	6,231	5,584	5,771
64,161	68,186	56,454	47,577	45,448	43,787	41,657
448,836	542,058	530,110	500,853	489,824	606,526	640,943
136,101	142,670	117,389	105,358	74,280	90,721	118,193
5,594	10,788	4,634	1,989	1,393	3,784	3,597
141,695	153,458	122,023	107,347	75,673	94,505	121,790
43,552	46,136	48,351	39,104	40,296	45,756	48,261
(5,962)	(5,245)	(5,058)	3,312	8,443	11,548	9,380
(1,860)	(1,295)	(1,353)	(1,408)	(1,120)	(781)	(506)
35,730	39,596	41,940	41,008	47,619	56,523	57,135
105,965	113,862	80,083	66,339	28,054	37,982	64,655
(18,000)	(18,000)	(18,000)	(18,000)	(18,000)	(18,000)	(18,000)
87,965	95,862	62,083	48,339	10,054	19,982	46,655
207,562	111,700	49,617	1,278	277,984	258,002	211,347
295,527	207,562	111,700	49,617	288,038	277,984	258,002

(5) During FY 2022, the Company implemented GASB Statement No. 87, *Leases*, that revises existing standards for measuring and reporting operating and capital leases. GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This change was retroactive to FY 2021.

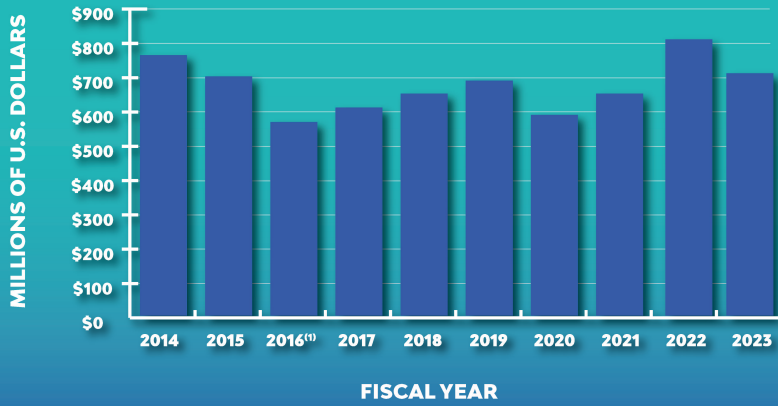
(6) During FY 2022, the Company implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business type activity or enterprise fund. Beginning on September 1, 2021, PGW no longer capitalizes Allowance for Funds Used During Construction (AFUDC).

(7) During FY 2023, the Company implemented GASB Statement No. 96, *Subscription Based Information Technology Arrangements (SBITA)*, that revises existing standards for measuring and reporting software subscriptions. Under this statement, SBITA's end user is required to recognize a liability and an intangible right to use asset, and a software vendor, involving software subscriptions, is required to recognize a receivable and a deferred inflow of resources. This change was retroactive to FY 2022.

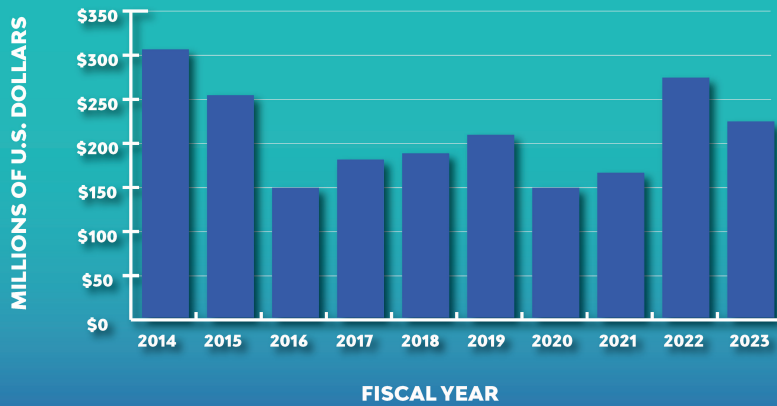
Source - PGW's Audited Financial Statements

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Operating Revenues and Natural Gas Expenses  
Fiscal Years 2014 through 2023

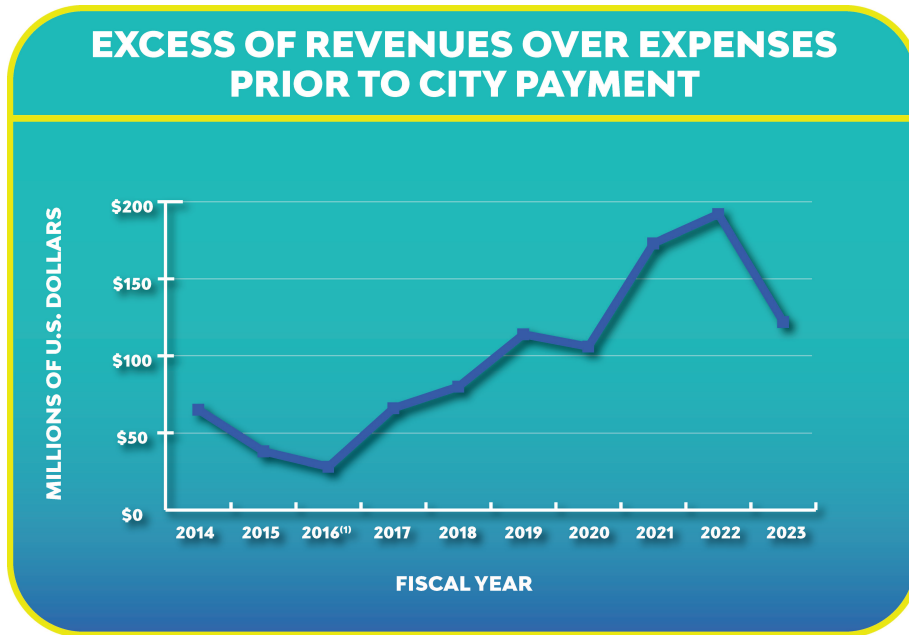
**OPERATING REVENUES**



**NATURAL GAS EXPENSE**



**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Excess of Revenues Over Expenses  
Prior to City Payment  
Fiscal Years 2014 through 2023



(1) Starting in FY 2016, the Company reported the provision for uncollectable accounts as a reduction of revenue as required by GASB. Prior to FY 2016, the Company reported the provision for uncollectable accounts as an expense.

**PHILADELPHIA GAS WORKS**  
 (A Component Unit of the City of Philadelphia)  
 Average Number of Customers Billed by System  
 Fiscal Years 2014 through 2023

	<b>2023</b>	<b>2022</b>	<b>2021<sup>(2)</sup></b>
Residential	493,100	496,400	498,300
Commercial	25,000	25,000	25,000
Industrial	500	600	700
<b>Total</b>	<b>518,600</b>	<b>522,000</b>	<b>524,000</b>

Source - PGW Records



- (1) PGW's customer count increased in FY 2020 as compared to FY 2019. However, PGW was operating under the Pennsylvania Public Utility Commission's (PAPUC) requirement to extend the moratorium regarding customer shut-offs during the period April 1, 2020 through August 31, 2020. PGW's increased customer count at the end of FY 2020 was principally due to this temporary regulatory action rather than market factors.
- (2) PGW's customer count remained consistent in FY 2021 as compared to FY 2020. PGW was operating under the PAPUC's modification of its March 13, 2020 Emergency Order imposing the moratorium on utility terminations by initiating phase 2 regarding customer protections until December 31, 2021. This continued to inflate PGW's normal customer count at the end of FY 2021.

<b>2020<sup>(1)</sup></b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
498,300	484,300	482,300	479,300	476,300	475,300	474,300
25,000	25,000	25,000	25,000	25,000	25,000	25,000
700	700	700	700	700	700	700
<u>524,000</u>	<u>510,000</u>	<u>508,000</u>	<u>505,000</u>	<u>502,000</u>	<u>501,000</u>	<u>500,000</u>

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Operating Revenues  
Fiscal Years 2014 through 2023  
(Thousands of U.S. dollars)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Firm non-heat	22,617	24,535	21,267
Interruptible gas sales	5,057	6,338	2,085
Billed non-heating	27,674	30,873	23,352
GCR non-heating adjustment	(1,761)	1,191	(230)
Total non-heating	25,913	32,064	23,122
Billed heating	622,898	632,373	544,653
GCR heating adjustment	(49,080)	30,918	(5,392)
Total billed heating	573,818	663,291	539,261
Weather normalization adjustment (WNA)	28,898	20,523	10,540
Total heating	602,716	683,814	549,801
Total gas sold	628,629	715,878	572,923
Firm transportation (FT) non-heat	5,698	5,428	5,060
FT heating	52,265	47,294	46,112
WNA - FT	3,498	2,637	1,222
Total heating FT	55,763	49,931	47,334
Total FT	61,461	55,359	52,394
Unbilled adjustment	(2,735)	3,329	181
GTS: transportation	1,230	1,177	1,165
GTS - customer/customer choice	11,884	12,695	11,469
GTS - supplier/customer choice	11	11	583
GTS - firm supplier	2,944	2,467	2,296
Total gas revenues	<u>703,424</u>	<u>790,916</u>	<u>641,011</u>

Source - PGW Records



<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
20,496	23,328	23,352	21,588	20,765	27,592	30,324
1,922	1,325	1,059	377	346	3,672	9,068
22,418	24,653	24,411	21,965	21,111	31,264	39,392
(820)	412	(919)	(271)	762	(511)	218
21,598	25,065	23,492	21,694	21,873	30,753	39,610
540,576	592,730	612,556	527,191	454,852	630,286	660,942
(21,686)	11,040	(23,933)	(4,768)	17,424	(12,124)	6,174
518,890	603,770	588,623	522,423	472,276	618,162	667,116
9,683	1,347	(3,848)	27,748	39,021	(10,372)	(11,810)
528,573	605,117	584,775	550,171	511,297	607,790	655,306
550,171	630,182	608,267	571,865	533,170	638,543	694,916
4,963	5,328	5,063	4,559	4,518	4,953	5,671
43,259	42,250	32,591	26,850	22,789	22,468	23,330
1,106	249	42	1,846	2,458	(374)	(488)
44,365	42,499	32,633	28,696	25,247	22,094	22,842
49,328	47,827	37,696	33,255	29,765	27,047	28,513
2,864	320	(911)	2,171	(1,830)	(2,105)	5
1,160	1,161	1,144	1,171	1,231	1,252	1,173
10,381	12,664	11,566	8,938	8,784	10,285	10,278
(561)	12	13	14	11	11	11
2,538	1,901	1,305	992	1,217	994	1,242
615,881	694,067	659,080	618,406	572,348	676,027	736,138

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Sales Volume  
Fiscal Years 2014 through 2023  
(Sales in Mcf)\*

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Firm non-heat	1,231,117	1,443,472	1,504,008
Interruptible gas sales	893,017	1,318,917	492,120
Billed non-heating	<u>2,124,134</u>	<u>2,762,389</u>	<u>1,996,128</u>
Total non-heating	2,124,134	2,762,389	1,996,128
Billed heating	<u>34,506,889</u>	<u>38,515,577</u>	<u>38,797,073</u>
Total billed heating	<u>34,506,889</u>	<u>38,515,577</u>	<u>38,797,073</u>
Total heating	<u>34,506,889</u>	<u>38,515,577</u>	<u>38,797,073</u>
Total gas sold	<u>36,631,023</u>	<u>41,277,966</u>	<u>40,793,201</u>
Firm transportation (FT) non-heat	673,336	648,034	619,706
FT heating	<u>5,387,063</u>	<u>5,070,660</u>	<u>5,147,806</u>
Total heating FT	<u>5,387,063</u>	<u>5,070,660</u>	<u>5,147,806</u>
Total FT	<u>6,060,399</u>	<u>5,718,694</u>	<u>5,767,512</u>
Unbilled adjustment	(19,592)	(50,812)	54,480
GTS: transportation	14,005,836	13,391,475	13,239,471
GTS - customer/customer choice	10,852,841	11,780,092	11,633,361
Utility use	315,456	300,196	296,018
Unaccounted for gas	1,099,948	1,557,842	1,202,717
Less off system sales	<u>(209,730)</u>	<u>(909,962)</u>	<u>-</u>
Total sendout <sup>(1)</sup>	<u>68,736,181</u>	<u>73,065,491</u>	<u>72,986,760</u>
Unaccounted for gas as a % of total sendout	1.6%	2.1%	1.6%
Degree Days <sup>(2)</sup>	3,740	3,853	4,108

\* Mcf = Thousand cubic feet

(1) Total annual sendout excludes all off system sales.

(2) In FY 2021, the source for degree days changed from PGW's Richmond Plant to National Oceanic and Atmospheric Administration (NOAA) which is measured at the Philadelphia International Airport.

Source - PGW Records

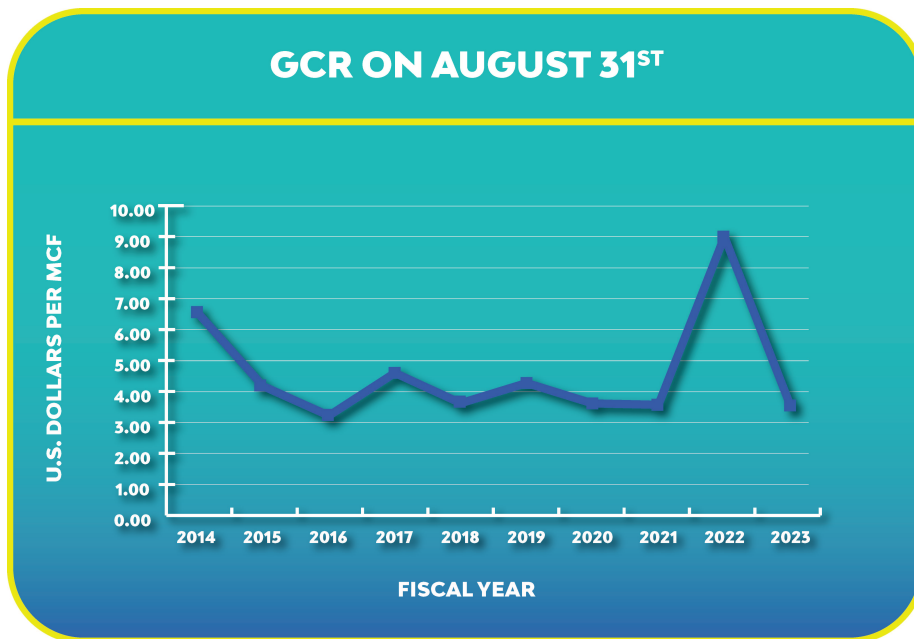
<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
1,416,532	1,618,792	1,592,458	1,508,362	1,568,529	1,912,025	1,955,220
587,757	204,951	165,808	18,420	37,909	514,110	1,096,381
2,004,289	1,823,743	1,758,266	1,526,782	1,606,438	2,426,135	3,051,601
2,004,289	1,823,743	1,758,266	1,526,782	1,606,438	2,426,135	3,051,601
37,583,722	41,603,356	42,925,738	38,464,325	36,115,312	46,504,401	46,577,983
37,583,722	41,603,356	42,925,738	38,464,325	36,115,312	46,504,401	46,577,983
37,583,722	41,603,356	42,925,738	38,464,325	36,115,312	46,504,401	46,577,983
39,588,011	43,427,099	44,684,004	39,991,107	37,721,750	48,930,536	49,629,584
672,219	708,321	664,696	640,312	667,248	764,344	795,971
5,312,963	5,262,884	4,242,257	3,816,219	3,456,099	3,529,555	3,291,193
5,312,963	5,262,884	4,242,257	3,816,219	3,456,099	3,529,555	3,291,193
5,985,182	5,971,205	4,906,953	4,456,531	4,123,347	4,293,899	4,087,164
(20,584)	27,810	521,488	(7,071)	33,433	19,916	95,656
13,167,948	13,150,399	12,926,197	12,630,935	12,796,900	13,166,995	12,069,664
11,603,620	13,843,821	12,833,659	11,612,597	11,303,602	12,837,207	13,201,076
209,460	261,766	263,681	264,016	233,115	343,324	350,974
1,487,570	1,667,421	1,351,894	1,684,675	1,738,806	2,445,717	1,051,828
-	-	-	-	-	-	-
72,021,207	78,349,521	77,487,876	70,632,790	67,950,953	82,037,594	80,485,946
2.1%	2.1%	1.7%	2.4%	2.6%	3.0%	1.3%
3,353	3,995	3,986	3,552	3,356	4,444	4,405

**PHILADELPHIA GAS WORKS**  
 (A Component Unit of the City of Philadelphia)  
 Gas Cost Rate (GCR)  
 Fiscal Years 2014 through 2023  
 (U.S. dollars)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
September 1	8.6371	4.8745	3.4107
December 1	8.0242	6.0100	3.8484
March 1	4.9740	5.6123	3.4687
June 1	3.5516	9.0057	3.5700

Shown in dollars per thousand cubic feet

Source - PGW Records



<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
4.6030	3.8633	4.1523	4.2026	4.0724	5.8670	5.4259
4.7175	4.4723	4.6913	4.1577	3.6934	5.9976	5.4473
3.9009	4.8779	3.8857	4.9430	3.4946	4.7059	6.0016
3.6124	4.2724	3.6210	4.5986	3.2179	4.1721	6.5642

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Ratios of Outstanding Debt by Type  
Fiscal Years 2014 through 2023  
(Thousands of U.S. dollars)

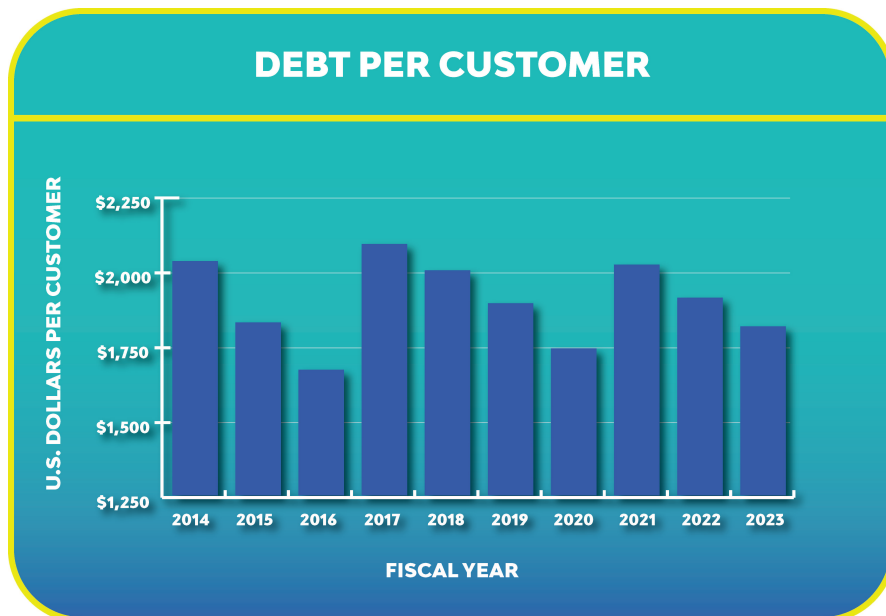
	Revenue Bonds	Unamortized Discount	Unamortized Premium	Total Revenue Bonds	Ratio to Operating Revenue	Operating Revenue	Number of Customers	Debt per Customer (1)(2)(3)
2023	943,250	(44)	107,481	1,050,687	133%	711,026	518,600	1,819
2022	997,020	(48)	117,918	1,114,890	124%	805,437	522,000	1,910
2021	1,058,630	(52)	129,448	1,188,026	164%	646,747	524,000	2,020
2020	911,610	(56)	88,270	999,824	156%	584,937	524,000	1,740
2019	964,480	(60)	98,000	1,062,420	141%	684,728	510,000	1,891
2018	1,016,300	(64)	109,236	1,125,472	157%	647,499	508,000	2,001
2017	1,054,725	(68)	120,706	1,175,363	174%	606,211	505,000	2,089
2016	837,830	(110)	88,703	926,423	149%	564,104	502,000	1,669
2015	915,175	(786)	43,360	957,749	131%	697,247	501,000	1,827
2014	1,015,920	(2,160)	20,216	1,033,976	134%	759,136	500,000	2,032

(1) Debt per Customer data is presented in whole dollars.

(2) PGW's customer count increased in FY 2020 as compared to FY 2019. However, PGW was operating under the PAPUC's requirement to extend the moratorium regarding customer shut-offs during the period April 1, 2020 through August 31, 2020. PGW's increased customer count at the end of FY 2020 was principally due to this temporary regulatory action rather than market factors.

(3) PGW's customer count remained consistent in FY 2021 as compared to FY 2020. PGW was operating under the PAPUC's modification of its March 13, 2020 Emergency Order imposing the moratorium on utility terminations by initiating phase 2 regarding customer protections until December 31, 2021. This continued to inflate PGW's normal customer count at the end of FY 2021.

Source - PGW's Audited Financial Statements and PGW Records



(This page has been intentionally left blank)

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Debt Service  
Through Fiscal Year 2050

Year	5th Series Variable	8th Series B	8th Series C	8th Series D	8th Series E
2024	\$ 1,098,000	\$ 5,783,590	\$ 5,752,956	\$ 8,632,225	\$ 5,783,590
2025	1,098,000	5,965,172	5,935,509	8,903,458	5,965,172
2026	1,098,000	6,022,571	5,988,879	8,988,513	6,022,571
2027	1,098,000	6,460,060	6,427,534	9,643,801	6,460,060
2028	1,098,000	6,482,485	6,446,124	9,666,590	6,482,485
2029	1,098,000	-	-	-	-
2030	1,098,000	-	-	-	-
2031	1,098,000	-	-	-	-
2032	1,098,000	-	-	-	-
2033	1,098,000	-	-	-	-
2034	1,098,000	-	-	-	-
2035	30,549,000	-	-	-	-
2036	-	-	-	-	-
2037	-	-	-	-	-
2038	-	-	-	-	-
2039	-	-	-	-	-
2040	-	-	-	-	-
2041	-	-	-	-	-
2042	-	-	-	-	-
2043	-	-	-	-	-
2044	-	-	-	-	-
2045	-	-	-	-	-
2046	-	-	-	-	-
2047	-	-	-	-	-
2048	-	-	-	-	-
2049	-	-	-	-	-
2050	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 42,627,000</b>	<b>\$ 30,713,878</b>	<b>\$ 30,551,002</b>	<b>\$ 45,834,587</b>	<b>\$ 30,713,878</b>

Source - PGW Records



13th Series	14th Series	15th Series	16th Series A	16th Series B	Total 1998 Ordinance
\$ 24,696,250	\$ 17,500,075	\$ 17,392,750	\$ 13,255,000	\$ 4,325,550	\$ 104,219,986
17,681,250	19,635,700	17,395,250	13,253,750	1,768,800	97,602,061
17,295,250	19,674,450	17,399,250	13,253,250	1,768,800	97,511,534
13,517,000	19,667,075	17,394,000	13,253,000	1,768,800	95,689,330
13,525,500	18,346,825	18,664,250	13,252,500	1,768,800	95,733,559
13,524,250	18,343,700	18,740,500	13,256,250	1,768,800	66,731,500
13,522,500	18,348,825	17,263,500	13,253,500	1,768,800	65,255,125
13,524,000	18,345,575	17,259,750	13,254,000	1,768,800	65,250,125
13,517,250	18,347,325	17,263,250	13,252,000	1,768,800	65,246,625
5,121,250	18,347,200	17,257,750	13,252,000	1,768,800	56,845,000
5,124,000	18,353,200	17,257,750	13,253,250	1,768,800	56,855,000
-	10,655,700	17,257,000	13,255,000	1,768,800	73,485,500
-	10,657,300	17,259,500	13,256,500	9,933,800	51,107,100
-	10,658,600	17,264,000	13,257,000	9,932,200	51,111,800
-	10,653,900	17,264,250	13,255,750	9,932,600	51,106,500
-	-	17,259,250	13,257,000	9,934,400	40,450,650
-	-	17,263,000	13,254,750	9,932,000	40,449,750
-	-	17,258,750	13,253,250	-	30,512,000
-	-	17,260,500	13,251,850	-	30,512,350
-	-	17,261,500	13,251,850	-	30,513,350
-	-	17,260,250	13,252,650	-	30,512,900
-	-	17,260,250	13,253,650	-	30,513,900
-	-	17,259,750	13,254,250	-	30,514,000
-	-	17,262,000	13,255,000	-	30,517,000
-	-	-	13,254,750	-	13,254,750
-	-	-	13,252,250	-	13,252,250
-	-	-	13,256,250	-	13,256,250
<u>\$ 151,048,500</u>	<u>\$ 247,535,450</u>	<u>\$ 417,678,000</u>	<u>\$ 357,860,250</u>	<u>\$ 73,447,350</u>	<u>\$ 1,428,009,895</u>

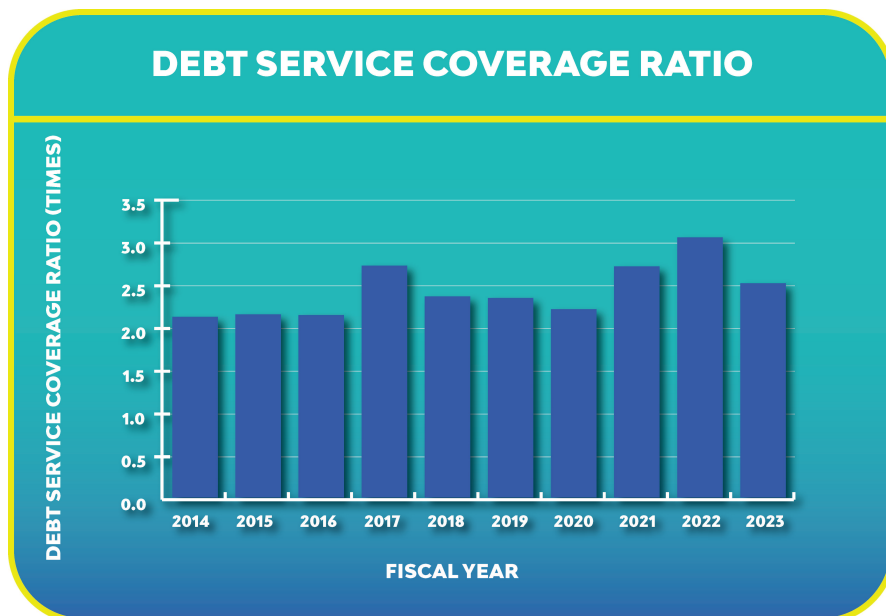
**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Debt Service Coverage  
Fiscal Years 2014 through 2023  
(Thousands of U.S. dollars)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Funds Provided</b>			
Total gas revenues	663,154	765,629	624,750
Other operating revenues	47,872	39,808	21,997
Total operating revenues	711,026	805,437	646,747
Other income increase restricted funds	11,596	(2,139)	1,295
AFUDC (Interest) <sup>(1)</sup>	-	-	2,413
Total funds provided	722,622	803,298	650,455
<b>Funds Applied</b>			
Fuel costs	223,996	272,468	163,892
Other operating costs	340,207	299,415	270,268
Total operating expenses	564,203	571,883	434,160
Less: non-cash expenses	91,079	68,773	46,075
Total funds applied	473,124	503,110	388,085
Funds available to cover debt service	249,498	300,188	262,370
Funds available excluding lease costs	249,498	300,188	262,370
1975 ordinance bonds debt service	-	-	-
Debt service coverage 1975 bonds	-	-	-
Net available after prior debt service	249,498	300,188	262,370
Net available after prior capital leases	249,498	300,188	262,370
1998 ordinance bonds debt service	99,144	98,430	97,383
Debt service coverage 1998 bonds	2.52	3.05	2.70
Net available after 1998 debt service	150,354	201,758	164,987

(1) During FY 2022, the Company implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. Beginning on September 1, 2021, PGW no longer capitalizes AFUDC.

Source - PGW's Audited Financial Statements and PGW Records

2020	2019	2018	2017	2016	2015	2014
571,793	664,084	628,254	618,406	572,348	676,027	736,138
13,144	20,644	19,245	17,797	18,889	21,220	22,998
584,937	684,728	647,499	636,203	591,237	697,247	759,136
12,303	10,788	4,634	1,087	1,416	10,836	4,079
1,860	1,295	1,353	1,408	1,120	781	506
599,100	696,811	653,486	638,698	593,773	708,864	763,721
146,754	206,825	186,265	179,230	146,524	252,169	304,051
302,081	335,233	343,845	360,467	370,433	354,357	336,892
448,835	542,058	530,110	539,697	516,957	606,526	640,943
61,105	74,481	82,843	84,027	89,059	74,535	53,039
387,730	467,577	447,267	455,670	427,898	531,991	587,904
211,370	229,234	206,219	183,028	165,875	176,873	175,817
211,370	229,234	206,219	183,028	165,875	176,873	175,817
-	-	-	-	-	26,904	28,592
-	-	-	-	-	6.57	6.15
211,370	229,234	206,219	183,028	165,875	149,969	147,225
211,370	229,234	206,219	183,028	165,875	149,969	147,225
96,182	98,417	87,690	67,582	77,867	70,139	69,749
2.20	2.33	2.35	2.71	2.13	2.14	2.11
115,188	130,817	118,529	115,446	88,008	79,830	77,476



**PHILADELPHIA GAS WORKS**  
 (A Component Unit of the City of Philadelphia)  
 Average Demographic and Economic Statistics\*  
 Principal Employers  
 Calendar Years 2022 and 2013

2022	2013
Albert Einstein Medical	Albert Einstein Medical
Children's Hospital of Philadelphia	Children's Hospital of Philadelphia
City of Philadelphia	City of Philadelphia
Comcast Corporation	Comcast Corporation
School District of Philadelphia	School District of Philadelphia
SEPTA	SEPTA
Temple University	Temple University
Thomas Jefferson University Hospitals	Thomas Jefferson University Hospitals
University of Pennsylvania (College)	University of Pennsylvania (College)
University of Pennsylvania (Hospital)	University of Pennsylvania (Hospital)

*Listed Alphabetically*  
*Source - City of Philadelphia*

*\* Information is for the City, which is PGW's service area.*

**PHILADELPHIA GAS WORKS**  
 (A Component Unit of the City of Philadelphia)  
 Average Demographic and Economic Statistics\*  
 Calendar Years 2013 through 2022

Calendar Year	Population (1)	Personal Income (Thousands of U.S. Dollars) (2)	Per Capita Personal Income (U.S. Dollars)	Unemployment Rate (3)
2022	1,567,258	88,964,392	56,764	5.4%
2021	1,576,251	95,944,257	60,869	9.2%
2020	1,578,487	93,038,320	58,941	12.4%
2019	1,584,064	90,711,866	57,265	5.5%
2018	1,584,138	88,311,658	55,747	5.5%
2017	1,580,863	88,081,991	55,718	6.2%
2016	1,567,872	80,973,410	51,645	6.8%
2015	1,567,442	77,903,831	49,701	6.9%
2014	1,560,297	66,495,223	42,617	8.0%
2013	1,553,165	65,473,002	42,155	10.0%

*Sources:*

*(1) US Census Bureau*

*(2) US Department of Commerce, Bureau of Economic Analysis*

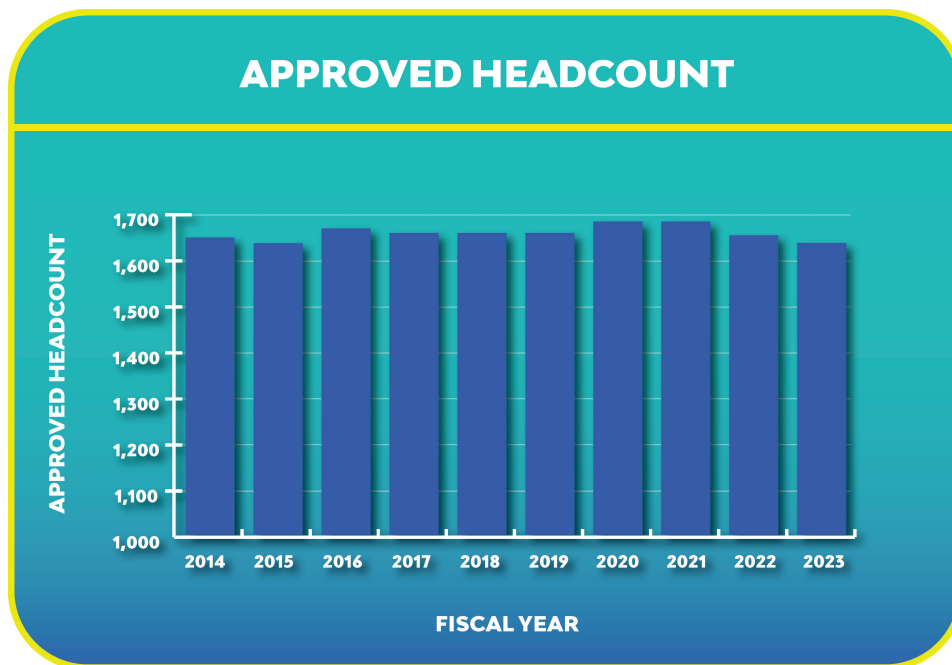
*(3) US Department of Labor, Bureau of Labor Statistics*

*\* Information is for the City, which is PGW's service area.*

**PHILADELPHIA GAS WORKS**  
 (A Component Unit of the City of Philadelphia)  
 Approved Budgeted Full-Time Personnel by Department  
 Fiscal Years 2014 through 2023

<b>Departments</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
President & Chief Executive Officer	2	2	2
Chief Operating Officer	-	2	2
Chief Financial Officer	2	2	2
Gas processing	118	118	115
Field services	355	355	364
Distribution	481	483	483
Collection	27	27	27
Customer service	146	170	177
Marketing	29	29	31
Administrative and general	492	487	511
PGW Total	<u>1,652</u>	<u>1,675</u>	<u>1,714</u>
Personnel savings	(21)	(31)	(39)
Philadelphia Gas Commission	<u>6</u>	<u>6</u>	<u>5</u>
Grand Total	<u>1,637</u>	<u>1,650</u>	<u>1,680</u>

Source - PGW's Annual Operating Budgets

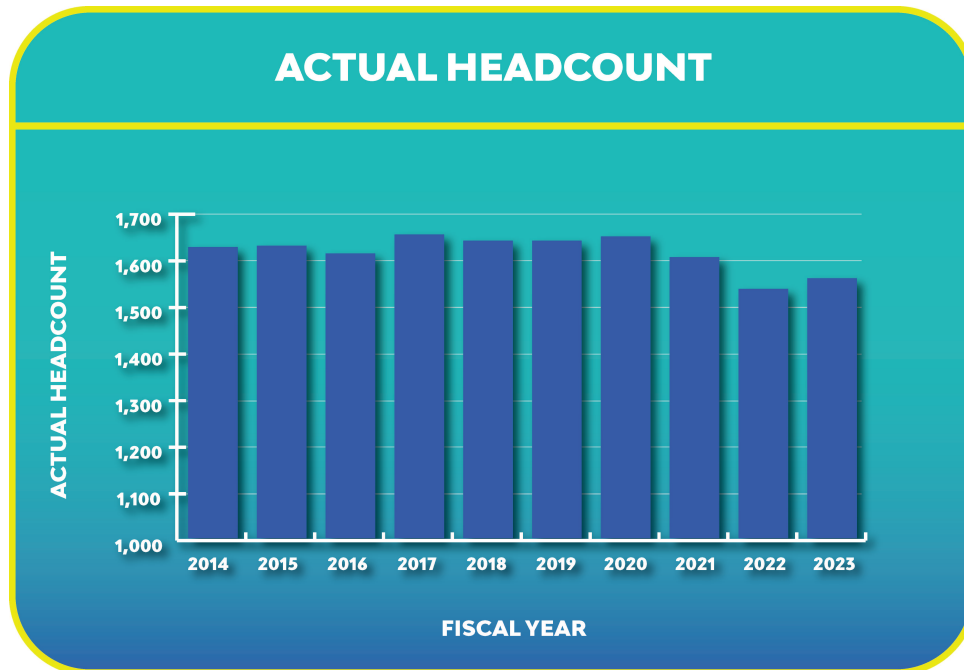


<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
2	2	2	2	2	3	3
2	2	2	2	2	2	2
2	2	2	2	2	2	2
116	115	116	116	116	119	123
365	364	372	372	374	372	372
481	483	486	486	480	472	472
28	28	29	29	29	31	31
170	169	170	170	170	176	189
32	32	32	32	32	44	44
521	497	480	480	484	449	442
<u>1,719</u>	<u>1,694</u>	<u>1,691</u>	<u>1,691</u>	<u>1,691</u>	<u>1,670</u>	<u>1,680</u>
(44)	(44)	(41)	(41)	(31)	(42)	(40)
5	5	5	5	5	5	5
<u>1,680</u>	<u>1,655</u>	<u>1,655</u>	<u>1,655</u>	<u>1,665</u>	<u>1,633</u>	<u>1,645</u>

**PHILADELPHIA GAS WORKS**  
 (A Component Unit of the City of Philadelphia)  
 Actual Full-Time Personnel by Department  
 Fiscal Years 2014 through 2023

<b>Departments</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
President & Chief Executive Officer	2	2	2
Chief Operating Officer	-	1	2
Chief Financial Officer	1	1	2
Gas processing	116	110	114
Field services	347	340	353
Distribution	476	473	479
Collection	24	23	26
Customer service	102	109	138
Marketing	25	25	26
Administrative and general	462	446	454
<b>PGW Total</b>	<b>1,555</b>	<b>1,530</b>	<b>1,596</b>
Philadelphia Gas Commission	6	5	7
<b>Grand Total</b>	<b>1,561</b>	<b>1,535</b>	<b>1,603</b>

Source - PGW Records





<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
2	2	2	2	2	3	3
2	2	2	2	2	3	2
2	2	2	2	2	2	2
117	116	117	117	116	115	121
364	353	361	370	362	365	364
480	474	474	486	473	477	475
27	27	27	26	25	27	30
157	167	167	169	157	171	143
26	25	27	27	27	33	38
464	464	454	445	440	426	441
<u>1,641</u>	<u>1,632</u>	<u>1,633</u>	<u>1,646</u>	<u>1,606</u>	<u>1,622</u>	<u>1,619</u>
6	6	5	5	5	5	5
<u>1,647</u>	<u>1,638</u>	<u>1,638</u>	<u>1,651</u>	<u>1,611</u>	<u>1,627</u>	<u>1,624</u>

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Operating Indicators  
Fiscal Years 2014 through 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Financial</b>			
Debt service ratio (1975 Ordinance)	N/A	N/A	N/A
Debt service ratio (1998 Ordinance)	2.52	3.05	2.70
Debt to total capital ratio	59.1%	64.1%	72.5%
Bad debt as a % of revenue	5.4%	3.0%	2.5%
Bad debt reserve as a % of accounts receivable	54.2%	50.3%	58.0%
Collection factor (receipts/billings)	97.8%	96.7%	96.1%
Cash balance (Thousands of U.S. dollars)	139,302	115,637	158,265
Natural Gas (NG) storage (Thousands of U.S. dollars)	65,315	81,467	40,762
<b>Payroll</b>			
Total payroll (Thousands of U.S. dollars) (Includes Overtime)	139,739	135,576	134,590
Overtime (Thousands of U.S. dollars)	11,599	12,072	10,392
Overtime as a % of Total Payroll	8.3%	8.9%	7.7%
<b>Liquefied Natural Gas (LNG)</b>			
LNG to storage (Mcf)*	1,896,921	1,661,358	1,096,567
LNG from storage (Mcf)	1,609,568	3,106,204	1,293,188
Net to (from) storage (Mcf)	287,353	(1,444,846)	(196,621)
Off-system sales contributed to GCR (Thousands of U.S. dollars)	-	-	-
<b>Natural Gas Cost</b>			
Gas utilized (Mcf)	37,979,338	43,690,313	42,219,842
Gas utilized (Thousands of U.S. dollars)	223,978	272,438	163,873
Cost per Mcf (\$)	5.90	6.24	3.88
<b>Natural Gas Sales Information</b>			
Firm gas sold (Mcf)	35,738,006	39,959,049	40,301,081
Interruptible gas sold (Mcf)	893,017	1,318,917	492,120
Total gas sold (Mcf)	36,631,023	41,277,966	40,793,201
Transportation gas - GTS (Mcf)	30,919,076	30,890,261	30,640,344
Other (Mcf)	1,186,082	897,264	1,553,215
Total gas sendout (Mcf)	68,736,181	73,065,491	72,986,760
Unaccounted for gas as a % of total gas sendout	1.6%	2.1%	1.6%
Transportation gas - GTS as a % of total gas sendout	45.0%	42.3%	42.0%
Firm gas sold as a % of total gas sold	97.6%	96.8%	98.8%
<b>Degree Days <sup>(1)</sup></b>			
Fiscal Year	3,740	3,853	4,108

\* Mcf = Thousand cubic feet

(1) In FY 2021, the source for degree days changed from PGW's Richmond Plant to National Oceanic and Atmospheric Administration (NOAA) which is measured at the Philadelphia International Airport.

Source - PGW Records

2020	2019	2018	2017	2016	2015	2014
N/A	N/A	N/A	N/A	N/A	6.57	6.15
2.20	2.33	2.35	2.71	2.13	2.14	2.11
77.2%	83.7%	91.0%	95.9%	76.3%	77.5%	80.0%
7.0%	4.2%	4.5%	4.7%	4.6%	5.0%	5.1%
49.0%	43.7%	44.5%	44.3%	50.2%	54.0%	51.4%
96.6%	96.3%	95.4%	96.5%	97.7%	97.1%	95.0%
172,267	124,145	131,051	88,535	91,743	114,327	105,734
35,898	41,263	41,652	46,031	38,556	40,791	60,089
130,981	128,107	129,688	119,182	112,556	113,675	115,174
9,412	11,776	13,863	11,118	11,125	11,824	13,629
7.2%	9.2%	10.7%	9.3%	9.9%	10.4%	11.8%
1,639,438	2,180,597	1,868,481	2,331,475	2,233,463	2,043,392	1,821,935
1,140,527	1,914,218	2,516,678	1,396,559	1,258,905	2,237,729	3,210,133
498,911	266,379	(648,197)	934,916	974,558	(194,337)	(1,388,198)
-	-	-	175	125	-	321
41,908,102	46,127,914	47,226,345	43,557,457	40,301,447	50,562,653	52,961,786
146,732	206,801	186,254	179,222	146,515	252,158	304,040
3.50	4.48	3.94	4.11	3.64	4.99	5.74
39,000,254	43,222,148	44,518,196	39,972,687	37,683,841	48,416,426	48,533,203
587,757	204,951	165,808	18,420	37,909	514,110	1,096,381
39,588,011	43,427,099	44,684,004	39,991,107	37,721,750	48,930,536	49,629,584
30,756,750	32,965,425	30,666,809	28,700,063	28,223,849	30,298,101	29,357,904
1,676,446	1,956,997	2,137,063	1,941,620	2,005,354	2,808,957	1,498,458
72,021,207	78,349,521	77,487,876	70,632,790	67,950,953	82,037,594	80,485,946
2.1%	2.1%	1.7%	2.4%	2.6%	3.0%	2.0%
42.7%	42.1%	39.6%	40.6%	41.5%	36.9%	36.5%
98.5%	99.5%	99.6%	100.0%	99.9%	98.9%	97.8%
3,353	3,995	3,986	3,552	3,356	4,444	4,405

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Capital Asset Information  
Calendar Years 2014 through 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Gas main (Miles)	3,047	3,043	3,046
Services (Miles)	2,871	2,881	2,889
Number of meters			
Residential/Small commercial	511,470	513,903	513,954
Large diaphragm	4,046	3,833	3,768
Rotary	10,425	10,178	10,211
Turbine	277	276	276
Total	<u>526,218</u>	<u>528,190</u>	<u>528,209</u>

*Source - Gas Annual Report of PGW to the Pennsylvania Public Utility Commission*

<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
3,047	3,042	3,041	3,039	3,020	3,022	3,023
2,887	2,889	2,891	2,868	2,865	2,862	2,860
515,165	506,946	501,529	502,305	499,110	497,556	499,375
3,663	3,543	3,385	3,179	3,030	2,842	2,695
10,245	10,210	10,653	10,076	10,034	9,945	9,883
280	280	286	284	283	285	291
<b>529,353</b>	<b>520,979</b>	<b>515,853</b>	<b>515,844</b>	<b>512,457</b>	<b>510,628</b>	<b>512,244</b>

**PHILADELPHIA GAS WORKS**  
(A Component Unit of the City of Philadelphia)  
Ten Largest Customers  
Fiscal Years 2023 and 2014  
(Thousands of U.S. dollars)

2023		2014	
Customer 1 (A)	4,685	Customer 1 (A)	5,032
Customer 2 (B)	4,299	Customer 2 (C)	4,434
Customer 3 (C)	3,833	Customer 3	4,348
Customer 4	3,230	Customer 4 (B)	3,639
Customer 5	3,107	Customer 5	2,675
Customer 6 (D)	2,073	Customer 6	1,998
Customer 7	1,463	Customer 7	1,993
Customer 8	1,327	Customer 8 (D)	1,918
Customer 9	1,133	Customer 9	1,724
Customer 10	1,118	Customer 10	1,154
Total	26,268	Total	28,915

*Note - A letter designation indicates a repeat customer from the fiscal year 2014 list identified on the fiscal year 2023 list.*

*Source - PGW Records*

(This page has been intentionally left blank)





**APPENDIX B**

**INDEPENDENT CONSULTANT'S ENGINEERING REPORT**

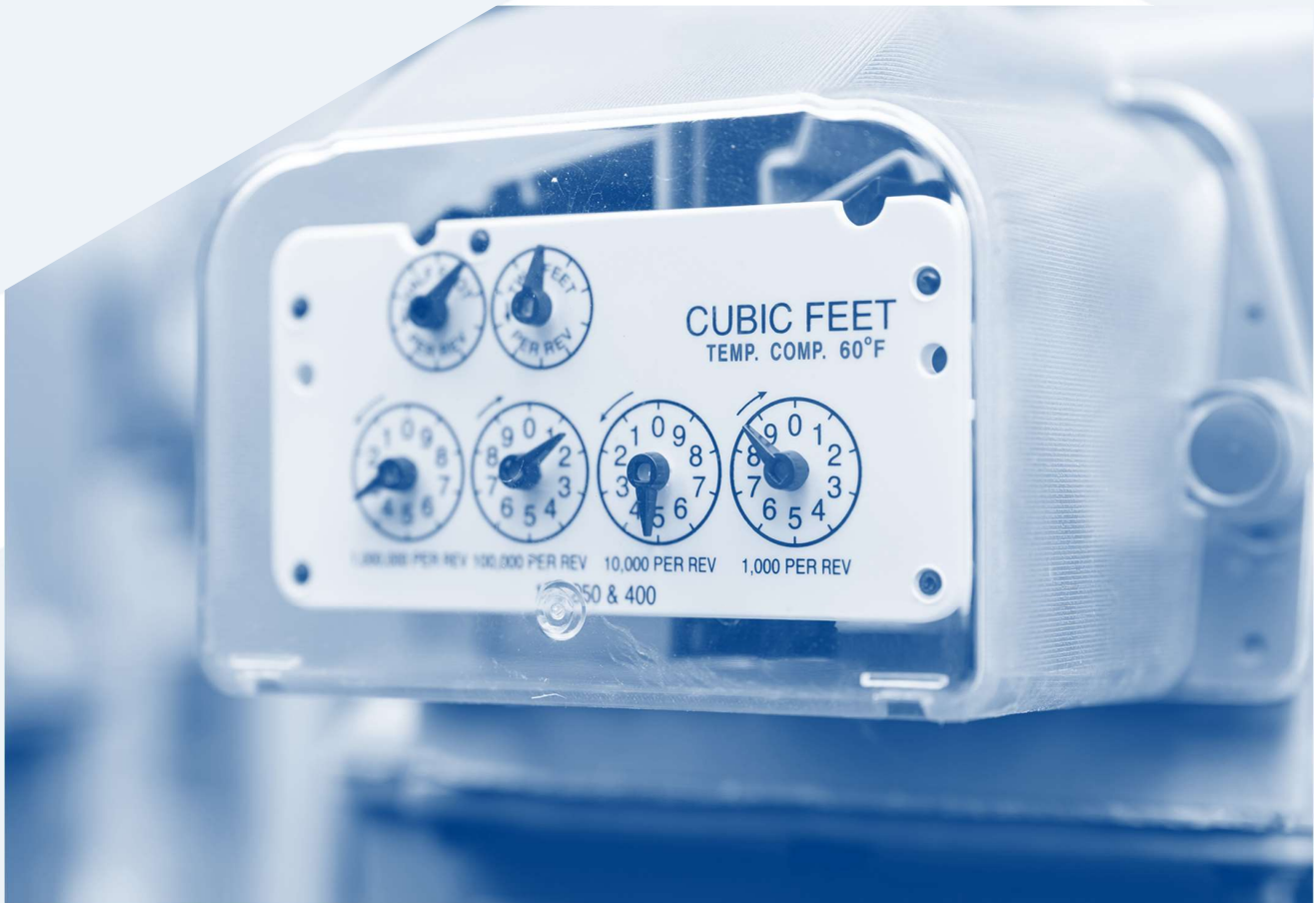
[THIS PAGE INTENTIONALLY LEFT BLANK]



**ATRIUM  
ECONOMICS**  
CENTERED ON ENERGY

# Independent Consultant's Engineering Report

May 31, 2024



**Atrium Economics, LLC**  
10 Hospital Center Commons, Suite 400  
Hilton Head Island, SC 29926  
(843) 867-3531 | ramen@atriumecon.com

May 31, 2024

Mr. Rob Dubow  
Director of Finance  
City of Philadelphia  
13th Floor, Municipal Services Building  
1401 John F. Kennedy Boulevard  
Philadelphia, PA 19102

Dear Mr. Dubow:

In accordance with our agreement with the Philadelphia Gas Works ("PGW") through the Philadelphia Facilities Management Corporation, the management entity for PGW, Atrium Economics Management Consulting, LLC ("Atrium Economics") submits herewith our independent consulting engineer's report (the "Report") to be included as an appendix to the preliminary and final official statement or official statements ("Official Statements") prepared in connection with the issuance of the City of Philadelphia, Pennsylvania (the "City") Gas Works Revenue Bonds, (1998 General Ordinance), which have been authorized to be issued from time to time, pursuant to the 1998 General Ordinance (as defined herein) of Philadelphia City Council. This Report concerns the financial factors relating to the issuance of approximately \$385,765,000 in Gas Works Revenue Bonds (1998 General Ordinance) which have been authorized to be issued from time to time, pursuant to ordinances of Philadelphia City Council, for the purposes of financing the New Money Project (defined below). The bonds to be issued to finance the New Money Project may be issued as Seventeenth Series Bonds or as bonds of a subsequent series. For purposes of this Report, the bonds issued to finance the New Money Project will be referenced as the Seventeenth Series A Bonds (the "Series A Bonds"). Proceeds of the Series A Bonds will be used to (i) finance, together with other available moneys, a portion of PGW's ongoing Capital Improvement Program, (ii) make a deposit to the Sinking Fund Reserve held under the General Gas Works Revenue Bond Ordinance of 1998 (the "1998 General Ordinance"), (iii) pay the costs of redeeming certain of the City's outstanding Gas Works Revenue Capital Project Commercial Paper Notes, the proceeds of which have been used to finance a portion of the ongoing Capital Improvement Program ("CIP"), and (iv) pay a portion of the costs of issuing the Series A Bonds (the "New Money Project"). The City may also determine to issue bonds which have been authorized to be issued from time to time, pursuant to ordinances of Philadelphia City Council, the proceeds of which, if issued, together with other available moneys, may be used to (i) refund all or a portion of certain bonds currently outstanding under the 1998 General Ordinance, (ii) fund a termination payment for all or a



portion of a swap contract to the extent such swap contract is related to certain of the bonds to be refunded, and (iii) pay the costs of issuing the Series B Bonds (collectively, the "Refunding Project"). For purposes of this Report, the bonds issued to finance the Refunding Project will be referenced as the Seventeenth Series B Bonds (the "Series B Bonds") and the Series A Bonds and Series B Bonds will together be referred to as the Seventeenth Series Bonds. If PGW refunds Prior Bonds (as defined below), it is assumed that such refunding will not result in interest costs and annual debt service on the Prior Bonds which is higher than the levels reflected in this Report.

The purpose of this Report is to present the findings of our evaluation of PGW's gas works system (the "System") and to set forth information concerning financial factors relating to the Seventeenth Series A Bonds. This Report is based on our analysis of the records and Capital Improvement Program (the "CIP") of PGW, discussions with key PGW personnel in May 2024, physical inspections of predominately above-ground facilities conducted in May 2024, and such other investigations as we have deemed necessary.

The evaluation of the System, which includes a discussion of organization, management, and staffing; system service area; supply facilities; distribution facilities; and the CIP for fiscal years 2025 through 2029, including two major initiatives - replacement of PGW's Customer Information System ("CIS") and completion of PGW's Building Consolidation Initiative, both of which are presented in the first part of the Report. The second part of the Report contains: (a) financial feasibility information, including analyses of gas rates and rate methodology; (b) projection of future operation and maintenance expenses; (c) CIP financing plans; (d) projection of revenue requirements as a determinant of future revenues; and (e) an assessment of PGW's ability to satisfy the covenants in the General Gas Works Revenue Bond Ordinance of 1998, as amended and supplemented, authorizing the issuance of the Bonds (as defined below).

"Prior Bonds" are defined as the outstanding bonds (senior and subordinate bonds) issued under the 1998 General Ordinance. Together, the Prior Bonds and Seventeenth Series Bonds are collectively referred to as the "Bonds".

A listing of our principal assumptions and opinions developed as a result of our studies is presented at the end of this Report.

This Report was prepared for the City based on information not within the control of Atrium Economics. In conducting our studies, we reviewed the books, records, agreements, the CIP, customers, sales, and financial projections of PGW; and investigated such physical properties of PGW as we deemed necessary to express our opinion of PGW's operating results and projections. While we consider such books, records, documents, and projections to be reliable, Atrium Economics has not verified the accuracy of these documents, or the validity of the information provided by others. This Report is subject to the limitations set forth herein.

Atrium Economics has extensive background and experience both in management positions inside gas and electric utilities and as advisors to our clients. Our experts have worked in dozens



of jurisdictions across North America as consultants and have held positions with utility companies, integrated energy companies, renewable energy providers, energy service providers and held executive level positions for several energy industry companies. Our areas of expertise include:

### **Energy Regulation and Government Policy**

Atrium has appeared as expert witnesses on behalf of energy utilities in regulatory proceedings across North America supporting financial, economic, and technical studies before numerous state and provincial regulatory bodies, as well as before the Federal Energy Regulatory Commission (FERC).

### **Business Strategy & Management Support**

Changes in the energy sector are accelerating and require integrated, multidisciplinary strategies and engagement both internally and externally. In such a rapidly transforming industry, utilities must explore a range of new roles and business models and our experts are capable of providing organizations guidance.

### **Revenue Recovery & Ratemaking**

Atrium offers a complete array of rate case support services including advisory and expert witness services relating to revenue recover, pricing, rate design, integration of technology, distributed generation, and affiliate transactions.

### **Asset & Infrastructure Optimization**

Atrium's consulting professionals' experience and analytical work in electricity and natural gas energy markets, including wholesale and retail levels, spans energy commodity, capacity, transmission, distribution and ancillary services. Atrium has conducted market assessments, bankability and/or feasibility studies including gas pipeline, LNG, and underground storage projects throughout North America.

### **Strategic & Financial Advisory**

Atrium experts advise numerous leading energy companies on the development and execution of comprehensive strategic and financial assessments of both regulated and non-regulated enterprises. Specific services provided include resource planning/procurement, the identification and evaluation of corporate, financial, regulatory, workforce, market, and asset/enterprise-specific considerations.

In this Report, where standards or requirements are indicated as being applicable, being fulfilled, or to be attained, such standards or requirements are those, applicable to PGW as a component of the City, promulgated by the Pennsylvania Public Utility Commission ("PUC") and other Federal, State, and local agencies, in accordance with the provisions of Federal laws and the laws of the Commonwealth of Pennsylvania governing the storage, delivery, and sale of natural gas. Capitalized terms not otherwise defined herein have the same meanings as



ascribed to them in the 1998 General Ordinance. References made herein to specific years are for the fiscal years of PGW ending August 31, unless otherwise noted.

The Report includes our assessment of the condition of PGW's facilities, including PGW's existing storage and distribution facilities, based upon site inspections of certain PGW facilities as deemed appropriate during May 2024. We also reviewed and evaluated existing and planned natural gas transportation and supply contracts with respect to volumes of natural gas to be delivered. The general physical condition of the System's facilities has been evaluated using three rating categories - good, adequate, and poor - as described below.

- Good: The facility is in condition to provide reliable operation in accordance with design parameters and requires only routine maintenance.
- Adequate: The facility is operating at or near design levels, however, non-routine renovation, upgrading, and repairs are needed for continued reliable operation. Significant expenditures for these improvements may be required.
- Poor: The facility cannot be operated within design parameters. Major renovations are required to restore the facility to reliable operating condition. Major expenditures for these improvements may be required.

The ratings assigned in this Report are the result of physical observations of individual above-ground facilities at existing sites conducted between May 7th and May 10th, 2024. An evaluation of a gas storage and distribution system of the magnitude and complexity of PGW's requires an assessment of each of the System's various components. The evaluation described in this Report is based on estimates of the degree of improvement that has been or will be provided by the projects in the current CIP and their impact in meeting service requirements. The projections set forth in this Report are "forward-looking statements." In formulating these projections, Atrium Economics has made certain assumptions with respect to conditions, events, and circumstances that may occur in the future. The methodologies utilized by Atrium Economics in performing these analyses follow generally accepted practices for such projections. Such assumptions and methodologies are summarized in this Report and are reasonable and appropriate for the purpose for which they are used. While Atrium Economics believes the assumptions are reasonable and appropriate and the projection methodology valid, actual results may differ materially from those projected, as influenced by conditions, events, and circumstances that may actually occur that are unknown as of the date of this Report and/or which are beyond the control of Atrium Economics. Such factors may include, but are not limited to, PGW's ability to execute the capital improvement plan as scheduled and within budget, regional climate and weather conditions affecting the demand for gas, adverse legislative, regulatory or legal decisions (including environmental laws and regulations) affecting PGW's ability to operate the System. Based on these analyses and the assumptions set forth or referred to in this Report, we offer the following opinions to indicate PGW's conformance with specific requirements which must be met for the issuance of the Seventeenth Series A Bonds as provided in the 1998 General Ordinance:



1. PGW is a competently managed and operated gas distribution utility. PGW and the System are organized, operated, and maintained at a level equal to, or in excess of, regulatory requirements and generally accepted industry practices. The System is in good operating condition.
2. Based upon Atrium Economics' evaluation of financial projections and certain assumptions with respect to the System which Atrium Economics believes to be reasonable, and on the basis of actual and estimated future annual financial operations of the System, the System should yield Gas Works Revenues (which are pledged under the 1998 General Ordinance) over the amortization periods of the Bonds issued under the 1998 General Ordinance which will be sufficient to: (a) meet all expenses of operation, maintenance, repair and replacement of the System; (b) meet all reserve or special funds required to be established under the 1998 General Ordinance; (c) meet the principal of and interest on all Bonds issued under the 1998 General Ordinance as the same shall become due and payable; and (d) provide such surplus requirements as are contained in the rate covenant of the 1998 General Ordinance. The Gas Works Revenues forming the basis of this opinion are defined in the 1998 General Ordinance and comply with the requirements of the definition of Project Revenues contained in Section 2 of the First Class City Revenue Bond Act.
3. The Gas Works Revenues which are pledged as security for the Bonds issued under the 1998 General Ordinance are currently, and are projected to be, sufficient to comply with the rate covenant set forth in Section 4.03(b) of the 1998 General Ordinance.
4. The capital improvements proposed during the projection period, September 1, 2024, through August 31, 2029 should, along with continued good operation and maintenance practices, enable PGW to maintain the System in good operating condition. Review of present management practices indicates that good operation and maintenance is likely to continue.
5. Contracted PGW term gas supplies; spot market purchases; additional off-system and LNG storage capacity resources; as well as, the pipeline transport capacity to move these supplies to PGW, appear adequate to meet PGW's projected demand on a day of maximum demand (a "design peak day"), in an hour of maximum demand (a "design peak hour"), and during a year of maximum demand (a "design peak year").

Very truly yours,



Ronald J. Amen  
Managing Partner  
Atrium Economics, LLC





## Table of Contents

- 1. Introduction ..... 1
  - 1.1. Purpose..... 1
  - 1.2. Scope ..... 2
  - 1.3. Atrium Qualifications ..... 3
- 2. Organization and Management..... 4
  - 2.1. City of Philadelphia..... 4
  - 2.2. Philadelphia Gas Works..... 4
    - 2.2.1. Personnel Matters, Succession Planning and Training ..... 6
    - 2.2.2. Collective Bargaining Agreement ..... 7
    - 2.2.3. Strategic Planning ..... 8
    - 2.2.4. Performance Management..... 8
    - 2.2.5. Executive Leadership ..... 9
  - 2.3. Philadelphia Gas Commission ..... 14
  - 2.4. Philadelphia Facilities Management Corporation..... 14
  - 2.5. Pennsylvania Public Utility Commission..... 15
- 3. The PGW Gas System..... 17
  - 3.1. Population and Service Area ..... 17
  - 3.2. Supply Facilities ..... 17
    - 3.2.1. City Gate Stations..... 18
    - 3.2.2. Gas Control Center..... 18
    - 3.2.3. LNG Facilities..... 18
    - 3.2.4. Gas Holder Storage Facilities ..... 19
  - 3.3. Distribution Facilities..... 19
  - 3.4. PGW Technical Compliance..... 20
  - 3.5. Other Facilities ..... 20
    - 3.5.1. Data Center ..... 20
    - 3.5.2. Combined Heat and Power ..... 21
- 4. Condition of Facilities ..... 22
  - 4.1. Construction Sites ..... 22



- 4.2. Meter Settings..... 22
- 4.3. Field Offices..... 22
- 4.4. Personnel..... 22
- 4.5. Facility Observations ..... 23
  - 4.5.1. Supply Facilities..... 23
  - 4.5.2. Distribution Facilities ..... 23
  - 4.5.3. Other Facilities ..... 24
- 4.6. Conclusions..... 25
- 5. PGW Gas Supply ..... 26
  - 5.1. Supply Services..... 26
  - 5.2. Transportation and Storage Services ..... 26
  - 5.3. LNG Facilities ..... 28
  - 5.4. Supply and Demand Balance..... 29
- 6. Capital Improvement Program ..... 32
  - 6.1. Gas Processing..... 33
  - 6.2. Distribution..... 34
  - 6.3. Field Services ..... 35
  - 6.4. Fleet Operations..... 36
  - 6.5. Other Departments ..... 36
- 7. Rates and Tariffs ..... 40
  - 7.1. PUC Regulation History ..... 40
    - 7.1.1. 2008 Extraordinary Rate Relief Filing..... 40
    - 7.1.2. 2009 General Rate Relief Filing..... 40
    - 7.1.3. 2012 Pennsylvania General Assembly Act 11 ..... 41
    - 7.1.4. 2017 General Rate Relief Filing..... 42
    - 7.1.5. 2020 General Rate Relief Filing..... 42
    - 7.1.6. 2022 Management Audit ..... 43
    - 7.1.7. 2023 General Rate Relief Filing..... 43
  - 7.2. Existing Rates..... 44
    - 7.2.1. Firm Service..... 46
    - 7.2.2. Interruptible Service ..... 47



- 7.2.3. Transportation Service..... 47
- 7.3. Gas Cost Rate ..... 49
- 7.4. Weather Normalization Adjustment..... 51
- 7.5. Surcharges..... 52
- 7.6. Conservation Programs..... 54
  - 7.6.1. Low Income Usage Reduction Program..... 54
  - 7.6.2. Demand Side Management Programs..... 54
- 7.7. Infrastructure Replacement ..... 56
- 7.8. Customer Responsibility Program..... 59
- 7.9. Senior Citizen Discount Program..... 60
- 7.10. Other Programs and Grants..... 60
  - 7.10.1. Low-Income Home Energy Assistance Program ..... 60
  - 7.10.2. Vendor Payment Program..... 61
  - 7.10.3. Utility Emergency Services Fund ..... 61
  - 7.10.4. Dollar Plus Program..... 62
  - 7.10.5. Payment Plans ..... 62
- 7.11. Billing and Collections..... 62
  - 7.11.1. Risk-Based Collections..... 64
  - 7.11.2. Public Utility Law and Collections ..... 64
- 7.12. Competition ..... 65
- 8. Financial Feasibility of the Seventeenth Series Bonds ..... 67
  - 8.1. Projected Revenues..... 67
    - 8.1.1. Projected Average Number of Customers..... 67
    - 8.1.2. Historical and Projected Gas Sales and Throughput..... 69
    - 8.1.3. Sales and Transportation Revenues ..... 71
    - 8.1.4. Other Operating Revenues ..... 73
    - 8.1.5. Assistance Programs ..... 73
    - 8.1.6. Accounts Receivable ..... 73
  - 8.2. Capital Improvement Program Financing ..... 77
  - 8.3. Projected Revenue Requirements ..... 78
    - 8.3.1. Gas Costs ..... 78



- 8.3.2. Operation and Maintenance Expenses..... 79
- 8.3.3. Debt Service Requirements ..... 81
- 8.3.4. Payments to City ..... 81
- 8.4. Adequacy of Projected Revenues to Meet Rate Covenant Requirements Under the 1998 General Ordinance ..... 82
- 9. Assumptions and Opinions ..... 87
  - 9.1. Considerations and Principal Assumptions..... 87
    - 9.1.1. Revenues..... 87
    - 9.1.2. Debt Service ..... 88
    - 9.1.3. Capital Improvement Program (fiscal years 2025 – 2029) ..... 88
    - 9.1.4. City of Philadelphia ..... 89
    - 9.1.5. Policy ..... 89
  - 9.2. Opinions ..... 89

## List of Tables

- Table 1: Gas Supply, Transportation, and Storage Contracts..... 27
- Table 2: Peak Day Supply and Demand ..... 30
- Table 3: Annual Supply and Demand..... 31
- Table 4: Historical and Proposed Capital Improvement Program Expenditures..... 37
- Table 5: Capital Projects for Fiscal Year 2025 (in Thousands of Dollars)..... 38
- Table 6: Historical Cast Iron Main and Unprotected Steel Service Replacement ..... 39
- Table 7: Existing Tariff Rates..... 45
- Table 8: Comparison of Residential Gas Bills..... 47
- Table 9: Historical and Projected Average Number of Customers..... 68
- Table 10: Historical and Projected Sales and Throughput..... 70
- Table 11: Historical and Projected Revenues ..... 72
- Table 12: LIHEAP Assistance Programs ..... 75
- Table 13: Historical and Projected Accounts Receivable and Write-offs ..... 76
- Table 14: Capital Improvement Fund..... 78
- Table 15: Historical and Projected Operation and Maintenance Expenses ..... 80
- Table 16: Projected Long-Term Debt Service Requirements..... 81
- Table 17: Projected Statement of Income..... 83
- Table 18: Projected Statement of Cash Flows ..... 85
- Table 19: Projected Debt Service Coverage..... 86



## Table of Figures

Figure 1: Philadelphia Gas Works Organization Chart.....	13
Figure 2: Philadelphia Gas Works Service Area .....	17
Figure 3: Components of PGW Gas Cost Rate .....	50
Figure 4: Components of PGW Surcharges.....	53



## Glossary of Acronyms

AMR.....	Automatic Meter Reading Program
APGA .....	American Public Gas Association
Bcf .....	Billion cubic feet
BPS .....	Boiler and Power Plant Service
BTU.....	British Thermal Unit
BUS.....	Backup Service
CBA.....	Collective Bargaining Agreement
CDS .....	Comprehensive Delivery Service
CG .....	Cogeneration Service
CHP .....	Combined Heat and Power
CIP .....	Capital Improvement Program
CIS.....	Customer Information System
CLNP .....	Commercial Lien Notification Program
CNG .....	Compressed Natural Gas
CRP .....	Customer Responsibility Program
CY .....	Calendar Year
DHS.....	Department of Housing Services
DSIC.....	Distribution System Improvement Charge
DSM.....	Demand-Side Management
dt or Dth...	Dekatherm
°F .....	Degrees Fahrenheit
FERC .....	Federal Energy Regulatory Commission
FPL.....	Federal Poverty Level
FT.....	Firm Transportation
FY.....	Fiscal year beginning September 1 through August 31
GCR.....	Gas Cost Rate
GS .....	General Service
GSS .....	General Storage Service
GTS .....	Gas Transportation Service
HDD .....	Heating Degree-Day
IECC .....	International Energy Conservation Code
IRC .....	Interruptible Revenue Credit
IT.....	Interruptible Transportation
IVR .....	Interactive Voice Response
LBS.....	Load Balancing Service
LCP.....	Landlord Cooperation Program
LIHEAP .....	Low-Income Home Energy Assistance Program
LIME .....	Low Income Multifamily Efficiency
LIURP .....	Low-Income Usage Reduction Program



LNG	.....Liquefied Natural Gas
LTIP	.....Long Term Infrastructure Improvement Plan
Mcf	.....Thousand Cubic Feet
NGDISM	.....Natural Gas Distribution Infrastructure Safety and Modernization
NGV	.....Natural Gas Vehicle
OPEB	.....Other Post-employment Benefits
PFMC	.....Philadelphia Facilities Management Corporation
PGC	.....Philadelphia Gas Commission
PGW	.....Philadelphia Gas Works
PHA	.....Philadelphia Housing Authority
PHMSA	.....Pipeline and Hazardous Materials Safety Administration
Psig	.....Pounds per Square Inch Gauge
PUC	.....Pennsylvania Public Utility Commission
SCADA	.....Supervisory Control and Data Acquisition
SDS	.....Supply/Demand Strategy
SS	.....Storage Service
SSC	.....Sales Service Charge
UESF	.....Utility Emergency Services Fund
USECP	.....Universal Service and Energy Conservation Plan
W.C.	.....Water Column
WNA	.....Weather Normalization Adjustment
WSS	.....Washington Storage Service



# 1. Introduction

---

The Philadelphia Gas Works (“PGW”) is a gas distribution utility owned by the City of Philadelphia, Pennsylvania (the “City”). PGW acquires, stores, distributes, and sells natural gas to residents and other customers within the City.

Under the terms of certain current revenue bond covenants, PGW is obligated to charge and collect rents, rates and charges to maintain net revenues at or above certain specified levels in excess of annual debt service requirements. In addition, prior to the authorization of the issuance of bonds under the General Gas Works Revenue Bond Ordinance of 1998, as amended and supplemented (“1998 General Ordinance”), a financial report from the City’s Chief Fiscal Officer, which may be given in reliance on an engineering report, is required.

## 1.1. Purpose

The purpose of this Independent Consultant’s Engineering Report (“Report”) is to summarize the findings of engineering studies performed by Atrium Economics (“Atrium”) related to the gas system of PGW and to set forth information concerning the financial factors relating to the issuance of approximately \$385,765,000 in Gas Works Revenue Bonds (1998 General Ordinance) which have been authorized to be issued, from time to time, pursuant to ordinances of Philadelphia City Council. The bonds to be issued to finance the New Money Project (defined below) may be issued as Seventeenth Series Bonds or as bonds of subsequent series. For purposes of this Report, the bonds issued to finance the New Money Project will be referenced as the Seventeenth Series A Bonds (the “Series A Bonds”).

Proceeds of the Series A Bonds will be used to: (i) finance, together with other available moneys, a portion of PGW’s ongoing Capital Improvement Program (“CIP”); (ii) make a deposit to the Sinking Fund Reserve held under the General Gas Works Revenue Bond Ordinance of 1998 (the “1998 General Ordinance”); (iii) pay the costs of redeeming certain of the City’s outstanding Gas Works Revenue Capital Project Commercial Paper Notes (“Notes”), proceeds of which were used to finance a portion of the CIP; and (iv) pay the costs of issuing the Series A Bonds (the “New Money Project”).

The City may also determine to issue bonds which have been authorized to be issued from time to time, pursuant to ordinances of Philadelphia City Council, the proceeds of which, if issued, together with other available moneys, may be used to: (i) refund all or a portion of certain bonds currently outstanding under the 1998 General Ordinance; (ii) fund a termination payment for all or a portion of a swap contract to the extent such swap contract is related to certain of the bonds to be refunded; and (iii) pay the costs of issuing the Series B Bonds (collectively, the “Refunding Project”). For purposes of this Report, the bonds issued to finance the Refunding Project will be referenced as the Seventeenth Series B Bonds (the “Series B





Bonds”) The Series A Bonds and Series B Bonds will together be referred to as the Seventeenth Series Bonds.

“Prior Bonds” are defined as the outstanding bonds issued under the 1998 General Ordinance. Together, the Prior Bonds and Seventeenth Series Bonds are collectively referred to in this Report as the “Bonds”. “Notes” constitute Bonds within the meaning of the 1998 General Ordinance and are issued as Subordinate Bonds constituting Interim Debt under the 1998 General Ordinance.

## 1.2. Scope

This Report addresses the organization and management, regulation, physical condition, system capacity, operation and maintenance practices, and staffing levels of PGW’s facilities. Atrium performed observations of PGW’s facilities in May 2024. This Report provides a review of the proposed CIP for fiscal years 2025 through 2029 and includes the results of engineering studies regarding the financial requirements of the System. Evaluation of the projected financing of future capital improvement needs is based upon a review of historical operating and financial data and projected capital program<sup>1</sup> and operating budget<sup>2</sup> information provided by PGW. Projections of revenues and revenue requirements are presented for the fiscal years 2025 through 2029. The financial feasibility of the issuance of the Seventeenth Series Bonds should be evaluated considering the results of these analyses and PGW’s projected compliance with applicable revenue bond covenants.

PGW representatives and others have provided certain historical data and other information presented in this Report. Atrium has not conducted verification tests of this information. In conducting our analysis and preparing our opinions and the projections, Atrium has made certain assumptions with respect to conditions, events, and circumstances that may occur in the future. The methodologies utilized by Atrium in performing these analyses follow generally accepted practices for such projections. Such assumptions and methodologies are summarized in this Report. While Atrium believes the assumptions are reasonable and the projection methodology valid, actual results may differ materially from those projected, as influenced by conditions, events, and circumstances that may actually occur. Such factors may include, but are not limited to, PGW’s ability to execute the CIP as scheduled and within budget, regional climate and weather conditions affecting the demand for gas, adverse legislation, and regulatory or legal decisions (including environmental laws and regulations) affecting PGW’s ability to operate the System.

---

<sup>1</sup> The fiscal year 2025 Capital Budget was filed with the PGC on January 2, 2024, and, after hearings and with limited modifications, the budget received a recommendation for final approval by City Council. City Council hearings concerning fiscal year 2025 Capital Budget are scheduled in June 2024.

<sup>2</sup> The fiscal year 2025 Operating Budget was filed with the PGC on May 13, 2024. Hearings before the PGC are scheduled for June 27, 2024. There can be no assurances that such budget will be finally approved as proposed. A final budget determination by the PGC is scheduled on or about August 13, 2024.



### 1.3. Atrium Qualifications

Atrium is a highly regarded and experienced energy consulting company in the United States specializing in utility operations, analysis, regulation, and ratemaking. Our experience includes the planning, operations analysis, depreciation studies, utility regulation and ratemaking for gas and electric utilities. In addition, the firm has extensive experience in assisting utilities with management and financial aspects of their operations. Atrium's staff have been engaged in hundreds of projects with a range of clients that include utilities owned by municipalities ranging in size from small communities to large metropolitan regions, investor-owned utilities, industrial and commercial businesses, local and state agencies, and the United States.

Members of the Atrium team participated in prior Independent Consultant's Engineering Reports for PGW from 2009 through 2020. These experienced Atrium personnel have performed the physical evaluation of PGW's gas supply and distribution systems. In performing previous assessments of PGW, these personnel reviewed the current condition, operation and maintenance of the gas supply and distribution systems; and conducted observations of PGW's major facilities in May 2024, including PGW's city gate stations and liquefied natural gas ("LNG") facilities. These personnel also interviewed key members of PGW's management team in May 2024 regarding operations and maintenance issues and practices.

Collectively, key members of the Atrium team have provided natural gas and electric resource planning strategy and analysis, including the evaluation of incremental inter- and intra-state pipeline capacity, underground storage, and LNG facilities. Our team includes utility rate and regulatory experts with experience developing cost of service studies, depreciation studies, valuation analyses, risk management studies, cost of capital studies and regulatory research. Members of the Atrium project team have prior utility management experience leading federal & state regulatory affairs for gas/electric utilities, representing their interests in proceedings before state utility regulatory agencies and the Federal Energy Regulatory Commission ("FERC"), and management positions in distribution operations, leading the workforce of a regional gas distribution system, including field engineering, construction and maintenance, customer services, call center, marketing, and administrative services. Also, members of the Atrium team have served as staff for state regulatory commissions specializing in utility plant depreciation studies and performing natural gas safety and compliance inspections.



## 2. Organization and Management

---

PGW is owned by the City and is authorized to acquire, store, and distribute gas within the limits of the City. PGW is accounted for as a component unit of the City. As described in greater detail herein (*See Section 3, The PGW Gas System*), PGW is the largest municipally owned gas utility in the nation.

PGW's operations are managed by the Philadelphia Facilities Management Corporation ("PFMC"), a not-for-profit corporation whose Board is appointed by the Mayor. PFMC's responsibilities are set forth in a Management Agreement between the City and PFMC dated December 29, 1972, as subsequently amended from time to time ("Management Agreement"), which delegates responsibility for PGW's operation to an executive management team provided by PFMC. Under the Management Agreement, those responsibilities that are not specifically granted to PFMC fall under the domain of the Philadelphia Gas Commission ("PGC"), except to the extent preempted by the Pennsylvania Public Utility Commission ("PUC") pursuant to the Pennsylvania Natural Gas Choice and Competition Act ("Gas Choice Act"). The Gas Choice Act provides that PGW is subject to regulation by the PUC effective July 1, 2000, and that choice among natural gas suppliers will be provided to PGW's customers.

### 2.1. City of Philadelphia

The City was founded in 1682 and merged with the County of Philadelphia in 1854. There are two principal governmental entities in Philadelphia: (1) the City, which performs ordinary municipal functions as well as traditional county functions, and (2) the School District, which has boundaries coterminous with the City and has responsibility for all public primary and secondary education. The court system in Philadelphia, consisting of Common Pleas, Municipal, and Traffic Courts, is part of the Commonwealth of Pennsylvania (the "Commonwealth") Judicial System. Although the Commonwealth pays judges and top-level administrators, the City pays all other court costs, with partial reimbursement from the Commonwealth.

The City is governed primarily under the Philadelphia Home Rule Charter ("Home Rule Charter")<sup>3</sup>, which provides for the election, organization, powers, and duties of the legislative branch (the "City Council"); the powers and duties of the executive and administrative branches; and the City's fiscal and budgetary matters, contracts, procurement, property, and records.

### 2.2. Philadelphia Gas Works

In March 1835, a City ordinance was passed authorizing private ownership and operation of a public gas utility under trustee management. This ordinance also contained an option clause

---

<sup>3</sup> Philadelphia Home Rule Charter, 351 Pa. Code §1.1-100 et seq., adopted pursuant to authorization of the First Class City Home Rule Act approved April 21, 1949, P.L. 665, §1 et seq. (53 P.S. §13101 et seq.).



permitting the City to take ownership of the gas utility properties by issuing City bonds to the private stockholders. The City exercised this option, initiating City ownership of gas utility properties to ultimately form PGW, on March 1, 1841. The City has owned the gas system continuously since that date. Manufactured gas production commenced February 8, 1836, and service was inaugurated February 10, 1836, to 46 gas lamps along Second Street.

During its more than 180 years of existence, the operation and management of PGW has evolved to its present configuration through a variety of arrangements. Initially the private owners managed it. In 1841, a Board of Trustees assumed management of PGW in accordance with an enabling City ordinance. This arrangement continued through April 1887, when the City, under the Director of Public Works, assumed direct management and operation of PGW. Serious financial and operating problems led to a change in this arrangement on November 12, 1897. At that time, the City, unable to sell PGW, contracted with the United Gas Improvement Company, now UGI Corporation, for the operation and management of PGW under authority granted by the Home Rule Charter. Operation and management by UGI Corporation continued through December 31, 1972.

On December 5, 1972, the City caused the incorporation of the PFMC as a not-for-profit Pennsylvania corporation for the specific purpose of operating PGW. PFMC currently manages PGW in accordance with the Management Agreement. The relationship between the City, PGC, PFMC, and PGW as originally detailed in the Management Agreement and as revised by the Gas Choice Act (*See Section 2.5, Pennsylvania Public Utility Commission and Section 7.1 Regulation History*) is summarized below:

### **City of Philadelphia**

- The City owns PGW property.
- The City Administration reviews certain transactions and processes (chiefly through the Director of Finance).
- City Council enacts legislation for the functioning of PGW (e.g., the capital budget, real estate transactions, pension modifications and certain gas supply contracts).

### **Philadelphia Gas Commission**

- The Commission consists of the City Controller, two members appointed by the City Council and two members appointed by the Mayor.
- Responsibilities include:
  - Approval of certain executive personnel provided by PFMC.
  - Review of gas supply contracts for approval by City Council.
  - Approval of PGW's operating budget.
  - Review of PGW's capital budgets for approval by City Council.
  - Review and approval of real estate transactions for approval by City Council.



**PFMC**

- Incorporated by the City in 1972 for the purpose of operating PGW.
- Is governed by a seven-member board of directors appointed by the Mayor.
- Provides executive management for PGW.
- Directs operation of PGW facilities and operations.

**PGW**

- Manages construction, operation and maintenance of the gas system on a day-to-day basis.
- PGW executive management is responsible for hiring PGW staff.

**PUC**

- Regulates rates, customer service and safety.

In preparing this Report, Atrium interviewed key PGW officers<sup>4</sup> and a number of its managers. The interviews were supplemented with reviews of PGW's policies, practices, procedures, and field observations of employees at various facilities performing their daily activities.

Based on these interviews, reviews, and observations, it is our opinion that PGW is suitably organized, managed, and operated by qualified personnel. PGW's organizational chart is shown in Figure 1.

### 2.2.1. Personnel Matters, Succession Planning and Training

As of March 31, 2024, PGW employed 1,613 full time employees. PGW is aware that the number of eligible retirees has been increasing for years. In anticipation of a high number of retirements, PGW has instituted different organizational programs over the last ten years including an active succession planning process. PGW is also developing a Knowledge Transfer pilot process to retain key information and facilitate the transmission of knowledge and expertise within its organization.

PGW evaluates its potential future leaders and takes active measures to develop employees into candidates for senior level and executive positions. Risk of loss, impact of loss and nine box talent reviews<sup>5</sup> are performed, as is the review of potential successors and the time needed for placement. PGW has maintained more managerial roles at the Vice President level to provide a broader number of management level employees with the requisite experience believed to be needed to succeed in an executive role and ensure business continuity.

---

<sup>4</sup> For the purpose of this report, PGW officers and management include individuals provided by PFMC.

<sup>5</sup> Nine box talent review is a comprehensive assessment of the entire workforce, examining the skills, potential, and performance of all employees across various levels and roles. The matrix assessment helps to effectively identify leaders and strategically prepare employees for future roles. The grid charts performance on the X-axis and potential on the Y-axis, as low, medium or high.



PGW provides extensive leadership training opportunities, including: coaching, the Management Academy, and the Leadership Development Program. Since 2009, nineteen Leadership Development alumni (51 percent) have been promoted to the level of Director/Vice President. The Management Academy provides managers and directors with an understanding of the many different facets of PGW's business, teaches important soft skills, and enables better decision making through critical thinking exercises. PGW has also partnered with Leadership Philadelphia to better prepare its leaders to make differences within the organization as well as the community.

PGW recognizes the importance of maintaining a work environment that is diverse, inclusive and equitable. Many of the Management Team members have attended a day long off-site learning session of recognizing and preventing unconscious bias. Sexual harassment prevention training is presented to all new employees as well as being embedded into the annual training programs of Field Operations.

For engineers and information services professionals, PGW created job ladders that reward performance on an accelerated basis. In addition, a rotational program has been implemented for engineers so that they have a better understanding of the various career paths within PGW. Because of this program, PGW has been able to promote 51 engineers who started with PGW ten years ago into more senior level positions such as superintendents and directors.

Further, PGW has identified several senior employees who have a wealth of institutional knowledge and who are respected within the organization. By participating in various employee affinity groups, these individuals actively serve as mentors to more junior staff members to facilitate the knowledge transfer process. From fiscal year 2020 to present, PGW had over 1,053 external hires and/or internal promotions. Some of these employees had more than one promotion within this period.

### 2.2.2. Collective Bargaining Agreement

As of March 31, 2024, 1,121 of the approximately 1,613 full time employees of PGW are represented by the Gas Works Employees' Union of Philadelphia, Local 686, Utility Workers' Union of America, AFL-CIO ("Local 686" or the "Union").

Effective March 24, 2022, PGW and Local 686 reached agreement on a unified collective bargaining agreement ("2022 CBA") with a term of May 16, 2022 to May 15, 2026. The 2022 CBA was authorized by PFMC's Board of Directors on February 23, 2022, and ratified by Local 686 on April 6, 2022.

The terms of the 2022 CBA include general wage increases of 3.0 percent effective May 16, 2022; 3.5 percent effective May 13, 2023; 3.5 percent effective May 11, 2024; 2 percent effective May 10, 2025; and 2 percent effective November 15, 2025. Pursuant to negotiated terms in the 2022 CBA, all PGW departments now have revised and updated performance standards, with the goal of enhancing efficiency and productivity to optimize the PGW



customer experience. The 2022 CBA also strengthens rules regarding employee absence, lateness, and productivity issues. PGW has additionally revamped the Corporate Discipline Policy to enhance operational efficiency.

The early resolution of contract issues has saved PGW approximately \$1.1 million in strike preparation expenses.

### 2.2.3. Strategic Planning

PGW's annual strategic planning process has been in place since fiscal year 2018. The process begins with a re-examination and confirmation of the mission statement, core values, and corporate goals. Next, PGW's senior management team develops a set of "SMART" (specific, measurable, achievable, relevant, and time-bound) objectives for approval by the Cabinet (*listed in section 2.2.5 Executive Leadership*) and Board of Directors and builds an annual plan that identifies impactful, strategic initiatives that will accomplish the approved set of goals and objectives. The process is collaborative and iterative. Quarterly status updates are provided to the Cabinet and Board.

Following the approval of SMART objectives, Vice Presidents develop Departmental objectives to align with PGW's annual strategic plan. Departmental objectives also address the specific functions, responsibilities and strategies within their respective department(s).

### 2.2.4. Performance Management

PGW's senior officers monitor certain key performance metrics compiled in monthly reports to gauge the overall health of the utility and the effectiveness of the organization in fulfilling its mission of providing safe and reliable natural gas service, including the ongoing upgrade of its underground infrastructure. These monthly reports are then shared with the Board of Directors of the PFMC. The Summary Metrics Monthly Board Report is organized under the following categories of metrics: a) Corporate Citizenship – including Minority, Women, and/or Disabled Business Enterprise Participation Rate, Philadelphia Locally Based Enterprise Participation Rate, Pennsylvania Locally Based Enterprise Participation Rate, and Brand Impact, and PGW Workforce Demographics; b) Customer – including Customer Satisfaction and Self-Service Interaction scores; c) Financial – including Rolling 24-Month Collection, Cash flow Quick Ratio, Days Sales Outstanding, and Capital Budget and Operating Expense Variance; d) Internal – including Retention Rate; and e) Operational – including Operational Risk Score (a composite based on Prevention and Management of Violence and Aggression, Safety Training, Occupational Safety and Health Administration incident rate, and Cast Iron Main Abandonment). Annually, PGW management provides a Detail Metrics Annual Report to the PGC, with monthly and yearly actual-to-goal metrics, covering a comprehensive list of individual performance metrics.



## 2.2.5. Executive Leadership

The following are brief biographical descriptions of the current PFMC/PGW senior officers:

### **Seth Shapiro, President and Chief Executive Officer**

Seth Shapiro is the President and Chief Executive Officer of the Philadelphia Gas Works. He joined PGW in January of 2021 after serving for over 15 years on the Company's Board of Directors. He served under Mayors James F. Kenney, Michael Nutter, and John F. Street, and spent 5 years as Chair of the Finance and Audit Committee, 5 years as Vice Chairman, and 5 years as Chairman.

Before joining PGW's management team, Mr. Shapiro had over 20 years of experience managing all phases of real estate development and construction. He served in leadership positions with publicly and privately held development companies. During his career, he managed projects with a combined value of well over \$1.0 billion, including in excess of 10,000 residential units and over 2 million square feet of retail and commercial space. He has worked on projects in Pennsylvania, New Jersey, Maryland, Virginia, West Virginia, and Florida.

He has served in leadership positions on a variety of community-based non-profits, including the Chestnut Hill Business District, Mt. Airy USA and Operation Understanding. Mr. Shapiro has guest lectured at the University of Pennsylvania, Temple University and Drexel University and presents at a variety of industry conferences. He serves on the board of directors for the American Gas Association and on the Philadelphia Chamber of Commerce's CEO Council for Growth.

Mr. Shapiro graduated from Cornell University with a B.A. in Government.

### **Joseph F. Golden, Jr., Executive Vice President and Acting Chief Operating Officer**

Joseph F. Golden, Jr. is the Executive Vice President & Acting Chief Financial Officer of the Philadelphia Gas Works. He started his career with PGW in August of 1986. He has prior work experience in public accounting, treasury accounting and cash management, and manufacturing.

Mr. Golden was appointed Executive Vice President & Acting Chief Financial Officer in March 2012. In this capacity he is responsible for the treasury, accounting, budgeting, and finance functions. Prior titles held by Mr. Golden at PGW include Controller, Treasurer, Manager-Treasury Department, Senior Staff Accountant, and Staff Accountant.

Mr. Golden holds a Bachelor of Science degree in Accounting from Villanova University, a Master of Business Administration degree from Drexel University, and received his Juris Doctor (cum laude) from Temple University School of Law.





**Melanie McCottry, Chief of Staff and Senior Vice President, External Affairs and Communications**

Melanie McCottry is the Chief of Staff and Senior Vice President, External Affairs and Communications for Philadelphia Gas Works.

Ms. McCottry began her energy career with Philadelphia Gas Works in 2009. Her fourteen years of service have seen her steadily advance through the ranks of PGW, and in January of 2023 she was promoted to her present position. In her new role, she contributes to all issues related to the company's daily operations along with leading on community and legislative priorities that communicate PGW's core objectives of safety, reliability, affordability, and environmental responsibility to its more than 500,000 customers.

Ms. McCottry is a graduate of Temple University with both a bachelor's degree in Political Science and a Master of Education in Sports Administration. She also holds an Executive Master of Business and Administration (MBA) from Saint Joseph's University, Philadelphia.

She currently serves on the Board of Trustees for YouthBuild Philadelphia Charter School which empowers young adults (17–20-year-olds) to develop skills and connect to opportunities by fostering an environment of love, support, and respect for their whole person. Students graduate high school and successfully transition to college and career as critically conscious leaders, committed to positive change for themselves and their communities.

Ms. McCottry resides in the East Kensington neighborhood of Philadelphia. She is a member of the Leadership Council of the American Gas Association, a 2016 Leadership Philadelphia Fellow and a 2011 graduate of the Urban League of Philadelphia Leadership Forum.

**Raquel N. Guzmán, Esq., Senior Vice President of Administration and General Counsel**

Raquel N. Guzmán, Esq. is the Senior Vice President of Administration and General Counsel for the Philadelphia Gas Works. Ms. Guzmán joined PGW's Legal Department as a Senior Attorney in 1998 and was promoted to General Counsel overseeing PGW's Legal Department in 2016. Ms. Guzman also oversees the operations of the following departments: Human Resources, Risk Management and Environmental Services, Corporate Labor, and Safety, Security and Business Continuity.

Before joining PGW, Ms. Guzmán was a Deputy City Solicitor in the Law Department of the City of Philadelphia, serving clients such as Philadelphia International Airport and the City's Water Department. Prior to her City experience, she practiced in the Real Estate department of a major Philadelphia law firm.

Ms. Guzmán is a Member of the Board of the World Affairs Council of Philadelphia, a non-partisan, international affairs nonprofit with expertise in connecting Philadelphia to the world. Previously she served on the Executive Committee of Citizens Diplomacy of Philadelphia (formerly International Visitors Council of Philadelphia).



Ms. Guzmán graduated magna cum laude from Harvard University with an A.B. in History and a certificate in Latin American and Iberian Studies. She received her J.D. from the University of Pennsylvania Law School.

#### **Denise Adamucci, Senior Vice President, Customer and Regulatory Affairs**

Denise Adamucci is the Senior Vice President, Customer and Regulatory Affairs of the Philadelphia Gas Works. She joined PGW in 2004 as a Senior Attorney. Before joining PGW, Ms. Adamucci worked in private practice law firms, mainly working in corporate and bankruptcy law.

Ms. Adamucci has served on the boards of a variety of community-based non-profits, and currently serves as a board member for Philadelphia Corporation for Aging.

Ms. Adamucci graduated from Elizabethtown College with a B.A. in English Literature; from Arizona State University with an M.A. in English Literature; and from Boston University School of Law with a J.D.

#### **Robert K. Smith, Senior Vice President, Operations, and Supply Chain**

Robert K. Smith is the Senior Vice President, Operations, and Supply Chain for the Philadelphia Gas Works. In his role, Robert oversees several departments, including Distribution, Field Services, Resource Management, Supply Chain, and Fleet Services.

Mr. Smith is also responsible for the safety and reliability of the distribution system for employees, customers, and the public. He is integral in labor negotiations and vendor contracts as well as industry and regulatory compliance matters. He leads a highly skilled workforce comprised of engineers, construction workers, system & distribution maintenance experts, field service technicians, and measurement and control professionals.

Mr. Smith began his career at PGW in 1989 and has held numerous positions across the organization beginning in the Field Services department facilitating critical infrastructure work across the City of Philadelphia.

He is an active board member of the Northeast Gas Association. Mr. Smith is also a member of several natural gas industry-related organizations. He holds a Master's degree in Business Administration (MBA) from Gwynedd Mercy University.

#### **Frank Weigert, Chief Information Officer**

Frank Weigert is the Chief Information Officer at Philadelphia Gas Works, overseeing the Information Services and Corporate Planning Departments. He joined PGW in 1998 and has held various roles such as CIO & VP Information Services, Director of Technical Services, and Manager of Network Services in the Information Service department. In these roles, he has counseled PGW stakeholders in key decisions for advancing PGW's goals, priorities, strategic direction, and mission. Mr. Weigert has been instrumental in guiding PGW through numerous



major and transformational technology projects during his tenure. He has a deep passion for technology, people, and customer service.

Prior to joining PGW, he worked as a Network Administrator and IT consultant in Mannheim, Germany. Mr. Weigert has dedicated over 30 years of his professional career to the IT field.

**John C. Zuk, Senior Vice President, Gas Management**

John C. Zuk began his career at PGW over 37 years ago in the Distribution Department. He continued in Field Operations to the level of Director of Labor Relations for Field Operations and Customer Affairs. Mr. Zuk also held positions within the Marketing Department from Account Manager up to title of Vice President.

His current position as Senior Vice President of Gas Management includes responsibility for Gas Processing, Engineering, Gas Acquisition, Transportation and Gas Control, Energy Planning, as well as PGW-owned and leased properties.

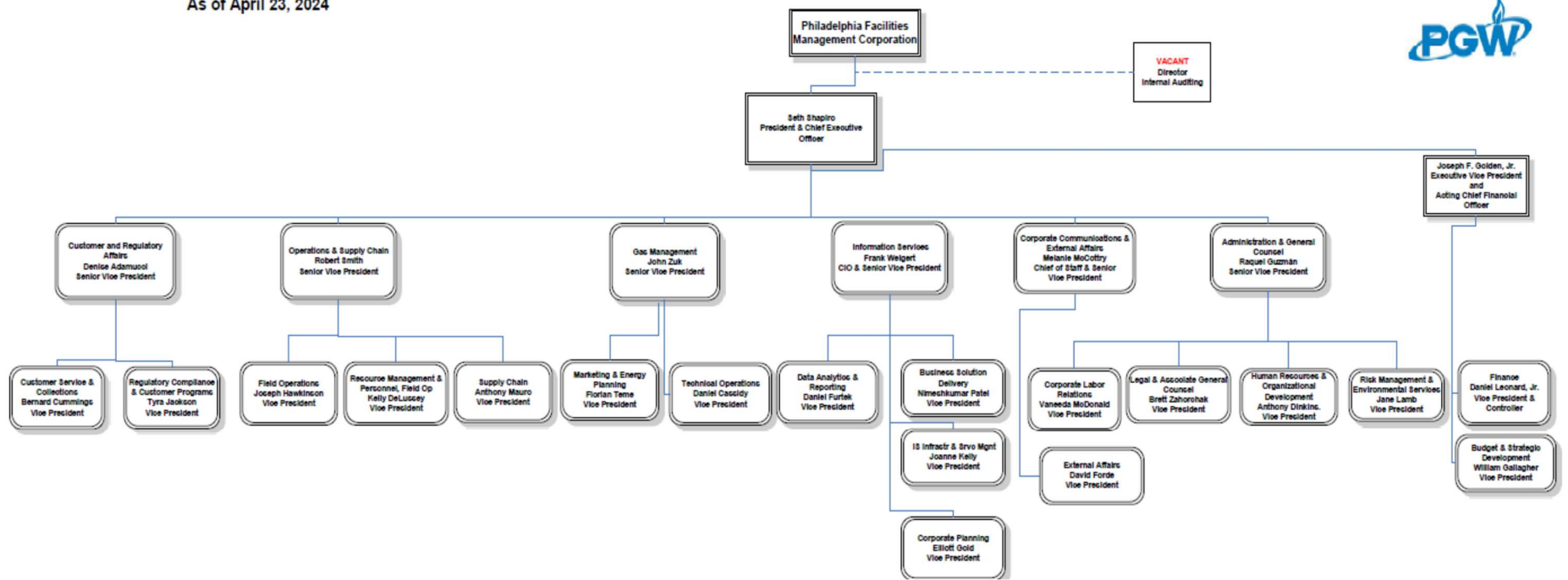
Mr. Zuk serves as a member of the American Public Gas Association ("APGA") Board of Directors and Executive Board of APGA. He formerly served on the Research Foundation Board and Vice Chair of the APGA Gas Supply Committee.

Mr. Zuk received his Bachelor of Science and MBA from LaSalle University.



Figure 1: Philadelphia Gas Works Organization Chart

As of April 23, 2024



## 2.3. Philadelphia Gas Commission

The Philadelphia Home Rule Charter contains provisions for the establishment of the PGC with powers and duties as set forth in ordinances and contracts. The Management Agreement grants PGC certain specified powers and duties and all other powers not specifically granted to PFMC. The powers and duties granted to PGC include: (i) approval of personnel provided by PFMC; (ii) review of gas supply contracts and recommendations thereon to City Council; (iii) approval of changes in tests and standards of gas quality and pressure; (iv) approval of PGW's operating budget; (v) review of PGW's capital budgets and recommendations thereon to City Council; (vi) approval of certain short-term loans (but not the issuance of bonds); (vii) access to and review of all books, records and accounts of PGW; (viii) prescription of insurance requirements; (ix) promulgation of standards for procurement and disposal of material, supplies and services; and (x) approval of all real property acquisitions for further approval of City Council.

## 2.4. Philadelphia Facilities Management Corporation

The Management Agreement between the City and PFMC dated December 29, 1972, states that for the operation of PGW, the PFMC shall provide:

- A Chief Executive Officer ("CEO");
- A Chief Operating Officer ("COO");
- A Chief Financial Officer ("CFO"); and
- Other personnel as deemed appropriate by PFMC.

All such PFMC personnel are subject to the approval of the PGC. The PGC consists of five members: the City Controller, two Mayoral appointees, and two City Council appointees. The PGC has the general responsibility to oversee operation of PGW by PFMC and retains all powers not specifically granted to PFMC. In addition, the Management Agreement specifies certain functions of the PGC, mainly:

- Approval of PFMC personnel;
- Review and make recommendations regarding gas supply contracts for City Council approval;
- Approval of PGW's annual operating budget;
- Review and make recommendations regarding PGW capital budgets for City Council approval;
- Approval of short-term loans; and
- Review and approval of all PGW real estate acquisitions, sales, or leases for submittal to City Council for approval by ordinance, and power to establish procurement standards and to fix



and regulate rates and charges<sup>6</sup> for supplying gas to customers other than the City and the Board of Education, which will annually produce revenues sufficient to:

- Pay all operating and maintenance expenses of PGW and the interest and amortization expense of its debt;
- Maintain debt coverage ratios;
- Pay \$18 million to the City each year; and
- Provide such other funds as may be approved by the PGC and City Council for debt reduction or capital additions.

## 2.5. Pennsylvania Public Utility Commission

The PUC regulates the rates and service of Pennsylvania's public utilities, including electricity, water, natural gas, and telephone. Under current law, all rate regulation authority for PGW is held by the PUC, pursuant to the Gas Choice Act. The Gas Choice Act contains provisions which are designed to: (i) preserve the tax-exempt status of Approved Bonds, defined in the Gas Choice Act as bonds or other obligations issued by the City for PGW, including the Seventeenth Series Bonds; (ii) preserve the ability of the City to comply with its covenants, including the City's covenants with respect to the imposition and collection of rates and charges to the holders of Approved Bonds, including the Seventeenth Series Bonds; and (iii) require rates to be set for PGW utilizing the ratemaking methodology and requirements that were applicable to PGW's natural gas distribution operation prior to the assumption of jurisdiction by the PUC. Pursuant to the Gas Choice Act, among other things:

- Commencing July 1, 2000, PGW became subject to regulation by the PUC and, except as otherwise provided in the Gas Choice Act, the provisions of the Public Utility Code apply to PGW as if it were a public utility. The PUC, instead of the PGC, sets rates for PGW's customers.
- Notwithstanding customer choice in gas suppliers, PGW's gas distribution business remains a regulated monopoly.
- In setting rates and notwithstanding any other provision of the Public Utility Code, the PUC must permit the City to impose, charge and collect rates or charges as necessary to permit the City to comply with its covenants to the holders of any Approved Bonds, as defined in the Gas Choice Act. All bonds issued by the City on behalf of PGW, including the Seventeenth Series Bonds, are Approved Bonds under the Gas Choice Act.
- The PUC is obligated to use PGW's ratemaking methodology and requirements until all outstanding Approved Bonds are paid in full or are refunded or defeased.
- The PUC is barred from requiring the City or PGW to take any action (or omit taking any actions) under the Public Utility Code if such action or omission would have the effect of

---

<sup>6</sup> As of July 1, 2000, PGW rates and charges became subject to PUC jurisdiction, pursuant to the Gas Choice Act.



causing the interest on any Bonds issued by the City on behalf of PGW, including the Seventeenth Series Bonds, to be includable in the gross income of the holders of such Bonds for Federal income tax purposes.

- Effective July 1, 2000, the provisions of the Home Rule Charter with respect to the powers and duties of the PGC are abrogated to the extent inconsistent with the Gas Choice Act.
- On March 31, 2003, the PUC approved PGW's restructuring plan (Docket No. M-00021612), which implements customer choice and permits licensed natural gas suppliers to deliver gas to customers in Philadelphia using PGW's distribution system.
- On September 1, 2003, PGW began operating under its Restructuring Compliance Tariff.
- The PUC may, but is not required to, approve a senior citizen discount. On September 30, 2004, the PUC denied PGW's request to continue the senior citizen discount program for post- September 1, 2003, applicants. Since September 1, 2003, the program is not available to new participants. (See Section 7.9, Senior Citizen Discount Program).
- The PUC is required to provide for a management audit of all employees, records, equipment, contracts, assets, liabilities, appropriations, and obligations of PGW prior to the commencement of the restructuring proceeding. (See Section 7.1 Regulation History).
- The City cannot be required to take any action under the Public Utility Code if the effect of the action is to cause a variation in the City's financial plan approved by the Pennsylvania Intergovernmental Cooperation Authority.
- The City's executive or legislative powers to "legislate or otherwise determine the powers, functions, budgets, activities and mission of PGW" are not abrogated or limited.

By Order entered April 19, 2010, the PUC issued a Policy Statement which reaffirmed its use of PGW's prior ratemaking methodology, the cash flow method, to determine PGW's allowable revenue requirement. The Policy Statement also reaffirmed the PUC's obligation to establish rate levels adequate to permit PGW to satisfy its bond ordinance covenants. The PUC further set forth a series of factors it would consider in determining just and reasonable rates for PGW, including: Test Year year-end cash and projected future levels of non-borrowed year-end cash; available short- term borrowing capacity; internal generation of funds for construction; debt-to-equity ratios and the financial performance and level of operating and other expenses of similarly situated utility enterprises; level of financial performance needed to maintain or improve PGW's bond rating; PGW's management quality, efficiency and effectiveness; service quality and reliability; and effect on universal service.

This Report assumes rate regulation will be administered by the PUC to comply with PGW's prior ratemaking methodology (as interpreted by the Policy Statement) and the City's bond covenants, as required by the Gas Choice Act.

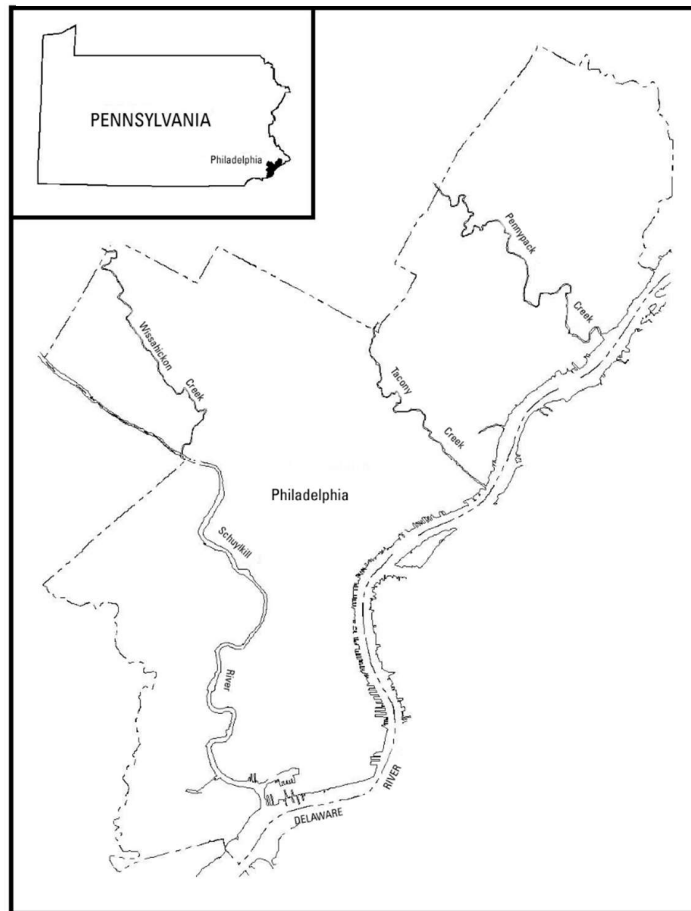
### 3. The PGW Gas System

PGW began gas production in February 1836 and has since continuously provided the City with service. Today, PGW is the largest municipally owned gas utility in the nation, maintaining a distribution system of approximately 3,047 miles of gas mains and 473,708 service lines. In addition to this extensive distribution system, PGW operates facilities for the liquefaction, storage, and vaporization of natural gas to supplement gas supply taken directly from interstate pipeline and storage companies.

#### 3.1. Population and Service Area

The PGW Gas System presently serves the limits of the City with a customer base of approximately 510,000 customers. This service area is shown in Figure 2. The service area consists of an urban area of 143 square miles located in southeast Pennsylvania along the Delaware River. Philadelphia is the largest incorporated area within the Delaware Valley region. According to the United States Census Bureau, as of July 1, 2022, Philadelphia has a population of approximately 1.593 million, an increase of about 3.7 percent in the ten years from 2013 to 2022.

Figure 2: Philadelphia Gas Works Service Area



#### 3.2. Supply Facilities

The principal PGW natural gas supply facilities include nine city gate stations owned in large part by the interstate natural gas pipeline companies serving PGW and two active LNG plants, Richmond Plant and Passyunk Plant, both of which are owned by the City. The supply facilities also include a gas control center and one gas holder for the Passyunk Plant that has been removed from service. PGW demolished a previously deactivated gas holder from the Richmond plant in 2023.



### 3.2.1. City Gate Stations

Natural gas is received through nine city gate stations from two interstate natural gas pipeline companies – Texas Eastern Transmission (“Texas Eastern”) a division of Enbridge (formerly Spectra Energy), and Transcontinental Gas Pipe Line Corporation (“Transco-Williams”). The two pipeline companies own most of the facilities and land at eight of the nine city gate stations. The pressure delivered to PGW’s distribution system is remotely controlled at each of the city gate stations. Eight city gate stations are equipped with gas heaters.

### 3.2.2. Gas Control Center

The gas control center is located at PGW’s headquarters at 800 W. Montgomery Avenue with a backup at the Richmond Plant. The center monitors and controls gas flow and pressure from the nine city gate stations to the distribution system. The gas control dispatchers also provide direction to the LNG production plant operators concerning startup, shutdown and gas flow output from the LNG facilities. Operations are facilitated through the use of a Supervisory Control and Data Acquisition (“SCADA”) system located in the data center that includes redundant equipment, cooling and power.

### 3.2.3. LNG Facilities

There are two LNG facilities – one at the Passyunk Plant and one at the Richmond Plant. The smaller satellite facility at the Passyunk Plant includes LNG storage and vaporization. It receives liquefied gas supply via cryogenic trailer trucks. The Passyunk Plant consists of one LNG storage tank of 3,066,000 gallons gross capacity (i.e., the equivalent of 253,300 thousand cubic feet (“Mcf”) of natural gas) and two LNG vaporizers, each having a capacity of 45,000 Mcf per day resulting in 45,000 Mcf per day planned capacity and 45,000 Mcf per day reserve. In 2023, the Passyunk Plant Control Room was updated.

The Richmond Plant is one of the largest peak shaving facilities in the United States. It includes liquefaction, storage, and vaporization facilities. The current liquefaction facility was placed into service in 2005 and replaced the original modified cascade liquefaction facility. The liquefaction facility utilizes open expander technology. It has a daily liquefaction capacity of 16,000 Mcf per day. This technology utilizes energy from the high-pressure interstate pipeline system to run the expander/compressors, significantly reducing fuel requirements. Further, this technology utilizes significantly fewer components than the older modified cascade facility and has resulted in lower operation and maintenance costs. The maximum capacity of the open expander liquefaction facility of 16,000 Mcf per day is not available during the summer months because the demand of the PGW distribution system is not sufficient to allow the plant gas throughput necessary to operate at this capacity.

The two storage tanks at the Richmond Plant have a combined gross capacity of 48,970,000 gallons of LNG (4,045,800 Mcf). Regasification of the liquid natural gas is accomplished with six vaporizers having a total output of 500,000 Mcf per day plus 100,000 Mcf per day in reserve.



The Richmond Plant also has facilities to receive LNG from and deliver LNG to cryogenic trailer trucks. In 2016, the control room at the Richmond Plant was expanded and updated.

Both the Passyunk and Richmond Plants are staffed 24 hours per day and have security personnel monitoring the facilities. In addition to on-site personnel, each Plant has fire suppression systems, including high expansion foam and sprinkler systems on the LNG tanks, emergency shutdown systems, and various other sensors to monitor the surrounding areas for leaks, fire and smoke.

### 3.2.4. Gas Holder Storage Facilities

The Richmond Plant low-pressure gas holder was demolished in 2023. The Passyunk gas holder has been permanently removed from service and will eventually be demolished, though there are no current plans for its demolition.

## 3.3. Distribution Facilities

The principal gas distribution facilities consist of approximately 3,047 miles of main, 473,708 service lines, 197 district regulator stations, 550,000 meters (of which 529,000 are active), and miscellaneous distribution valves, instruments, and other appurtenances. PGW operates nine different operating pressure systems; each system is connected to the other by pressure control regulators. The minimum and maximum operating pressures for these systems are as follows:

	Pressure (PSIG)	
	Minimum	Maximum
Richmond High Pressure Lateral	100	800
Transmission Main TP-1	200	500
Passyunk High Pressure Lateral	200	500
Ivy Hill Gate Station Inlet	100	420
150 PSIG System	60	150
60 PSIG System	30	60
High Pressure Distribution System	10	35
Intermediate Pressure Distribution System	1.5	5
Low Pressure Distribution System (Inches W.C.)	4.5"	14"

Approximately 77 percent (by length) of the gas mains in the PGW distribution system operate at low pressure (inches W.C.). Also, the majority of PGW customers are served from the low-pressure distribution system (approximately 90 percent of customers).

Approximately 38 percent (by length) of the gas mains are cast iron, 33 percent are steel, 4 percent are ductile iron, and 25 percent are plastic. Of the steel mains, approximately 53 percent are wrapped, coated, and cathodically protected. Approximately 22 percent of the service lines are steel (of which 28 percent are cathodically protected) and 78 percent are plastic.



## 3.4. PGW Technical Compliance

The Technical Compliance area provides regulatory guidance and oversight for PGW operations to ensure compliance with applicable Federal Department of Transportation, Pipeline and Hazardous Materials Safety Administration (“PHMSA”), and State PUC laws and regulations. Technical Compliance is currently staffed with two personnel and supports PGW operations with provision and documentation of Federal regulations advisories, PUC safety inspections, data requests and official correspondences for PGW’s Gas Processing, Field Services, and Distribution departments and Operator Qualification management and support.

## 3.5. Other Facilities

PGW’s central building complex is located near Temple University in the north central section of Philadelphia. There is a 180,000 square foot executive and administrative office building located at 800 West Montgomery Avenue. It includes the company’s state of the art data center, gas control information technology and telecommunications offices.

The North Operations Center, located at 5000 Summerdale Avenue, houses operations including; administrative, distribution and field service dispatch centers, dispatching, duplicating center, radio repair shop, training facilities, warehousing, as well as a metal fabrication shop. This location also includes a meter repair shop and the main automotive maintenance and repair facility. The automotive maintenance and repair facility is responsible for the upkeep of PGW’s fleet vehicles, portable compressors, and trailers. PGW also maintains a satellite automobile repair facility at its Porter Station. PGW also maintains the Tioga Station satellite facility for distribution crews and as a warehousing facility.

### 3.5.1. Data Center

In 2015, the data center facility and operations were relocated from the 1800 N. 9th Street building into a completely new data center within the 800 W. Montgomery building. With the move, PGW reduced its data center footprint from almost 7,000 square feet to 1,700 square feet and completed a major move toward updating the existing facility. The new data center design includes: a new dedicated backup generator, two fully independent or redundant PECO Energy Company power feeds supplying two new fully redundant uninterruptible power supplies. The modular data center design allows for information technology equipment load growth and provides increased redundancy of cooling systems to essentially four systems.

The data center features a highly efficient hot aisle containment system and is hosting state of the art information technology equipment providing a greater than 90 percent virtualized compute environment with over 600 servers and one Petabyte (i.e., one million gigabytes) of storage.

PGW is currently constructing an 800 square foot Tier 3 energy-efficient data center (a Tier 3 data center has multiple paths for power and cooling and systems in place to update and



maintain it without taking it offline and an expected uptime of 99.982 percent) at the North Operations Center. This new data center will enable some of PGW's applications to operate in an active/active configuration, thus providing similar services to multiple clients at all PGW locations at the same time and allowing close to seamless recovery in case of data-center loss. It will have the same redundant power and cooling as the primary data center and will communicate with all PGW locations, also providing a separate security network that monitors cameras and entries at all PGW locations. Once completed, the new data center will not only complement the systems running at the primary data center but will eventually have the ability to function on its own.

### 3.5.2. Combined Heat and Power

A 200 kW natural gas-fired micro-turbine Combined Heat and Power ("CHP") system produces electricity, heat and cooling for the 800 West Montgomery Avenue building. PGW estimates that approximately half of the building's electricity is produced by the CHP at approximately half the cost of that purchased from the local distribution grid. The CHP system is designed to convert waste heat from the micro-turbine's exhaust via an absorber chiller into dedicated cooling for the data center. This system has provided substantial annual operating savings. Due to a malfunction with the absorber chiller, the CHP cooling component has been removed from service and cooling at the building in the interim is being provided entirely from electricity-powered units. The absorber chiller is slated for replacement in the fiscal year 2025 capital plan. This replacement is expected to return the CHP system to its full operational efficiency.



## 4. Condition of Facilities

---

In May 2024, Atrium conducted site observations of certain above-ground PGW facilities as deemed appropriate. During the site visits, Atrium used three evaluation criteria based on observation to evaluate the condition of each facility. These criteria are described below:

- **Good:** The facility is in condition to provide reliable operation in accordance with design parameters and requires only routine maintenance.
- **Adequate:** The facility is operating at or near design levels; however, non-routine renovation, upgrading and repairs are needed to ensure continued reliable operation. Significant expenditures for these improvements may be required.
- **Poor:** The facility cannot be operated within design parameters. Major renovations are required to restore the facility and assure reliable operation. Major expenditures for these improvements may be required.

### 4.1. Construction Sites

The observations of construction sites covered crews, vehicles, power-operated equipment, tools, safety procedures for the crew and public, construction standards, and general quality of work performed.

### 4.2. Meter Settings

The observations of meter sets included materials and equipment. Observed meter settings conformed to accepted industry standards, accessibility, and safety and security measures.

### 4.3. Field Offices

Atrium observed office sites, including structures, security features, parking lots, driveways and office equipment, during the site visit at the 800 W. Montgomery Avenue headquarters and the North Operating Center at 5000 Summerdale Avenue.

The district offices are currently vacant and being marketed for sale. There are no plans to establish district offices in the future. PGW has modified its operations to allow customers who previously were serviced at the district offices to address issues through the call center, make payments online, apply for assistance online or via mail, and make cash payments using Retail Cash which is a free service that allows cash payments to be made at any CVS, 7-11, Speedway, and Family Dollar.

### 4.4. Personnel

During the facility observations, Atrium was guided by and interviewed PGW staff who are experienced, qualified, well trained, and knowledgeable in their assigned tasks. In addition to



details of the operations, they were knowledgeable in details of routine and preventative maintenance procedures PGW has in place.

The following is a list of key areas discussed during field observations and in the collection of system data:

- Construction
- Corrosion Engineering
- Field Offices
- District Regulators
- Field Services
- Gas Supply
- Losses & Meter Maintenance Programs
- Leak Surveys
- Operations
- Supervisory Control And Data Acquisition (SCADA) System
- Meter Settings
- City Gates and LNG Plants
- Data Center

## 4.5. Facility Observations

On May 7<sup>th</sup> through 10<sup>th</sup>, 2024 Atrium conducted field observations of PGW's facilities and construction sites throughout the service territory as described below.

### 4.5.1. Supply Facilities

#### LIQUEFIED NATURAL GAS FACILITIES

- Richmond Plant, Passyunk Plant

#### CITY GATE STATIONS

- Williams- Transco Gate Stations: Ashmead, Somerton, Richmond, Whitman
- Texas Eastern Gate Stations: 030, 034, 060, Ivy Hill, Penrose

### 4.5.2. Distribution Facilities

#### METER SETTINGS

##### **Pressure Force Meter Settings:**

- 5000 Summerdale Avenue – PGW North Operations Center
- 10975 Dutton Road – Hood Industries
- 3201 Ryan Avenue – Lincoln High School
- 2360 Bridge Street – Honeywell
- 1331 E. Wyoming Avenue– Cancer Treatment Centers
- 3221 Tulip Street – Northeastern Hospital



### Field Services Meter Settings

- 4641 Roosevelt Blvd – Friends Hospital - Cafeteria
- 2327 Cottman Avenue – LA Fitness
- 2033 E. Lehigh Avenue – Residential multi-unit building

### CONSTRUCTION SITES

- 2300 77th Avenue – service line replacements
  - PGW crew transferring services from cast iron main to new high density polyethylene main previously installed.
  - Observed cutting existing 1-inch steel service, removing existing tapping tee, and plugging tap on cast iron with threaded plug.
- 2221 E Washington Lane – service line replacements
  - PGW crew transferring service line from cast iron main to new high density polyethylene main.
  - Observed excavation of old cast iron main and new high density polyethylene main.
- 1500 W. Venango Street – service line replacements
  - Service line transfer from cast iron main to new high density polyethylene main.
  - Observed 1 ¼-inch service tap fused onto 10-inch high density polyethylene main, electrofusion new service to existing 1-inch medium density polyethylene service line, pressure test service, and tapping main.
- 1700 W. Venango Street – 12-inch high density polyethylene main installation
  - Contract crew installing 12-inch high density polyethylene main on 17<sup>th</sup> Street.
  - Observed backhoe excavation of trench and butt fusion of 12-inch high density polyethylene main outside of trench.
- 3200 Park Avenue – 20-inch steel main installation
  - Contract crew installing 20-inch steel main.
  - Observed backhoe excavation of trench, placing two sections of welded 20-inch steel into trench, welding the 20-inch steel to the pipe already installed in trench, coating and wrapping of weld.

### 4.5.3. Other Facilities

- PGW Headquarters Building
- North Operations Center
- Combined Heat and Power facility at North Operations Center



## 4.6. Conclusions

All observed facilities, vehicles, equipment and warehouse stock appeared to be reasonably maintained and in good operating condition. During the site visits, Atrium identified only minor items not in good operating condition as would be expected during the normal course of operation. These items were either in the process of being repaired or were essentially retired in place. Employees appeared to be knowledgeable of their job requirements and well trained.

PGW's highest operating priority is response to emergencies and the maintenance of a safe gas distribution system. PGW maintains maps and other records of the distribution system in good order and has comprehensive written construction, operating and maintenance standards and procedures. Its personnel appeared well trained in the operation and maintenance of the gas distribution system. PGW is routinely actively involved in entering its facility records (corrosion, service and leak records) into computer databases, thus facilitating and improving the accuracy of accessing information. PGW has continued to monitor its security measures at its major facilities, including the two LNG facilities, the city gate stations, and the headquarters building complex.

PGW has concrete barriers around critical facilities at Richmond Plant and perimeter fencing around both Passyunk and Richmond Plants.

Based on the physical observations and interviews conducted in May 2024, and the level of maintenance expense and capital improvements reflected in this Report, Atrium is of the opinion that PGW operates and maintains its system in accordance with current regulatory standards and generally accepted industry practices.





## 5. PGW Gas Supply

---

PGW manages its gas supply through a mix of flowing supplies, off-system underground storage, and City-owned and PGW-operated LNG facilities. PGW utilizes this mix to meet its obligation to serve customers' demand on the coldest day (peak day) as well as customers' annual requirements. PGW's gas distribution facilities are directly connected to Texas Eastern-Enbridge through four city gate stations and to Transco-Williams through five city gate stations. All gas delivered to customers by PGW is transported to the city gate stations through these pipelines. During predominantly off-peak periods, a portion of the purchased gas supply is stored in off-system underground storage facilities connected to these two pipelines or in PGW's LNG facilities. Through the effective use of off-system storage and LNG, PGW is able to more efficiently utilize its transportation contracts with Texas Eastern-Enbridge and Transco-Williams.

### 5.1. Supply Services

PGW purchases gas through a combination of term contracts and spot market purchases. Natural gas supplies are purchased under a portfolio approach intended to secure the lowest price consistent with reliability of supply. Consideration is given to maintaining a diversity of sources and types of supply. During the 2024 fiscal year, purchased gas costs are estimated to account for approximately 59.8 percent of the total gas supply expenses of \$175.5 million and approximately 15.9 percent of total gas revenues of \$658.5 million. The cost of gas supply is a function of the prices paid and the quantity purchased, both of which are variable. While this price component can be managed by PGW to some extent through the timing of purchases, the prices paid are largely determined in a very competitive and sometimes volatile marketplace. While the total annual volumes purchased are highly dependent on temperatures during the heating season and are beyond the utility's direct control, PGW can manage the timing of purchases and hence prices to a limited degree, by utilizing off-system and LNG storage.

### 5.2. Transportation and Storage Services

All of PGW's gas purchases are ultimately transported from the sources of supply to the city gate stations through either Texas Eastern-Enbridge or Transco-Williams facilities. Injections and withdrawals of gas from off-system storage also rely on these two pipelines. Table 1 summarizes the existing transportation and storage agreements. As shown in this table, PGW's currently available pipeline capacity is almost equally divided between the two pipelines. Of PGW's total contract pipeline capacity of 444,722 Mcf per day, Texas Eastern-Enbridge accounts for 226,343 Mcf per day, or 50.9 percent, and Transco-Williams accounts for 218,379 Mcf per day, or 49.1 percent. The initial terms of the major contracts for the Texas Eastern-Enbridge transportation service (Comprehensive Delivery Service (CDS) and Firm Transportation (FT)) and for the Transco- Williams transportation service (FT) expired after the 2011-12 winter period.



However, these contracts renew on an automatic year-to-year basis after the initial term. PGW's current long-term plan assumes that these contracts will remain evergreen.

Table 1: Gas Supply, Transportation, and Storage Contracts

Contract	Contract Expiration <sup>(b)</sup>	Transportation <sup>(c)</sup>		Storage <sup>(d)</sup>	
		dt/day	Mcf/day <sup>(f)</sup>	dt/day	Mcf/day <sup>(f)</sup>
<b>Transco-Williams</b>					
FT - 3691	Evergreen	165,212	159,471		
PSFT - 5001	Evergreen	1,967	1,899		
S-2	Evergreen	5,191	5,011	5,191	5,011
GSS <sup>(e)</sup>	2028	53,871	51,999	53,871	51,999
WSS <sup>(a)(e)</sup>	2025			35,115	33,895
Subtotal		226,241	218,379	94,177	90,904
<b>Texas Eastern</b>					
CDS - 800232R	Evergreen	75,000	72,394		
FT1 - 800233R	Evergreen	23,822	22,994		
FT1 - 800514R	Evergreen	18,000	17,375		
FT1 - 800515R	Evergreen	18,000	17,375		
FTS2 - 330791	Evergreen	5,394	5,207		
Dominion/GSS/FTS7 <sup>(e)</sup>	Evergreen	6,815	6,578	6,815	6,578
Dominion/GSS/FTS8 <sup>(e)</sup>	Evergreen	22,495	21,714	22,495	21,714
SS1A	Evergreen	44,118	42,585	44,118	42,585
SS1B	Evergreen	20,847	20,123	20,847	20,123
Subtotal		234,491	226,343	94,275	90,999
<b>Total</b>		460,732	444,722	188,452	181,903

(a) Transportation included in FT.  
(b) Contracts are assumed renewed based on evergreen clauses beyond their expiration date.  
(c) Reference: SDS 6, Page 4 of 4, Gas Costs and Purchasing Plans.  
(d) Reference: SDS 6, Pages 1-2 of 4, Gas Costs and Purchasing Plans.  
(e) Volumes reflect 87.5% contract limitation on maximum monthly storage withdrawal.  
(f) Mcf conversion at 1.036 BTU.

Due to the highly seasonal nature of PGW's load (demand), the efficiency of pipeline transportation service can be increased significantly through the use of storage services. During periods when PGW's load is less than the contracted transportation service, PGW may utilize the available capacity to deliver gas to off-system storage facilities or to liquefy gas for storage in its LNG facilities. The ability to store gas off-system and in LNG facilities provides three significant benefits. First, less capacity needs to be reserved on interstate pipelines to serve higher seasonal loads to the extent that gas can be stored in off-system storage and local LNG facilities. Second, less natural gas needs to be actually purchased during the generally higher cost winter period to the extent that gas can be purchased during the lower cost non-winter



period, stored and then redelivered from storage during the winter. Third, market area storage provides increased security of supply.

Of PGW's total contract daily storage withdrawal capacity of 181,903 Mcf per day, services provided on Texas Eastern-Enbridge account for 90,999 Mcf per day, or 50 percent, and Transco-Williams accounts for 90,904 Mcf per day, or 50 percent. Transco WSS storage does not include bundled transportation so volumes from this storage must be transported using the FT transportation contract. All other storage volumes are bundled storage and transportation. This storage deliverability is used primarily to reduce contract demand for long haul transportation services and to reduce the quantity of gas that needs to be purchased during the typically higher cost winter period to meet winter peak demand.

During the 2024 fiscal year, transportation and storage capacity costs are estimated to account for approximately 40.2 percent of the total gas supply expenses of \$175.5 million. The prices paid for these services are determined by long-term contracts and tariff rates regulated by the FERC. Generally, these components of gas supply cost represent the purchase of capacity, are relatively fixed, and do not vary directly with the volumes of gas purchased.

### 5.3. LNG Facilities

The City owns and PGW operates two LNG facilities: the Richmond Plant and the Passyunk Plant. The LNG facilities are primarily used to ensure availability of supply needed to serve peak day demand. The LNG facilities provide capacity that would otherwise be needed from flowing gas and off-system storage (i.e., pipeline and storage capacity) to meet peak day demands. The LNG facilities also allow for a nominal reduction in purchases during the higher cost winter period. Based upon current pipeline and storage charges, which have remained relatively constant over the past five years, PGW estimates that utilizing the existing LNG facilities in lieu of additional pipeline and storage capacity saves approximately \$75 million per year.

Gas is liquefied at the Richmond Plant. After liquefaction, the LNG is stored and vaporized at both the Richmond Plant and the Passyunk Plant. Total liquefaction (converting natural gas to liquid state for storage) capacity at the Richmond Plant existing facilities is approximately 16,000 Mcf per day. The Richmond Plant can store approximately 49 million gallons of LNG (4.05 Bcf natural gas equivalent) and the Passyunk Plant can store approximately 3.0 million gallons of LNG (253,000 Mcf natural gas equivalent). The LNG stored at the Passyunk Plant is typically liquefied at the Richmond Plant and then transported by cryogenic trailer trucks to the Passyunk Plant, although LNG can also be purchased and transported from third parties. Total vaporization (converting the liquid LNG to gas) capacity at the Richmond Plant with six vaporizers, is 500,000 Mcf per day and 100,000 Mcf per day in reserve, and the capacity at the Passyunk Plant with two vaporizers, is 45,000 Mcf per day and 45,000 Mcf per day in reserve. The highest daily vaporization rate from the LNG facilities of approximately 360,000 Mcf occurred in January 1994 when PGW recorded its maximum system sendout.



## 5.4. Supply and Demand Balance

Table 2 summarizes the supply mix that was used to meet historical peak day demand from fiscal years 2019 through 2023, and the supply mix that would enable PGW to meet future demand assuming design conditions over the 2024 through 2029 fiscal years. PGW's highest actual historical peak day occurred on January 19, 1994, with a demand (sendout) of 752,707 Mcf. The average temperature on that day was 2°F. For design purposes, PGW projects total demand based on a 65 heating degree-day ("HDD") which translates to a design day average temperature of 0°F. This is the lowest expected temperature that PGW believes could reasonably occur and PGW did experience a design day in the 1980's with an average temperature of 0°F. During the past five fiscal years (2019-2023), pipeline deliveries (flowing gas plus underground storage) have met between 59.5 and 98.1 percent of actual peak day demand. These figures are relatively high due to significantly warmer than normal winters, as defined below. During the projection period, approximately 68.5 percent of peak day demand under design conditions would be met from pipeline supply with the remaining 31.5 percent met from LNG. PGW must maintain these capacity levels because it is considered the supplier of last resort if the customer's supplier is unable to deliver natural gas. PGW assigns proportionate shares of pipeline capacity and cost to firm transportation customers. Table 2 shows that PGW has sufficient capacity to meet forecast demand requirements.

Table 3 summarizes the supply mix that is projected to meet annual requirements during normal and design years from fiscal year 2025 through fiscal year 2029. For supply planning purposes, PGW defines a normal year as one containing 3,878 HDDs. The supply planning normal year is based on the ten-year average HDDs as recorded at the Richmond Plant. PGW defines a design year as one containing 5,280 HDDs. A design year is based on the temperatures experienced during the 1977-1978 winter, which was the coldest recorded winter in the last 60 years.

Even though 100 percent of PGW's supply is originally transported through one of the two interstate pipelines, the supply components shown in Table 3 are based on the source of gas when ultimately delivered to the end user. On a projected normal annual basis, approximately 70.4 percent of the total supply volume is delivered to firm customers, and 29.6 percent is gas transported by interruptible third-party suppliers. 98.2 percent of PGW's firm volume is delivered to firm end users through the interstate pipeline systems (of which 77.1 percent is flowing gas<sup>7</sup> and 22.9 percent is off-system storage), and 1.8 percent is delivered from the LNG facilities.

---

<sup>7</sup> Flowing gas represents gas that is purchased at the same time as delivered to customers.



Table 2: Peak Day Supply and Demand

Description	Fiscal Year Ending August 31,										
	Actual					Estimate		Projected - Design <sup>(a)</sup>			
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Actual<sup>(b)</sup></b>											
Peak Heating Degree-Days	48	35	39	49	49	42					
Demand - Mcf	611,853	461,382	495,584	531,582	544,760	474,445					
Supply - Mcf											
Pipeline/Storage	411,676	452,560	421,754	359,332	324,048	356,975					
LNG	<u>200,177</u>	<u>8,822</u>	<u>73,830</u>	<u>172,250</u>	<u>220,712</u>	<u>117,470</u>					
Total	611,853	461,382	495,584	531,582	544,760	474,445					
<b>Projected - Design</b>											
Design Heating Degree-Days <sup>(c)</sup>							65	65	65	65	65
Demand - Mcf <sup>(c)</sup>							658,393	653,454	647,813	643,269	641,505
Supply - Mcf											
Pipeline/Storage <sup>(d)</sup>							444,722	444,722	444,722	444,722	444,722
LNG (net)							<u>213,671</u>	<u>208,732</u>	<u>203,091</u>	<u>198,547</u>	<u>196,783</u>
Total							658,393	653,454	647,813	643,269	641,505
<p>(a) Assumes no unbundling of services.</p> <p>(b) For 2019-2023, SDS 7, In the Matter of Proposed Operating Budget FY 2024-25 Supporting Documentation - Gas Costs and Purchasing Plans, Volume I &amp;II, February 2024.</p> <p>(c) SDS 6, Page 3 of 4, In the Matter of Proposed Operating Budget FY 2024-25, Supporting Documentation - Gas Costs and Purchasing Plans, Volume I&amp;II February. 2024.</p> <p>(d) SDS 6, Page 4 of 4, In the Matter of Proposed Operating Budget FY 2024-25, Supporting Documentation - Gas Costs and Purchasing Plans, Volume I&amp;II, February 2024.</p>											

Line No.	Description	Projected for Fiscal Year Ending August 31,				
		2025	2026	2027	2028	2029
		dt	dt	dt	dt	dt
<b>Normal Year - 3,878 Heating Degree-days</b>						
<b>Requirements - Sales</b>						
1	Firm Service	38,178,694	37,798,283	37,449,285	37,388,285	37,276,499
2	Cogeneration Service	489,638	489,638	489,638	489,637	489,638
3	Firm Transportation Service	7,741,726	7,831,081	7,925,339	8,005,452	8,093,328
4	LNG Sales	21,098	21,098	21,098	21,098	21,098
5	Natural Gas Vehicle Service	0	0	0	0	0
6	Interruptible Gas Transportation	11,047,194	11,047,194	11,047,194	11,047,194	11,047,194
7	Trigen	1,169,319	1,169,319	1,169,319	1,169,319	1,169,319
8	Grays Ferry	13,728,605	13,728,605	13,728,605	13,728,605	13,728,605
9	Subtotal Sales	72,376,275	72,085,219	71,830,479	71,849,591	71,825,682
10	Plant Use	127,348	120,027	119,831	120,458	119,832
11	Transport Fuel	589,821	600,232	594,173	594,332	593,727
12	Storage Fuel	213,854	251,989	251,235	250,936	251,437
13	Storage Injections	11,713,572	14,175,912	14,152,555	14,125,997	14,158,591
14	Liquefaction	1,717,687	1,029,007	1,029,007	1,033,955	1,029,007
15	Total Demand	86,738,557	88,262,386	87,977,280	87,975,269	87,978,276
<b>Supply</b>						
16	Spectra	29,646,073	28,632,402	28,410,712	28,429,595	28,311,301
17	Transco-Williams	17,010,391	18,417,992	18,389,603	18,392,825	18,483,965
18	Pipeline Subtotal	46,656,465	47,050,394	46,800,315	46,822,420	46,795,266
19	Spectra	8,088,458	8,028,226	8,028,195	8,052,055	8,026,050
20	Transco-Williams	4,905,028	6,136,712	6,113,372	6,062,956	6,121,540
21	Storage Subtotal	12,993,486	14,164,938	14,141,566	14,115,011	14,147,590
22	Total Firm Gas Supply	59,649,951	61,215,332	60,941,881	60,937,431	60,942,856
23	LNG	1,143,489	1,101,936	1,090,281	1,092,720	1,090,302
24	Interruptible Transportation Supply	25,945,118	25,945,118	25,945,118	25,945,118	25,945,118
25	Total Supply	86,738,557	88,262,386	87,977,280	87,975,269	87,978,276
<b>Design Year - 5,280 Heating Degree-days</b>						
<b>Requirements - Sales</b>						
26	Firm Service	48,110,283	47,603,691	47,148,166	47,074,284	46,934,586
27	Cogeneration Service	489,638	489,638	489,638	489,637	489,638
28	Gas Transportation Service	9,483,892	9,594,687	9,712,962	9,812,243	9,922,459
29	LNG Sales	21,098	21,098	21,098	21,098	21,098
30	Natural Gas Vehicle Service	0	0	0	0	0
31	Interruptible Gas Transportation	12,062,346	12,062,346	12,062,346	12,062,346	12,062,346
32	Trigen	1,169,319	1,169,319	1,169,319	1,169,319	1,169,319
33	Grays Ferry	13,728,605	13,728,605	13,728,605	13,728,605	13,728,605
34	Subtotal Sales	85,065,181	84,669,384	84,332,133	84,357,533	84,328,051
35	Plant Use	135,927	128,281	127,523	128,141	127,525
36	Transport Fuel	868,710	872,182	866,307	866,133	862,853
37	Storage Fuel	123,122	163,026	160,422	159,819	160,233
38	Storage Injections	6,463,251	9,341,878	9,187,354	9,135,834	9,168,760
39	Liquefaction	1,717,687	1,029,007	1,029,007	1,033,955	1,029,007
40	Total Demand	94,373,878	96,203,758	95,702,746	95,681,415	95,676,429
<b>Supply</b>						
41	Spectra	28,489,716	30,282,811	30,025,205	30,022,577	30,001,013
42	Transco-Williams	27,657,794	28,040,573	27,997,183	28,028,065	28,013,499
43	Pipeline Subtotal	56,147,510	58,323,384	58,022,387	58,050,642	58,014,512
44	Spectra	4,608,414	4,210,476	4,038,015	4,030,564	4,040,824
45	Transco-Williams	5,003,558	5,116,422	5,133,979	5,089,864	5,112,612
46	Storage Subtotal	9,611,971	9,326,898	9,171,994	9,120,428	9,153,436
47	Total Firm Gas Supply	65,759,481	67,650,282	67,194,381	67,171,070	67,167,948
48	LNG	1,654,128	1,593,207	1,548,095	1,550,076	1,548,212
49	Interruptible Transportation Supply	26,960,269	26,960,269	26,960,269	26,960,269	26,960,269
50	Total Supply	94,373,878	96,203,758	95,702,746	95,681,415	95,676,429

Reference: SDS 4, In the Matter of Proposed Operating Budget FY 2024-25, Supporting Documentation - Gas Costs and Purchasing Plans, Volume I & II, February 2024.

## 6. Capital Improvement Program

---

PGW uses a formal process of evaluating capital needs and funding to meet those needs. This annual capital planning process is used to identify potential capital improvements at the departmental level based upon certain operating and economic assumptions, evaluate these requirements, and establish priorities considering available financial resources. Based upon this process, PGW formulated a CIP for a six-year period based upon the approved capital budget for fiscal year 2024 and the proposed capital budget for fiscal year 2025 and the forecast period fiscal years 2026 through 2029. For the large operating departments whose needs comprise the vast majority of PGW's capital requirements, the gas design load forecast is one of the key elements in determining their capital requirements. In addition to ensuring the continued safety of PGW's operations, reliability of service is a major concern when considering the need for capital resources. The Gas Processing Department addresses these concerns by providing and maintaining the necessary facilities to take delivery of pipeline supplies and provides supplemental gas to satisfy peak load requirements. The Distribution Department, in its capital budget process, is concerned with continuing to provide and properly maintain a distribution network and to safely deliver natural gas at adequate pressure to satisfy the requirements of the appliances and equipment of PGW's customers.

Also of major importance, is to ensure funding is available to provide facilities to support new load opportunities as identified in the Marketing Department's forecast of customer additions. This forecast drives budget requirements for the Distribution Department for main and service additions, and in Field Services to identify new meter installations that must be provided for in the capital budget. Additional systems and technology initiatives are also considered to improve both efficiency and customer service. Under the terms of the Management Agreement, PGW submits the annual CIP to the Director of Finance and the PGC for their review and recommendation to City Council for budget approval.

In keeping with PGW's mandate to maintain a safe and reliable infrastructure, all capital projects are assigned a priority. The highest priority projects (Priority 1 and Priority 2) relate to expenditures required for maintaining the safety and reliability of PGW's infrastructure. Priority 3 expenditures relate to enforced main relocations that are based on City, State, and Federal mandated underground infrastructure projects. Priority 4 expenditures relate to projects that are expected to result in additional revenues from load growth opportunities, while Priority 5 are for those expenditures associated with business improvements that are expected to increase operational efficiencies and/or productivity.

Table 4 presents a summary of PGW's historical and forecasted CIP expenditures. Capital expenditures for the major departments are shown in the table. Capital expenditures for all departments other than Gas Processing, Distribution, Field Services, and Fleet Operations are grouped together under the general category "Other Departments".



Proposed capital expenditures over the five-year projection period, fiscal years 2025 through 2029, total \$1,162.0 million (net of salvage, contributions, and reimbursement). For fiscal year 2025, PGW's budgeted capital expenditure of \$216.0 million (net of salvage, contributions, reimbursement and including carryover projects) represents a \$1.0 million decrease from the estimated fiscal 2024 capital expenditures of \$217.0 million. The majority of the fiscal year 2025 capital expenditures, \$130.6 million or 60.5 percent, are committed to Distribution Department projects. Field Services and Fleet Operations have planned expenditures of about \$7.9 million and \$6.0 million, respectively, in fiscal year 2025. Gas Processing has planned expenditures of about \$20.3 million, in fiscal year 2025. Other Department expenditures are \$51.2 million, primarily the result of Customer Information Systems ("CIS") and Construction of PGW's South Operations Center. Over the five-year projected period, Distribution Department projects have planned expenditures of \$691.9 million, which represents 59.5 percent of the total capital spending. The majority of the Distribution Department capital projects involve the replacement of gas services and ongoing and required main replacements for high pressure, intermediate and low-pressure mains identified in PGW's Long Term Infrastructure Improvement Plan("LTIIIP"). Based on our inspections of existing facilities in May of 2024 and under normal operating conditions, the proposed capital expenditures should be sufficient to maintain the system in good condition.

A listing of projects approved in the capital budget for the fiscal year 2025, by major department, is shown in Table 5. This table also shows the priority assigned to each project. In addition to the estimated \$135.3 million as shown in Table 5 for fiscal year 2025, PGW anticipates completing \$80.6 million of capital improvements carried over from the prior fiscal year.

## 6.1. Gas Processing

As shown in Table 4, the budgeted capital spending for the Gas Processing Department is \$20.3 million in fiscal year 2025 (including carryover projects). These capital expenditures are for normal additions and replacements necessary to maintain the safety and reliability of natural gas measurement and control facilities, plant buildings and grounds, and PGW's LNG supplemental gas capabilities. Table 5 contains category breakdown of proposed new capital projects in fiscal year 2025 (excluding carryover funding from prior years). The more significant initiatives in fiscal year 2025 include: \$3.2 million to replace boilloff gas compressors and \$1.0 million to replace the river water pump switchgear and river water pumps at the Passyunk LNG facility; \$1.5 million to upgrade H-1 heater controls and \$1.1 million to replace motor control system 1, 2, 3 at the Richmond LNG facility; and \$1.3 million for new heater, generator, and station modifications. Forecasted project spending is based upon the inventory of projects to be undertaken.

Significant projects in the most recent Compliance Capital Forecast for 2026-2030 include \$170.0 million to replace the liquefier at the Richmond LNG facility beginning in fiscal year 2027





through 2029; \$5.5 million has been forecast to replace the public address system at the Passyunk LNG facility in fiscal years 2027 and 2028; \$5.0 million to replace river water pump switchgear and river water pumps for Passyunk in fiscal year 2026; \$10.0 million to relocate the Richmond training facility in fiscal year 2026; \$6.4 million for the boil off gas compressors replacements at Passyunk in fiscal year 2026 (this is in addition to the amount budgeted in fiscal year 2025 of \$4.9 million); \$10.6 million to replace the main switchgear breakers and controls at Passyunk in fiscal year 2026; \$8.0 million for under tank heating and \$13.2 million for LNG truck loading at Richmond in fiscal year 2030; and \$10.0 million for LNG truck loading at Passyunk in fiscal year 2029. Also, the work pattern to complete a project will be a factor in the determination of the carryover spending from fiscal year to fiscal year. This affects the respective spending pattern related to the various projects.

## 6.2. Distribution

The ongoing cast iron main replacement capital program is funded through base rates, federal grant funding and the Distribution System Improvement Charge ("DSIC"). Cast iron pipe was generally used by natural gas utilities many decades ago and was quite common for low-pressure gas mains such as PGW's. While this pipe has performed well, as it ages the pipe becomes brittle and the joints deteriorate, thereby resulting in leaks. Over the last 20 years or so, natural gas utilities have been systematically replacing cast iron mains generally with plastic for low-pressure systems and sometimes wrapped and cathodically protected steel for higher pressure systems.

The base rate funded portion of the program for fiscal year 2024 is approximately \$34.2 million which will support the removal of approximately 18 miles of cast iron mains. The level of main replacement represents a balance among several factors including prioritizing replacements to areas of highest reported leaks, working within the constraints of a highly populated urban area, providing sufficient supervision and oversight by PGW of internal and external construction crews, and the level of rate or surcharge revenues approved by the PUC to fund the replacements. Approximately 18 miles of the current mains replacement program is covered by the current level of approved base rates.

PGW was provisionally awarded \$10.0 million in federal funding through the Natural Gas Distribution Infrastructure Safety and Modernization (NGDISM) grant program to be spent over 5-years beginning in fiscal year 2024 and an additional \$75.0 million to be spent over 5-years beginning in fiscal year 2025 to accelerate small diameter main replacement in underserved areas. This grant funding provides reimbursement to PGW for small diameter main replacement, and is expected to provide approximately \$7 million and \$13.7 million of reimbursements funds in fiscal years 2024 and 2025, respectively.

Additionally, an accelerated mains replacement program is funded by PGW's DSIC. PGW received approval from the PUC to fund DSIC at 7.5 percent of the amount billed to customers starting in fiscal year 2016. This increase in the cap allows PGW to recover a projected \$37



million in DSIC for calendar year 2024 (which, when combined with the level in base rates, results in approximately \$81.2 million per year for main replacement).

For fiscal year 2024, a significant expenditure, \$18.5 million relates to the replacement of small diameter services (1.25 inches or less). Services are replaced as a result of PGW's Main Replacement Program. This Main Replacement Program includes PGW's 18-mile historical replacement program, as well as the mains replaced through the DSIC program and surcharge and funding provided by the PHMSA's Natural Gas Distribution Infrastructure Safety and Modernization Program. Also contributing to this expenditure are services replaced throughout the year due to collection activities as well as service replacements associated with leaks.

To the extent that PGW and its regulators agree to any further acceleration of the level of annual mains (and related service lines) replacement, it is expected that financing these capital improvements would be through an increase to the existing DSIC surcharge mechanism or through increased base rates.

The estimated capital spending for replacement of aging infrastructure in fiscal year 2025 for the Distribution Department is \$92.9 million. The base rate funded portion of the program is approximately \$36.6 million, which will support the removal of 18 miles of cast iron mains. Additionally PGW expects to recover a projected \$37.0 million in DSIC for calendar year 2025 (which, when combined with the projected level in base rates and the anticipated NGDISM grant funding, results in approximately \$92.9 million for main replacement).

The increase in Distribution Department spending is associated with the replacement of at-risk mains as currently in PGW's LTIIP. The foregoing allows PGW to recover the annual cost for its accelerated replacement program on a pay-as-you-go basis.

Table 6 summarizes the miles of cast iron mains replaced, number of service lines replaced and the capital expenditures for mains and service line replacement for fiscal years 2000 through 2023. As shown in Table 6, the amount of cast iron mains replaced by PGW increased significantly beginning in fiscal year 2013, due to implementation of the DSIC. The annual number of unprotected service lines replaced is primarily a function of the number of service lines connected to the mains that are replaced, and the remaining total inventory of unprotected steel service lines.

### 6.3. Field Services

The estimated capital spending for fiscal year 2025 for the Field Services Department is \$7.9 million. PGW continues to realize benefits from the implementation of the automated meter reading system ("AMR"), including fewer estimated readings, increased reading accuracy, reduction in meter reading personnel and reduced customer complaints. While replacing meters and AMR devices, PGW is testing its meters to comply with PUC requirements.



## 6.4. Fleet Operations

The Fleet Operations Department estimated capital expenditures are \$6.0 million for fiscal year 2025. The majority of the estimated capital expenditures for this department are associated with vehicle and mobile equipment replacements. The majority of the vehicle replacements are targeted to support critical field operations activities. The fiscal year 2025 spending level in Fleet Operations is based upon PGW's normal replacement criteria. In any particular year, spending in this area is based upon the inventory of vehicles to be replaced. Vehicles are analyzed on an annual basis to determine their respective useful life.

## 6.5. Other Departments

The Other Departments category includes estimated capital expenditures for Facilities, Information Services, Customer Affairs, and other miscellaneous departments. For fiscal year 2025, the combined spending of these departments is estimated at \$51.2 million. Two major initiatives are the driving force for this level of spending, replacement of PGW's CIS and construction of PGW's South Operations Center. PGW's current CIS System was implemented in 1999. It uses a dated and proprietary software architecture, which in the form deployed at PGW has not found broad market acceptance. PGW plans to replace its current CIS with a highly customizable and flexible modern CIS that leverages best practices of the utility industry and will provide a secure and reliable operating platform for the future. In conjunction with the CIS, PGW will update its Customer Experience Portal for service orders. This project is a multiyear initiative that will cost in total \$92.1 million, of which \$16.3 million will be spent in fiscal year 2025. In addition, replacement of Operations Software in the amount of \$1.5 million is expected in fiscal year 2025.

The South Operations Center has a total budget authorization of \$24.6 million. The project is intended to improve space utilization, reduce costs, improve service levels, and shrink PGW's physical and carbon footprint. Of the above planned expenditures, \$20.3 million are budgeted to be spent in fiscal year 2025. In addition, renovations to the first floor of the 800 Montgomery Building are expected to be approximately \$3.3 million in fiscal year 2025.



**Table 4: Historical and Proposed Capital Improvement Program Expenditures**

(Fiscal years ending August 31. Table is in thousands of dollars.)

Category <sup>(a)</sup>	Actual					Estimate	Projected					Total
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2025-2029
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Gas Processing	5,199	3,520	6,611	6,162	7,027	40,222	20,308	28,080	39,699	64,922	101,843	254,852
Distribution	91,126	82,068	106,315	101,470	97,635	115,315	130,628	128,390	140,889	145,195	146,807	691,909
Field Services	5,805	3,346	6,142	6,114	5,828	8,129	7,869	24,389	20,119	24,989	25,257	102,623
Fleet Operations	6,136	1,262	1,509	826	5,229	14,381	5,980	11,179	11,776	11,353	8,528	48,816
Other Departments <sup>(b)</sup>	2,277	9,140	17,928	36,556	34,506	38,953	51,215	7,962	1,517	1,541	1,565	63,800
Subtotal	110,543	99,336	138,504	151,129	150,225	217,000	216,000	200,000	214,000	248,000	284,000	1,162,000

(a) All figures are net of Salvage, Reimbursements, and Contributions.  
 (b) Includes Approved and Budgeted Program for Building Services, Customer Affairs, Information Technology, and Systems Technology.



Table 5: Capital Projects for Fiscal Year 2025 (in Thousands of Dollars)

Category	Priority 1	Priority 2	Priority 3	Priority 4	Priority 5	Other	Total
	Safety	Reliability	Enforced	New Rev.	Efficiency		
	\$	\$	\$	\$	\$	\$	\$
<b>Gas Processing</b>							
New Heater , Generator and Station Modifications	1,317	-	-	-	-	-	1,317
Replace Natural Gas Driven Positioners & Actuators	-	-	-	-	714	-	714
Replace Fiber Optic - Richmond Plant	867	-	-	-	-	-	867
Repl. River Water Pump Switchgear And River Water Pumps - Passyunk	1,021	-	-	-	-	-	1,021
Repl. MCC 1,2,3 - Richmond	-	1,080	-	-	-	-	1,080
Upgrade H-1 Heater Controls - Richmond	-	1,529	-	-	-	-	1,529
Boiloff Gas Compressors Replacements - Passyunk	-	3,173	-	-	-	-	3,173
Upgrade Expander H20 and C02 Analyzer	-	518	-	-	-	-	518
Miscellaneous Capital Additions & Replacements	-	323	-	-	-	-	323
Advanced Engineering	-	-	-	-	-	-	-
<b>Total Gas Processing</b>	<b>3,205</b>	<b>6,623</b>	<b>-</b>	<b>-</b>	<b>714</b>	<b>-</b>	<b>10,542</b>
<b>Distribution</b>							
Prudent Main Replacements	20,277	-	-	-	-	-	20,277
LTIIP - DSIC	29,244	-	-	-	-	-	29,244
NG Dist. Infrastructure Safety and Modernization	10,728	-	-	-	-	-	10,728
Main Additions For Loads To Supply Ind and Comm Customers	-	-	-	3,881	-	-	3,881
Main Additions For Loads To Supply New & Existing Customers	-	-	-	2,310	-	-	2,310
Main For Major Enforced Relocation Caused By City/State	-	-	2,184	-	-	-	2,184
Renewal of 2" And Larger Services	915	-	-	-	-	-	915
Install of New And Smaller Svcs., High, Intermed And Low Pressure	-	-	-	7,704	-	-	7,704
Install of New And Larger Svcs, High, Intermed And Low Pressure	-	-	-	1,947	-	-	1,947
Renewal of Smaller Svcs For Prudent Reasons PGW Main Repl. Prog, Customer Complaints Or City & State Work	19,908	-	-	-	-	-	19,908
Emergency Shutdown Valves Out of Compli. With DOT 192	64	-	-	-	-	-	64
High Pressure Control Valve Additions	151	-	-	-	-	-	151
Enforced Relocations Caused By City & State/Unforeseen Conditions	-	-	4,849	-	-	-	4,849
Additional Tools & Work Equipment	-	254	-	-	-	-	254
Install Of Meters/Regulators For New Customers	-	-	-	399	-	-	399
Repl. Of Worn Damaged Pressure Regulating/Corro. Control Facilities	-	1,471	-	-	-	-	1,471
Repl. of Unusable Work Equipment	-	441	-	-	-	-	441
Enforced Relocations Caused By City & State Work	-	-	1,045	-	-	-	1,045
Reimbursements/Contributions	-	-	-	-	-	(6,221)	(6,221)
<b>Total Distribution</b>	<b>81,287</b>	<b>2,166</b>	<b>8,078</b>	<b>16,241</b>	<b>-</b>	<b>(6,221)</b>	<b>101,551</b>
<b>Field Services</b>							
Regulator Purchase & Install	-	-	-	138	-	-	138
Regulator Installations	-	126	-	-	-	-	126
Meter Purchase & Install Svc For New Customers	-	-	-	2,579	-	-	2,579
Meter Purchase To Support Meter Testing	-	-	-	-	3,130	-	3,130
Non-Residential Endpoint Additions	-	-	-	37	-	-	37
Non-Residential Endpoint Replacements	-	12	-	-	-	-	12
AMR Purch & Install General Svc. Customers	-	-	-	167	-	-	167
AMR Replacements	-	-	-	-	1,001	-	1,001
Repl. Obsolete Shop Equip., Hand-Held Tools/SW Package for AMR	-	228	-	-	-	-	228
Instrumentation Purchases and Installations	-	-	-	-	-	-	-
<b>Total Field Services</b>	<b>-</b>	<b>366</b>	<b>-</b>	<b>2,921</b>	<b>4,131</b>	<b>-</b>	<b>7,418</b>
<b>Fleet Operations</b>							
Vehicle Replacements	-	5,183	-	-	-	-	5,183
Mobile Equipment Replacements	-	797	-	-	-	-	797
Mobile Equipment Additions	-	-	-	-	-	-	-
Shop Equipment	-	-	-	-	-	-	-
Salvage	-	-	-	-	-	-	-
<b>Total Transportation</b>	<b>-</b>	<b>5,980</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,980</b>
<b>Other Departments</b>							
Total Other Departments	4,658	5,163	-	-	-	-	9,821
<b>Total FY 2025 Projects</b>	<b>89,150</b>	<b>20,298</b>	<b>8,078</b>	<b>19,162</b>	<b>4,845</b>	<b>(6,221)</b>	<b>135,312</b>
<b>Carryover from Years Prior to FY 2025</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total FY 2025 Expenditures (Net)</b>	<b>89,150</b>	<b>20,298</b>	<b>8,078</b>	<b>19,162</b>	<b>4,845</b>	<b>(6,221)</b>	<b>135,312</b>
<b>Carryover from Years Prior to FY 2025</b>	<b>32,843</b>	<b>20,775</b>	<b>3,395</b>	<b>3,225</b>	<b>20,326</b>	<b>-</b>	<b>80,564</b>
<b>Total FY 2025 Expenditures (Net)</b>	<b>121,993</b>	<b>41,073</b>	<b>11,473</b>	<b>22,387</b>	<b>25,171</b>	<b>(6,221)</b>	<b>215,876</b>



Table 6: Historical Cast Iron Main and Unprotected Steel Service Replacement

Fiscal Year Ending August 31,	Cast Iron Main Replacement		Services Removed from Inventory			
	Miles of CI Main Replaced (miles)	CI Mains Replacement Capital (\$000)	Number of Unprotected - Bare	Number of Unprotected - Coated	Total	Services Replacement Capital (\$000)
2000	7.81	\$8,282	(17,888) <sup>(a)</sup>	9,960 <sup>(a)</sup>	(7,928)	\$10,940
2001	18.45	\$15,148	(8,211)	(164)	(8,375)	\$12,010
2002	21.49	\$16,108	(6,688)	(573)	(7,261)	\$9,986
2003	22.57	\$13,717	(7,011)	(142)	(7,153)	\$13,641
2004	19.24	\$20,393	(7,846)	(609)	(8,455)	\$17,652
2005	19.01	\$20,183	(40,477) <sup>(a)</sup>	(56)	(40,533)	\$16,127
2006	18.93	\$17,582	(8,046)	(76)	(8,122)	\$17,232
2007	18.28	\$20,180	(4,944)	(1,133)	(6,077)	\$21,172
2008	17.98	\$21,371	(5,280)	7,027 <sup>(a)</sup>	1,747	\$20,743
2009	8.67	\$18,385	(5,347)	(466)	(5,813)	\$15,443
2010	17.98	\$21,718	(2,794)	(509)	(3,303)	\$15,793
2011	18.20	\$19,278	(3,619)	(455)	(4,074)	\$15,872
2012	18.35	\$24,387	(3,093)	(437)	(3,530)	\$16,247
2013	22.39	\$30,680	(2,647)	(304)	(2,951)	\$17,514
2014	28.09	\$37,414	(3,215)	(255)	(3,470)	\$16,576
2015	29.25	\$38,751	(3,051)	(244)	(3,295)	\$16,540
2016	31.50	\$52,712	(3,084)	(173)	(3,257)	\$15,854
2017	34.92	\$57,711	(5,099)	(631)	(5,730)	\$16,433
2018	33.95	\$84,186	(4,417)	(485)	(4,902)	\$18,320
2019	36.59	\$61,094	(4,376)	(524)	(4,900)	\$17,220
2020	32.51	\$54,632	(3,812)	(488)	(4,300)	\$18,557
2021	32.21	\$67,997	(4,063)	(197)	(4,260)	\$17,105
2022	30.69	\$61,767	(3,261)	(296)	(3,557)	\$21,115
2023	32.97	\$63,592	(3,380)	(328)	(3,708)	\$20,182

(a) Change in number of services reflects adjustments to inventory



## 7. Rates and Tariffs

---

### 7.1. PUC Regulation History

Prior to July 2000, PGW's rates were regulated by the PGC. Commencing on July 1, 2000, PGW became regulated by the PUC pursuant to the Gas Choice Act which amended the Public Utility Code. Section 2212(b) of the Public Utility Code specifically transferred rate setting authority for PGW from the PGC to the PUC. Although the PGC continues to approve PGW's operating budget, and review and recommend the approval of PGW's capital budget, the PUC has the authority to approve the rates charged by PGW.<sup>8</sup> Since PGW became regulated under the PUC, the PUC has granted PGW base rate increases totaling approximately \$239.2 million. PGW has also filed with the PUC on several occasions regarding revisions to its gas cost rate ("GCR"). The PUC has approved all of the GCRs filed by PGW. Atrium is of the opinion that PGW has requested and received timely changes in its GCR. The following discussion in this section addresses major PUC regulatory milestones since 2008.

#### 7.1.1. 2008 Extraordinary Rate Relief Filing

On November 14, 2008, PGW filed for extraordinary base rate relief of \$60 million, effective January 1, 2009. The request was granted December 18, 2008. PGW filed the request primarily to cover the additional financing costs that PGW incurred to improve PGW's financial position so as to enhance its ability to access the financial markets and maintain its bond rating and to provide liquidity and financial flexibility in the tight credit markets. In granting the extraordinary relief, the PUC required PGW to file a base rate case no later than December 31, 2009.

#### 7.1.2. 2009 General Rate Relief Filing

On December 18, 2009, PGW submitted a base rate case filing with the PUC requesting: 1) to maintain the \$60 million base rate increase that the PUC granted in 2008; and 2) to provide PGW with a rider above the base rates that would fund PGW's previously booked other post-employment benefits ("OPEB") liability in the amount of \$105 million over the 2011 through 2015 period and to fully fund, over 30 years, its unfunded actuarial accrued OPEB. PGW also moved to consolidate PGW's Demand Side Management Plan into the base rate filing. PGW filed the request to: 1) comply with the PUC's December 2008 order directing PGW to file a general rate case by the end of 2009; 2) maintain PGW's financial position; 3) maintain PGW's bond rating; 4) provide liquidity and financial flexibility in the then current tight credit markets; 5) better enable PGW to sell bonds to finance its capital program; and 6) enable PGW to provide funding for its OPEB liability.

---

<sup>8</sup> Generally, the PUC is required to rule on an application for base rate relief within nine months of the utility's application.



On May 19, 2010 PGW, along with all active parties to the proceeding, submitted a Petition for Proposed Settlement of the proceeding (the "Settlement"). The PUC approved this Settlement in its Order dated July 29, 2010 (the "2010 Order").

Under the 2010 Order, PGW is permitted to maintain virtually all of the extraordinary base rate relief, received an incremental rate increase of \$16 million annually and was required to fund \$18.5 million of the OPEB liability in each of the years 2011 through 2015 (the incremental rate increase of \$16.0 million annually is related to an OPEB surcharge which was approved to continue beyond 2015 in PGW's 2015-2016 Cost Rate Proceeding; PGW also agreed to continue funding the OPEB liability at \$18.5 million annually). The increase granted by the 2010 Order represented about 38 percent of the \$42.5 million incremental rate increase as originally requested by PGW. The 2010 Order's uniform funding approach results in more uniform rates and creates a reasonable transition period from "pay-as-you-go" funding to the full funding of OPEBs.

The 2010 Order required the Net OPEB Obligation to be amortized over a thirty-year period. With the thirty-year amortization, \$3.5 million is projected to be required annually to fund such amortization.

The 2010 Order authorized PGW to implement its proposed five-year Demand Side Management ("DSM") Phase I program generally as proposed, although PGW agreed to modifications to the program to address concerns raised by the active parties to the Settlement. PGW was permitted to establish an automatic adjustment clause mechanism to recover its costs of implementing its DSM program. Additional details regarding the DSM program are discussed further in *Section 7.6.2, Demand Side Management Plan*.

### 7.1.3. 2012 Pennsylvania General Assembly Act 11

The Pennsylvania General Assembly approved Act 11 on February 14, 2012. This legislation provides Pennsylvania utility companies with a supplemental recovery mechanism for costs related to incremental/accelerated distribution system repair, improvement, and replacement. Act 11 permits gas utilities to recover, through a DSIC surcharge, up to 5 percent of their non-gas revenues (which for PGW will be approximately \$22.0 million) and permits an increase if the PUC so permits. In order for a utility company to establish such a recovery mechanism, it must submit, along with other requirements, a LTIIP and a DSIC petition to the PUC for review and approval. Accordingly, PGW filed its LTIIP on December 3, 2012 and filed its DSIC petition on January 18, 2013. The PUC approved PGW's original LTIIP petition for the fiscal years 2013 - 2017 on April 4, 2013 and its initial DSIC petition on May 9, 2013. The PUC later approved an increase in the DSIC surcharge, up to 7.5 percent, on January 28, 2016. The DSIC surcharge remains at 7.5 percent in fiscal year 2024. Additionally, the original LTIIP was modified by the PUC by order entered on July 6, 2016 and continued, by its terms, through August 31, 2017. PGW filed its second LTIIP petition on May 3, 2017 for the prospective period fiscal years 2018-2022. PGW's second LTIIP was approved by the PUC on August 31, 2017. PGW's filed its third





LTIP on May 3, 2022, for the prospective period fiscal years 2023-2027. PGW's third LTIP was approved on August 25, 2022. Additional details regarding the LTIP and DSIC are discussed further in *Section 7.7, Infrastructure Replacement*.

#### 7.1.4. 2017 General Rate Relief Filing

On February 27, 2017, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce \$70 million (11.6 percent) in additional annual operating revenues based upon a 10-year normal weather assumption. The proposed increase sought to increase the fixed customer charge component, as well as the volumetric delivery charge component of base rates. Consistent with its budget process, the base rate increase requested in this filing was based on a fully projected future test year starting on September 1, 2017, and ending on August 31, 2018.

The primary issue in this proceeding was what level of base rate increase is supportable by applying PGW's required ratemaking methodology – the Cash Flow Method – and complying with Section 2212(e) and (f) of the Public Utility Code (regarding PGW's bond covenants), as well as the PUC's Policy Statement,<sup>9</sup> which explains the way in which the PUC intends to apply the PGW Cash Flow Method.

On July 21, 2017, PGW filed the Settlement Agreement for settlement of certain issues in the case.<sup>10</sup> The Settlement Agreement was approved by the PUC on November 8, 2017, authorizing a general rate increase of \$42 million in annual operating revenues calculated using a 20-year average HDDs assumption.

#### 7.1.5. 2020 General Rate Relief Filing

On February 28, 2020, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce \$70 million (10.5 percent) in additional annual operating revenues based upon a 20-year normal weather assumption. The proposed increase sought to increase the fixed customer charge component, as well as the volumetric delivery charge component of base rates. Consistent with its budget process, the base rate increase requested in this filing was based on a fully projected future test year starting on September 1, 2020 and ending on August 31, 2021.

The primary issue in this proceeding was what level of base rate increase is supportable by applying PGW's required ratemaking methodology – the Cash Flow Method – and complying

---

<sup>9</sup> 52 Pa.Code §§ 69.2701 to 69.2703; *Petition of Philadelphia Gas Works for a Statement of Policy on the Application of Philadelphia Gas Works' Cash Flow Ratemaking Method*, PUC Docket No. P-2009-2136508, Order of December 30, 2009.

<sup>10</sup>The Joint Petitioners were the active parties in the proceeding: PGW, the Bureau of Investigation and Enforcement, the Office of Consumer Advocate, the Office of Small Business Advocate, the Retail Energy Supply Association, the Philadelphia Industrial and Commercial Gas users Group, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania, the tenant Union Representative Network and Action Alliance of Senior Citizens of Greater Philadelphia.



with Section 2212(e) and (f) of the Public Utility Code (regarding PGW's bond covenants), as well as the PUC's Policy Statement,<sup>11</sup> which explained the way in which the PUC intended to apply the PGW Cash Flow Method.

On August 26, 2020, PGW filed a Settlement Agreement for certain issues in the case. The Settlement Agreement was approved by the PUC on November 19, 2020, authorizing a general rate increase of \$35 million in annual operating revenues, calculated using a 20-year average HDDs assumption. PGW was permitted to increase base rates in 3-year increments as follows: (1) \$10 million for service rendered on or after January 1, 2021; (2) additional \$10 million for service rendered on or after July 1, 2021; and (3) \$15 million for service rendered on or after January 1, 2022.

### 7.1.6. 2022 Management Audit

The PUC conducted a management audit of PGW's operations, in fiscal year 2022. A final report regarding audit findings was issued on February 2, 2023. The audit's functional evaluation summary found all areas were generally functioning adequately and the audit produced 32 recommendations for minor to moderate improvement of varying priority. PGW accepted 26 recommendations completely, accepted 3 in-part, and rejected three. PGW submitted its Implementation Plan Progress Report to the PUC in March 2024 which detailed the progress on the actions being taken, the expected completion dates and the individuals responsible for implementing each recommendation. The PUC had previously conducted a management audit of PGW's operations in fiscal year 2015.

### 7.1.7. 2023 General Rate Relief Filing

On February 27, 2023, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce \$85.8 million (10.3 percent) in additional annual operating revenues based upon a 20-year normal weather assumption. The proposed increase sought to increase the fixed customer charge component, as well as the volumetric delivery charge component of base rates. Consistent with PGW's budget process, the base rate increase requested in this filing was based on a fully projected future test year starting on September 1, 2023, and ending on August 31, 2024.

No Settlement Agreement was reached among the parties in this proceeding. On November 9, 2023, the PUC issued a final Order permitting PGW to increase base rates \$26.2 million (3.2 percent) beginning in December 2023.

---

<sup>11</sup> 52 Pa Code §§ 69.2701 to 69.2703; Petition of Philadelphia Gas Works for a Statement of Policy on the Application of Philadelphia Gas Works' Cash Flow Ratemaking Method, PUC Docket No. P-2009-2136508, Order of December 30, 2009.



## 7.2. Existing Rates

The current tariff sets forth the rules and regulations for gas service and the rates PGW is allowed to charge for various types of service. Changes to this tariff must be approved by the PUC. Currently, PGW primarily provides service under three broad classifications: firm service, interruptible service, and transportation service. Table 7 summarizes PGW's existing rates and applicable surcharges. PGW's rates are presented as unbundled and include a customer charge, distribution charge, and GCR. The distribution charge includes a delivery charge, as well as any applicable surcharges. The GCR is not applicable to certain firm service customers who transport gas through a qualified natural gas supplier.



Tariff	Effective	Existing Tariff Charges <sup>(a)</sup>
<b>FIRM SERVICE</b>		
<b>General Service - Rate GS</b>		
Customer Charge - \$/meter per month		
Residential and Public Housing Customers	12/1/23	16.25
Commercial and Municipal Customers	12/1/23	27.65
Industrial Customers	12/1/23	82.80
Supply Charge - \$/Mcf <sup>(b)</sup>		
Gas Cost Rate (GCR) + Merchant Function Charge + Gas Procurement Charge		
Residential	3/1/24	4.0819
Public Housing Customers	3/1/24	4.0819
Commercial and Municipal Customers	3/1/24	3.9330
Industrial Customers	3/1/24	3.8934
Distribution Charge - \$/Mcf		
Delivery Charge		
Residential	12/1/23	7.4624
Public Housing Customers	12/1/23	6.8523
Commercial and Municipal Customers	12/1/23	5.4086
Industrial Customers	12/1/23	5.4459
Surcharges		
Universal Service and Energy Conservation	3/1/24	1.6191
Restructuring and Consumer Education	3/1/24	0.0000
Efficiency Cost Recovery Surcharge		
Residential and Public Housing Customers	3/1/24	0.0240
Commercial Customers	3/1/24	0.0308
Industrial Customers	3/1/24	0.0012
Other Post Employment Benefits Surcharge	9/1/23	0.4117
Commodity Charge - \$/Mcf		
Residential Customers		13.5991
Public Housing Customers		12.9890
Commercial and Municipal Customers		11.4032
Industrial Customers		11.3713
Distribution System Improvement Charge	1/1/24	7.50%
Customer Charge - \$/meter per month		
Residential and Public Housing Customers		1.2188
Commercial and Municipal Customers		2.0738
Industrial Customers		6.2100
Commodity Charge - \$/Mcf		
Residential Customers		0.7138
Public Housing Customers		0.6680
Commercial and Municipal Customers		0.5603
Industrial Customers		0.5608
<b>Municipal Service - Rate MS</b>		
Customer Charge - \$/meter per month	12/1/23	27.65
Supply Charge - \$/Mcf <sup>(b)</sup>	3/1/24	3.8796
Distribution Charge - \$/Mcf		
Delivery Charge	12/1/23	5.1883
Surcharges		
Universal Service and Energy Conservation	3/1/24	1.6191
Restructuring and Consumer Education	3/1/23	0.0000
Efficiency Cost Recovery Surcharge		0.0000
Other Post Employment Benefits Surcharge	9/1/23	0.4117
Total Commodity Charge - \$/Mcf		11.0987
Distribution System Improvement Charge	1/1/24	7.50%
Customer Charge - \$/meter per month		2.0738
Commodity Charge - \$/Mcf		0.5414
<b>Philadelphia Housing Authority Service - Rate PHA</b>		
Customer Charge - \$/meter per month	12/1/23	27.65
Supply Charge - \$/Mcf <sup>(b)</sup>	3/1/24	3.8796
Distribution Charge - \$/Mcf		
Delivery Charge	12/1/23	5.6340
Surcharges		
Universal Service and Energy Conservation	3/1/24	1.6191
Restructuring and Consumer Education	9/1/21	0.0000
Efficiency Cost Recovery Surcharge	3/1/24	0.0308
Other Post Employment Benefits Surcharge	9/1/23	0.4117
Total Commodity Charge - \$/Mcf		11.5752
Distribution System Improvement Charge	1/1/24	7.50%
Customer Charge - \$/meter per month		2.07
Commodity Charge - \$/Mcf		0.5772



Table 7: (Continued): Existing Tariff Rates

Tariff	Effective	Existing Tariff Charges <sup>(a)</sup>
<b>INTERRUPTIBLE SERVICE</b>		
<b>Gas Transportation Service - Rate IT-XLT</b>		
Customer Charge - \$/meter per month	12/1/23	1,100.00
Commodity Charge(d) - \$/Mcf		n/a
<b>Cogeneration Service - Rate CG</b>		
Customer Charge - \$/meter per month	12/1/17	362.00
Commodity Charge <sup>(d)</sup> - \$/Mcf	2/1/24	4.8553
<b>Developmental Natural Gas Vehicle Service, Firm Service - Rate NGVS</b>		
Customer Charge - \$/meter per month	12/1/23	38.15
Supply Charge - \$/Mcf <sup>(b)</sup>	2/1/23	7.3244
Distribution Charge - \$/Mcf		
Delivery Charge	12/1/23	1.4022
Surcharges		
Universal Service and Energy Conservation	3/1/24	1.6191
Restructuring and Consumer Education	9/1/20	0.0000
Other Post Employment Benefits Surcharge	9/1/23	0.4117
Total Commodity Charge - \$/Mcf		10.7574
Distribution System Improvement Charge	1/1/24	7.50%
Customer Charge - \$/meter per month		2.86
Commodity Charge - \$/Mcf		0.2575
<b>Developmental Natural Gas Vehicle Service, Interruptible Service - Rate NGVS</b>		
Customer Charge - \$/meter per month	12/1/23	38.15
Commodity Charge - \$/Mcf	12/1/23	15.8708
<b>TRANSPORTATION SERVICE</b>		
<b>Daily Balancing Service - Rate DB</b>		
Administrative Charge - \$/supply pool per month	12/1/17	150.00
Plus charges and/or credits related to balancing and Operational Flow Orders (OFOs)		
<b>Interruptible Transportation - Rate IT</b>		
IT-A - Contracts for not less than 2,500 Dth, maintain standby non-natural gas energy.		
IT-B - Contracts for not less than 5,000 Dth, maintain standby non-natural gas energy.		
IT-C - Contracts for not less than 10,000 Dth, maintain standby non-natural gas energy.		
IT-D - Contracts for not less than 25,000 Dth, maintain standby non-natural gas energy.		
IT-E - Contracts for not less than 80,000 Dth, maintain standby non-natural gas energy.		
Customer Charge - \$/meter location per month	Transportation Charge - \$/Dth delivered	
IT-A	152.16	IT-A 2.9051 maximum
IT-B	273.89	IT-B 1.4061 maximum
IT-C	273.89	IT-C 1.0972 maximum
IT-D	273.89	IT-D 0.9735 maximum
IT-E	426.06	IT-E 0.9426 maximum

(a) Reference: Philadelphia Gas Works, Gas Service Tariff, Pa P.U.C No 2.  
 (b) Sum of Gas Cost Rate (GCR), Merchant Function Charge (MFC), and Gas Procurement Charge (GPC).  
 (c) Commodity charge includes Delivery, Transportation, and Standby Service Charges, if applicable. There are no GTS customers at this time.  
 (d) Commodity charge based on cost of gas purchased and delivered to PGW gate stations.

### 7.2.1. Firm Service

PGW provides firm service under three rate schedules: General Service, Municipal Service, and Philadelphia Housing Authority (“PHA”) Service. The vast majority of PGW’s customers are served under the General Service Rate. During the 2025 fiscal year, approximately 93 percent of PGW’s customers are estimated to be served under the General Service rate and these customers account for 96 percent of sales volumes (and 51 percent of total throughput). This rate is available to any residential, commercial, or industrial customer pursuant to the applicable rate provision. Monthly customer charges differ depending on whether the customer is classified as residential, commercial, or industrial customer. A different distribution charge applies to residential customers versus commercial and industrial customers. The General Service Rate contains special provisions for separately metered summer air conditioning and



compressed natural gas ("CNG") vehicle service. Residential senior citizens may have previously qualified for a discount under this rate. (See Section 7.9, Senior Citizen Discount Program).

Table 8 presents a comparison of a typical peak winter month's residential gas bill for PGW and the other principal gas distribution utilities in Pennsylvania. Based on rates, surcharges, and costs of gas currently in effect, PGW's typical winter month residential bill is \$56.40 higher than the group average of \$176.10. One of PGW's surcharges, the Universal Service and Energy Conservation surcharge, includes the recovery of costs related to the Customer Responsibility Program ("CRP"), the Home Comfort program, and the Senior Citizen Discount Program.<sup>12</sup> As shown in Table 8, for the typical peak winter month residential bill for 15 Mcf of consumption, the total monthly bill is \$232.50 total. The portion of the total bill that is Universal Service Charge amounts to \$22.01, and the DSIC portion amounts to \$11.77.

Table 8: Comparison of Residential Gas Bills

Utility	Monthly Bill <sup>(a) (b)</sup>
National Fuel Gas	\$116.80
Peoples Natural Gas - Equitable	\$142.05
PECO Energy	\$163.49
Peoples Natural Gas	\$164.09
UGI Corporation	\$175.20
UGI Penn Natural Gas (formerly PG Energy)	\$175.20
Philadelphia Gas Works	\$232.50
Columbia Gas of Pennsylvania	\$239.43

(a) PA. PUC Rate Comparison Report 4-15-24  
(b) Contributing factors to differences in monthly bills include gas costs, DSIC, and Universal Service Charge. Gas Costs range from \$3.42/Mcf to \$4.37/Mcf

### 7.2.2. Interruptible Service

PGW provides interruptible sales service. Currently interruptible sales consist of LNG sales, which is priced at the LNG weighed average cost of gas plus the Sales Service Charge ("SSC") plus a negotiated margin, and Cogeneration sales service ("CG") which is priced at the average commodity cost plus \$0.75/MCF.

### 7.2.3. Transportation Service

PGW currently provides transportation service to an estimated 34,447 customers. The increase in transportation customers from 18,414 in fiscal year 2019, as shown in Table 9, is primarily

<sup>12</sup> The Senior Citizen Discount provides eligible customers with a discounted payment plan. The total number of customers receiving the discount, as of August 31, 2022 and 2023, was approximately 8,148 and 6,897, respectively. The discount value was approximately \$2.25 million for the year ended August 31, 2023. The discount program closed to new customers on September 1, 2003.



due to customers transferring from sales to transportation service. During the calendar year 2023 the two Rate GTS customers accounted for approximately 36.9 percent of PGW's transportation throughput and 2.3 percent of PGW's transportation revenue. Service to these two customers is provided through essentially dedicated facilities under transportation rates, service charges or other surcharges intended to cover PGW's cost of operating and maintaining the facilities required to serve these customers. The other customers are served under individually negotiated contracts. In some cases, transportation customers also take some service under the sales rate schedule for a portion of their load.

Although PGW has operated under its Restructuring Compliance Tariff with unbundled rates since September 1, 2003, many of PGW's customers continue to take fully bundled service from PGW. A fully bundled service is a service where the customer deals with one provider and pays for all services through a single charge. All of the separate services (gas supply, transportation, storage, and distribution) currently performed by PGW are packaged into one full-service rate.

Under PGW's restructured rates, customers have the option to continue taking the gas supply, transportation, and storage services from PGW or to choose a third-party supplier to provide these services. Whether the customer decides to have PGW provide these services or a third party, the customer continues to take and pay for distribution service from PGW. Under its current tariff, PGW assigns (with recall rights) portions of its pipeline transportation to firm service third party suppliers such that PGW and customers who take a fully bundled service will not be adversely impacted by having to pay for capacity that would otherwise be stranded by customers who choose a third-party supplier. PGW retains ownership to the transportation capacity because PGW continues to be the supplier of last resort. If a firm service third party supplier defaults or is no longer able to meet its commitments, PGW is able to recall the transportation capacity and serve the customers who had opted for service from this third-party supplier. PGW does not release storage capacity to firm service third party suppliers. PGW provides balancing services (reconciling customer gas deliveries with consumption) from storage as needed. Firm service third party suppliers are assessed a storage and peaking charge for storage balancing services provided by PGW during the winter operating season; firm service third party suppliers return volumes provided from PGW storages during the summer refill season.

Under the unbundled rates, PGW's margin<sup>13</sup> from firm customers is not materially impacted by whether a customer chooses a third-party supplier or elects to continue taking the fully bundled service. In effect, the unbundled rates and services make PGW indifferent as to which service a customer takes. Customers will continue to pay the distribution and customer charges no matter which service is taken. The GCR mechanism is expected to keep PGW whole with regard to gas supply, transportation, and storage costs. PGW's ability to assign capacity to the

---

<sup>13</sup> Margin (non-gas revenues) is total revenues excluding gas costs.



third-party suppliers will not adversely impact customers who choose to take the fully bundled service.

PGW estimates for fiscal year 2025, approximately 32.1 Bcf of throughput, or 46.9 percent of total throughput for all customers, will consist of gas supply and transportation from a third-party supplier. PGW projects transportation throughput will continue to grow annually, reaching 32.5 Bcf by fiscal year 2029 (See Table 10).

### 7.3. Gas Cost Rate

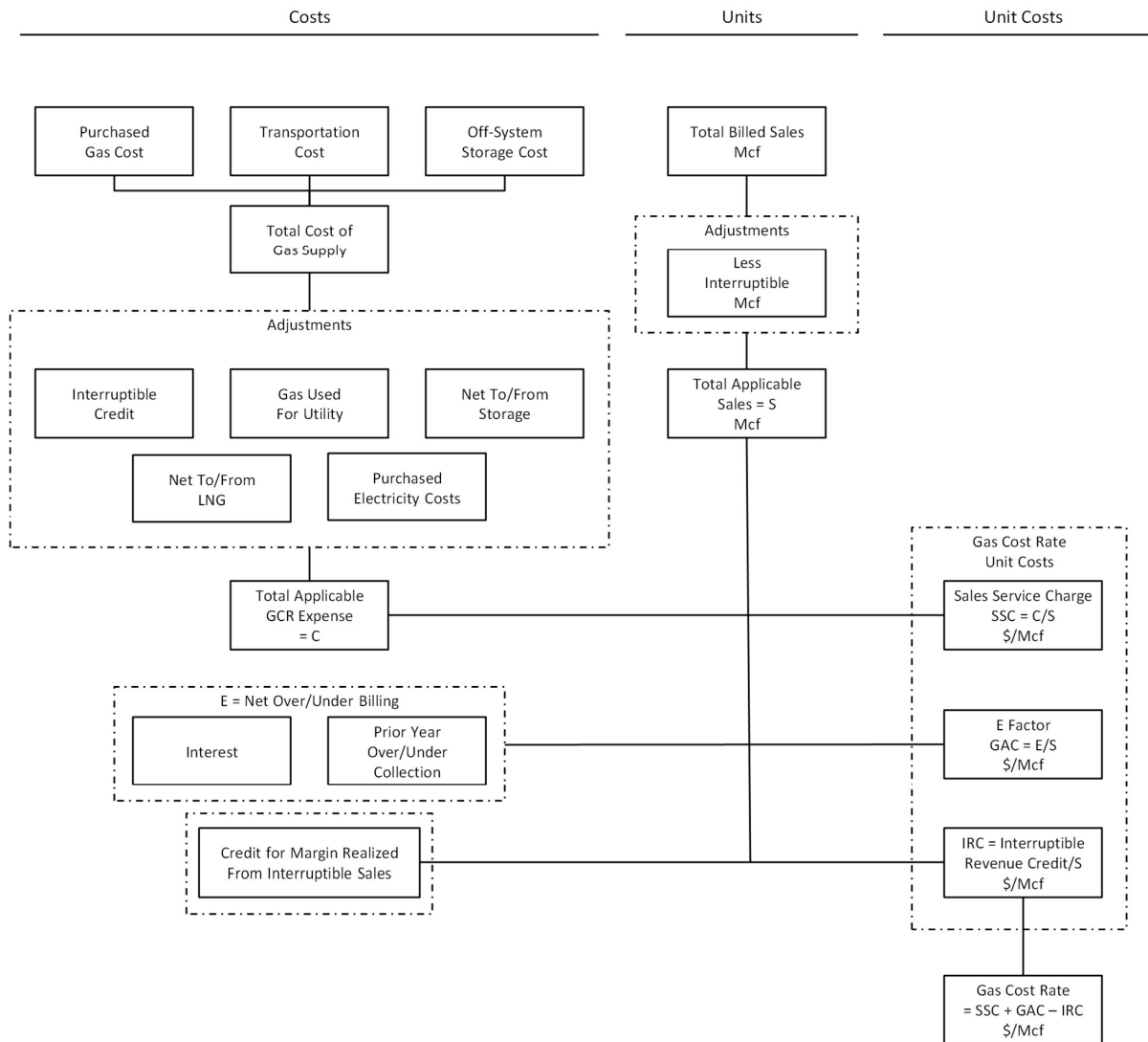
As previously discussed, all changes in gas supply related costs are passed through to customers through the GCR. The specific components of PGW's current GCR are depicted in Figure 3. PGW's gas supply costs consist of purchased gas costs, transportation costs, and off-system storage costs. This cost is reduced by the cost directly paid by interruptible sales customers. Total gas supply costs are also adjusted to reflect changes in the inventory cost of off-system and LNG storage and the cost of power purchased for the LNG facilities. The change in inventory cost is attributable to changes in volume as well as the price paid for the gas put into storage.

These costs are divided by the total sales volumes less the volumes attributable to direct billed interruptible sales customers to determine the unit cost of fuel, or sales service charge as depicted in Figure 3. Various adjustments are then made to the sales service charge. An additional adjustment is made for the net over or under collection of natural gas during the previous fiscal year resulting from differences between values used to project the prior year's GCR and those actually experienced. The interest expense or credit on the over or under recovery is also applied to calculate the total adjustment. In addition, an interruptible revenue credit ("IRC") for margin realized from interruptible sales is made. In the aggregate, these components comprise the GCR. The GCR is typically adjusted quarterly although PGW has the ability, upon thirty days' notice to the PUC, to change it monthly.

Prior to the restructuring in 2003, PGW recovered certain non-fuel expenses in addition to gas supply costs through the GCR. These included discounts given to low-income customers through the Customer Responsibility Program and funds provided to weatherize the homes for low-income customers through the Conservation Works Program. These costs are now recovered through surcharges which are not included as part of the GCR. By recovering these costs through surcharges, customers cannot avoid these costs by not purchasing gas from PGW.



Figure 3: Components of PGW Gas Cost Rate



## 7.4. Weather Normalization Adjustment

Since 2002, PGW's Tariff has included a weather normalization adjustment ("WNA") clause. The benefit of a WNA is that it mitigates the single biggest risk to PGW of not recovering its approved margin due to warmer than normal weather during the winter season. PGW's approved commodity charges (exclusive of cost of gas) are derived using throughput (volumes) that is based on the assumption that weather will be normal. If conditions are warmer than normal, sales decline and in conjunction with that, margin declines. Several warmer than normal winters, including one of the warmest winters in PGW's history, created the circumstances that led to PGW's need to file for extraordinary rate relief in 2002.

The WNA is designed to adjust the customers' bills upwards or downwards to reflect differences between actual HDDs and normal HDDs. The benefits of a WNA include the following:

- Stabilizes earnings,
- Stabilizes cash flow during the winter heating season,
- Reduces the need for short-term financing, and
- Stabilizes customers' bills.

Heating customers were charged approximately \$32.4 million as a result of the warmer than normal winter period in fiscal year 2023, after refunds were provided to PGW customers for anomalous bills that were issued in June 2022 for a rare warm weather occurrence during May 2022. As a result, PGW dropped the month of May from its weather normalization period to avoid repeating the circumstances that led to the anomalously high customer bills in June 2022. PGW's WNA applies to customers served under its General Service, Municipal Service, and PHA rate schedules and is calculated for each customer bill for usage between October 1 and April 30.

The type of WNA that PGW implemented is referred to as a Type 1 WNA. This type of WNA adjusts the customer's bill to reflect conditions during the billing cycle covering that bill. This contrasts with a Type 2 WNA which is calculated on a seasonal basis. The advantage of the Type 1 WNA is that the calculation of the customers' bills and PGW's revenue recovery are concurrent with the current billing cycle. The adjustment is calculated as the ratio of the normal HDDs during the billing cycle divided by the actual HDDs during the cycle. For example, assume a residential customer uses 10 Mcf during the period November 16 through December 15, when the actual HDDs during this period are 750, and the normal HDDs during this period are 850. The customer's volumetric charge (exclusive of gas cost) would be calculated as 8 Mcf (10 Mcf minus 2 Mcf base load) times 841.5 HDDs (850 HDDs less 1 percent) divided by 750 HDDs times \$7.6424 per Mcf which equals \$68.60. Without a WNA, the customer's volumetric charge would have been \$76.42 (10 Mcf times \$7.6424 per Mcf). The WNA only applies if the actual HDDs deviate by more than 1 percent from the normal HDDs during the billing cycle. Therefore,



if the actual HDDs during the cycle in the above example had been within the range of 842 to 859 HDDs, no adjustment would have been made to the bill.

## 7.5. Surcharges

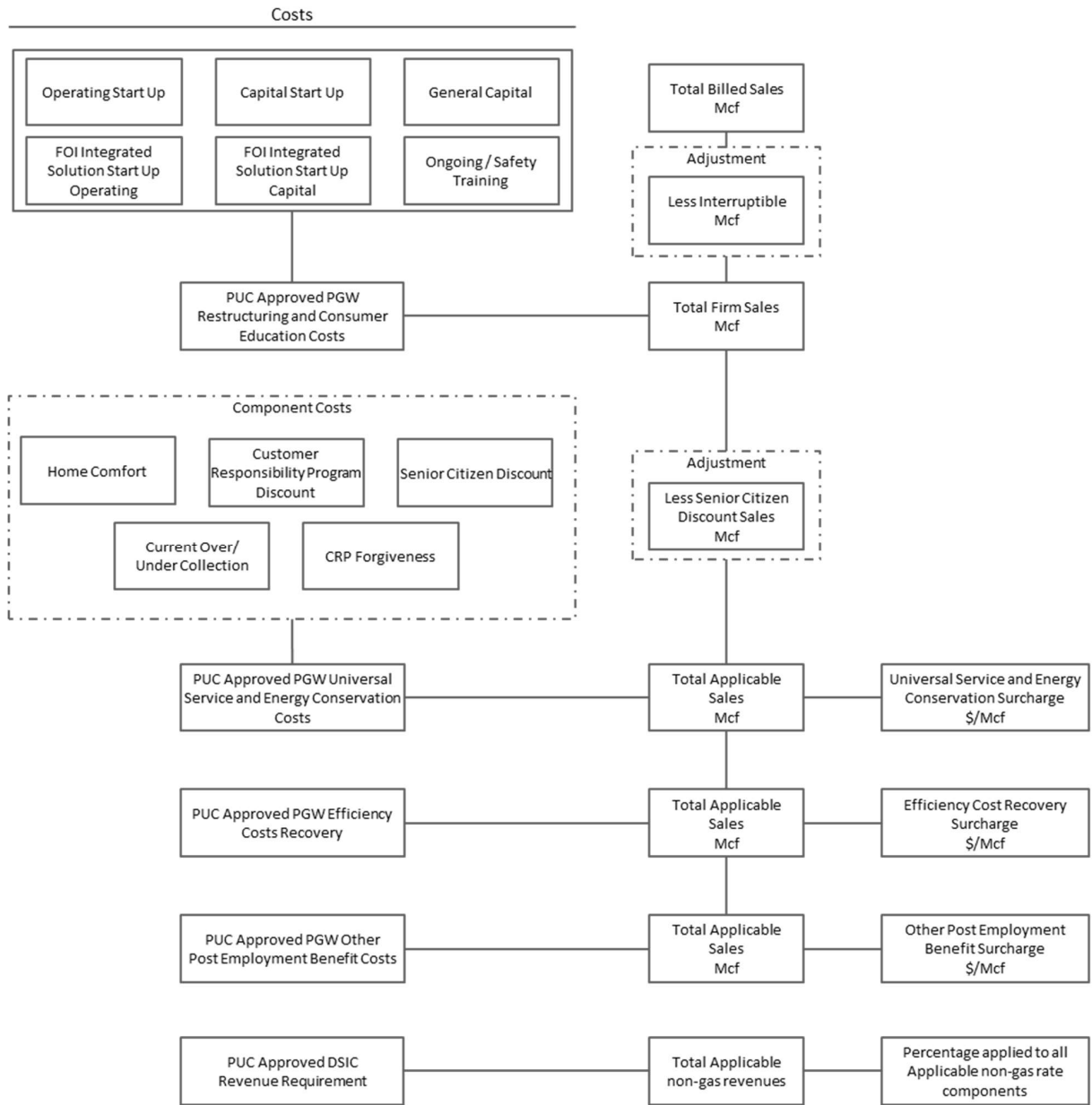
PGW's surcharges include a Universal Service and Energy Conservation Surcharge, Efficiency Cost Recovery Surcharge, OPEB Surcharge, and DSIC Surcharge. These surcharges are depicted in Figure 4. Gas utilities in Pennsylvania can recover the costs of social programs through what are generally referred to as universal service charges. The Universal Service and Energy Conservation Surcharge provides for the recovery of discounts to customers on CRP, of discounts to customers receiving the Senior Citizen Discount, of the costs of the Home Comfort program, and of past due arrearages forgiven to CRP customers entering CRP after September 1, 2003. The Universal Service and Energy Conservation Surcharge is applicable to all PGW customers, excluding interruptible customers, who are delivered natural gas through PGW's distribution system. PGW automatically adjusts the surcharge quarterly in connection with its GCR filing.

The Restructuring and Consumer Education Surcharge was withdrawn effective September 1, 2022.

The Efficiency Cost Recovery Surcharge recovers the program costs and the administrative costs of the energy efficiency programs (i.e. the demand side management programs) for the firm customer rate classes. The OPEB Surcharge recovers the amounts necessary for PGW's OPEB obligations.

Revenues from the DSIC Surcharge are used to supplement PGW's 18-mile pipeline replacement program as part of PGW's LTIP.

Figure 4: Components of PGW Surcharges



## 7.6. Conservation Programs

### 7.6.1. Low Income Usage Reduction Program

PGW offers a PUC regulated low-income usage reduction program ("LIURP") that provides natural gas conservation services to eligible low-income residential customers, pursuant to 52 Pa. Code Chapter 58.

PGW's LIURP for customers residing in single-family homes is called Home Comfort. It is offered to high usage CRP participants and other residential customers who have been identified as low income. Under LIURP, PGW also operates three pilot programs. The Low-Income Multifamily Efficiency ("LIME") pilot program provides natural gas conservation services for multifamily buildings. The Health & Safety Pilot provides funding to address barriers present in customer homes that would otherwise prevent treatment, including mold, asbestos, and knob and tube wiring. The Repair & Renew Pilot treats customers whose heaters have been "red tagged" by PGW technicians, noting a hazardous condition. Repair & Renew customers can have their heaters repaired or replaced, along with a full weatherization treatment in the Home Comfort program, if eligible.

Current LIURP programming is detailed under the 2023-2027 Universal Service and Energy Conservation Plan. LIURP has a total annual budget of approximately \$8.0 million (plus carryover), which includes individual budgets of \$230,000 for LIME, \$100,000 for the Health & Safety Pilot, and \$250,000 for the Repair & Renew Pilot. LIURP costs continue to be recovered through the Universal Services and Energy Conservation Surcharge.

During the first year of the 2023-2027 USECP (calendar year 2023), PGW spent approximately \$8.0 million on LIURP programs, which included a carryover of \$116,316 of unspent funds from calendar year 2022. Over the expected useful life of the measures installed, the activity for this period is projected by PGW to achieve 0.89 Bcf of natural gas savings through reduced customer usage. Based on the Total Resource Cost test, net present value spending totaled \$6.5 million, and the program achieved \$6.0 million in present value savings for net customer costs of \$508,000.

### 7.6.2. Demand Side Management Programs

PGW's DSM program, marketed as EnergySense, is a portfolio of conservation programs that PGW launched in fiscal year 2011 and was initially approved by the PUC for a 5-year term. On June 1, 2021, PGW filed a Petition for Approval of Demand Side Management Plan 2021-2023 ("DSM Phase III") with the PUC. The PUC subsequently approved the Plan for an interim period effective September 1, 2020, through August 31, 2023, with a total budget of \$7.1 million. Additionally, the PUC approved for Phase III to be extended through August 31, 2024, with fiscal year 2024's total budget matching that of fiscal year 2023, with a total of \$2.4 million.



PGW's costs associated with the market rate programs (non-low income) are recovered through the Efficiency Cost Recovery Surcharge.

Phase III of EnergySense included five individual conservation programs offering grants and rebates to PGW's firm customers to assist them in conserving energy. The portfolio has five broad goals:

- Reduce customer bills.
- Maximize customer value.
- Contribute to the fulfillment of the City's sustainability plan.
- Reduce PGW cash flow requirements.
- Help the Commonwealth and the City reduce greenhouse gas emissions.

The five conservation programs that fall within Phase III of EnergySense are listed below:

### **1. Residential Equipment Rebates**

**Target Audience:** Customers purchasing residential-sized heating equipment.

**Description:** Prescriptive incentives offered to PGW customers who purchase residential-sized, energy-efficient gas appliances and heating equipment. This program targets the entire supply chain, providing incentives designed to cover between 35 and 75 percent of incremental costs for high efficiency models. Rebates are offered on furnaces, boilers, tankless water heaters, and combi boilers. Low-income customers are eligible for additional rebates through PGW's Affordable EnergySense rebate tier.

### **2. Commercial Equipment Rebates**

**Target Audience:** Commercial and industrial customers purchasing commercial-scale gas equipment.

**Description:** Prescriptive incentives offered to PGW customers who purchase commercial-scale, energy efficient gas appliances and heating equipment. This program targets the entire supply chain, providing incentives designed to cover between 17 to 71 percent of incremental costs for high efficiency models. Rebates are offered on boilers, water heaters, roof insulation, water conservation measures, building controls, and commercial cooking equipment.

### **3. Residential Construction Grants**

**Target Audience:** Residential and commercial building builders and developers.

**Description:** Customized incentives offered to encourage the design and construction of new residential buildings that exceed energy code



minimum requirements. This program provides incentives of \$1,600 per dwelling unit for projects that exceed 2018 IECC code by 15%.

#### 4. Smart Thermostat Marketplace

Target Audience: All firm rate customers with PGW natural gas for space heating.

Description: Customers can receive an instant rebate of \$70 on the purchase of an ENERGY STAR certified smart thermostat. The program also offers \$30 rebates on up to two additional thermostats.

#### 5. Low-Income Smart Thermostats

Target Audience: Residential customers at or below 150 percent of the Federal Poverty Limit.

Description: Low-income customers can apply to receive a free ENERGY STAR certified smart thermostat, including professional installation.

During DSM Phase III from September 1, 2020 through August 31, 2023, PGW's EnergySense program spent \$3.49 million. Over the expected useful life of the measures installed, the activity for this period is projected by PGW to achieve 1.4 Bcf of natural gas savings through reduced customer usage. Based on the Total Resource Cost test, net present value spending totaled \$4.97 million, and the program achieved \$9.74 million in present value savings over the useful life of the measures for net savings to customers of \$4.77 million. EnergySense costs continue to be recovered through the Efficiency Cost Recovery Surcharge.

PGW has proposed DSM Phase IV from September 1, 2024 through August 31, 2027, with a total budget of \$7.6 million. PGW submitted a settlement agreement that was approved by the PUC on April 25, 2024. It includes the above programs, and two new programs: 1) the Small Business Assessment program which offers small business customers free energy assessments to identify energy savings opportunities for the utilities to engage in a limited number of low-cost energy conservation measures, and 2) the EnergySense Kit program where free kits that include caulk, pipe wrap, low flow showerheads, and faucet aerators are mailed to residential customers.

## 7.7. Infrastructure Replacement

As discussed earlier in this Report in Section 6, Capital Improvement Program, PGW's base rates have recently (fiscal years 2020 – 2024) provided approximately \$30 million per year for cast iron main replacement funding, which has replaced approximately 18 miles of cast iron mains annually. This program was initiated by PGW based on risk assessment and benchmarking studies conducted for PGW. The cost of this program is being paid for by customers under the existing base rates. The 18-mile cast iron main replacement program is supplemented by an accelerated main replacement program as set forth in PGW's LTIIP.



PGW's original LTIP was a five-year plan (fiscal years 2013 - 2017) for accelerated recovery for distribution facilities over and above PGW's base line replacement program (recovery for the base line program is already included in base rates). The original LTIP accelerated the replacement cycle for PGW's large diameter cast iron mains (i.e. 12-inch and larger diameter high pressure main) and the more extensive smaller diameter cast iron mains (i.e. 8-inch and smaller, low/intermediate pressure main) replacement program. PGW filed its second LTIP petition on May 3, 2017, covering the five-year period fiscal year 2018 through 2022. This petition was approved by the PUC on August 31, 2017. PGW filed its third LTIP petition on May 3, 2022, covering the five-year period fiscal year 2023 through 2027. This petition was approved by the PUC on August 25, 2022. For forecasting purposes, PGW assumes that this accelerated replacement program will continue throughout the fiscal year 2029 forecasting period.

The original LTIP included several key elements:

- The program of replacing 18 miles per year of small diameter, low/intermediate pressure cast iron main increased by approximately 3 miles per year; and
- Replacement of large diameter, high-pressure, cast iron mains that have been identified as potential risks began in fiscal year 2013 related to:
  - 30-inch cast iron mains that have been identified as being in poor condition; and
  - 12-inch cast iron mains, similar to those that have been involved in two separate incidents in PGW's system; 12-inch cast iron mains were also involved in an incident within UGI Corporation's service territory.

On January 16, 2015, the PUC initiated an inquiry and analysis of PGW's pipeline replacement program, including the need for and any impediments to the expansion of the pipeline replacement program. This inquiry and analysis culminated in a report to the PUC by PUC Staff. On April 21, 2015, the PUC Staff issued its report "Inquiry into Philadelphia Gas Works' Pipeline Replacement Program." In this report, the Staff indicated that it did not believe the current pipeline replacement rate to be aggressive enough. The Staff identified the following seven "areas of opportunity that PGW should explore to increase its mains replacement rate":

1. Increase the DSIC above the 5 percent cap (approved at that time)
2. Levelize and annualize DSIC eligible costs
3. Issue new debt
4. Improve cash management
5. Request that the City of Philadelphia waive all or a portion of the \$18 million payment
6. Streamline corporate governance structure
7. Consolidate facilities

PGW met with the PUC to discuss the suggestions made in the PUC's April 2015 report. On September 1, 2015, at Docket No. P-2015-2501500, PGW proposed an increase in the DSIC from





5.0 percent to 7.5 percent of distribution revenues and to levelize and annualize the DSIC. The PUC issued an Opinion and Order granting PGW's request to increase its DSIC to 7.5 percent on January 28, 2016 ("January 28 Order"). The increase, from \$22.0 million to \$33.0 million per year, generated approximately \$11.0 million in additional revenue to fund PGW's accelerated pipeline replacement program, which PGW is allowed to recover on a pay-as-you-go-basis through the DSIC surcharge.

The DSIC is in addition to the amount funded through base rates for cast iron replacement. PGW has not issued any long-term debt to fund the accelerated replacement program. Funding on a pay-as-you-go basis benefits both the ratepayer and PGW because rates will not be impacted by any interest expense or debt service coverage requirements. PGW's debt to equity ratio will not increase as a result of the accelerated spending funded by a DSIC. Separate funding via a pay-as-you-go DSIC model for the accelerated program is also beneficial (versus a base rate case) because it can be approved on a timelier and more efficient basis. The January 28 Order also permits PGW to levelize and annualize DSIC recovery, which provides PGW with more predictable cash flow and helps mitigate over-and under-collections. PGW's increased DSIC charge of 7.5 percent became effective on February 1, 2016, for service rendered on or after January 1, 2016.

The DSIC surcharge applies to Residential and Public Housing, Commercial and Municipal, and Industrial customers. The surcharge is calculated as a percentage applied to the delivery charge, surcharges, and customer charge. The percentage is equal to the DSIC revenue requirement divided by the annual non-gas cost revenues of the above customers. This percentage is then applied equally to each of the non-gas rate components of those customers. As alluded to above, under the original DSIC mechanism, revenues were not fully collected in a given annual period.

On July 6, 2016, the PUC issued an Opinion and Order that permitted PGW to recover an additional \$11.4 million in DSIC under-collections for the calendar year ending December 31, 2015, over the course of two years. This resulted in a temporary increase in the DSIC surcharge yielding additional annual revenues of \$5.7 million a year for two years. Beginning on October 1, 2016, PGW temporarily increased its DSIC surcharge to 8.84 percent, as permitted by the PUC's July 6, 2016 Order. On January 1, 2017, PGW changed its DSIC surcharge percentage to 8.8 percent and again on January 1, 2018 to 8.7 percent where it remained until the temporary increase expired at the end of the two-year period on September 30, 2019. The temporary increase to the DSIC mechanism coupled with the levelized method of recovery has allowed PGW to reduce the under collection of DSIC surcharge revenues from \$16.4 million at the end of fiscal year 2016 to \$3.0 million at the end of fiscal year 2019. Under collection of DSIC surcharge revenue has since increased to \$9.2 million at the end of calendar year 2023.

PGW is currently evaluating future increases to the DSIC including the potential impacts to customers, the timeline for complete removal of cast iron mains, and PGW's ability to effectively implement higher levels of accelerated pipeline replacement through additional



programs like the NGDISM grant program pursuant to which PGW was provisionally awarded \$10 million in fiscal year 2024.

## 7.8. Customer Responsibility Program

In November 1993, the PGC adopted a low-income Customer Responsibility Program known as the CRP. This program became effective in February 1994. The purpose of the CRP is to increase the collection of revenues, provide an affordable payment plan for low-income customers, impress payment responsibility on the customer, and reinforce the importance of conservation. The goals of the program are to increase cash flow to PGW and decrease accounts receivable.

Currently, CRP is open to any customer who is at or below 150 percent of the Federal Poverty Level ("FPL"). Monthly bills for CRP customers are based on income, so that they are affordable for low-income households. If a customer entering CRP has arrears, those arrears are forgiven at a rate of 1/36th per month with payments. As part of their CRP agreement of fixed monthly bills and arrearage forgiveness, CRP customers are required to:

- Accept conservation measures offered to them in the CRP Home Comfort (now called Home Comfort);
- Re-certify at least once every other year (after two years for LIHEAP recipients and every 6 months for zero income customers), or when household size or income changes. However, currently, pursuant to PUC Order dated April 25, 2024 at Docket No. M-2021-3029323, other than for a household size or income change, customers are not required to recertify until PGW's new customer information system goes live; and
- Make payments on time (CRP customers are considered in default when they are one full payment past due).

CRP is a customer assistance program that can help low-income residential customers who are at or below 150 percent of the poverty level to better afford their PGW bills and maintain their gas service. Participants receive a discount (reduced monthly bill) based on their gross household income. Applicants must apply by showing proof of income and identification for everyone in the household. There are two percentage of income agreement types. If the customer's household income is 50 percent of the FPL or less, the customer will be asked to pay 4 percent of household income for its PGW gas bill; or if the customer's household income is above 50 percent but at or below 150 percent of the FPL, the customer will be asked to pay 6 percent of household income. The minimum payment under a CRP agreement is \$25 per month. Further, there is an average bill type for customers whose budget bill is lower than the percentage of income bill.

Approximately 55,119 customers were enrolled in CRP as of January 2024. The main costs associated with the CRP program are the discounts that customers receive (revenue shortfall) and their arrearage forgiveness.



The CRP revenue shortfall is currently recovered in the Universal Service Surcharge. In the past five fiscal years, these amounts were approximately \$40.4 million for 2019, \$31.0 million for 2020, \$48.0 million for 2021, \$59.4 million for 2022, and \$56.4 million for 2023. Shortfall fluctuation can be primarily attributed to the cost of natural gas supply and participation levels. PGW forgives 1/36th of CRP pre-program arrears each month, provided that a bill is paid in full. During the past five fiscal years, PGW has forgiven pre-program arrears in the approximate amounts of \$11.4 million in 2019, \$10.9 million in 2020; \$11.1 million in 2021; \$13.9 million in 2022; and \$9.6 million in 2023.

On October 5, 2017, the PUC approved PGW's 2017-2020 Universal Service and Energy Conservation Plan. On October 3, 2019, the PUC extended PGW's current Plan by an additional two years – through December 31, 2022 and required a letter indicating how PGW would meet PUC low income program policy changes. On February 6, 2020, the PUC required PGW to file a Petition indicating low-income program changes. On January 12, 2023, PGW received final PUC approval<sup>14</sup> to make permanent lower energy burden levels. The new energy burden levels were lowered from 8.0 percent to 4.0 percent for those within 0-50 percent of FPL, 9.0 percent to 6.0 percent for those within 51-100 percent of FPL, and 10 percent to 6.0 percent for those within 101-150 percent of FPL.

## 7.9. Senior Citizen Discount Program

The senior citizen discount program is a closed program. Since September 1, 2003, the program has not been available to new participants. However, PGW has approximately 5,900 participants as of January 2024 in its senior citizen discount program. All participants currently in the program were “grandfathered” in when the PUC discontinued the program in September 2003 when there were approximately 70,000 “grandfathered” participants. The senior citizen discount amounts to a 20 percent reduction on the participant's total gas bill each month.

## 7.10. Other Programs and Grants

In addition to the programs described above, PGW also participates in or partially funds several other assistance programs that are intended to increase cash flow and reduce accounts receivable.

### 7.10.1. Low-Income Home Energy Assistance Program

The Federally funded LIHEAP provides funds to households to ensure continued utility service. The City's low-income residential gas consumers may apply for assistance through the Pennsylvania Department of Human Services (formerly the Department of Public Welfare). Many community organizations throughout Philadelphia offer assistance with the application process. The LIHEAP program consists of two grant components: cash grants and crisis grants.

---

<sup>14</sup> PUC Docket No. M-2021-3029323

The main difference between the two grant types is that crisis grants are offered only to eligible customers whose utility service is off or in danger of having services terminated. Funds obtained are paid directly to PGW for crediting to the customer's account.

LIHEAP is an important source of low-income assistance funding for PGW and has ranged over the last five years (2019-2023) from a low of \$15.3 million in 2020 to a high of \$38.9 million in 2022 for cash grants. PGW's share of LIHEAP cash grant funds allocated by the Commonwealth of Pennsylvania has ranged from approximately 13.3 to 17.7 percent from 2019-2023. These levels have been achieved through a vigorous educational and outreach program by PGW to encourage its low-income residential population to apply for the grants. Funding levels vary based on Federal allocation and program design by state. PGW's share of LIHEAP grants in Pennsylvania are shown in Table 12.

Since 1996, the Commonwealth of Pennsylvania has had the flexibility to change the customer eligibility criteria for LIHEAP participation from 210 percent of the FPL to 110 percent of the FPL. Since the 2019-2020 grant season, the program capped eligibility at 150 percent of the FPL.

In 2023-2024, Pennsylvania was to receive approximately \$218.5 million in LIHEAP funding by the Federal Government; approximately \$164.8 million of which was available for LIHEAP benefits (cash grants). The remainder was allocated to weatherization assistance (15 percent of total block grant amount) and administration (10 percent of block grant amount). At the time of this report drafting, the proposed 2024-2025 LIHEAP budget is not publicized. It is anticipated to be posted on Pennsylvania's DHS website on approximately June 8, 2024.

### 7.10.2. Vendor Payment Program

PGW continues to support a Vendor Payment Program for a group of customers known as Scattered Site Tenants of the PHA. The customers occupy dwellings, usually single-family homes, owned by the PHA, for which the Federal Government provides rent subsidies. Under agreement with the PHA and the Scattered Site Tenants, the Federal Government's Department of Housing and Urban Development provides funding for a utility allowance to PHA, on behalf of the tenant. There are two groups of PHA tenants: one for which utility payments are received by PGW directly from PHA, and a second group, which is responsible for paying their own utility bills.

### 7.10.3. Utility Emergency Services Fund

Historically, PGW worked with the Utility Emergency Services Fund ("UESF"), which is a private fuel fund set up with the assistance of the City, the Water Department, PECO Energy, individual contributions, and private foundations. Under this program, customers at or below 175 percent of the FPL could combine a LIHEAP grant with a UESF grant, a matching grant from PGW, and their own payment, if necessary, to zero-out all arrearages to avoid termination or restore service. CRP customers would only have to zero-out CRP arrearages, not pre-program arrearages. Except for possible special grant programs, the maximum UESF grant and PGW



matching grant was \$750 each (for a total of \$1,500). Participation with UESF fulfilled PGW's PUC-approved Hardship program. Currently, UESF has not been accepting PGW customers for grants.

#### 7.10.4. Dollar Plus Program

PGW also continues to support the Dollar Plus Program, wherein PGW's customers are asked to add to their gas bill payments as a donation to the Utility Emergency Services Fund.

#### 7.10.5. Payment Plans

PGW maintains a number of residential customer payment plans that are tailored to the customer's ability to pay in order to allow the customer the opportunity to pay down past arrearages and budget future usage and payments.

### 7.11. Billing and Collections

To strengthen its financial condition, PGW utilizes a number of programs designed to improve collections and increase operational efficiencies. These programs are as follows:

- **Soft-off monitoring.** PGW automated many of the services associated with soft-off monitoring. Previously, when a customer moved, PGW deployed a field service representative to shut off service. Many times, the field service representative would be unable to gain access to the meter and the service would remain on and continue to bill the out-going customer resulting in additional uncollectible receivables. PGW now final bills a customer's account, transfers the future usage expense responsibility to PGW and monitors the premises closely to avoid any excess usage or theft of service. In addition to decreasing the uncollectible receivables as a result of a failed shut off attempt, the soft-off program allows Operations to redirect field employees to other jobs resulting in a more efficient use of resources.

The soft-off monitoring benefits reflect the cost of having the program in place versus not having the program. The goal is for the cost of the program to be 25 percent less than the cost of not having a program.

- **Landlord Cooperation Program ("LCP").** The LCP allows landlords of residential properties to work collaboratively with PGW in a manner that improves PGW's ability to collect from residential tenants (landlords provide access to the meter) and minimize tenant delinquencies in exchange for not filing a lien on the landlord's property for a tenant's unpaid balance. When a landlord fails to cooperate or enroll in the program, the property is subject to liens for failure of a residential tenant to pay. As of April 2024, LCP had approximately 64,176 registered premises.
- **Commercial Lien Notification Program ("CLNP").** The CLNP allows landlords of commercial properties to work collaboratively with PGW in a manner that improves PGW's ability to collect from commercial tenants (landlords provide access to the meter) and minimize



tenant delinquencies in exchange for an additional advance notice of the intended filing of a lien for unpaid bills of tenants. Regardless of enrollment in the program, a property remains subject to liens. As of April 2024, CLNP had approximately 597 registered premises.

- **Write-off reactivation.** PGW ensures that prior written-off balances are immediately identified and appropriately transferred when the same customer re-applies for service, and when an applicant lived at the property during the time the debt was incurred.
- **Liens.** PGW employs a process which facilitates the docketing of liens on eligible properties if there are account arrearages.

PGW has reported that several formal complaints filed by a landlord and related entities were filed with the PUC challenging the lawfulness of PGW's billing methodology regarding the application of partial payments, and the assessment of late payment charges for amounts of unpaid PGW debt liened under the Municipal Lien Act. The complaints were consolidated into several discrete groups for adjudication and disposition purposes owing to the numerous transactions involved and common questions of law and fact presented.

On September 17, 2015, the assigned Administrative Law Judge issued an Initial Decision with respect to the first group ("First Initial Decision") of the consolidated complaints. Per the Order and Opinion, the PUC found that PGW improperly assessed late payment charges on arrearages that had been liened under the Municipal Lien Act. Under the PUC's analysis, the primary legal effect of the City's having docketed municipal liens on the subject accounts was to remove the late payment charges for the unpaid utility bills from the PUC's jurisdiction. Following that line of reasoning, the PUC opined that it lacked jurisdiction to determine what, if any, was the appropriate rate of interest that PGW could charge for such arrearages. The PUC did conclude however that once a lien was filed by PGW it no longer had the authority to charge late payment charges on the arrearage pursuant to its approved tariff.

PGW appealed the First Initial Decision with the Pennsylvania Commonwealth Court and the Court reversed the orders of the PUC on December 9, 2019 related to amounts owed by complainants to PGW that, inter alia, were subject to late payment charges by PGW.<sup>15</sup>

Ultimately, the complaints were litigated on appeal through the Pennsylvania state courts, concluding with a ruling by the Pennsylvania Supreme Court on April 29, 2021, holding that liens filed of record under Section 7106(b) of the Municipal Claims and Tax Lien Law (53 P.S. § 7106(b)) have the effect of judgments, and accordingly accrue interest at the "lawful rate" of post-judgment interest of 6% per annum, and not at the tariff rate of 18%.<sup>16</sup> PGW has adopted this ruling as of April 29, 2021. In addition, the Supreme Court remanded the decision to the Commonwealth Court, and that court held that the application of the Supreme Court's ruling

---

<sup>15</sup> PGW did not appeal the decision of the PUC regarding partial payment application. This matter was independently resolved per a settlement agreement reached with the Office of Consumer Advocate, and approved by the PUC on June 13, 2019, as part of PGW's last base rate case. Per the settlement, PGW agreed to modify its partial payment allocation practices so that no priority is given to the satisfaction of late payment charges.

<sup>16</sup> See 42 Pa.C.S. §8101; 41 P.S. § 202 at <https://casetext.com/case/phila-gas-works-v-pa-pub-util-commn-3>.



would only be applied retroactively with respect to the actual complainants. PGW continues to litigate with the complainants at the PUC and in Philadelphia Common Pleas Court regarding the proper disposition of the plaintiffs' accounts and recoverable damages incurred by the plaintiffs, if any.

### 7.11.1. Risk-Based Collections

PGW utilizes a risk-based collection strategy. Customers' past payment patterns are analyzed, and each customer is assigned a "score" based on the age of the receivable, amount of the receivable, and risk of their receivable going to write off. Actual write-off occurs 90 days after the shut-off for accounts when there are no payments against the final bill. Based on a customer's score, PGW determines an appropriate collection path. If a customer has a high score, they are selected for the physical shut off path, however if a customer has a lower score, more frequent customer communications may be sufficient to ensure payment.

### 7.11.2. Public Utility Law and Collections

PGW continues to abide by all regulations with respect to collections. On November 30, 2004, the Pennsylvania General Assembly passed, and the Governor signed Act 201, entitled the "Responsible Utility Customer Protection Act" (now codified in the Pennsylvania Public Utility Code and referred to hereafter as "Chapter 14").

Chapter 14 provides a number of tools to help PGW collect payment, including but not limited to confirmation that termination of service following shut off notification may occur up to 60 days after notice; shut off with notice is permitted for things such as failure to meet the terms of a payment agreement; shut off without notice is permitted for things such as theft of service, obtaining service through fraud, tampering with a gas meter; winter termination (December 1 – March 31) without PUC prior approval for customers whose household income exceeds 250 percent of the federal poverty level; and winter termination (January 1 – March 31) without PUC prior approval (under specified conditions) for customers whose household income exceeds 150 percent but does not exceed 250 percent of the federal poverty level.

Chapter 14 was scheduled to expire on December 31, 2014, but the law was extended and amended effective December 21, 2014. Amendments include (among other things) a change in the deposit interest rate and elimination of a 24 month hold maximum for security deposits. In addition, Chapter 14 is now scheduled to expire December 31, 2024.

In addition to its collection efforts, PGW continues to offer customers many options to pay their bills in order to avoid collection activity.

- **Authorized Agents for walk-in payments.** Customers can make payments at authorized agent locations. These locations are "In Person Payment" centers or have BuyPay or Americash Checkfree, and Retail Cash service. An authorized agent is an establishment that accepts payments from PGW customers and remits the total to PGW within 1 to 3 days.



- **Pay by Phone.** Credit card or check payments are accepted through the Interactive Voice Response (“IVR”) system using a 3rd party vendor and by PGW customer service representatives through a desktop application maintained by the same vendor.
- **Web Payments.** Customers may pay their bill by credit card or check on PGW’s website which is processed through a third-party vendor’s web portal.
- **Auto Payments.** Customers may sign up to have monthly payments automatically deducted from their bank account on their bill due date.

## 7.12. Competition

PGW’s customer, volume, and revenue mix is heavily weighted towards the residential and smaller commercial markets. PGW currently holds in excess of 85 percent of the home heating market in the city of Philadelphia with fuel oil and electric heat pumps constituting most of the remaining market. This high market share, combined with a service territory that is not growing, limits PGW’s ability to increase its customer base. For residential and small commercial customers, the cost of changing energy sources is generally cost prohibitive without some kind of incentive to switch appliances (rebates or financing of appliances, for example). While not totally immune from competition, the residential and small to medium-sized commercial markets are quite stable. The opportunities to increase market share are limited without incentive programs that subsidize capital or operation costs.

Despite the limited opportunities for growth within PGW’s service territory, the gentrification of neighborhoods and the continuation of residential new construction, allows PGW to maintain a strong presence among builders and developers within Philadelphia.

Generally, competition in the larger commercial and industrial markets is common. PGW customers utilizing the interruptible transportation rate (known as “IT”) can switch between alternate fuels (oil, electric or steam). If the equivalent price of natural gas is lower than alternative fuel, customers will opt to use natural gas. In addition, regulations of the Clean Air Act will at times cause dual fuel commercial and industrial consumers to use natural gas (instead of fuel oil) in order to meet stringent air emission operation permits.

As a means to reduce operational cost while increasing reliability, PGW encourages its commercial customers to utilize Combined Heat and Power (CHP). On-site CHP provides the customer with the capability to reduce their electric demand from the electric grid while capturing the waste heat from the CHP unit for heating or cooling needs; hence reducing their Carbon Footprint. CHP projects provide an increasing revenue stream for PGW but are subject to high upfront capital costs for the customer. The success of CHP has encouraged PGW to explore micro-CHP, a small-scale version of CHP for small commercial customers. This type of technology is currently being promoted to architects, engineers and other potential customers who would benefit from the energy savings in their small commercial projects.





PGW also introduced the BUS (Backup Service) rate for commercial customers using natural gas as a backup energy source. That will eliminate parasitic loads on PGW grid due to connected commercial loads that are not consuming natural gas as the primary source of energy. The BUS rate allows PGW to monetize on its infrastructure readiness to deliver gas without depending on the volume of natural gas being used by the BUS customer.

PGW is promoting the utilization of Natural Gas Vehicles (“NGVs”) internally and externally. From an external perspective the City of Philadelphia has acquired grants, with the guidance of PGW, to purchase a fleet of refuse trucks. In addition, PGW successfully worked with AAA in converting part of their fleet to CNG.

Finally, the spread between natural gas and alternative energy sources has resulted in more CHP projects that add resiliency and reliability to a large group of commercial and industrial customers.



## 8. Financial Feasibility of the Seventeenth Series Bonds

---

The financial data used in the analyses presented herein were obtained from the historical financial records of PGW, PUC GCR filings, and proposed operating and capital budgets for fiscal years 2025 through 2029. PGW's financial statements are audited annually. The most recently available audited financial statements are for fiscal year 2023 and may be viewed at [www.pgworks.com](http://www.pgworks.com) or [emma.msrb.org](http://emma.msrb.org), but are not incorporated herein. PGW's financial statements are maintained in conformity with U.S. Generally Accepted Accounting Principles, and are in accordance with City reporting requirements.

### 8.1. Projected Revenues

Operating revenues for PGW consist principally of revenues from the sale and transportation of natural gas to residents of the City. Non-operating revenues include interest income and miscellaneous other revenues from non-operating sources.

#### 8.1.1. Projected Average Number of Customers

PGW has experienced a relatively constant customer base for many years. Table 9 summarizes projected average number of customers. Historical average number of customers (for fiscal years 2019 through 2023) has increased approximately 1.2 percent. The total average number of customers served is projected to decrease from approximately 509,525 in fiscal year 2025 to 505,745 in fiscal year 2029, a total decrease of about 0.7 percent over five years.

It is estimated that for fiscal year 2025, 34,447 customers, or 6.8 percent of total customers, will take gas supply, transportation and storage services from a third-party supplier. For purposes of this Report, it is assumed that the number of customers migrating to transportation service will continue to grow annually, reaching 37,342, or 7.4 percent of total customers, by fiscal year 2029.

The principal difference between customers taking sales versus transportation service is that PGW does not buy the natural gas commodity for the transportation customers. However, PGW charges customers taking transportation service for the delivery of gas through its distribution system. This charge for transportation service should not differ appreciably from the charge (less gas cost) that would apply to sales service customers. Therefore, PGW is unlikely to experience a material reduction in margin (gross revenues less cost of gas) due to customers migrating to transportation service. While it is difficult to predict with certainty the actual number of customers who will migrate and the timing of such a migration, PGW's projection of interruptible customers transferring to transportation service appears to be reasonable. If the rates for transportation service are properly designed, the margin realized by PGW will not be materially sensitive to whether customers take sales or transportation service, or both.



**Table 9: Historical and Projected Average Number of Customers**  
(Fiscal years ending August 31. Table is in thousands of dollars.)

Line No.	Description	Actual					Estimate	Budget	Projected <sup>(a)</sup>			
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
1	<b>Gas Sales Customers</b>											
2	<b>Non-Heating Customers</b>											
3	<i>Firm</i>											
4	Residential	16,549	15,504	14,706	13,882	12,967	12,059	11,416	10,405	9,435	8,555	7,666
5	CRP Residential	406	429	5	4	0	0	0	0	0	0	0
6	Commercial	3,261	3,197	3,135	3,123	3,059	3,010	3,037	3,059	3,092	3,122	3,149
7	Commercial A/C	1	1	1	0	0	1	1	1	1	1	1
8	Back-Up Service	0	0	23	27	29	37	37	37	37	37	37
9	Natural Gas Supplier	0	0	0	1	1	1	1	1	1	1	1
10	Industrial	103	98	97	92	87	85	85	84	84	83	82
11	Municipal	80	83	140	190	99	88	88	88	88	88	88
12	Municipal A/C	1	1	1	0	0	0	0	0	0	0	0
13	Housing Authority	0	0	0	0	0	0	0	0	0	0	0
14	NGV Firm	3	3	3	3	2	1	1	1	1	1	1
15	<b>Total Average Firm Non-Heating</b>	<b>20,402</b>	<b>19,316</b>	<b>18,110</b>	<b>17,321</b>	<b>16,243</b>	<b>15,282</b>	<b>14,665</b>	<b>13,676</b>	<b>12,739</b>	<b>11,887</b>	<b>11,025</b>
16	<i>Interruptible</i>											
17	LNG - Direct	0	0	0	0	0	0	0	0	0	0	0
18	Other Interruptible	3	2	3	2	2	3	3	3	3	3	3
19	<b>Total Average Interruptible</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
20	<b>Total Average Non-Heating Customers</b>	<b>20,405</b>	<b>19,318</b>	<b>18,113</b>	<b>17,323</b>	<b>16,245</b>	<b>15,285</b>	<b>14,668</b>	<b>13,679</b>	<b>12,742</b>	<b>11,890</b>	<b>11,028</b>
21	<b>Heating Customers</b>											
22	Residential	396,959	393,366	395,302	397,259	391,773	383,032	382,567	381,741	379,671	379,146	378,599
23	CRP Residential	51,808	53,615	58,013	54,808	51,654	56,533	56,326	56,326	56,326	56,326	56,326
24	PHA/GS	2,011	2,025	1,853	1,960	1,918	1,887	1,887	1,887	1,887	1,887	1,887
25	Commercial	17,858	17,755	17,811	17,810	17,782	17,675	17,828	18,064	18,296	18,532	18,768
26	Commercial A/C	0	0	0	0	0	0	0	0	0	0	0
27	Back-Up Service	0	21	8	8	11	15	15	15	15	15	15
28	Industrial	381	376	378	362	315	280	279	278	275	274	272
29	Municipal	400	408	476	548	439	427	427	427	427	427	427
30	Housing Authority	220	259	847	1,035	1,090	1,080	1,080	1,080	1,080	1,080	1,080
31	TED	0	1	2	3	2	1	1	1	1	1	1
32	<b>Total Average Heating Customers</b>	<b>469,638</b>	<b>467,827</b>	<b>474,689</b>	<b>473,794</b>	<b>464,984</b>	<b>460,931</b>	<b>460,410</b>	<b>459,819</b>	<b>457,978</b>	<b>457,687</b>	<b>457,374</b>
33	<b>Total Average Sales Customers</b>	<b>490,043</b>	<b>487,145</b>	<b>492,802</b>	<b>491,117</b>	<b>481,229</b>	<b>476,216</b>	<b>475,078</b>	<b>473,498</b>	<b>470,720</b>	<b>469,577</b>	<b>468,403</b>
34	<b>Transportation</b>											
35	Firm Transportation	17,989	24,791	24,487	25,494	33,022	33,439	34,061	34,864	35,572	36,250	36,956
36	Interruptible Transportation	425	424	416	400	389	386	386	386	386	386	386
37	<b>Total Average Transportation Customers<sup>(b)</sup></b>	<b>18,414</b>	<b>25,215</b>	<b>24,903</b>	<b>25,894</b>	<b>33,411</b>	<b>33,825</b>	<b>34,447</b>	<b>35,250</b>	<b>35,958</b>	<b>36,636</b>	<b>37,342</b>
38	<b>Total Average Number of Customers</b>	<b>508,457</b>	<b>512,361</b>	<b>517,705</b>	<b>517,012</b>	<b>514,640</b>	<b>510,041</b>	<b>509,525</b>	<b>508,748</b>	<b>506,678</b>	<b>506,214</b>	<b>505,745</b>

(a) Projected figures are based on budgeted department figures.  
(b) Increase in transportation customers is due to the transfer of interruptible customers to GTS service and firm sales customers to firm transportation service. No firm customers are assumed to transfer to GTS service.



### 8.1.2. Historical and Projected Gas Sales and Throughput

Historical throughput (sales plus transportation volumes) for the 2019 through 2023 fiscal years and estimated or projected throughput for the 2024 through 2029 fiscal years are summarized in Table 10.

The decrease in projected total throughput during fiscal years 2025 through 2029 is consistent with the projected decrease in the average number of customers and a reduction in average use per customer. The projection for residential and commercial throughput generally reflects a constant use per customer. The projection for firm transportation customers reflects a decline in use per customer.

As residential customers migrate to transportation service, sales volumes attributable to residential customers also decline as transportation volumes increase. As stated previously, if transportation rates are designed properly, the migration of customers and volumes from firm or interruptible sales service to transportation service should not translate into a material change in margin.



**Table 10: Historical and Projected Sales and Throughput**  
(Fiscal years ending August 31. Table is in thousands of dollars.)

Line No.	Description	Actual <sup>(a)</sup>					Estimate	Budget	Projected				
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	
		MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	
<b>1</b>	<b>Gas Sales Volumes</b>												
<b>2</b>	<b>Non-heating</b>												
<b>3</b>	<b>Firm</b>												
4	Residential	401	391	369	353	321	307	283	258	233	212	190	
5	CRP Residential	27	28	0	0	(0)	0	-	-	-	-	-	
6	Commercial	972	813	936	859	731	720	715	714	712	711	709	
7	Commercial A/C	0	0	0	0	0	0	0	0	0	0	0	
8	Back-Up Service	-	-	1	1	1	2	2	2	2	2	2	
9	Natural Gas Supplier	-	-	9	22	4	3	3	3	3	3	3	
10	Industrial	114	90	92	89	103	115	78	78	77	76	75	
11	Municipal	103	94	93	112	70	81	68	68	68	68	68	
12	Municipal A/C	1	0	-	-	1	-	-	-	-	-	-	
13	NGV Firm	1	1	3	8	0	0	0	0	0	0	0	
14	<b>Total Average Firm Non-Heating</b>	<b>1,619</b>	<b>1,417</b>	<b>1,504</b>	<b>1,443</b>	<b>1,231</b>	<b>1,228</b>	<b>1,151</b>	<b>1,125</b>	<b>1,096</b>	<b>1,073</b>	<b>1,049</b>	
<b>15</b>	<b>Interruptible</b>												
16	LNG - Direct	2	59	9	-	25	-	-	-	-	-	-	
17	Other Interruptible	203	530	483	1,319	868	461	482	482	482	482	482	
18	<b>Total Interruptible</b>	<b>205</b>	<b>589</b>	<b>492</b>	<b>1,319</b>	<b>893</b>	<b>461</b>	<b>482</b>	<b>482</b>	<b>482</b>	<b>482</b>	<b>482</b>	
<b>19</b>	<b>Total Non-Heating</b>	<b>1,824</b>	<b>2,006</b>	<b>1,996</b>	<b>2,762</b>	<b>2,124</b>	<b>1,689</b>	<b>1,633</b>	<b>1,607</b>	<b>1,578</b>	<b>1,555</b>	<b>1,530</b>	
<b>20</b>	<b>Heating</b>												
21	Residential	28,202	25,429	25,844	25,498	22,653	22,838	22,973	22,683	22,415	22,392	22,344	
22	CRP Residential	5,983	5,545	5,771	5,311	4,665	4,988	4,927	4,933	4,944	4,947	4,947	
23	PHA/GS	187	184	163	177	155	145	147	147	147	147	147	
24	Commercial	6,300	5,566	5,720	6,033	5,752	5,523	5,497	5,472	5,437	5,425	5,396	
25	Commercial A/C	-	-	-	-	-	-	-	-	-	-	-	
26	Back-Up Service	-	0	0	1	1	2	1	1	1	1	1	
27	Industrial	394	310	355	376	298	241	241	239	234	232	228	
28	Municipal	486	481	511	616	525	518	498	498	498	498	498	
29	Housing Authority	52	56	422	485	448	388	404	403	406	404	405	
30	TED	-	13	10	18	10	6	10	10	10	10	10	
<b>31</b>	<b>Total Heating</b>	<b>41,604</b>	<b>37,584</b>	<b>38,797</b>	<b>38,516</b>	<b>34,507</b>	<b>34,650</b>	<b>34,697</b>	<b>34,386</b>	<b>34,092</b>	<b>34,056</b>	<b>33,976</b>	
<b>32</b>	<b>Total Sales Volumes</b>	<b>43,428</b>	<b>39,589</b>	<b>40,793</b>	<b>41,278</b>	<b>36,631</b>	<b>36,339</b>	<b>36,330</b>	<b>35,992</b>	<b>35,670</b>	<b>35,611</b>	<b>35,506</b>	
<b>33</b>	<b>Transportation</b>												
34	Firm Transportation	5,969	6,005	5,766	5,719	6,048	7,040	7,323	7,408	7,496	7,572	7,655	
35	Interruptible Transportation	26,994	24,772	24,873	25,172	24,859	24,580	24,798	24,798	24,798	24,798	24,798	
<b>36</b>	<b>Total Transportation<sup>(b)</sup></b>	<b>32,963</b>	<b>30,777</b>	<b>30,639</b>	<b>30,890</b>	<b>30,907</b>	<b>31,619</b>	<b>32,122</b>	<b>32,206</b>	<b>32,295</b>	<b>32,370</b>	<b>32,453</b>	
<b>37</b>	<b>Total Throughput</b>	<b>76,391</b>	<b>70,366</b>	<b>71,432</b>	<b>72,168</b>	<b>67,538</b>	<b>67,958</b>	<b>68,452</b>	<b>68,199</b>	<b>67,964</b>	<b>67,982</b>	<b>67,959</b>	

(a) PGW historical data. CRP volumes are included in appropriate residential figure.  
 (b) Increase in transportation sales is due to the transfer of interruptible customers to GTS service and firm sales customers to firm transportation service. No firm customers are assumed to transfer to GTS service.



### 8.1.3. Sales and Transportation Revenues

Historical revenues (sales plus transportation service) for the 2019 through 2023 fiscal years and estimated or projected revenues for the 2024 through 2029 fiscal years are summarized in Table 11. The revenue figures shown in Table 11 are based on application of PGW's existing rates to the projected number of customers, projected normal sales and transported volumes, the gas cost assumptions discussed in Section 8.3.1, Gas Costs, DSIC surcharge revenue, and \$70.0 million of base rate relief revenue expected in fiscal year 2026. Any such rate relief revenue requires approval by the PUC. The revenue projections reflect the same adjustments made to sales and throughput (migration of customers to transportation). Atrium assumes, consistent with PGW's existing GCR, that changes in the gas cost recovery portion of revenues will equal changes in gas costs.

In this Report, the revenue projections reflect currently effective rates and a 96 percent collection factor on billed revenues (See Table 13). This Report reflects the base rates which were established and authorized by the November 9, 2023, PUC Order. This Report assumes that PGW will realize a net increase in base rate revenues of \$70.0 million in fiscal year 2026. However, there can be no assurance that such increases will be approved in their entirety by the PUC. We have assumed for the purpose of this Report that the PUC will follow its Policy Statement which reaffirmed: 1) the use of the cash flow method to determine PGW's allowable revenue requirement, and 2) the PUC's obligation to establish rate levels adequate to permit PGW to satisfy its bond ordinance covenants. If revenues are less than the projections reflected in this Report or costs increase to levels above those reflected in this Report, PGW may have to file for additional rate relief (or PGW will have to achieve an equivalent combination of permanent revenue enhancements or cost savings).

The level of revenues projected for fiscal years 2024 through 2029 is based on 20-year normal weather conditions. As discussed in Section 7.4, Weather Normalization Adjustment, the WNA essentially removes the single biggest risk to PGW of recovering its approved margin during periods of warmer than normal weather during the winter season as long as it remains in effect. Because PGW's WNA tariff has no sunset provision, the WNA will continue in place unless the PUC issues an order directing that it be discontinued. Atrium assumes for the purposes of this Report that the WNA will remain in effect through the projected period.

As with the projected volume and number of customers, as interruptible sales volumes and customers migrate to interruptible transportation service, so do revenues. Total transportation revenues also increase due to the previously discussed forecasted increase in customers migrating from firm sales to firm transportation service. As stated previously, if transportation rates are designed properly, this migration should not translate into a material reduction in net contribution margin and hence, net cash flow and income should not be materially affected.



**Table 11: Historical and Projected Revenues**  
(Fiscal years ending August 31. Table is in thousands of dollars.)

Line No.	Description	Actual <sup>(a)</sup>					Estimate		Budget		Projected		
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
<b>Gas Sales Revenues</b>													
<b>Non-heating Firm</b>													
1	Residential	8,312	7,930	7,103	7,868	7,644	6,504	6,274	6,044	5,505	4,994	4,477	
2	CRP Residential <sup>(b)</sup>	0	0	0	0	0	0	0	0	0	0	0	
3	CRP Shortfall	(164)	(134)	1	0	0	0	0	0	0	0	0	
4	Commercial	11,620	9,702	11,037	12,779	11,500	9,483	9,893	10,742	10,857	10,833	10,769	
5	Industrial	1,317	1,028	1,056	1,255	1,465	1,379	1,029	1,119	1,113	1,109	1,084	
6	Municipal	1,091	984	988	1,467	1,025	931	836	918	929	928	923	
7	Housing Authority	0	0	0	0	0	0	0	0	0	0	0	
8	NGV	6	1	21	69	3	3	3	3	3	3	3	
9	Total Firm Non-heating	22,182	19,511	20,206	23,438	21,637	18,300	18,035	18,826	18,407	17,867	17,256	
<b>Interruptible</b>													
10	LNG - Direct	995	494	588	2,666	106	95	108	114	116	116	116	
11	Other Interruptible	330	1,429	1,497	3,671	4,951	1,365	1,682	1,855	1,893	1,882	1,866	
12	Total Interruptible	1,325	1,923	2,085	6,337	5,057	1,460	1,790	1,969	2,009	1,998	1,982	
13	<b>Subtotal Non-Heating</b>	<b>23,507</b>	<b>21,434</b>	<b>22,291</b>	<b>29,775</b>	<b>26,694</b>	<b>19,760</b>	<b>19,825</b>	<b>20,795</b>	<b>20,416</b>	<b>19,865</b>	<b>19,238</b>	
14	Cost of Gas Increase	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	
15	Prior Year's Gas Cost Recovery	412	(820)	(230)	1,191	(1,761)	937	601	4	(1)	(1)	(2)	
16	<b>Total Non-Heating</b>	<b>23,919</b>	<b>20,614</b>	<b>22,061</b>	<b>30,966</b>	<b>24,933</b>	<b>20,697</b>	<b>20,426</b>	<b>20,799</b>	<b>20,415</b>	<b>19,864</b>	<b>19,236</b>	
<b>Heating</b>													
17	Residential	516,868	469,024	481,414	554,526	541,872	386,740	403,055	427,412	426,901	426,053	423,966	
18	CRP Residential <sup>(c)</sup>	0	0	0	0	0	79,365	81,658	87,955	88,950	88,854	88,517	
19	CRP Shortfall	(40,211)	(30,627)	(48,053)	(59,413)	(56,422)	(19,214)	(45,793)	(52,030)	(53,018)	(52,920)	(52,580)	
20	Commercial	74,517	65,254	66,795	85,276	88,684	69,384	72,592	78,932	79,471	79,229	78,573	
21	Industrial	4,593	3,619	4,110	5,234	4,635	3,050	3,191	3,455	3,425	3,394	3,312	
22	Municipal	5,151	5,027	5,351	7,778	7,533	5,939	6,029	6,627	6,706	6,695	6,659	
23	Housing Authority	643	689	4,875	6,775	6,875	7,173	7,711	8,372	8,492	8,460	8,431	
24	Back-Up Service	0	0	0	0	0	79	74	76	76	76	76	
25	TED	0	84	66	168	108	43	66	77	78	78	78	
26	<b>Subtotal Heating</b>	<b>561,561</b>	<b>513,070</b>	<b>514,558</b>	<b>600,344</b>	<b>593,285</b>	<b>532,559</b>	<b>528,583</b>	<b>560,876</b>	<b>561,081</b>	<b>559,919</b>	<b>557,032</b>	
27	Cost of Gas Increase	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	
28	Prior Year's Gas Cost Recovery	11,040	(21,686)	(5,392)	30,918	(49,080)	22,764	20,385	151	(19)	(63)	(40)	
29	<b>Total Heating</b>	<b>572,601</b>	<b>491,384</b>	<b>509,166</b>	<b>631,262</b>	<b>544,205</b>	<b>555,323</b>	<b>548,968</b>	<b>561,027</b>	<b>561,062</b>	<b>559,856</b>	<b>556,992</b>	
30	WNA Adjustment - Heating	1,347	9,683	10,540	20,523	28,898	8,026	3,422	3,380	3,351	2,938	3,340	
31	<b>Total Adjusted Heating</b>	<b>573,948</b>	<b>501,067</b>	<b>519,706</b>	<b>651,785</b>	<b>573,103</b>	<b>563,349</b>	<b>552,390</b>	<b>564,407</b>	<b>564,413</b>	<b>562,794</b>	<b>560,332</b>	
32	<b>Total Sales Revenues</b>	<b>597,867</b>	<b>521,681</b>	<b>541,767</b>	<b>682,751</b>	<b>598,036</b>	<b>584,046</b>	<b>572,816</b>	<b>585,206</b>	<b>584,828</b>	<b>582,658</b>	<b>579,568</b>	
33	<b>Total Transportation<sup>(d)</sup></b>	<b>59,990</b>	<b>58,427</b>	<b>63,232</b>	<b>65,379</b>	<b>69,999</b>	<b>80,180</b>	<b>79,413</b>	<b>80,259</b>	<b>80,939</b>	<b>81,275</b>	<b>81,656</b>	
34	WNA Adjustment - Transportation	249	1,106	1,222	2,637	3,498	360	270	272	275	248	280	
35	<b>Total Adjusted Transportation</b>	<b>60,239</b>	<b>59,533</b>	<b>64,454</b>	<b>68,016</b>	<b>73,497</b>	<b>80,540</b>	<b>79,683</b>	<b>80,531</b>	<b>81,214</b>	<b>81,523</b>	<b>81,936</b>	
36	<b>Total Weather Normalization Adjustment</b>	<b>1,596</b>	<b>10,789</b>	<b>11,762</b>	<b>23,160</b>	<b>32,396</b>	<b>8,386</b>	<b>3,692.00</b>	<b>3,652.00</b>	<b>3,626.00</b>	<b>3,186.00</b>	<b>3,620.00</b>	
37	<b>Total Revenues<sup>(e)</sup></b>	<b>658,106</b>	<b>581,214</b>	<b>606,221</b>	<b>750,767</b>	<b>671,533</b>	<b>664,586</b>	<b>652,499</b>	<b>665,737</b>	<b>666,042</b>	<b>664,181</b>	<b>661,504</b>	
38	DSIC Surcharge	35,640	31,802	34,607	36,816	34,626	36,791	37,390	37,411	37,288	37,239	37,154	
39	Net Revenue Increase <sup>(f)</sup>	0	0	0	0	0	0	0	70,000	70,000	70,000	70,000	
40	<b>Adjusted Total Gas Revenues<sup>(e)</sup></b>	<b>693,746</b>	<b>613,016</b>	<b>640,828</b>	<b>787,583</b>	<b>706,159</b>	<b>701,377</b>	<b>689,889</b>	<b>773,148</b>	<b>773,330</b>	<b>771,420</b>	<b>768,658</b>	
41	(a) PGW historical data. (b) Actual revenues for fiscal years 2019 through 2023 included in Residential, Line 1. (c) Actual revenues for fiscal years 2019 through 2023 included in Residential, Line 17. (d) Increase in transportation revenues is due to the transfer of interruptible customers to GTS service. No firm customers are assumed to transfer to GTS service. (e) Total Revenues does not include Unbilled Gas Adjustment. (f) Revenue enhancement, cost savings and/or base rate increase. Assumes \$70 million net revenue increase beginning in fiscal year 2026.												



#### 8.1.4. Other Operating Revenues

Other operating revenues are projected to increase from approximately \$32.9 million in fiscal year 2024 to \$48.8 million in fiscal year 2029 (Table 17, Line 10). These revenues consist of sales of energy-related appliance services, late payment charges realized on overdue accounts, field collection charges, margin on LNG sales and other miscellaneous sources.

#### 8.1.5. Assistance Programs

As part of PGW's proactive approach to managing accounts receivable balances, PGW has continued to develop programs targeted at assisting customers with meeting their energy costs. Table 12 details PGW's LIHEAP participation in recent years and provides for fiscal year 2023, Assistance programs contributed \$31.1 million in customer assistance. As of the time of this report drafting (May 15, 2024), Assistance programs have contributed \$18.6 million for fiscal year 2024.

The main driver of the decrease between fiscal years 2023 and 2024 in LIHEAP dollars received is due to less availability of funds for the program. Since the pandemic, there have been significant supplemental federal funds that were available to low-income customers. These supplemental funds have not been made available in fiscal year 2024. Total funds paid out across Pennsylvania in fiscal year 2024 were \$176.3 million compared to \$271.5 million in fiscal year 2023; a 35 percent decrease. The amount that PGW received in those two periods were \$18.6 million and \$31.1 million, a 40.2 percent decrease, and PGW saw an 8.3 percent decrease in the number of grants received (48,181 compared to 52,515). State-wide the grants decreased to 418,224 from 765,146. While PGW customers appear to be receiving more grants relative to the other Utilities' customers in the state, the average grant dollars are less.

#### 8.1.6. Accounts Receivable

Table 13 summarizes historical and projected accounts receivable and account write-offs. As shown in Table 13, net accounts receivables have historically ranged from a high of \$107.0 million in fiscal year 2022 to a low of \$82.0 million in fiscal year 2021. The PUC established a moratorium on Natural Gas Shutoffs during the pandemic, which caused an increase in accounts receivable balances. Between fiscal years 2024 and 2029, net accounts receivables are projected to decrease by 44.2 percent primarily due to a projected decline in receivables as a percentage of billed revenues, while the reserve for uncollectible accounts is increasing year over year.

Realized bad debt expense as a percent of billed gas revenues is projected to remain relatively consistent in a range between 5.3 percent and 6.3 percent from fiscal years 2024 to 2029. As shown on footnote (b) table 13, PGW includes amortization of pandemic related bad debt in fiscal years 2024 through 2028. Table 13 also shows PGW's historical and projected average





collection rate. PGW's collection rate has averaged 97.4 percent over the fiscal years 2019 through 2023 reaching as high as 100 percent in fiscal year 2023. A collection rate of 96 percent is projected during the fiscal period 2024 through 2029.

Net Accounts Receivable declines by 44.2 percent during the forecasted period due to the interaction of forecast assumptions that reflect more negatively on collections than PGW has experienced in the past five years. Accounts Receivable decreases throughout the forecasted period because PGW assumes a collection rate of 96.0 percent in all estimated periods. The 96.0 percent collection rate is consistent with corporate goals, past practices, and actual results, but is lower than the average collection rate experienced over the past 5 fiscal years of 97.4 percent. PGW's assumption for write-offs at 4.5 percent of billed gas revenue is slightly higher than the inverse of the collection rate (4.0 percent). As a result, estimated accounts receivable are expected to decline by the difference (0.5 percent) each year. The 4.5 percent annual write-off rate is consistent with past practice and actual results. The estimated Accounts Receivable Reserve increases year-over-year because PGW's assumed 4.5 percent write-off rate is lower than the assumed 5.3 percent Bad Debt Reserve rate. The actual bad debt to billed gas revenues ratio was 5.3 percent in fiscal year 2023.

If there is an economic downturn, and/or the commodity price of natural gas increases significantly, then billing and collections could be adversely affected, and a corresponding decrease in the collection rate and increase in receivables beyond those levels assumed in these projections could result.



Table 12: LIHEAP Assistance Programs

Description	2019		2020		2021		2022		2023		2024 YTD	
<b>Grant Money Paid by State of PA (on LIHEAP Plan Year)<sup>(a)</sup></b>												
Cash	\$90,879,764	67.3%	\$97,423,278	62.0%	\$133,770,604	72.4%	\$293,344,072	78.8%	\$172,345,970	63.5%	\$113,121,882	64.2%
Crisis	\$44,057,878	32.7%	\$59,724,287	38.0%	\$50,963,470	27.6%	\$78,684,258	21.2%	\$99,123,484	36.5%	\$63,193,402	35.8%
Total Grant Money Available	\$134,937,642		\$157,147,565		\$184,734,074		\$372,028,330		\$271,469,454		\$176,315,284	
<b>Number of Grants</b>												
State of PA												
Cash	328,714	74.4%	397,978	70.5%	498,385	81.0%	696,836	84.0%	621,100	81.2%	302,842	72.4%
Crisis	113,327	25.6%	166,232	29.5%	117,041	19.0%	132,674	16.0%	144,046	18.8%	115,382	27.6%
Total State of PA	442,041		564,210		615,426		829,510		765,146		418,224	
PGW Share of Total PA												
Cash	57,516	17.5%	53,520	13.4%	49,019	9.8%	49,374	7.1%	42,765	6.9%	40,927	13.5%
Crisis	15,092	13.3%	25,263	15.2%	8,871	7.6%	8,240	6.2%	9,750	6.8%	7,254	6.3%
Total PGW Share of Total PA	72,608	16.4%	78,783	14.0%	57,890	9.4%	57,614	6.9%	52,515	6.9%	48,181	11.5%
<b>Total Funding Paid</b>												
State of PA (on LIHEAP Plan Year)												
Cash	\$90,879,764		\$97,423,278		\$133,770,604		\$293,344,072		\$172,345,970		\$113,121,882	
Crisis	\$44,057,878		\$59,724,287		\$50,963,470		\$78,684,258		\$99,123,484		\$63,193,402	
Total State of PA	\$134,937,642		\$157,147,565		\$184,734,074		\$372,028,330		\$271,469,454		\$176,315,284	
PGW Share of Total PA (PGW Fiscal Year)												
PGW - Cash	\$16,106,635	17.7%	\$15,327,023	15.7%	\$22,543,641	16.9%	\$38,918,655	13.3%	\$23,227,564	13.5%	\$14,724,928	13.0%
PGW - Crisis	\$5,134,810	11.7%	\$9,497,765	15.9%	\$4,413,923	8.7%	\$7,940,506	10.1%	\$7,845,274	7.9%	\$3,861,576	6.1%
Total PGW Share of Total PA	\$21,241,445	15.7%	\$24,824,788	15.8%	\$26,957,564	14.6%	\$46,859,161	12.6%	\$31,072,838	11.4%	\$18,586,504	10.5%
<b>Value of Grants, per customer</b>												
State of PA												
Cash	\$276		\$245		\$268		\$421		\$277		\$374	
Crisis	\$389		\$359		\$435		\$593		\$688		\$548	
PGW												
Cash	\$280		\$286		\$460		\$788		\$543		\$360	
Crisis	\$340		\$376		\$498		\$964		\$805		\$532	
(a) LIHEAP Plan Year generally begins in the fall and tends to vary year to year. For FY 2024 the LIHEAP Program ran from November 1, 2023, through April 5, 2024.												



**Table 13: Historical and Projected Accounts Receivable and Write-offs**  
 (Fiscal years ending August 31. Table is in thousands of dollars.)

Line No.	Description	Historical					Estimate	Budget	Projected				
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	
1	Billed Gas Revenues (\$000) <sup>(a)</sup>	682,294	635,522	646,450	755,474	757,000	677,676	668,903	772,993	773,350	771,484	768,700	
2	Accounts Receivable (\$000)	152,740	164,102	195,155	215,187	200,950	195,211	191,746	188,156	184,038	179,845	175,688	
3	Less: Reserve for Bad Debt	(66,751)	(80,422)	(113,164)	(108,187)	(108,990)	(112,717)	(115,570)	(119,098)	(122,625)	(126,135)	(129,624)	
4	Net Accounts Receivable	85,989	83,680	81,991	107,000	91,960	82,494	76,176	69,058	61,414	53,710	46,064	
5	Bad Debt Reserve/Accounts Receivable	43.7%	49.0%	58.0%	50.3%	54.2%	57.7%	60.3%	63.3%	66.6%	70.1%	73.8%	
6	Net Write-Offs (\$000)	29,559	30,417	11,359	30,256	39,466	32,495	32,706	37,568	37,589	37,505	37,379	
7	Receivable/Billed Gas Revenues	22.4%	25.8%	30.2%	28.5%	26.5%	28.8%	28.7%	24.3%	23.8%	23.3%	22.9%	
8	Bad Debt (\$000) <sup>(b)</sup>	29,983	44,088	16,261	25,287	40,270	40,778	41,887	47,424	47,443	41,041	40,892	
9	Bad Debt/Billed Gas Revenues	4.4%	6.9%	2.5%	3.3%	5.3%	6.0%	6.3%	6.1%	6.1%	5.3%	5.3%	
10	Bad Debt/Accounts Receivable	19.6%	26.9%	8.3%	11.8%	20.0%	20.9%	21.8%	25.2%	25.8%	22.8%	23.3%	
11	Total Customer Receipts (\$000)	685,607	633,775	644,186	768,001	794,801	693,228	697,719	801,456	801,889	800,110	797,416	
12	Total Customer Billings (\$000)	709,939	655,922	673,585	787,357	792,337	722,113	726,791	834,850	835,301	833,448	830,641	
13	Collection Factor	96.57%	96.62%	95.64%	97.54%	100.31%	96.00%	96.00%	96.00%	96.00%	96.00%	96.00%	
14	Five-Year Average Collection Factor (fiscal years 2019-2023) = 97.44%												
	(a) Adjusted Total Revenues (Table 11, Line 40) less Prior Year's Gas Cost Recovery (Table 11, Lines 28 and 15)												
	(b) Fiscal Years 2024 through 2028 Include amortization of Bad Debt reclassified as a regulatory asset during the pandemic.												



## 8.2. Capital Improvement Program Financing

The CIP described earlier (See Section 6, Capital Improvement Program) will be paid for by PGW through a combination of internally generated funds and bond proceeds. Also, in financial support of PGW's LTIIP for the Distribution Department, approximately \$37.0 to \$38.0 million in annual DSIC proceeds are projected to fund the DSIC portion of the CIP through the projection period. In addition, PGW has applied for a grant from PHMSA. PGW anticipates the use of approximately \$111.0 million in PHMSA grants during the 6-year period between fiscal year 2024 and fiscal year 2029. There can be no assurances that such grants will be received by PGW. Thus far, PGW has been approved for \$85.0 million in PHMSA grants.

PGW expects to use the proceeds of the Seventeenth Series Bonds to, among other things, finance a portion of the CIP.

The budget and projected CIP expenditures for the five-year period ending August 31, 2029, are shown on Line 12 of Table 14 and total approximately \$1.2 billion. Lines 1 through 10 outline the sources available to meet the CIP financing requirements. Line 1 in fiscal year 2024 shows approximately \$43.7 million available in the Capital Improvement Fund as of August 31, 2023.

Lines 2 through 5 show the net proceeds from bond sales, Lines 7 through 9 show other sources of funds including the amounts projected to be available from the DSIC surcharge, PHMSA Grants, and internally generated funds, and Line 11 presents the total funds available. Planned fund uses are summarized on Lines 12 through 15 of Table 14.



**Table 14: Capital Improvement Fund**

(Fiscal years ending August 31. Table is in thousands of dollars.)

Line No.	Description	Actual	Estimate	Budget	Projected			
		2023	2024	2025	2026	2027	2028	2029
		\$	\$	\$	\$	\$	\$	\$
1	Balance from Previous Year	112,673	43,730	4	207,206	107,206	6	238,090
2	Bond Proceeds @ Par	0	0	385,765	0	0	393,000	0
3	Add Bond Premium	0	0	22,688	0	0	0	0
4	Less Discount & Issuance Costs	0	0	(3,229)	0	0	(5,109)	0
5	Less Deposit to Sinking Fund Reserve	0	0	(25,022)	0	0	(26,000)	0
6	Net Bond Proceeds	0	-	380,202	0	0	361,891	0
	Other Sources of Funds							
7	Plus Draw from Sinking Fund Reserve	0	0	0	0	0	0	0
8	Notes Payable	0	65,000	0	0	0	0	0
9	Internally Generated Funds/DSIC/PHMSA	79,225	110,000	108,000	100,000	106,800	124,000	142,000
10	Total Other Sources of Funds	79,225	175,000	108,000	100,000	106,800	124,000	142,000
11	Total Sources of Funds	191,898	218,730	488,206	307,206	214,006	485,897	380,090
12	Capital Expenditures	150,225	217,000	216,000	200,000	214,000	248,000	284,000
13	Interest Earned and Adjustments	(2,057)	(172)	(12,784)	(7,653)	(3,025)	(15,193)	(10,928)
14	Withdrawal of Interest Received	0	1,898	12,784	7,653	3,025	15,000	11,000
15	Repayment of Notes Payable	0	0	65,000	0	0	0	0
16	Total Uses of Funds	148,168	218,726	281,000	200,000	214,000	247,807	284,072
17	Net Balance - End of Year	43,730	4	207,206	107,206	6	238,090	96,018

As presented in Table 14, revenue bond issuance proceeds in fiscal years 2025 and 2028, coupled with \$690.8 million from other funding sources (DSIC surcharge and internally generated funds) in fiscal years 2024 through 2029 are expected to provide sufficient funding for PGW to complete its planned CIP.

### 8.3. Projected Revenue Requirements

PGW's rates are developed to provide sufficient levels of revenue to meet cost of gas, all operation and maintenance expenses of the System, debt service requirements on obligations issued for the System, capital improvement expenditures to be funded from current revenues, and other specific bond ordinance and revenue requirements. This section provides a discussion of the components that make up PGW's revenue requirements.

#### 8.3.1. Gas Costs

Table 15, Line 1 presents PGW's historical and projected natural gas costs. The unit gas costs assumed by PGW and relied upon in this Report are projected to increase from approximately \$4.44 per Mcf in fiscal year 2024 to \$5.16 per Mcf in fiscal year 2029. PGW's gas cost assumptions are based on pricing input from the futures prices from the New York Mercantile Exchange. PGW purchases its gas supplies under a portfolio approach as discussed in Section



5.1, Supply Services. As a result of the GCR, changes in the cost of gas result in equal changes in revenues. The mechanism by which PGW recovers its gas supply costs is discussed in Section 7.3, Gas Cost Rate.

Starting in May 2019, PGW started purchasing gas through long-term gas supply opportunities. At present, PGW has completed twelve prepaid gas transaction agreements. Each of the long-term gas supply opportunities has a term of 25 to 30 years. A major benefit of these prepaid purchase agreements relates to PGW's ability to take advantage of gas supplies purchased at discounts ranging from \$0.29 to \$0.61 per Dth from the specified spot market index. All of the long-term transactions are completed through an authorized public authority. In the winter season of 2023 – 2024, PGW received approximately 71,000 Dth per day from the prepaid transactions. In the summer season of 2024, PGW is expected to receive approximately 53,000 Dth per day from the prepaid transactions. These gas supply purchase opportunities will provide approximately 50 percent of PGW's annual gas supply and are expected to save approximately \$8 million in gas costs in fiscal year 2024, increasing to approximately \$10 million of expected savings in the following fiscal years. PGW is expected to save approximately \$295 million over the term of all of the pre-paid gas supply contracts currently in place.

### 8.3.2. Operation and Maintenance Expenses

Table 15 presents PGW's historical and projected operation and maintenance expense. The audited expenses for fiscal year 2023 serve as a base for the projected years. Pension fund and health insurance costs are based on PGW's upcoming fiscal year 2025 operating budget filing and have been updated with the most current information from PGW for the projected period through fiscal year 2029. The number of employees is assumed to be 1,637 until fiscal year 2026 and then will decrease to 1,631 throughout the remainder of the projected period.



**Table 15: Historical and Projected Operation and Maintenance Expenses**  
 (Fiscal years ending August 31. Table is in thousands of dollars.)

Line No.	Description	Historical					Estimate	Budget	Projected			
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Operating Expenses</b>												
1	Natural Gas	206,801	146,732	163,873	272,438	223,978	175,506	183,037	198,126	201,514	200,838	198,647
2	Other Raw Materials	24	22	19	30	19	31	31	31	31	31	31
3	Subtotal Fuel	206,825	146,754	163,892	272,468	223,997	175,537	183,068	198,157	201,545	200,869	198,678
4	Gas Processing	22,028	24,316	23,294	24,085	25,569	24,309	26,475	27,005	27,545	28,095	28,657
5	Field Operations	79,341	78,699	79,680	79,542	89,803	94,001	100,991	102,511	104,561	106,652	108,785
6	Collection	4,212	4,118	4,529	4,256	3,779	4,142	5,193	5,297	5,403	5,511	5,621
7	Customer Services	13,983	13,686	13,762	12,825	13,962	15,879	21,718	22,152	22,595	23,047	23,508
8	Account Management	8,277	8,290	8,834	8,981	9,115	9,794	10,859	11,076	11,298	11,524	11,754
9	Marketing	4,232	3,999	4,113	4,433	3,856	3,316	4,710	4,804	4,900	4,998	5,098
10	Administrative & General	69,631	69,255	69,244	73,150	76,280	92,604	98,796	100,772	102,787	104,843	106,940
11	Health Insurance	22,080	20,560	22,712	23,064	21,082	24,243	25,960	27,781	29,711	31,773	33,983
12	Pandemic Expenses	0	0	0	0	0	0	0	0	0	0	0
13	Capitalized Fringe Benefits	(9,786)	(10,428)	(11,935)	(11,668)	(11,912)	(12,292)	(11,278)	(11,226)	(11,853)	(12,321)	(12,873)
14	Capitalized Admin. Charges	(14,276)	(13,867)	(18,123)	(20,011)	(18,745)	(27,812)	(30,408)	(32,926)	(36,902)	(43,253)	(45,486)
15	Pensions	30,268	19,473	(3,147)	20,675	31,544	38,906	27,448	48,582	21,891	26,602	26,184
16	Taxes	8,705	8,957	8,894	8,984	9,121	9,908	10,735	11,034	11,433	11,845	12,274
17	Other Post Employee Benefits	28,351	10,862	(902)	(1,242)	4,791	13,488	25,484	27,799	29,113	9,579	7,846
18	Retirement Payout / Labor Savings	0	0	0	0	0	0	(2,715)	(2,769)	(2,825)	(2,881)	(2,939)
19	<b>Total Other Operating Expenses</b>	<b>267,046</b>	<b>237,920</b>	<b>200,955</b>	<b>227,074</b>	<b>258,245</b>	<b>290,486</b>	<b>313,968</b>	<b>341,892</b>	<b>319,657</b>	<b>306,015</b>	<b>309,354</b>
20	<b>Total Operating Expenses</b>	<b>473,871</b>	<b>384,674</b>	<b>364,847</b>	<b>499,542</b>	<b>482,242</b>	<b>466,023</b>	<b>497,036</b>	<b>540,049</b>	<b>521,202</b>	<b>506,884</b>	<b>508,032</b>
21	Depreciation	63,686	59,661	64,412	66,984	72,720	66,253	63,782	70,986	73,979	69,557	72,587
22	Cost of Removal	4,500	4,500	4,900	5,358	9,242	8,729	9,879	5,879	5,879	5,879	5,879
23	Net Depreciation	68,186	64,161	69,312	72,342	81,962	74,982	73,661	76,865	79,858	75,436	78,466
24	<b>Total Operating Expense &amp; Depreciation</b>	<b>542,057</b>	<b>448,835</b>	<b>434,159</b>	<b>571,884</b>	<b>564,204</b>	<b>541,005</b>	<b>570,697</b>	<b>616,914</b>	<b>601,060</b>	<b>582,320</b>	<b>586,498</b>



### 8.3.3. Debt Service Requirements

Table 16 presents a summary of the existing and proposed long-term debt service requirements for the five-year projection period assuming there is no refunding. In addition to the approximately \$385.8 million Seventeenth Series issuance in fiscal year 2025, there is an approximately \$393.0 million bond issuance expected to occur in fiscal year 2028.

The assumed all-in interest rates for the Seventeenth Series and anticipated fiscal year 2028 bonds are as follows:

<u>Issuance</u>	<u>All-in Interest Rate</u>
Seventeenth Series	5.0%
2028 Bond Issuance	5.0%

**Table 16: Projected Long-Term Debt Service Requirements**

(Fiscal years ending August 31. Table is in thousands of dollars.)

Line No.	Description	2024	2025	2026	2027	2028	2029
		\$	\$	\$	\$	\$	\$
	Revenue Bonds under 1998 Ordinance						
	<i>Senior Debt</i>						
1	A-2 Fifth Series Variable	831	831	831	831	831	831
2	Eighth Series	25,693	26,554	26,856	28,875	29,018	0
3	Thirteenth Series	24,696	17,681	17,295	13,517	13,526	13,524
4	Fourteenth Series	17,500	19,636	19,674	19,667	18,347	18,344
5	Fifteenth Series	17,393	17,395	17,399	17,394	18,664	18,741
6	Sixteenth Series	17,581	15,023	15,022	15,022	15,021	15,025
7	New Bond Issue - 2025	0	23,281	25,021	25,017	25,018	25,018
8	New Bond Issue - 2028	0	0	0	0	16,131	25,697
9	Total Senior Debt	103,694	120,401	122,098	120,323	136,556	117,180
10	<i>Subordinate Debt</i>						
11	(Notes)	0	0	0	0	0	0
12	Total Subordinate Debt	0	0	0	0	0	0
13	Total 1998 Ordinance Debt	103,694	120,401	122,098	120,323	136,556	117,180
14	Total Long-Term Debt Service <sup>(a)</sup>	103,694	120,401	122,098	120,323	136,556	117,180

(a) Assumes no refunding transaction

### 8.3.4. Payments to City

In accordance with the Management Agreement and the Gas Choice Act, PGW makes an annual base payment of \$18.0 million to the City. In fiscal year 2023, PGW paid \$18.0 million to the





City. For fiscal year 2024 and throughout the projected period, PGW is projected to pay \$18.0 million annually to the City.

## 8.4. Adequacy of Projected Revenues to Meet Rate Covenant Requirements Under the 1998 General Ordinance

Table 17 presents a pro forma statement developed from the revenue and expense projections for fiscal years 2024 through 2029. This table is presented in conjunction with Table 18, which presents a statement of cash flows, provides an indication of the adequacy of PGW's revenues, and shows the financial feasibility of the proposed Seventeenth Series Bonds.

The operating revenue projections presented earlier in Table 11, Line 37 are summarized in 1 through 3 of Table 17. Revenues from Other Sales projections, which include back-up service charges, technology and economic development rider revenue, and unbilled gas adjustments, are shown on Line 4 of Table 17. These projected revenues are based on PGW's currently effective rate schedules. The DSIC revenue is projected to be \$36.8 million in fiscal year 2024 and is projected to stay within a range of \$37.2 million and \$37.4 million for the projected fiscal period 2025 through 2029, as shown on Line 6 of Table 17.

As discussed in Section 8.1.3, Sales and Transportation Revenues, PGW's collection factor is projected to be approximately 96.0 percent of billed revenues for fiscal years 2025 through 2029. The associated appropriation for uncollectible reserve is projected to range from a low of negative \$40.8 million in fiscal year 2024 to a high of negative \$47.4 million in fiscal year 2027 (in prior reports, the appropriation for uncollectible reserve was presented as an expense item for bad debts). The higher level of uncollectible receivables for PGW relative to other gas utilities is consistent with the higher level of costs associated with social programs for PGW's customers. The projected base rate increase in fiscal year 2026 of \$70.0 million is shown on Line 8. The \$70.0 million additional revenue in fiscal year 2026 is required to achieve the net income levels shown in Table 17. However, there can be no assurance that such increases will be approved in their entirety by the PUC.

Other Operating Revenues presented on Table 17, Line 10 include revenues from sales of energy-related appliance services, field collection charges, and margin from LNG sales. Also included on Table 17, Line 10 are revenues associated with asset management agreements and pipeline capacity release. Projected Other Income presented on Table 17, Line 30 includes interest earnings from the different reserve funds.

The projected operation and maintenance expenses shown on Table 17, Lines 12 through 28 are from Table 15. PGW's projected Net Operating Income before interest is summarized on Line 31 of Table 17. Interest expense on existing Bonds and proposed Bonds is presented on Line 32. Other interest costs and the loss from refunded debt are shown on Lines 33 through 34. PGW's projected net income is shown on Line 37 of Table 17 and ranges from \$104.1 million



in fiscal year 2025 to \$173.2 million in fiscal year 2029 with a high of \$181.9 million in fiscal year 2028.

**Table 17: Projected Statement of Income**

(Fiscal years ending August 31. Table is in thousands of dollars.)

Line No.	Description	2024	2025	2026	2027	2028	2029
		\$	\$	\$	\$	\$	\$
<b>Projected Revenues</b>							
1	Non-Heating	20,697	20,426	20,799	20,415	19,864	19,236
2	Heating	563,349	552,390	564,407	564,413	562,794	560,332
3	Gas Transport Service	80,540	79,683	80,531	81,214	81,523	81,936
4	Other Sales	(2,129)	168	583	58	(27)	(5)
5	Total Gas Revenues - Existing Rates	662,457	652,667	666,320	666,100	664,154	661,499
6	DSIC Revenue	36,791	37,390	37,411	37,288	37,239	37,154
7	Appropriation for Uncollectible Reserve	(40,778)	(41,887)	(47,424)	(47,443)	(41,041)	(40,892)
8	Net Revenue Increase <sup>(a)</sup>	0	0	70,000	70,000	70,000	70,000
9	Total Gas Revenues	658,470	648,170	726,307	725,945	730,352	727,761
10	Other Operating Revenues	32,862	46,462	48,654	48,742	48,786	48,811
11	<b>Total Operating Revenues</b>	<b>691,332</b>	<b>694,632</b>	<b>774,961</b>	<b>774,687</b>	<b>779,138</b>	<b>776,572</b>
<b>Operating Expenses</b>							
12	Natural Gas	175,506	183,037	198,126	201,514	200,838	198,647
13	Other Raw Materials	31	31	31	31	31	31
14	Total Fuel	175,537	183,068	198,157	201,545	200,869	198,678
15	Gas Processing	24,309	26,475	27,005	27,545	28,095	28,657
16	Field Operations	94,001	100,991	102,511	104,561	106,652	108,785
17	Collection	4,142	5,193	5,297	5,403	5,511	5,621
18	Customer Services	15,879	21,718	22,152	22,595	23,047	23,508
19	Account Management	9,794	10,859	11,076	11,298	11,524	11,754
20	Health Insurance	24,243	25,960	27,781	29,711	31,773	33,983
21	Pensions	38,906	27,448	48,582	21,891	26,602	26,184
22	Other Post Employee Benefits	13,488	25,484	27,799	29,113	9,579	7,846
23	A&G and Other Expenses	65,724	69,840	69,689	67,541	63,231	63,014
24	Total Non-Fuel O&M	290,486	313,968	341,892	319,657	306,015	309,354
25	Depreciation	66,253	63,782	70,986	73,979	69,557	72,587
26	Cost of Removal	8,729	9,879	5,879	5,879	5,879	5,879
27	Net Depreciation	74,982	73,661	76,865	79,858	75,436	78,466
28	<b>Total Operating Expenses</b>	<b>541,005</b>	<b>570,697</b>	<b>616,914</b>	<b>601,060</b>	<b>582,320</b>	<b>586,498</b>
29	<b>Net Operating Income</b>	<b>150,327</b>	<b>123,935</b>	<b>158,047</b>	<b>173,626</b>	<b>196,818</b>	<b>190,075</b>
30	Other Income	9,047	21,937	16,814	12,210	25,498	21,364
31	<b>Net Income Before Interest Charges</b>	<b>159,374</b>	<b>145,872</b>	<b>174,861</b>	<b>185,836</b>	<b>222,316</b>	<b>211,439</b>
<b>Interest</b>							
32	Long Term Debt	43,063	59,179	56,318	53,342	70,040	66,668
33	Other	(5,656)	(6,595)	(7,198)	(6,925)	(6,519)	(5,043)
34	Loss From Refunded Debt	3,314	2,953	2,616	2,264	1,922	1,578
35	Total Interest	40,721	55,537	51,736	48,681	65,443	63,203
<b>Non-Operating Revenue</b>							
36	Federal Grant Revenue (PHMSA)	7,000	13,728	17,864	22,859	25,000	25,000
37	<b>Net Income<sup>(b)</sup></b>	<b>125,653</b>	<b>104,063</b>	<b>140,989</b>	<b>160,014</b>	<b>181,873</b>	<b>173,236</b>

(a) Revenue enhancement, cost savings and/or base rate increase. (See Section 8.1.3)

(b) Net Income is net of all payments to the City excluding the \$18 million Payment to City/Distribution of Earnings.



Table 18, Line 1 presents PGW's projected cash balance as of September 1 for each fiscal year. From this starting point, the net income line from Table 17 is combined with non-cash adjustments (such as depreciation and amortization) expensed on the Income Statement. External sources of funds are summarized on Lines 9 through 13 and include revenue bond proceeds, drawdowns on the capital improvement fund, and funds provided through short-term notes. The total for all sources of funds is shown on Line 14 of Table 18.

Uses of funds are summarized on Lines 15 through 23 of Table 18. Line 15 represents the principal payments made on long-term debt. CIP requirements are shown on Line 18, and payments to the City are shown on Line 19. Deposits to CIP Fund are shown on Line 20. Changes in non-cash working capital items, including changes in accounts payable and accounts receivable, are shown on Line 22.

The net increase or decrease in available cash for each fiscal year is shown on Line 24 of Table 18. The ending cash balance for the year, which is the sum of Lines 1 and 24, is shown on Line 25. The ending cash balance projected for fiscal year 2024 represents approximately 18.9 weeks of operation and maintenance expense (excluding the cost of gas) and the ending cash balances for fiscal years 2025 through 2029 represent from approximately 9.0 to 17.5 weeks of operation and maintenance expense (excluding the cost of gas). These projected year-end cash balances for fiscal years 2025 through 2029 should be sufficient for PGW to accommodate normal fluctuations in expenditures for utility operations.

A detailed calculation of debt service coverage requirements under the 1998 General Ordinance is presented in Table 19. The results presented in the table indicate that, provided the assumptions made herein are realized, PGW will meet the requirements of the 1998 General Ordinance for all years in the projection period.

**Table 18: Projected Statement of Cash Flows**

(Fiscal years ending August 31. Table is in thousands of dollars.)

Line No.	Description	2024	2025	2026	2027	2028	2029
		\$	\$	\$	\$	\$	\$
<b>1</b>	<b>Beginning Cash Balance</b>	<b>139,302</b>	<b>105,318</b>	<b>54,570</b>	<b>89,459</b>	<b>107,343</b>	<b>93,912</b>
	<b>Sources of Funds</b>						
	Internal Sources						
2	Net Income	125,653	104,063	140,989	160,014	181,873	173,236
3	Depreciation	66,253	63,782	70,986	73,979	69,557	72,587
4	Amortized Costs <sup>(a)</sup>	(6,498)	(6,254)	(7,095)	(7,077)	(6,914)	(6,721)
5	Earnings on Restricted Funds	1,766	2,363	(125)	(129)	(422)	(268)
6	Bond Proceeds to Pay Issuance Cost	0	3,229	0	0	5,109	0
7	Increased/(Decreased) Other Liabilities	(12,966)	(7,405)	4,453	(21,347)	(40,528)	(48,863)
8	Total Internal Sources	174,208	159,778	209,208	205,440	208,675	189,970
	External Sources						
9	Net Revenue Bond Proceeds	0	380,202	0	0	361,891	0
10	Capital Improvement Fund Drawdown	42,000	108,000	100,000	107,200	124,000	142,000
11	Release of Excess Sinking Fund Money	0	0	0	0	0	0
12	Notes	65,000	0	0	0	0	0
13	Total External Sources	107,000	488,202	100,000	107,200	485,891	142,000
14	<b>Total Sources of Funds</b>	<b>281,208</b>	<b>647,980</b>	<b>309,208</b>	<b>312,640</b>	<b>694,566</b>	<b>331,970</b>
	<b>Uses of Funds</b>						
15	Debt Reduction paid on all Bonds	60,255	63,420	65,055	66,230	75,576	49,640
16	Debt Reduction Funding	0	0	0	0	0	0
17	Lease Principal Payments	4,600	4,700	4,800	4,900	5,000	5,100
18	CIP Requirements	217,000	216,000	200,000	214,000	248,000	284,000
19	Payment to City/Distribution of Earnings	18,000	18,000	18,000	18,000	18,000	18,000
20	Deposit to CIP Fund	0	380,202	0	0	361,891	0
21	Repayment of Prior Bonds	0	0	0	0	0	0
22	Change in Non-Cash Working Capital <sup>(b)</sup>	15,337	16,406	(13,536)	(8,373)	(470)	(3,792)
23	<b>Total Uses of Funds</b>	<b>315,192</b>	<b>698,728</b>	<b>274,319</b>	<b>294,757</b>	<b>707,997</b>	<b>352,948</b>
24	Increase/(Decrease) in Cash	(33,984)	(50,748)	34,889	17,883	(13,431)	(20,978)
25	<b>Ending Cash Balance</b>	<b>105,318</b>	<b>54,570</b>	<b>89,459</b>	<b>107,343</b>	<b>93,912</b>	<b>72,934</b>

(a) Includes amortization on bond issuance costs and extraordinary losses.  
(b) Includes changes in Accounts Payable, Accounts Receivable, and Materials and Supplies.



**Table 19: Projected Debt Service Coverage**

(Fiscal years ending August 31. Table is in thousands of dollars.)

Line No.	Description	2024	2025	2026	2027	2028	2029
		\$	\$	\$	\$	\$	\$
<b>SOURCES OF FUNDS</b>							
1	Total Gas Revenues	658,470	648,170	726,307	725,945	730,352	727,761
2	Other Operating Revenues	<u>32,862</u>	<u>46,462</u>	<u>48,654</u>	<u>48,742</u>	<u>48,786</u>	<u>48,811</u>
3	Total Operating Revenues	691,332	694,632	774,961	774,687	779,138	776,572
4	Other Income	10,813	24,300	16,689	12,081	25,076	21,096
5	Non Operating Revenue	<u>7,000</u>	<u>13,728</u>	<u>17,864</u>	<u>22,859</u>	<u>25,000</u>	<u>25,000</u>
6	<b>Total Sources of Funds</b>	<b>709,145</b>	<b>732,660</b>	<b>809,514</b>	<b>809,627</b>	<b>829,214</b>	<b>822,668</b>
<b>USES OF FUNDS</b>							
7	Fuel Costs	175,537	183,068	198,157	201,545	200,869	198,678
8	Other Operating Costs	<u>365,468</u>	<u>387,629</u>	<u>418,757</u>	<u>399,515</u>	<u>381,451</u>	<u>387,820</u>
9	Total Operating Expenses	541,005	570,697	616,914	601,060	582,320	586,498
10	Less: Non-Cash Expenses	<u>(87,284)</u>	<u>(74,148)</u>	<u>(98,236)</u>	<u>(74,730)</u>	<u>(75,606)</u>	<u>(78,701)</u>
11	<b>Total Uses of Funds</b>	<b>453,721</b>	<b>496,549</b>	<b>518,678</b>	<b>526,331</b>	<b>506,714</b>	<b>507,797</b>
12	<b>Funds Available for Debt Service</b>	<b>255,424</b>	<b>236,111</b>	<b>290,836</b>	<b>283,296</b>	<b>322,500</b>	<b>314,872</b>
13	1998 Ordinance Bonds Debt Service <sup>(a)</sup>	103,694	120,401	122,098	120,323	136,556	117,180
14	1998 Ordinance Subordinate Debt Service - Notes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
15	<b>Total Debt Service</b>	<b>103,694</b>	<b>120,401</b>	<b>122,098</b>	<b>120,323</b>	<b>136,556</b>	<b>117,180</b>
16	<b>Debt Service Coverage</b>	<b>2.46</b>	<b>1.96</b>	<b>2.38</b>	<b>2.35</b>	<b>2.36</b>	<b>2.69</b>

(a) Assumes no refunding transaction



## 9. Assumptions and Opinions

---

In developing the information which Atrium utilized for preparing the projections presented herein, Atrium relied on PGW's financial planning model and PGW's assumptions contained within that model with several exceptions as noted in this Report. The analyses summarized in this Report are based on assumptions that have been provided by or reviewed by PGW and others and relied on currently available information and present circumstances. Atrium has not conducted verification tests of this information. While Atrium believes that these data and the underlying assumptions are reasonable, actual results may materially differ from those projected, as influenced by the conditions, events and circumstances that actually occur that are unknown at this time and/or which are beyond the control of Atrium. Such factors may include, but are not limited to, PGW's ability to execute the capital improvement plan as scheduled and within budget, regional climate and weather conditions affecting the demand for gas, PGW's ability to obtain the revenue enhancements, cost savings, or base rate increases in fiscal year 2026 as assumed herein, adverse legislative, regulatory or legal decisions (including environmental laws and regulations) affecting PGW's ability to operate the System, and public health crises.

### 9.1. Considerations and Principal Assumptions

The following, while not all inclusive, is a list of critical assumptions used in the development of the projections presented herein. Atrium assumes that:

- The Seventeenth Series Bonds will be issued in one or more series with the proceeds assumed for the purposes of this Report to be used primarily to finance various elements of PGW's ongoing CIP, redeem certain of the City's outstanding Gas Works Revenue Capital Project Commercial Paper Notes (proceeds of which were used for the CIP), and to potentially refund a portion of PGW's outstanding Gas Works Revenue Bonds (1998 General Ordinance) and terminate the amount of swaps related to the refunded bonds.
- PGW will continue to operate and maintain the System as described in this Report.

#### 9.1.1. Revenues

- As set forth by the PUC in its order dated February 22, 2001, the PUC will comply with its statutory obligations pursuant to the Gas Choice Act as it amends the provisions of the Public Utility Code (66 Pa C.S.A. §2212(b)) requiring that the PUC, in determining PGW's revenue requirement and approving overall rates and charges, "follow the same rate-making methodology and requirements that were applicable to [PGW] prior to the assumption of jurisdiction by the [PUC]" and permit PGW to "impose, charge and collect rates or charges as necessary to permit...PGW to comply with its covenants to the holders of any approved bonds." The PUC affirmed this intention in a Policy Statement issued on April 19, 2010.



- The throughput and revenue figures assume normal weather as established in PGW's general rate order. To the extent that weather is warmer than normal, the resulting contribution to margin revenue will be maintained to the extent that the WNA remains in effect.
- Projected revenue figures are based on the assumption that PGW will recover, in a timely manner, 100 percent of all gas supply costs (including upstream transportation, upstream storage, and LNG related costs) and 100 percent of the costs (or discounted revenues) attributed to the Customer Responsibility Program and the Senior Citizen Program, which are recovered through the Universal Service and Energy Conservation Surcharge.
- PGW's annual appropriation for uncollectible reserve (formerly bad debt expense) will range from \$40.8 million (minimum) to \$47.4 million (maximum), and PGW's collection factor on billed revenues is assumed be 96.0 percent, on average, during the projected fiscal year 2024 through 2029 period.
- If PGW were unable to meet the rate covenant required under the 1998 General Ordinance, PGW would then have to reduce expenditures, develop other sources of Gas Works Revenues, and/or file for and receive timely rate relief.
- If lost margins resulting from customers' reducing usage due to DSM programs or appliance efficiencies are significant, PGW will file for additional base rate increases.
- PGW's current DSIC surcharge will allow the recovery of \$36.8 million to \$37.4 million in annual revenues to fund annual capital improvements in such amount associated with the LTIIP. The Pennsylvania PUC will continue to provide either rate increases or surcharges to fund these expenditures. If the PUC determines that PGW's cast iron main replacement should be accelerated above current levels, the PUC will also provide rate increases or surcharges to fund the additional expenditures.
- PGW will realize \$70.0 million in base rate increases on a levelized annual basis beginning in fiscal year 2026.

### 9.1.2. Debt Service

The debt service and interest costs do not reflect refunding of any outstanding bonds and includes new bond issues of approximately \$385.8 million in fiscal year 2025 (i.e. the Series A Bonds), and approximately \$393.0 million in fiscal year 2028. If PGW refunds bonds, it is assumed that such refunding will not increase interest costs and annual debt service from the levels reflected in this Report.

### 9.1.3. Capital Improvement Program (fiscal years 2025 – 2029)

The planned capital improvements will be completed at the levels budgeted, for the projects currently planned and within the timeframe projected. Any additional capital improvements required to meet future regulatory requirements will be made to comply with those regulatory requirements.



Projected levels of capital improvements that are paid for by internally generated funds are assumed to comply with PGW's internal policies for financing capital improvements with other funding sources.

#### 9.1.4. City of Philadelphia

PGW will make an annual payment to the City in fiscal years 2024 through 2029 of \$18.0 million.

#### 9.1.5. Policy

There are a number of international, federal, state, and local legislative, legal, regulatory and other initiatives being proposed and adopted in an attempt to measure, control or limit the effects of global warming and climate change. Legislation or other forms of public policy or regulation that aim to reduce GHG emissions at the federal, state, or local level have and could continue to take a variety of forms including, but not limited to, carbon taxes, building codes, increased efficiency standards, mandates to conserve energy, or use renewable energy sources. Federal, state, or local governments may provide tax advantages and other subsidies to support alternative energy sources, withdraw funding from fossil fuel sources, mandate the use of specific fuels or technologies, prohibit the use of natural gas, or promote research into new technologies to reduce the cost and increase the scalability of alternative energy sources.

Atrium assumes that public perception and environmental policy does not impede PGW's ability to carry out its operations in the future and execute its capital plan to provide safe and reliable service to customers.

## 9.2. Opinions

Based on these analyses and the assumptions set forth or referred to in this Report, Atrium offers the following opinions to indicate PGW's conformance with specific requirements which must be met for the issuance of the Seventeenth Series Bonds, as provided in the 1998 General Ordinance:

PGW is a competently managed and operated gas distribution utility. PGW and the System are organized, operated, and maintained at a level equal to, or in excess of, regulatory requirements and generally accepted industry practices. The System is in good operating condition.

Based upon Atrium's evaluation of financial projections and certain assumptions with respect to the System which Atrium believes to be reasonable, and on the basis of actual and estimated future annual financial operations of the System, the System should yield Gas Works Revenues (which are pledged under the 1998 General Ordinance) over the amortization periods of the Bonds issued under the 1998 General Ordinance which will be sufficient to: (a) meet all expenses of operation, maintenance, repair and replacement of the System, (b) meet all





reserve or special funds required to be established under the 1998 General Ordinance, (c) meet the principal of and interest on all Bonds issued under the 1998 General Ordinance, as the same shall become due and payable, and (d) provide such surplus requirements as are contained in the rate covenant of the 1998 General Ordinance. The Gas Works Revenues forming the basis of this opinion comply with the requirements of the definition of Project Revenues contained in Section 2 of the First Class City Revenue Bond Act.

The Gas Works Revenues which are pledged as security for the Bonds issued under the 1998 General Ordinance are currently, and are projected to be, sufficient to comply with the rate covenant set forth in Section 4.03(b) of the 1998 General Ordinance.

The capital improvements proposed during the projection period, September 1, 2024, through August 31, 2029 should, along with continued good operation and maintenance practices, enable PGW to maintain the System in good operating condition. Review of present management practices indicates that good operation and maintenance is likely to continue.

Contracted PGW term gas supplies; spot market purchases; additional off-system and LNG storage capacity resources; as well as, the pipeline transport capacity to move these supplies to PGW, appear adequate to meet PGW's projected demand on a day of maximum demand (a "design peak day"), in an hour of maximum demand (a "design peak hour"), and during a year of maximum demand (a "design peak year").

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX C**

**THE CITY OF PHILADELPHIA GOVERNMENT AND FINANCIAL INFORMATION**

**TABLE OF CONTENTS**

	<b>Page</b>
OVERVIEW .....	C-1
Fiscal Health of the City .....	C-1
THE GOVERNMENT OF THE CITY OF PHILADELPHIA.....	C-7
Introduction.....	C-7
History and Organization.....	C-7
Elected and Appointed Officials.....	C-8
Government Services .....	C-10
Local Government Agencies.....	C-11
Cybersecurity .....	C-15
Climate Change.....	C-15
CITY FINANCES AND FINANCIAL PROCEDURES.....	C-18
General.....	C-18
Current City Disclosure Practices.....	C-19
Independent Audit and Opinion of the City Controller .....	C-20
Budgetary Accounting Practices.....	C-20
DISCUSSION OF FINANCIAL OPERATIONS.....	C-21
Principal Operations.....	C-21
Fund Accounting.....	C-21
Budget Procedure.....	C-21
Budget Stabilization Reserve .....	C-22
Annual Financial Reports .....	C-24
Five-Year Plans of the City.....	C-24
Quarterly Reporting to PICA .....	C-24
Summary of Operations .....	C-25
Current Financial Information .....	C-27
REVENUES OF THE CITY .....	C-29
General.....	C-29
Major Revenue Sources .....	C-29
Wage, Earnings, and Net Profits Taxes .....	C-31
Business Income and Receipts Tax.....	C-32
Real Property Taxes.....	C-33
Sales and Use Tax.....	C-39
Real Property Transfer Tax.....	C-40
Other Taxes.....	C-41

**TABLE OF CONTENTS**

(continued)

	<b>Page</b>
Collection Initiatives .....	C-41
Other Locally Generated Non-Tax Revenues .....	C-42
Revenue from Other Governments .....	C-42
Revenues from City-Owned Systems .....	C-42
Philadelphia Parking Authority Revenues .....	C-43
Other Tax Rate Changes .....	C-45
EXPENDITURES OF THE CITY .....	C-46
Personal Services (Personnel).....	C-46
Overview of City Employees.....	C-46
Overview of Employee Benefits.....	C-49
Overview of Current Labor Contract Settlements .....	C-51
Purchase of Services .....	C-54
City Payments to School District.....	C-55
City Payments to Southeastern Pennsylvania Transportation Authority (SEPTA) .....	C-55
City Payments to Convention Center Authority .....	C-56
PENSION SYSTEM.....	C-57
Overview.....	C-57
Pension System; Pension Board.....	C-59
Funding Requirements; Funding Standards .....	C-61
UAL and its Calculation .....	C-63
Pension Adjustment Fund.....	C-64
Rates of Return; Asset Values; Changes in Plan Net Position.....	C-65
Funded Status of the Municipal Pension Fund .....	C-68
Annual Contributions.....	C-70
Actuarial Projections of Funded Status.....	C-75
OTHER POST-EMPLOYMENT BENEFITS.....	C-78
PGW PENSION PLAN .....	C-79
General.....	C-79
PGW Pension Plan.....	C-79
Pension Costs and Funding.....	C-80
Projections of Funded Status.....	C-83
Additional Information .....	C-84
PGW OTHER POST-EMPLOYMENT BENEFITS .....	C-85
CITY CASH MANAGEMENT AND INVESTMENT POLICIES .....	C-87
General Fund Cash Flow .....	C-87

**TABLE OF CONTENTS**

(continued)

	<b>Page</b>
Consolidated Cash .....	C-87
Investment Practices .....	C-88
DEBT OF THE CITY .....	C-90
General.....	C-90
Short-Term Debt .....	C-91
Long-Term Debt .....	C-91
Other Long-Term Debt Related Obligations .....	C-94
PICA Bonds .....	C-94
OTHER FINANCING RELATED MATTERS .....	C-96
Swap Information.....	C-96
Swap Policy .....	C-97
LIBOR Phase-Out.....	C-97
Letter of Credit Agreements .....	C-98
Recent and Upcoming Financings .....	C-99
CITY CAPITAL PROGRAM.....	C-99
Certain Historical Capital Expenditures .....	C-99
Fiscal Year 2025-2030 Adopted Capital Program .....	C-101
LITIGATION.....	C-102
General Fund.....	C-102
Water Fund.....	C-103
Aviation Fund .....	C-103
PGW.....	C-104

## OVERVIEW

The City of Philadelphia (the “City” or “Philadelphia”), located along the southeastern border of the Commonwealth of Pennsylvania (the “Commonwealth” or “Pennsylvania”), is the largest city in the Commonwealth and the sixth-largest city in the United States. The City is also the center of the United States’ seventh-largest metropolitan statistical area, which is an 11-county area encompassing the City, Camden, NJ, and Wilmington, DE. In 2022, the City’s population was 1.593 million residents, with a slight decrease to 1.55 million residents estimated for 2023 (according to the U.S. Census data).

The City benefits from its strategic geographical location, relative affordability, cultural and recreational amenities, and its growing strength in key industries. The City’s economy is composed of diverse industries, with virtually all classes of industrial and commercial businesses represented. The City is a major regional business and personal services center with strengths in insurance, law, finance, healthcare, higher education, utilities, logistics, and the arts. In addition, the City is a center for health, education, research and science facilities with the nation’s largest concentration of healthcare resources within a 100-mile radius.

The cost of living in the City is relatively moderate and affordable compared to other major metropolitan areas in the northeast United States. The City, as one of the country’s education centers, offers its business community a large and diverse labor pool that draws from major universities including, within the geographical boundaries of the City, the University of Pennsylvania, Temple University, Drexel University, St. Joseph’s University, and LaSalle University, among others.

### **Fiscal Health of the City**

The City has implemented several strategies to address significant fiscal challenges for Fiscal Year 2024 and over the course of Fiscal Years 2024-2029, which are described in the Fiscal Year 2024 Adopted Budget, the Thirty-Third Five-Year Plan, the FY 2024 Fourth Quarter QCMR, and the Fiscal Year 2025 Adopted Budget (each as defined herein), as applicable.

The current estimates for Fiscal Year 2024 are sourced to the FY 2024 Fourth Quarter QCMR throughout this APPENDIX C, unless otherwise noted herein.

COVID-19: In response to increased expenses related to the continuing impacts from the novel coronavirus (“COVID-19”) pandemic, various federal, state, and local recovery grants have become available to the City, including recovery grants under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and the American Rescue Plan Act of 2021 (the “American Rescue Plan” or “ARPA”). The CARES Act and the American Rescue Plan include substantial federal relief funds for state and local governments, including the City, to address the impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses. The funds include \$276 million in Coronavirus Relief Funds (via the CARES Act) and \$1.395 billion Coronavirus State and Local Fiscal Recovery Funds (via the American Rescue Plan), which represent the two largest allocations made to the City. The American Rescue Plan funds are fully allocated in the Thirty-Third Five-Year Plan. Such funds must be obligated by the end of calendar year 2024.

*Fiscal Impact.* The City continues to closely monitor and assess the ongoing effects of the COVID-19 pandemic and its economic, operating, financial, and budgetary impact on the City. The COVID-19 pandemic resulted in significant revenue losses and higher costs for service provision due to changes in work patterns, inflation, and a tight labor market. The federal relief funding from the American Rescue Plan (which as described above, totals \$1.395 billion) was used to replace lost revenue to support core government services and pandemic response efforts. The City gradually spent the federal

relief funding over several years and will make the final draw on federal funds in calendar year 2024 (Fiscal Year 2025). While significant, the federal funding from the American Rescue Plan alone was not sufficient to close the budgetary gap projected at the start of COVID-19. Notwithstanding the foregoing, the City projects in the Thirty-Third Five-Year Plan that it will end Fiscal Years 2024-2029 with positive General Fund balances and cumulative balances in the Budget Stabilization Reserve (as defined herein).

The Fiscal Year 2024 Adopted Budget, the Thirty-Third Five-Year Plan, the FY 2024 Fourth Quarter QCMR, and the Fiscal Year 2025 Adopted Budget, as applicable, reflect the ongoing evolution of the pandemic and its impacts on work, consumer, and other social patterns, and the City's associated response. For more information on the Fiscal Year 2024 Adopted Budget, the Thirty-Third Five-Year Plan, the FY 2024 Fourth Quarter QCMR, and the Fiscal Year 2025 Adopted Budget, the City's historical financial operations, and the City's projected General Fund balances for Fiscal Years 2024-2029, see "DISCUSSION OF FINANCIAL OPERATIONS" and Tables 1 and 2 (and the text following Table 2) herein.

**Revenues.** For Fiscal Year 2024, the City is estimating revenues of \$5.946 billion (based on the FY 2024 Fourth Quarter QCMR), a \$101.4 million (1.7%) decrease compared to Fiscal Year 2023. For Fiscal Year 2024, the City is estimating decreases in tax collections, resulting in projected tax collections of \$4.009 billion (based on the FY 2024 Fourth Quarter QCMR), a \$145.6 million (3.5%) decrease compared to Fiscal Year 2023. Such amounts include the reassignment of Parking Tax revenue from the General Fund to the Transportation Fund (which totaled approximately \$101.9 million in Fiscal Year 2023). For more information on tax revenues, see "– Fiscal Health of the City – Tax Revenues" and "REVENUES OF THE CITY" and Table 3 herein.

**Expenses.** The City is projecting higher costs for essential services and increased fixed costs, including overtime and other added labor costs and higher pension payments. In Fiscal Years 2020-2023, the City incurred significant new expenses for healthcare to reduce the spread of COVID-19 and treat those affected, including labor costs and expenses for testing sites and supplies, quarantine locations and services, surge hospital capacity, medical vehicles, personal protective equipment, disinfectant/cleaning supplies, morgue capacity, business supports, and vaccination rollout and administration. In addition to ongoing pandemic-related expenses, the City incurred additional expenses relating to certain unplanned events in Fiscal Year 2021 that stressed operations and the local economy.

As noted above, the City received \$276 million from the CARES Act and \$1.395 billion from the American Rescue Plan for COVID-19-related costs. The City received in Fiscal Years 2020 and 2021 certain CARES Act funding in the amounts of \$100 million in the General Fund and \$176 million in the Grants Revenue Fund, respectively. Such amounts were available to be transferred periodically from the Grants Revenue Fund to the General Fund to reimburse for COVID-19-related costs. In Fiscal Years 2021-2024, the City drew down on approximately \$26 million, \$250 million, \$335 million, and \$391 million, respectively, in federal COVID-19 relief funding from the American Rescue Plan.

The American Rescue Plan funds are fully allocated in the Thirty-Third Five-Year Plan and the Fiscal Year 2025 Adopted Budget, as applicable. In Fiscal Year 2025, the City expects to draw down on approximately \$419 million in federal COVID-19 relief funding from the American Rescue Plan (which represents the last of such relief funding). Such funds must be obligated by the end of calendar year 2024. The expected draw down in Fiscal Year 2025 will occur by December 31, 2024, as required by the United States Treasury.

As described above, federal COVID-19 relief funding received by the City from the American Rescue Plan has been included in the Fiscal Year 2024 Adopted Budget, the Thirty-Third Five-Year Plan, and the Fiscal Year 2025 Adopted Budget, as applicable. The City does not include potential federal



stimulus funding entitlements or funds from other federal or Commonwealth sources that may be received in its budgetary projections or five-year financial planning.

The Thirty-Third Five-Year Plan specifically highlights two key expense challenges for the City – the exhaustion of the American Rescue Plan funds (as described above) and a balloon payment due on pension obligation bonds in Fiscal Year 2029 (see Table 42 herein). The City has budgeted and planned for both of these fiscal matters.

**Budget Measures.** In the Fiscal Year 2025 Adopted Budget, budget priorities are centered around investments in six key areas: (i) public safety, (ii) clean and green, (iii) economic opportunity, (iv) housing, (v) education, and (vi) core support with a continued focus on the City’s long-term fiscal health.

At the start of Mayor Parker’s administration, a midyear transfer ordinance was enacted to allow the new administration to start spending on the key priority areas outlined above. A few of the largest investments made possible through the transfer ordinance include funds for equipment purchases for the clean and green initiative, vehicle purchases as part of the public safety pillar, PAYGO financing for the planned forensic lab, and additional contributions tied to workforce development as part of the economic opportunity pillar.

The Mayor has also announced an initiative to encourage workers across sectors to return to the office, with the goal of reversing remote work trends. Some large private employers in the City have also announced similar initiatives. The Mayor announced that all City workers were required to return to the office five days per week beginning on July 15, 2024. One of the City’s largest unions filed for an injunction to block this return to the office initiative. The motion on the injunction was denied on July 13, 2024.

The Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan, as applicable, include budgeted reserves for specific costs or scenarios in the future. For information on budgeted reserves, see “– Budgeted Reserves” and “DISCUSSION OF FINANCIAL OPERATIONS,” Table 1, Table 2, and related footnotes herein.

For information on the City’s historical financial operations and the City’s projected General Fund balances for Fiscal Years 2024-2029, see “– General Fund Balance” and “DISCUSSION OF FINANCIAL OPERATIONS” and Tables 1 and 2 (and the text following Table 2) herein.

**Long-Term Effects of COVID-19.** The City continues to closely monitor and assess the long-term effects of the COVID-19 pandemic and its impact on the City’s financial position and operations. Various economic sectors throughout the City were affected by the COVID-19 pandemic, including higher education, healthcare, commercial real estate, travel, leisure and hospitality, and professional services, among others. Future events may further impact the overall economic conditions in the City.

The information provided by the City in this Official Statement and previous filings by the City on EMMA was provided as of the respective dates and for the periods specified therein and is subject to change without notice. In particular, the dates as of and periods for which information was provided in this Official Statement and previous filings by the City on EMMA may have occurred before the COVID-19 pandemic and before realizing the economic impact of measures instituted to slow the spread of COVID-19. Accordingly, such information may not be indicative of future results or performance due to these and other factors.

General Fund Balance: As set forth in the City’s audited Annual Comprehensive Financial Report for Fiscal Year 2023 (the “Fiscal Year 2023 ACFR”), the City reported that Fiscal Year 2023 ended with a cumulative adjusted year end General Fund balance of \$981.6 million.

The City's current estimate is that Fiscal Year 2024 will end with a cumulative adjusted year-end General Fund balance of \$628.1 million, which at 10.6% of projected revenues exceeds the administration's target for the General Fund balance of at least 6-8% of revenues, but remains below the Government Finance Officers Association ("GFOA") recommendation of 17% of revenues.

In the Fiscal Year 2025 Adopted Budget, the City estimates that Fiscal Year 2025 will end with a cumulative adjusted year-end General Fund balance of \$568.5 million, which at 9.06% of projected revenues exceeds the administration's target for the General Fund balance of at least 6-8% of revenues, but remains below the Government Finance Officers Association ("GFOA") recommendation of 17% of revenues.

The cumulative adjusted year-end General Fund balances described in the preceding two paragraphs do not include amounts deposited in the Budget Stabilization Reserve.

For more information on the City's historical financial operations and the City's projected General Fund balances for Fiscal Years 2024-2029, see "DISCUSSION OF FINANCIAL OPERATIONS" and Tables 1 and 2 (and the text following Table 2) herein.

Budget Stabilization Reserve: To provide the City with a financial cushion should unexpected costs arise, the City made a deposit of \$34.3 million to the Budget Stabilization Reserve, pursuant to the adopted budget for Fiscal Year 2020. Pursuant to the adopted budget for Fiscal Year 2021, the City drew down such funds and redirected them to spending.

There were no payments to the Budget Stabilization Reserve in Fiscal Years 2021 or 2022. In Fiscal Year 2023, \$65.1 million was deposited into the Budget Stabilization Reserve. In Fiscal Year 2024, \$42.3 million was deposited into the Budget Stabilization Reserve. In the Thirty-Third Five-Year Plan, the City projects payments to the Budget Stabilization Reserve in Fiscal Years 2025, 2026, and 2027 in the amounts of \$58.3 million, \$59.7 million, and \$57.8 million, respectively. There can be no assurance that such payments to the Budget Stabilization Reserve will occur. The Thirty-Third Five-Year Plan does not include any projected payments to the Budget Stabilization Reserve in Fiscal Years 2028 and 2029. The Thirty-Third Five-Year Plan does not include any withdrawals from the Budget Stabilization Reserve. For more information on the Budget Stabilization Reserve, see "DISCUSSION OF FINANCIAL OPERATIONS – Budget Stabilization Reserve" herein.

Budgeted Reserves: The Fiscal Year 2024 Adopted Budget, the Thirty-Third Five-Year Plan, and the Fiscal Year 2025 Adopted Budget, as applicable, include budgeted reserves, certain of which are described below.

*Labor Reserve.* The Fiscal Year 2024 Adopted Budget, the Thirty-Third Five-Year Plan, and the Fiscal Year 2025 Adopted Budget, as applicable, include a labor reserve for potential future labor cost increases (the "Labor Reserve"). For more information on the City's labor contracts, see "EXPENDITURES OF THE CITY – Overview of City Employees" herein.

In the Thirty-Third Five-Year Plan (or with respect to Fiscal Year 2024, the FY 2024 Fourth Quarter QCMR), the City projects that the Labor Reserve will total approximately (i) \$11.2 million in Fiscal Year 2024, (ii) \$43.5 million in Fiscal Year 2025, (iii) \$69.6 million in Fiscal Year 2026, (iv) \$77.6 million in Fiscal Year 2027, (v) \$96.6 million in Fiscal Year 2028, and (vi) \$119.6 million in Fiscal Year 2029.

For the foregoing reserves, any portion of such reserves that is not used to offset the applicable stated costs will increase the General Fund balance at the end of the given Fiscal Year, if not used by the

City for other purposes. Information related to the foregoing reserves can be found in Tables 1 and 2 and the related footnotes in “DISCUSSION OF FINANCIAL OPERATIONS.”

Tax Revenues: Roughly 67% of the City’s revenues come from local taxes and approximately 89% of tax revenues come from just four taxes: Wage and Earnings Taxes, Real Estate Taxes, Business Income and Receipts Taxes (“BIRT”), and Real Property Transfer Taxes, with the largest portion of such tax revenues (approximately 46%) coming from the Wage and Earnings Tax (see Table 3 and “REVENUES OF THE CITY – Wage, Earnings, and Net Profits Taxes” herein). Less than 40% of the Wage and Earnings Tax is paid by non-resident workers.

As the City emerges from the pandemic and remote work arrangements continue for certain workers, the City continues to closely monitor Wage and Earnings Taxes. Of the City’s workforce, commuters account for less than 40% of all Wage and Earnings Taxes. Non-resident workers are not required to pay this tax when their employer requires them to work from home outside the City. If the region experiences long-term or permanent shifts to required work-from-home policies, changes in consumer preferences, and population shifts, there may be a lasting negative impact on City finances. In the Thirty-Third Five-Year Plan, the City assumes a permanent reduction in the non-resident tax base of 25%, as a result of remote work arrangements. This 25% loss has already been sustained and is assumed throughout the Thirty-Third Five-Year Plan. In Fiscal Year 2024, the non-resident portion of the Wage and Earnings Taxes was approximately 14.0% of General Fund total revenue.

In Fiscal Year 2024, Wage and Earnings Tax collections are projected to increase by 6.4% over Fiscal Year 2023. Wage and Earnings Tax collections for Fiscal Years 2022 and 2023, and projections for Fiscal Year 2024, exceed the amounts collected in Fiscal Year 2019 (pre-pandemic).

Additionally, the City remains unique among the nation’s largest cities in that it imposes a tax on both net income and gross receipts, the Business Income and Receipts Tax, which generated approximately 16.2% of the City’s local tax revenue in Fiscal Year 2023 (based on the Fiscal Year 2023 ACFR) and is projected to generate approximately 15.1% of the City’s local tax revenue in Fiscal Year 2024 (based on the FY 2024 Fourth Quarter QCMR). See “REVENUES OF THE CITY” and Table 3 herein.

High Fixed Costs: The City’s high fixed costs consume a significant portion of the City’s budget. The largest of such costs is the City’s payment to the Municipal Pension Fund. In Fiscal Year 2023, the City’s contribution to the Municipal Pension Fund was approximately \$1,165.0 million, of which the General Fund’s share (including the Commonwealth contribution) was \$1,023.4 million. See Table 29. Even with such payments, the Municipal Pension Fund is only 62.2% funded on an actuarial basis (as of the July 1, 2023 Valuation (as defined herein)). See “PENSION SYSTEM” and Table 27 herein.

The School District of Philadelphia: While the School District of Philadelphia (the “School District”) is an independent governmental entity, the City provides direct financial contributions to the School District. In the Fiscal Year 2023 ACFR, the City reported that its direct contribution to the School District from the General Fund was \$270.0 million in Fiscal Year 2023. In the Fiscal Year 2024 Adopted Budget, the City’s direct contribution to the School District from the General Fund is \$282.1 million in Fiscal Year 2024 (which is unchanged as the current estimate in the FY 2024 Fourth Quarter QCMR). In the Fiscal Year 2025 Adopted Budget, the City’s direct contribution to the School District from the General Fund is \$284.1 million in Fiscal Year 2025.

In addition to the direct financial contribution noted above, Real Estate Taxes (as defined herein) are divided into two portions – the City Real Estate Tax and the School District Real Estate Tax.

Presently, the portions are 44% for the City Real Estate Tax and 56% for the School District Real Estate Tax.

For more information on the School District, see “THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Local Government Agencies – Mayoral-Appointed or Nominated Agencies – The School District.” For more information on Real Estate Taxes and the allocation thereof, see “REVENUES OF THE CITY – Real Property Taxes – Assessment and Collection.” For more information on the City’s historical contributions to the School District, see “EXPENDITURES OF THE CITY – City Payments to School District” and Table 21 herein.

Investigation of Overspending by the Office of Homeless Services. In Fiscal Year 2021, the City reduced the Office of Homeless Services (“OHS”) General Fund appropriations. Some of these reductions were offset by federal CARES Act funds and certain other grant funding. Despite the reduced funding, OHS service demands remained high during this period, which included the height of the COVID-19 pandemic and the emergence of several homeless encampments throughout the City.

From Fiscal Years 2021 through 2024, OHS spent and entered into contractual commitments that exceeded its budgeted authority by an estimated \$15 million. Once such overspending was uncovered, the City referred the matter to the Office of the Inspector General (“OIG”) in late 2023.

In April 2024, the OIG released a preliminary report on these OHS budget matters. While the report did not present evidence of criminal wrongdoing or self-enrichment, it illustrated that OHS officials knowingly overspent across multiple fiscal years to meet rising service demand. In particular, OHS (i) encumbered partial amounts on contracts, (ii) paid prior year invoices with current year funds, and (iii) encumbered funds across various fiscal and calendar years, all of which obscured the full picture of contractual costs incurred and contributed to a growing budget gap.

In Fiscal Year 2024, the City addressed the aforementioned overspending by providing OHS with an additional \$9.6 million through a transfer ordinance. OHS expects to address the remaining gap through expenditure reductions.

The OIG’s report included recommendations for additional financial controls and encumbrance oversight to prevent a similar situation from occurring in the future, including (i) strengthening the budget verification process, (ii) imposing stricter encumbrance rules, (iii) collecting and tracking more data from the Finance Payment Verification Unit (part of the Office of the Director of Finance) in order to intervene in a more timely manner should budgetary problems occur, (iv) evaluating the scope of the non-profit exemption and the ability of OHS to contract with non-profit vendors without a competitive process, and (v) restricting the use of local funds and grant funds on a single contract. In connection with (iv), City Council passed a bill to remove the non-profit exemption for OHS and a number of other departments effective in Fiscal Year 2026. The Mayor took no action on the bill and it became law on September 5, 2024.

The City has also engaged an external accounting firm to supplement the OIG’s work with a deeper forensic investigation and the results of this review are pending. The City expects the full investigation to be completed in calendar year 2024.

Additionally, OHS also expects to engage a financial consultant upon receipt of the results of the investigations described above to temporarily increase capacity, implement recommendations, and train OHS staff.

This “OVERVIEW” is intended to highlight the strategies implemented by the City to address its principal anticipated fiscal challenges, and the City continues to monitor the circumstances related

thereto. The reader is cautioned to review with care the more detailed information presented in this APPENDIX C.

## **THE GOVERNMENT OF THE CITY OF PHILADELPHIA**

### **Introduction**

Philadelphia is the largest city in the Commonwealth of Pennsylvania, the sixth-largest city in the United States, and the center of the United States' seventh-largest metropolitan statistical area. The city benefits from its strategic geographical location, relative affordability, cultural and recreational amenities, and its growing strength in key industries.

In particular, as one of the country's education centers, the City offers the business community a large and diverse labor pool. The University of Pennsylvania, Temple University, Drexel University, St. Joseph's University, La Salle University, and Community College of Philadelphia are some of the well-known institutions of higher education located in the City. Within the region, there are also a number of other well-known colleges and universities, notably including Villanova University, Bryn Mawr College, Haverford College, Swarthmore College, Lincoln University, and the Camden Campus of Rutgers University, among others.

Philadelphia is a center for health, education, research and science facilities. In the City, there are more than 30 hospitals, including the Children's Hospital of Philadelphia, Hospital of the University of Pennsylvania, Einstein Medical Center-Philadelphia, Temple University Hospital, and Thomas Jefferson University Hospitals and Jefferson Health, among others, and schools of medicine, dentistry, pharmacy, optometry, podiatry, and veterinary medicine.

Additionally, tourism is important to the City and is driven by the City's extraordinary historic and cultural assets. The City's Historic District includes Independence Hall, the Liberty Bell, Carpenters' Hall, the Betsy Ross House, and Elfreth's Alley, the nation's oldest residential street. The Benjamin Franklin Parkway District (referred to as the "Parkway" in APPENDIX D) includes the Philadelphia Museum of Art, the Barnes Foundation, and the Rodin Museum. The Avenue of the Arts, located along a mile-long section of South Broad Street between City Hall and Washington Avenue, includes the Kimmel Center, the Academy of Music, and other performing arts venues. Philadelphia also hosts all four major sports leagues in a stadium district within city limits.

For more information on the City's demographic and economic resources and economic development initiatives, see APPENDIX D hereto.

### **History and Organization**

The City was incorporated in 1789 by an Act of the General Assembly of the Commonwealth (the "General Assembly") (predecessors of the City under charters granted by William Penn in his capacity as proprietor of the colony of Pennsylvania may date to as early as 1682). In 1854, the General Assembly, by an act commonly referred to as the Consolidation Act: (i) made the City's boundaries coterminous with the boundaries of Philadelphia County (the same boundaries that exist today) (the "County"); (ii) abolished all governments within these boundaries other than the City and the County; and (iii) consolidated the legislative functions of the City and the County. Article 9, Section 13 of the Pennsylvania Constitution abolished all county offices in the City, provides that the City performs all functions of county government, and states that laws applicable to counties apply to the City.

Since 1952, the City has been governed under a Home Rule Charter authorized by the General Assembly pursuant to the First Class City Home Rule Act, Act of April 21, 1949, P.L. 665, Section 17,

and adopted by the voters of the City (as amended and supplemented, the “City Charter”). The City Charter provides, among other things, for the election, organization, powers and duties of the legislative branch (the “City Council”) and the executive and administrative branch, as well as the basic rules governing the City’s fiscal and budgetary matters, contracts, procurement, property, and records. Under Article XII of the City Charter, the School District operates as a separate and independent home rule school district. Certain other constitutional provisions and Commonwealth statutes continue to govern various aspects of the City’s affairs, notwithstanding the broad grant of powers of local self-government in relation to municipal functions set forth in the First Class City Home Rule Act.

Under the City Charter, there are two distinct principal governmental entities in the City: (i) the City, which performs municipal and county functions; and (ii) the School District, which has boundaries coterminous with the City and responsibility for all public primary and secondary education.

The court system in the City, consisting of Common Pleas and Municipal Courts, is part of the Commonwealth judicial system. Although judges are paid by the Commonwealth, most other court costs are paid by the City, with partial reimbursement from the Commonwealth.

### **Elected and Appointed Officials**

The Mayor is elected for a term of four years and is eligible to be elected for no more than two successive terms. Each of the seventeen members of City Council is also elected for a four-year term, which runs concurrently with that of the Mayor. There is no limitation on the number of terms that may be served by members of City Council. Of the members of City Council, ten are elected from districts and seven are elected at-large. No more than five of the seven at-large candidates for City Council may be nominated by any one party or political body. The District Attorney and the City Controller are elected at the mid-point of the terms of the Mayor and City Council.

In November 2023, the City held elections for Mayor and City Council, as well as a special election for City Controller.

The City Controller is an independently elected office. The City Charter, various City ordinances and state and federal statutes, and contractual arrangements with auditees. The City Controller must follow Generally Accepted Government Auditing Standards, established by the federal Government Accountability Office (formerly known as the General Accounting Office), and Generally Accepted Auditing Standards, promulgated by the American Institute of Certified Public Accountants (collectively, “Generally Accepted Auditing Standards”).

The City Controller audits and reports on the City’s and the School District’s respective Annual Comprehensive Financial Reports (“ACFRs”), federal assistance received by the City, and the performance of City departments. The City Controller also conducts a pre-audit program of City expenditure documents required to be submitted for approval, such as invoices, payment vouchers, purchase orders and contracts. Documents are selected for audit by category and statistical basis. The Pre-Audit Division verifies that expenditures are authorized and accurate in accordance with the City Charter and other pertinent legal and contractual requirements before any funds are paid by the City Treasurer. The Pre-Audit Technical Unit, consisting of auditing and engineering staff, inspects and audits capital project design, construction and related expenditures. Other responsibilities of the City Controller include investigation of allegations of fraud, preparation of economic reports, certification of the City’s debt capacity and the capital nature and useful life of capital projects, and opining to the Pennsylvania Intergovernmental Cooperation Authority (“PICA”) on the reasonableness of the assumptions and estimates in the City’s five-year financial plans.

Under the City Charter, the principal officers of the City’s government are the Managing Director of the City (the “Managing Director”), the Director of Finance of the City (the “Director of Finance”), the City Solicitor (the “City Solicitor”), the Director of Planning and Development (the “Director of Planning and Development”), the Director of Commerce (the “Director of Commerce”), the Director of Labor (the “Director of Labor”), the City Representative (the “City Representative”), and the Director of Aviation (the “Director of Aviation”). Under the City Charter, the Mayor appoints each of the foregoing. With respect to the City Solicitor, the Mayor appoints an individual to such position, with the advice and consent of a majority of City Council.

The Managing Director, in coordination with the senior officials of City departments and agencies, is responsible for supervising the operating departments and agencies of the City that provide the City’s various municipal services. The Director of Commerce is charged with the responsibility of promoting and developing commerce and industry. The City Representative is the Ceremonial Representative of the City and especially of the Mayor. The City Representative is charged with the responsibility of giving wide publicity to any items of interest reflecting the activities of the City and its inhabitants, and for the marketing and promotion of the image of the City. Under the City Charter, the Director of Planning and Development oversees the Department of Planning and Development, which includes three divisions: (i) the Division of Development Services; (ii) the Division of Planning and Zoning; and (iii) the Division of Housing and Community Development. Such divisions represent five budgetary programs/fiscal divisions, including Executive Administration, Planning & Zoning, Development Services, Community Development, and Housing Development.

The City Solicitor is head of the Law Department and acts as legal advisor to the Mayor, City Council, and all of the agencies of the City government. The City Solicitor is also responsible for: (i) advising on legal matters pertaining to all of the City’s contracts and bonds; (ii) assisting City Council, the Mayor, and City agencies in the preparation of ordinances for introduction in City Council; and (iii) conducting litigation involving the City.

The Director of Finance is the chief financial and budget officer of the City and is selected from three names submitted to the Mayor by a Finance Panel, which is established pursuant to the City Charter and is comprised of the President of the Philadelphia Clearing House Association, the Chairman of the Philadelphia Chapter of the Pennsylvania Institute of Certified Public Accountants, and the Dean of the Wharton School of Finance and Commerce of the University of Pennsylvania. Under Mayor Parker’s administration, the Director of Finance is responsible for the financial functions of the City, including: (i) development of the annual operating budget, the capital budget, and capital program; (ii) the City’s program for temporary and long-term borrowing; (iii) supervision of the operating budget’s execution; (iv) the collection of revenues through the Department of Revenue; (v) the oversight of pension administration as Chairperson of the Board of Pensions and Retirement; and (vi) the supervision of the Office of Property Assessment. The Director of Finance is also responsible for the appointment and supervision of the City Treasurer, whose office manages the City’s debt program and serves as the disbursing agent for the distribution of checks and electronic payments from the City Treasury and the management of cash resources.

The following are brief biographies of Mayor Parker, her Chief of Staff, the Director of Finance, and the City Treasurer.

**Cherelle Parker, Mayor.** On November 7, 2023, Cherelle L. Parker was elected as the City’s 100th Mayor and was sworn into office on January 2, 2024. She is the first woman to lead the City and hold the office in 341 years. Mayor Parker is a lifelong Philadelphia resident and a former public school

teacher. Elected to the Pennsylvania House of Representatives in 2005, Mayor Parker represented the 200th legislative district for ten years. In 2015, Mayor Parker was elected to serve as a Democratic Philadelphia City Councilmember representing the 9th District. She championed key legislation on pension reform, workforce training and small business supports, and affordable housing during her time in City Council. Building on those legislative measures, Mayor Parker's administration is also focused on a cleaner, greener, safer Philadelphia with access to economic opportunity for all. Mayor Parker holds a Bachelor of Science in English Education from Lincoln University and a Master of Public Administration from the University of Pennsylvania.

**Tiffany W. Thurman, Chief of Staff.** Tiffany W. Thurman was appointed Chief of Staff effective January 2, 2024. Previously, she served as Senior Vice President for Government and Community Affairs for the Greater Philadelphia YMCA, the Pennsylvania Local Government Lead at Accenture, and Chief of Staff within the Philadelphia Department of Parks and Recreation. She was also previously appointed Executive Director of the Philadelphia Delegation to the House of Representatives. She has a Master of Public Administration from the University of Pennsylvania and a bachelor's degree from Temple University.

**Rob Dubow, Director of Finance.** Mr. Dubow has served as Director of Finance since being appointed on January 7, 2008. Prior to that appointment, Mr. Dubow was the Executive Director of PICA. He has also served as Executive Deputy Budget Secretary of the Commonwealth, from 2004 to 2005, and as Budget Director for the City, from 2000 to 2004.

**Jacqueline Dunn, City Treasurer.** On February 11, 2021, Ms. Dunn was appointed City Treasurer. Prior to such appointment, Ms. Dunn served as Acting City Treasurer beginning September 25, 2020, and prior to that, she served as Deputy City Treasurer beginning July 2019. As City Treasurer, Ms. Dunn (i) oversees the issuance of all notes and bonds on behalf of the City's General Fund and Enterprise Funds used to finance capital projects, (ii) manages cash collections and cash resources in the City Treasury, and (iii) serves as the disbursing agent for the distribution of checks and electronic payments from the City Treasury. Ms. Dunn also serves as the Director of Finance's designee on the Philadelphia Board of Pensions and Retirement and as a board member for the Philadelphia Municipal Authority ("PMA"). In 2014, Ms. Dunn joined the City as an Assistant Finance Director in the Finance Department. In 2016, she was appointed Chief of Staff to the Director of Finance. Prior to joining the City, Ms. Dunn worked for Public Financial Management and the Annenberg Public Policy Center. She has a master's degree in Governmental Administration and a bachelor's degree in Political Science, both from the University of Pennsylvania.

## **Government Services**

Municipal services provided by the City include: (i) police and fire protection; (ii) health care; (iii) certain welfare programs; (iv) construction and maintenance of local streets, highways, and bridges; (v) trash collection, disposal and recycling; (vi) provision for recreational programs and facilities; (vii) maintenance and operation of the water and wastewater systems (the "Water and Wastewater Systems"); (viii) acquisition and maintenance of City real and personal property, including vehicles; (ix) maintenance of building codes and regulation of licenses and permits; (x) maintenance of records; (xi) collection of taxes and revenues; (xii) purchase of supplies and equipment; (xiii) construction and maintenance of airport facilities (the "Airport System"); and (xiv) maintenance of a prison system. For information on the Water and Wastewater Systems, see APPENDIX D – "KEY CITY-RELATED SERVICES AND BUSINESSES – Water and Wastewater." For information on the Airport System, see APPENDIX D – "TRANSPORTATION – Airport System."



The City owns the assets that comprise the Philadelphia Gas Works (“PGW” or the “Gas Works”). PGW serves residential, commercial, and industrial customers in the City. PGW is operated by Philadelphia Facilities Management Corporation (“PFMC”), a non-profit corporation specifically organized to manage and operate PGW for the benefit of the City. For more information on PGW, see “PGW PENSION PLAN,” “PGW OTHER POST-EMPLOYMENT BENEFITS,” “EXPENDITURES OF THE CITY – PGW Annual Payments,” and “LITIGATION – PGW” and APPENDIX D – “KEY CITY-RELATED SERVICES AND BUSINESSES – Gas Works.”

## **Local Government Agencies**

There are a number of governmental authorities and quasi-governmental non-profit corporations that also provide services within the City. Certain of these entities are comprised of governing boards, the members of which are either appointed or nominated, in whole or part, by the Mayor, while others are independent of the Mayor’s appointment or recommendation.

### *Mayoral-Appointed or Nominated Agencies*

**Philadelphia Industrial Development Corporation and Philadelphia Authority for Industrial Development.** The Philadelphia Industrial Development Corporation (“PIDC”) and the Philadelphia Authority for Industrial Development (“PAID”), along with the City’s Commerce Department, coordinate the City’s efforts to maintain an attractive business environment, attract new businesses to the City, and retain existing businesses. PIDC manages PAID’s activities through a management agreement. Of the 30 members of the board of PIDC, eight are City officers or officials (the Mayor, the Managing Director, the Finance Director, the Commerce Director, the Director of Planning and Development, the City Solicitor, and two members of City Council), nine members are designated by the President of the Chamber of Commerce of Greater Philadelphia (the “Chamber of Commerce”), and the remaining 13 members are jointly designated by the Chamber of Commerce and the Commerce Director. The five-member board of PAID is appointed by the Mayor.

**Philadelphia Municipal Authority.** PMA (formerly the Equipment Leasing Authority of Philadelphia) was originally established for the purpose of buying equipment and vehicles to be leased to the City. PMA’s powers have been expanded to include any project authorized under the Municipality Authorities Act that is specifically authorized by ordinance of City Council. PMA is governed by a five-member board appointed by City Council from nominations made by the Mayor.

**Philadelphia Energy Authority.** The Philadelphia Energy Authority (“PEA”) was established by the City and incorporated in 2011. PEA has all powers necessary or appropriate to carry out and effectuate its energy-related purposes, including, among other things, the powers to acquire, construct, finance, improve, maintain and operate projects. PEA is authorized to participate in projects on behalf of the City, other government agencies, institutions and businesses. PEA is governed by a seven-member board appointed by City Council from five nominations made by the Mayor and two nominations from City Council.

**Philadelphia Redevelopment Authority.** The Philadelphia Redevelopment Authority (formerly known as the Redevelopment Authority of the City of Philadelphia) (the “PRA”), supported by federal funds through the City’s Community Development Block Grant Fund and by Commonwealth and local funds, is responsible for the redevelopment of the City’s blighted areas. PRA is governed by a five-member board appointed by the Mayor.

In 2019, the PRA combined operations under the Philadelphia Housing Development Corporation to achieve certain administrative and programmatic efficiencies. Other than such efficiencies, PRA remains independent in all other respects.

**Philadelphia Land Bank.** The Philadelphia Land Bank (the “PLB”) is an independent agency formed under the authority of City ordinance and Pennsylvania law to return vacant and tax delinquent properties to productive reuse. The PLB has an 11-member board of directors, of which five are appointed by the Mayor and five are appointed by City Council. The final board member is appointed by a majority vote of the other board members.

In 2019, the PLB combined operations under the Philadelphia Housing Development Corporation to achieve certain administrative and programmatic efficiencies. Other than such efficiencies, PLB remains independent in all other respects. For more information on the PLB, see APPENDIX D – “ECONOMIC DEVELOPMENT STRATEGIES AND IMPLEMENTATION – City and Quasi-City Economic Development Agencies and Related Programs – Philadelphia Land Bank.”

**Philadelphia Housing Authority.** The Philadelphia Housing Authority (the “PHA”) is a public body organized pursuant to the Housing Authorities Law of the Commonwealth and is neither a department nor an agency of the City. PHA is responsible for developing and managing low and moderate income rental units and limited amounts of for-sale housing in the City. PHA is also responsible for administering rental subsidies to landlords who rent their units to housing tenants qualified by PHA for such housing assistance payments. PHA is governed by a nine-member Board of Commissioners, all of whom are appointed by the Mayor with the approval of a majority of the members of City Council. The terms of the Commissioners are concurrent with the term of the appointing Mayor. Two of the members of the Board are required to be PHA residents. For more information on PHA, see APPENDIX D – “ECONOMIC DEVELOPMENT STRATEGIES AND IMPLEMENTATION – City and Quasi-City Economic Development Agencies and Related Programs – The Philadelphia Housing Authority.”

**Hospitals and Higher Education Facilities Authority of Philadelphia.** The Hospitals and Higher Education Facilities Authority of Philadelphia (the “Hospitals Authority”) assists non-profit hospitals by financing hospital construction projects. The City does not own or operate any hospitals. The powers of the Hospitals Authority also permit the financing of construction of buildings and facilities for certain colleges and universities and other health care facilities and nursing homes. The Hospitals Authority is governed by a five-member board appointed by City Council from nominations made by the Mayor.

**Southeastern Pennsylvania Transportation Authority.** The Southeastern Pennsylvania Transportation Authority (“SEPTA”), which is supported by transit revenues and federal, Commonwealth, and local funds, is responsible for developing and operating a comprehensive and coordinated public transportation system in the southeastern Pennsylvania region. Two of the 15 members of SEPTA’s board are appointed by the Mayor and confirmed by City Council. SEPTA is not a department or agency of the City. For more information on SEPTA, see “EXPENDITURES OF THE CITY – City Payments to Southeastern Pennsylvania Transportation Authority (SEPTA)” and APPENDIX D – “TRANSPORTATION – Southeastern Pennsylvania Transportation Authority.”

**Pennsylvania Convention Center Authority.** The Pennsylvania Convention Center Authority (the “Convention Center Authority”) constructed and maintains, manages, and operates the Pennsylvania Convention Center, which opened on June 25, 1993. The Pennsylvania Convention Center is owned by the Commonwealth and leased to the Convention Center Authority. An expansion of the Pennsylvania Convention Center was completed in March 2011. This expansion enlarged the Pennsylvania Convention

Center to approximately 2,300,000 square feet with the largest contiguous exhibit space in the Northeast, the largest convention center ballroom on the East Coast, and the ability to host large tradeshows or two major conventions simultaneously.

Of the 15 members of the board of the Convention Center Authority, two are appointed by the Mayor and one by each of the President and Minority Leader of City Council. The Director of Finance is an ex-officio member of the Board with no voting rights. The Commonwealth, the City, and the Convention Center Authority have entered into an operating agreement with respect to the operation and financing of the Pennsylvania Convention Center. ASM Global manages and operates the Pennsylvania Convention Center. For more information on the Convention Center Authority, see “EXPENDITURES OF THE CITY – City Payments to Convention Center Authority.”

**The School District.** The School District was established, pursuant to the First Class City Home Rule Education Act, by the Educational Supplement to the City Charter as a separate and independent home rule school district to provide free public education to the City’s residents. Under the City Charter, the School District is governed by the Board of Education of the School District of Philadelphia (the “Board of Education”), which is appointed by the Mayor and approved by City Council.

Under the City Charter, the Board of Education is required to levy taxes annually, within the limits and upon the subjects authorized by the General Assembly or City Council, in amounts sufficient to provide for operating expenses, debt service charges, and for the costs of any other services incidental to the operation of public schools. The School District has no independent power to authorize school taxes. Certain financial information regarding the School District is included in the City’s ACFR.

The School District is part of the Commonwealth system of public education. In a number of matters, including the incurrence of short-term and long-term debt, the School District is governed by the separate statutes of the Commonwealth. The School District is a separate political subdivision of the Commonwealth, and the City has no property interest in or claim on any revenues or property of the School District.

In the Fiscal Year 2023 ACFR, the City reported that its direct contribution to the School District from the General Fund was \$270.0 million in Fiscal Year 2023. In the Fiscal Year 2024 Adopted Budget, the City’s direct contribution to the School District from the General Fund is \$282.1 million in Fiscal Year 2024 (which amount is unchanged as the current estimate in the FY 2024 Fourth Quarter QCMR). In the Fiscal Year 2025 Adopted Budget, the City’s direct contribution to the School District from the General Fund is \$284.1 million in Fiscal Year 2025. Such amounts do not include funding from taxes levied by the School District and authorized by City Council. For more information on the City’s historical contributions to the School District, see “EXPENDITURES OF THE CITY – City Payments to School District” and Table 21.

#### *Non-Mayoral-Appointed or Nominated Agencies*

**PICA.** PICA was created by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the “PICA Act”) in 1991 to provide financial assistance to cities of the first class. The City is the only city of the first class in the Commonwealth. The Governor of Pennsylvania (the “Governor”), the President pro tempore of the Pennsylvania Senate, the Minority Leader of the Pennsylvania Senate, the Speaker of the Pennsylvania House of Representatives, and the Minority Leader of the Pennsylvania House of Representatives each appoints one voting member of PICA’s board. The Secretary of the Budget of the Commonwealth and the Director of Finance of the City serve as ex officio members of PICA’s board with no voting rights.

In January 1992, the City and PICA entered into an Intergovernmental Cooperation Agreement (the “1992 PICA Agreement”), pursuant to which PICA agreed to issue bonds from time to time, at the request of the City, for the purpose of funding, among other things, deficits in the General Fund and a debt service reserve. The authority for PICA to issue bonds to fund deficits of the City has expired. See “DEBT OF THE CITY – PICA Bonds.”

Under the PICA Act, the City is required to submit to PICA: (i) a five-year financial plan on an annual basis; and (ii) quarterly financial reports, each as further described below under “DISCUSSION OF FINANCIAL OPERATIONS – Five-Year Plans of the City” and “– Quarterly Reporting to PICA.”

On July 7, 2022, an amendment to the PICA Act was signed into law by the Governor, which, among other things, (i) extends the term of existence of PICA until the later of January 2, 2047 or one year after all its liabilities are met or, in the case of PICA Bonds, one year after provision for such payment shall have been made or provided for in the applicable bond indenture; (ii) continues all of the financial oversight and reporting requirements of the PICA Act for the life of PICA (regardless of whether PICA Bonds are outstanding); (iii) permits on a limited basis during certain recurring three-year periods on a decennial basis, at the request of the City, the issuance of PICA Bonds for capital projects of the City; and (iv) continues the authorization and dedication of the PICA Tax for so long as PICA remains in existence (regardless of whether any PICA Bonds are outstanding). For more information on PICA Bonds, see “DEBT OF THE CITY – PICA Bonds.” In June 2023, City Council passed, and the Mayor signed, an amendment to the PICA Tax ordinance to extend its duration in response to the continued authorization of the PICA Tax pursuant to the amendments to the PICA Act. In addition, the City and PICA approved and entered into a new intergovernmental cooperation agreement (the “2023 PICA Agreement”) that reflects and implements the PICA Act as amended, and replaces the expired 1992 PICA Agreement.

The PICA Act and the 2023 PICA Agreement provide PICA with certain financial and oversight functions. PICA has the power to exercise certain advisory and review procedures with respect to the City’s financial affairs, including the power to review and approve the five-year financial plans prepared by the City, and to certify non-compliance by the City with the then-existing five-year plan. PICA is also required to certify non-compliance if, among other things, no approved five-year plan is in place or if the City has failed to file mandatory revisions to an approved five-year plan. Under the PICA Act, any such certification of non-compliance would, upon certification by PICA, require the Secretary of the Budget of the Commonwealth to withhold funds due to the City from the Commonwealth or any of its agencies (including, with certain exceptions, all grants, loans, entitlements, and payments payable to the City by the Commonwealth, including payment of the portion of the PICA Tax, as further described under “DEBT OF THE CITY – PICA Bonds” below, otherwise payable to the City). Such withheld funds are held in escrow by the Commonwealth or in the applicable City account until such non-compliance is cured. A majority vote of PICA will determine when the conditions that caused the City to be certified as non-compliant have ceased to exist. Following such vote, PICA notifies the Secretary of the Budget and the withheld funds are released (together with all interest and income earned thereon during the period held in escrow).

**Philadelphia Parking Authority.** The Philadelphia Parking Authority (the “PPA”) is responsible for: (i) the construction and operation of parking facilities in the City and at Philadelphia International Airport (“PHL”); and (ii) enforcement of on-street parking regulations. The members of the PPA’s board are appointed by the Governor, with certain nominations from the General Assembly. PPA is not a department or agency of the City. For more information on the PPA, see “REVENUES OF THE CITY – Philadelphia Parking Authority Revenues.”

## **Cybersecurity**

The City relies on a complex technology environment to conduct its operations. As a recipient and provider of personal, private, and sensitive information, the City and its departments and offices face multiple cyber threats including, but not limited to, hacking, viruses, malware, and other attacks on computers and other sensitive digital networks and systems. In recent years, various cyber incidents have occurred that resulted in proactive remediation and quarantining of computer hardware and networks. The City's cyber policies and procedures have reduced the impact of such incidents.

The City's Office of Innovation and Technology works to protect the City from cyber threats by adopting new technology and ensuring City systems and resident data are protected. The Office of Innovation and Technology follows industry best practices, develops City-wide security policies, provides regular security training to all City employee users, and uses security tools to mitigate, prevent, deter, and respond to incidents if and when they occur. Additionally, to identify potential vulnerabilities and proactively mitigate them, the City organizes (i) ongoing vulnerability and compliance scanning of City systems, (ii) annual, and/or as major changes occur, penetration tests of City systems and supporting infrastructure, and (iii) ongoing audit and log monitoring of systems and users. These tests are performed by both the Office of Innovation and Technology, Departments, and third parties.

The Office of Innovation and Technology has worked to establish relationships with federal and state government, and commercial, academic, and law enforcement security experts. It is the City's expectation that such relationships will enable the City to stay informed of threats and continuing improvements to security systems.

While the City closely monitors its networks and conducts periodic tests and reviews thereof, no assurances can be given that such security and operational control measures will be successful in guarding against all future cyber threats and attacks. New technical cyber vulnerabilities are discovered in the United States daily. In addition, cyber-attacks have become more sophisticated and increasingly are capable of impacting municipal control systems and components. The techniques used to obtain unauthorized access to, or to disable or degrade, electronic networks, computers, systems and solutions are rapidly evolving and have become increasingly complex and sophisticated. As cybersecurity threats continue to evolve, the City may be required to expend significant additional resources to continue to modify and strengthen security measures, investigate and remediate any vulnerabilities, or invest in new technology designed to mitigate security risks. The results of any successful attack on the City's computer and information technology systems could impact its operations and damage the City's digital networks and systems, and the costs of remedying any such damage could be substantial.

## **Climate Change**

The City's Office of Sustainability ("OOS") works with partners around the City, both public and private, to educate and prepare the City for climate change, among other things. OOS is responsible for implementing "Growing Stronger: Toward a Climate-Ready Philadelphia," the City's first climate adaptation plan, which identifies climate vulnerability and risk and outlines a variety of initiatives to prepare the City for future climate-related challenges.

Planning for the potential impacts of climate change in the City is challenging. The City's climate is variable and projections of future conditions range significantly depending on the emissions scenarios. However, regardless of emissions scenario, the models agree on the direction of change. Climate change impacts include rising temperatures (heat waves); air quality issues; increased heavy precipitation events (rain or snow); rising sea levels (likely ~1.25 feet by 2050 and between three to-four feet by 2100); and storm surges from more intense hurricanes and tropical storms.

Under the mid-century (2050) and end-of-century (2100) analyses, the City projects that it will experience a greater frequency of heavy and extremely heavy precipitation events, with the largest increase occurring in precipitation that falls during winter months. Heavy precipitation and flooding can be caused by a variety of weather systems, including tropical storms and hurricanes, thunderstorms, and frontal activity. When these heavy precipitation events fall as rain, they can exceed the capacity of the City's storm sewer infrastructure; when they fall as snow, they require many City resources to manage. Some of these projections are already becoming a reality, as the City has experienced an increase in the intensity and frequency of storm events over the last decade, which has on occasion resulted in significant flooding.

The sea level rising is a particularly important risk for the City, as rising seas affect water levels in the tidal rivers and creeks bordering the City, such as the Delaware and Schuylkill Rivers and the Darby-Cobbs Creek. Higher sea levels will increase the depth and extent of flooding in and around the City from storm surges and will raise groundwater levels. Low-lying areas already experience localized flooding during heavy storm events, and both municipal infrastructure and private development exist along Philadelphia's tidal rivers and creeks. Because of the City's topography and its location next to tidal rivers, many City facilities and other properties are vulnerable to sea level rise, even under conservative (low) sea level rise scenarios. For example, Philadelphia International Airport (PHL) and at least a dozen other City facilities would be exposed to flooding with two feet of sea level rise, a scenario that is likely to be exceeded this century. At under two feet of sea level rise, only one City facility (Fort Mifflin) is highly vulnerable to permanent inundation (i.e., within the tidal cycle and not considering extreme storms), but at under four feet of sea level rise, 19 facilities are highly vulnerable and another 12 City facilities are moderately vulnerable to permanent inundation. Hundreds of additional facilities (both City and private) are highly vulnerable to both riverine flooding and the combination of sea level rise and storm surge. Many neighborhoods and City-owned assets and infrastructure are also vulnerable to inland flooding (e.g., pluvial, urban or rainfall-driven flooding) which can far away from water bodies and is not included in FEMA's flood maps.

As an example of the City's possible susceptibility to flooding from major storms or rising sea levels, on September 1, 2021, remnants of Hurricane Ida passed through the City and surrounding areas causing heavy rainfall, major flooding, and numerous tornadoes. The Schuylkill River rose to record levels, or near record levels, in various areas and caused flooding and damage throughout parts of the City. It was estimated that the damages from that single event are over \$1.3 billion for Philadelphia alone. The City received federal relief funding and grants, including \$163 million in grant funding from the United States Department of Housing and Urban Development (HUD), and received other aid from the Commonwealth, to offset costs incurred in addressing the damages from the storm.

Financial Impact. While the financial effects of climate change are difficult to quantify, the City has developed some cost estimates related to its future fiscal impact. Climate change will increase both the risk of expensive extreme events and the regular, recurring costs of doing business, along with equally important but less quantifiable costs to quality of life in the City. Proactive planning for climate change can help to reduce many of these costs, both public and private.

Climate change is increasing the intensity of extreme storms, and just one severe hurricane could cause more than \$2 billion in damage across the City. The City expects to see more frequent extreme storms with higher winds and more flooding, due in part to sea level rise combined with heavy rains and tropical cyclones. Depending on severity, each of these storms could cause an estimated \$20 million to \$900 million in damages in the City. In connection with such damages, the City could seek Commonwealth and federal funding to alleviate the burden of any disaster-related costs if any such funding becomes available. No assurances can be given that the City would receive any such requested funding if available.

In addition to increasing disaster costs, higher heat and more precipitation will increase the everyday cost of doing business for the City's government, businesses, and residents. Increased operating costs from climate change across all sectors would result in a significant economic impact in the City. Much of these costs will be borne by City departments in combination with the Commonwealth and federal government; others will fall directly on the private sector.

As the effects of climate change take shape in the City, annual costs related thereto are expected to include a variety of increases ranging from energy and maintenance costs to the increasing costs of continuing to provide services to protective measures like a levee for flood mitigation. For example, the City expects climate change to (i) increase annual electricity costs due to increased demand for air conditioning; (ii) create additional roadway maintenance costs from precipitation, freeze-thaw cycles, and high temperatures; and (iii) increase the annual cost of running heat emergency helplines to advise callers about how to avoid heat stress and refer those in need of help to emergency services.

The City also expects to face a variety of other increased costs due to climate change, such as (i) costs associated with a variety of respiratory diseases caused by higher levels of ozone (with costs for medical treatment and lost productivity associated with these diseases approaching \$20 million by 2050), and (ii) increased regional transportation expenses (increased operational costs and damages from climate change could rise by almost \$2 million per year).

In 2016, OOS, along with a cross-departmental Climate Adaptation Working Group, issued *Growing Stronger: Toward a Climate-Ready Philadelphia* to (i) assess vulnerabilities and preparation opportunities for municipal government; (ii) identify low-barrier and high-impact internal actions that can be taken to reduce risks and decrease stressors on City infrastructure services; and (iii) guide proactive projects with benefits beyond municipal operations. The Office of Sustainability is actively working on an update to the City's Climate Resilience Plan and is developing climate services and tools to empower city staff to plan for the changes we face. An equitable citywide public engagement process will begin this Fall to support the Resilience Plan update and the completion of the plan is slated for summer 2026.. Additionally, the City's All-Hazard Mitigation Plan update and the Comprehensive Plan update are both underway and will heavily feature climate change.

In addition to participating in planning efforts, City departments are taking action and implementing projects that aim to increase resilience on a broad array of climate issues. The Department of Public Property ensures that emergency generators in City-maintained facilities are well maintained and fueled, which is intended to allow other City departments to continue providing services during emergency situations. During heat emergencies, the Department of Public Health and the Office of Emergency Management ensures communication among City agencies and deploys environmental health teams into the community and operates cooling centers in coordination with the Philadelphia Free Library and Philadelphia Parks and Recreation. Philadelphia Parks and Recreation also developed and implements the Philly Tree Plan and works with citizen scientists to identify forest restoration practices suitable for the City's changing climate. The Philadelphia Water Department has an award winning Climate Change Adaptation Program and adopted Climate-Resilient Planning and Design Guidance in 2022. Regarding broader development across the City, the Philadelphia City Planning Commission (the "Planning Commission") requires new facilities located in flood zones to be raised 18 inches above the Federal Emergency Management Agency base flood elevation, and the Philadelphia Water Department (the "Water Department") promotes green storm water infrastructure as a measure to reduce combined sewer overflows which also has a co-benefit of shaving the peak from extreme precipitation events and potentially helping with localized inland flooding.

## CITY FINANCES AND FINANCIAL PROCEDURES

Except as otherwise noted, the financial statements, tables, statistics, and other information shown below have been prepared by the Office of the Director of Finance and can be reconciled to the financial statements in the Fiscal Year 2023 ACFR and notes therein. The Fiscal Year 2023 ACFR was prepared by the Office of the Director of Finance in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units and audited by the City Controller under Generally Accepted Auditing Standards.

### General

Governmental funds account for their activities using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as in the case of full accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due; however, those expenditures may be accrued if they are to be liquidated with available resources.

Imposed non-exchange revenues, such as Real Estate Tax, are recognized when the enforceable legal claim arises and the resources are available. Derived tax revenues, such as Wage, BIRT, Net Profits and Earnings taxes, are recognized when the underlying exchange transaction has occurred and the resources are available. Grant revenues are recognized when all the applicable eligibility requirements have been met and the resources are available. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue that is considered to be program revenue includes: (i) charges to customers or applicants for goods received, services rendered or privileges provided; (ii) operating grants and contributions; and (iii) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program specific revenues; therefore, all taxes are considered general revenues.

The City's financial statements reflect the following three funds as major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.
- The Health Choices Behavioral Health Fund accounts for resources received from the Commonwealth. These resources are restricted to providing managed behavioral health care to residents of the City.
- The Grants Revenue Fund accounts for the resources received from various federal, Commonwealth, and private grantor agencies, including those received by the City's Department of Human Services ("DHS"). The resources are restricted to accomplishing the various objectives of the grantor agencies.

The City also reports on permanent funds, which are used to account for resources legally held in trust for use by the park and library systems of the City. There are legal restrictions on the resources of



the permanent funds that require the principal to remain intact, while only the earnings may be used for the programs.

The City reports on the following fiduciary funds:

- The Municipal Pension Fund accumulates resources to provide pension benefit payments to qualified employees of the City and certain other quasi-governmental organizations.
- The PGW Retirement Reserve Fund accounts for contributions made by PGW to provide pension benefit payments to its qualified employees under its pension plan. For more information on the PGW Pension Plan (as defined herein), see “PGW PENSION PLAN.”
- The Departmental Custodial Accounts account for funds held in custody by various departments of the City.

The City reports on the following major proprietary funds:

- The Water Fund accounts for the activities related to the operation of the Water and Wastewater Systems.
- The Aviation Fund accounts for the activities of the Airport System.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s ongoing operations. The principal operating revenues of the Water Fund are charges for water and sewer service. The principal operating revenues of the Aviation Fund are charges for the use of the City’s airports, PHL and Northeast Philadelphia Airport. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### **Current City Disclosure Practices**

It is the City’s practice to file its ACFR, which contains the audited combined financial statements of the City, in addition to certain other information, such as the City’s bond ratings and information about upcoming debt issuances, with the Municipal Securities Rulemaking Board (“MSRB”) as soon as practicable after delivery of such information. For bonds issued in calendar year 2015 and thereafter, the annual filing deadline is February 28; for bonds issued prior to calendar year 2015, the annual filing deadline is 240 days after the end of the respective Fiscal Year, being February 25. The Fiscal Year 2023 ACFR was filed with the MSRB on February 25, 2024, through the MSRB’s Electronic Municipal Market Access (“EMMA”) system.

A wide variety of information concerning the City is available from publications and websites of the City and others, including the City’s investor information website at <http://www.phila.gov/investor> (the “City’s Investor Website”). Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement.

## **Independent Audit and Opinion of the City Controller**

The City Controller has examined and expressed opinions on the basic financial statements of the City contained in the Fiscal Year 2023 ACFR. The City Controller has not participated in the preparation of this Official Statement nor in the preparation of the budget estimates and projections and cash flow statements and forecasts set forth in various tables contained in this Official Statement. Consequently, the City Controller expresses no opinion with respect to any of the data contained in this Official Statement other than what is contained in the basic financial statements of the City in the Fiscal Year 2023 ACFR.

## **Budgetary Accounting Practices**

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles ("GAAP"). In accordance with the City Charter, the City has formally established budgetary accounting control for its operating and capital improvement funds.

The operating funds of the City, consisting of the General Fund, twelve (12) Special Revenue Funds (County Liquid Fuels Tax, Special Gasoline Tax, Health Choices Behavioral Health, Hotel Room Rental Tax, Grants Revenue, Community Development, Car Rental Tax, Acute Care Hospital Assessment, Budget Stabilization Reserve, Housing Trust, Demolition, and Transportation) and two Enterprise Funds (Water and Aviation Funds), are subject to annual operating budgets adopted by City Council. These budgets appropriate funds for all City departments, boards and commissions by major class of expenditure within each department. Major classes are defined as: (i) personal services; (ii) purchase of services; (iii) materials and supplies; (iv) equipment; (v) contributions, indemnities, and taxes; (vi) debt service; (vii) payments to other funds; and (viii) advances and other miscellaneous payments. The appropriation amounts for each fund are supported by revenue estimates and take into account the elimination of accumulated deficits and the re-appropriation of accumulated surpluses to the extent necessary. All transfers between major classes (except for materials and supplies and equipment, which are appropriated together) must have City Council approval. Appropriations that are not expended or encumbered at Fiscal Year-end are lapsed.

The City's capital budget is adopted annually by City Council. The capital budget is appropriated by project for each department. Requests to transfer appropriations between projects must be approved by City Council. Any appropriations that are not obligated at year-end are either lapsed or carried forward to the next Fiscal Year.

Schedules prepared on the legally enacted basis differ from the GAAP basis in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures. The primary difference between the GAAP and legal (budgetary) fund balance is due to the timing of recognizing the BIRT. The legal basis recognizes BIRT revenues in the Fiscal Year they are collected. The GAAP basis requires the City to recognize the BIRT revenues (which are primarily paid in April) for the calendar year in which the BIRT taxes are due, requiring the City to defer a portion of the April payment into the next Fiscal Year. For more information on BIRT, see "REVENUES OF THE CITY – Business Income and Receipts Tax."

## DISCUSSION OF FINANCIAL OPERATIONS

### Principal Operations

The major financial operations of the City are conducted through the General Fund. In addition to the General Fund, operations of the City are conducted through two other major governmental funds and 19 non-major governmental funds. The City operates on a July 1 to June 30 fiscal year (“Fiscal Year”) and reports on all the funds of the City, as well as its component units, in the City’s ACFR. PMA’s and PICA’s financial statements are blended with the City’s statements. The financial statements for PGW, PRA, the PPA, the School District, the Community College of Philadelphia, the Community Behavioral Health, Inc., PHA, and PAID are presented discretely.

### Fund Accounting

Funds are groupings of activities that enable the City to maintain control over resources that have been segregated for specific purposes or objectives. All funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. The governmental funds are used to account for the financial activity of the City’s basic services, such as: general government; economic and neighborhood development; public health, welfare and safety; cultural and recreational; and streets, highways and sanitation. The funds’ financial activities focus on a short-term view of the inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the Fiscal Year. The financial information presented for the governmental funds is useful in evaluating the City’s short-term financing requirements.

The City maintains 23 individual governmental funds. The City’s ACFRs, including the Fiscal Year 2023 ACFR, present data separately for the General Fund, Grants Revenue Fund, and Health Choices Behavioral Health Fund, which are considered to be major funds. Data for the remaining 20 funds are combined into a single aggregated presentation.

Proprietary Funds. The proprietary funds are used to account for the financial activity of the City’s operations for which customers are charged a user fee; they provide both a long- and short-term view of financial information. The City maintains three enterprise funds that are a type of proprietary fund – airport, water and wastewater operations, and industrial land bank.

Fiduciary Funds. The City is the trustee, or fiduciary, for its employees’ pension plans. It is also responsible for PGW’s employees’ retirement reserve assets. Both of these fiduciary activities are reported in the City’s ACFRs, including the Fiscal Year 2023 ACFR, as separate financial statements of fiduciary net assets and changes in fiduciary net assets.

See “CITY FINANCES AND FINANCIAL PROCEDURES” for a further description of these governmental, proprietary, and fiduciary funds.

### Budget Procedure

The City Charter provides that, at least 90 days before the end of the Fiscal Year, the operating budget for the next Fiscal Year is prepared by the Mayor and submitted to City Council for adoption. The budget, as adopted, must be balanced and provide for discharging any estimated deficit from the current Fiscal Year and make appropriations for all items to be funded with City revenues. The Mayor’s budgetary estimates of revenues for the ensuing Fiscal Year and projection of surplus or deficit for the current Fiscal Year may not be altered by City Council. Not later than the passage of the operating

budget ordinance, City Council must enact such revenue measures as will, in the opinion of the Mayor, yield sufficient revenues to balance the budget. While the City Charter requires the Mayor to submit the operating budget for the next Fiscal Year to City Council at least 90 days before the end of the Fiscal Year, such submissions have occasionally been submitted after such deadline. There is no practical consequence to submitting the proposed budget after the 90-day deadline in the City Charter.

The City Charter provides that, at least 30 days before the end of the Fiscal Year, City Council must adopt by ordinance an operating budget and a capital budget for the ensuing Fiscal Year and a capital program for the six ensuing Fiscal Years. If the Mayor disapproves the bills, they must be returned to City Council with the reasons for disapproval at the first meeting thereof held not less than ten days after receipt of such bills. If the Mayor does not return the bills within the time required, they become law without the Mayor's approval. If City Council passes the bills by a vote of two-thirds of all of its members within seven days after the bills have been returned with the Mayor's disapproval, they become law without the Mayor's approval. While the City Charter requires that City Council adopt the ordinances for the operating and capital budgets at least 30 days before the end of the Fiscal Year, in practice, such ordinances are often adopted after such deadline, but before the end of such Fiscal Year. For example, the proposed Fiscal Year 2025 operating budget was submitted by the Mayor to City Council on March 14, 2024, approved by City Council on June 13, 2024, and signed by the Mayor on June 14, 2024. There is no practical consequence to adopting the budget ordinances after the deadline in the City Charter, but before the end of the Fiscal Year.

The capital program is prepared annually by the Planning Commission to present the capital expenditures planned for each of the six ensuing Fiscal Years, including the estimated total cost of each project and the sources of funding (local, state, federal, and private) estimated to be required to finance each project. The capital improvement plans for the Water Department and the Department of Aviation are included in the City's capital program. The capital program is reviewed by the Mayor and transmitted to City Council for adoption with the Mayor's recommendation thereon. The Capital Program ordinance for Fiscal Years 2025-2030 (the "Fiscal Year 2025-2030 Adopted Capital Program") was approved by City Council on June 13, 2024 and signed by the Mayor on June 14, 2024 (see Table 48).

The capital budget ordinance, authorizing in detail the capital expenditures to be made or incurred in the ensuing Fiscal Year from City Council appropriated funds, is adopted by City Council concurrently with the capital program. The capital budget must be in full conformity with that part of the capital program applicable to the Fiscal Year that it covers.

For more information on the City's budgets and five-year plans, see "– Current Financial Information" and the text following Table 2. For more information on the City's capital program, see "CITY CAPITAL PROGRAM" herein.

### **Budget Stabilization Reserve**

In April 2011, the City adopted an amendment to the City Charter that established the "Budget Stabilization Reserve." Under the City Charter, if the projected General Fund balance for the upcoming Fiscal Year equals or exceeds three percent of General Fund appropriations for such Fiscal Year, the annual operating budget ordinance is required to provide for appropriations to a Budget Stabilization Reserve. Such reserve is to be created and maintained by the Director of Finance as a separate fund, which may not be commingled with any other funds of the City. City Council can appropriate additional amounts to the Budget Stabilization Reserve by ordinance, no later than at the time of passage of the annual operating budget ordinance and only upon recommendation of the Mayor. Total appropriations to the Budget Stabilization Reserve are currently subject to a limit of five percent (5.0%) of General Fund

appropriations. Amounts in the Budget Stabilization Reserve from the prior Fiscal Years, including any investment earnings certified by the Director of Finance, are to remain on deposit therein.

In February 2023, City Council passed a resolution to amend the City Charter to require larger contributions to the Budget Stabilization Reserve in years where the projected General Fund revenues at the end of the current Fiscal Year equal or exceed certain percentages. The amendment also increases the maximum contribution to the Budget Stabilization Reserve from 5.0% to 17.0%. The proposal was part of a ballot measure that was approved by City voters in May 2023. Under the amendment, the schedule of contributions to the Budget Stabilization Reserve is as follows: (i) less than 3.0% of projected General Fund revenues at the end of the then current Fiscal Year – no required contribution; (ii) 3.0% or more, but less than 5.0% of projected General Fund revenues at the end of the then current Fiscal Year – a contribution of 0.75% of projected unrestricted General Fund revenues for the upcoming Fiscal Year; (iii) 5.0% or more, but less than 8.0% of projected General Fund revenues at the end of the then current Fiscal Year – a contribution of 1.0% of projected unrestricted General Fund revenues for the upcoming Fiscal Year; and (iv) 8.0% or more, but less than 17.0% of projected General Fund revenues at the end of the then current Fiscal Year – the amount that exceeds such 8.0% or 1.0% of projected unrestricted General Fund revenues for the upcoming Fiscal Year, whichever is greater. After 17%, any extra funds in the General Fund are to remain there as unrestricted fund balance. Such amended provisions become effective for Fiscal Year 2025 and are reflected in the projections included in the Thirty-Third Five-Year Plan.

Withdrawals from the Budget Stabilization Reserve are permitted only upon (i) approval by ordinance of a transfer of appropriations from the Budget Stabilization Reserve and only for the purposes set forth in such transfer ordinance and (ii) either (1) a certification by the Director of Finance that General Fund revenues actually received by the City during the prior Fiscal Year were at least one percent less than the General Fund revenues set forth in the Mayor's estimate of receipts, or (2) a certification by the Director of Finance that such withdrawal is necessary to avoid either a material disruption in City services or to fund emergency programs necessary to protect the health, safety or welfare of City residents, and that it would be fiscally imprudent to seek emergency appropriations pursuant to the City Charter. Any such certification must be approved either by a resolution adopted by two-thirds of all of the members of City Council or an agency of the Commonwealth with responsibility for ensuring the fiscal stability of the City.

Pursuant to the adopted budget for Fiscal Year 2020, the City made a deposit of \$34.3 million to the Budget Stabilization Reserve, which was the first ever deposit to such reserve. Pursuant to the adopted budget for Fiscal Year 2021, the City drew down on such funds and redirected them to spending. There were no payments to the Budget Stabilization Reserve in Fiscal Years 2021 or 2022. In Fiscal Year 2023, \$65.1 million was deposited into the Budget Stabilization Reserve. In Fiscal Year 2024, \$42.3 million was deposited into the Budget Stabilization Reserve. In the Thirty-Third Five-Year Plan, the City projects payments to the Budget Stabilization Reserve in Fiscal Years 2025, 2026, and 2027 in the amounts of \$58.3 million, \$59.7 million, and \$57.8 million, respectively. There can be no assurance that such payments to the Budget Stabilization Reserve will occur. The Thirty-Third Five-Year Plan does not include any projected payments to the Budget Stabilization Reserve in Fiscal Years 2028 and 2029. The Thirty-Third Five-Year Plan does not include any withdrawals from the Budget Stabilization Reserve. The foregoing projections reflect the approval of the ballot measure amending the Budget Stabilization Reserve as described above.

## **Annual Financial Reports**

The City is required by the City Charter to issue, within 120 days after the close of each Fiscal Year, a statement as of the end of the Fiscal Year showing the balances in all funds of the City, the amounts of the City's known liabilities, and such other information as is necessary to furnish a true picture of the City's financial condition (the "Annual Financial Reports"). The Annual Financial Reports, which are released on or about October 28 of each year, are intended to meet these requirements and are unaudited. As described above, the audited financial statements of the City are contained in its ACFR, which is published at a later date. The Annual Financial Reports contain financial statements for all City governmental funds and blended component units presented on the modified accrual basis. The proprietary and fiduciary funds are presented on the full accrual basis. They also contain budgetary comparison schedules for those funds that are subject to an annual budget. The financial statements of the City's discretely presented component units that are available as of the date of the Annual Financial Reports are also presented. Historically, the results for General Fund balance have not materially changed between the Annual Financial Reports and the ACFRs.

The Annual Financial Report for Fiscal Year 2023 was released on October 28, 2023. As noted herein, the Fiscal Year 2023 ACFR was filed with the MSRB on February 25, 2024, through the EMMA system. See "CITY FINANCES AND FINANCIAL PROCEDURES – Current City Disclosure Practices."

## **Five-Year Plans of the City**

The PICA Act requires the City to annually prepare a financial plan that includes projected revenues and expenditures of the principal operating funds of the City for five Fiscal Years consisting of the current Fiscal Year and the subsequent four Fiscal Years. Each five-year plan, which must be approved by PICA, is required, among other things, to eliminate any projected deficits, balance the Fiscal Year budgets, and provide procedures to avoid fiscal emergencies. Under the PICA Act, each five-year plan is required to be submitted at least 100 days prior to the beginning of the next Fiscal Year or on such other date as PICA may approve upon the request of the City. It is the City's practice to submit its five-year plans to PICA after City Council approves, and the Mayor signs, the operating budget ordinance for the next Fiscal Year, which is typically after the 100-day deadline. For example, the Thirty-Third Five-Year Plan was submitted to PICA on June 25, 2024, after City Council approved, and the Mayor signed, the Fiscal Year 2025 Adopted Budget. PICA approved the Thirty-Third Five-Year Plan at a meeting on July 25, 2024. See "– Current Financial Information" and the text following Table 2.

## **Quarterly Reporting to PICA**

The PICA Act requires the City to prepare and submit quarterly reports to PICA so that PICA may determine whether the City is in compliance with the then-current five-year plan. Each quarterly report is required to describe actual or current estimates of revenues, expenditures, and cash flows compared to budgeted revenues, expenditures, and cash flows by covered funds for each month in the previous quarter and for the year-to-date period from the beginning of the then-current Fiscal Year of the City to the last day of the fiscal quarter or month, as the case may be, just ended. Each such report is required to explain any variance existing as of such last day.

Under the 2023 PICA Agreement, a "variance" is deemed to have occurred as of the end of a reporting period if (i) a net adverse change in the fund balance of a covered fund (i.e., a principal operating fund) of more than 5% of the revenues budgeted for such fund for that Fiscal Year is reasonably projected to occur, such projection to be calculated from the beginning of the Fiscal Year for the entire Fiscal Year, or (ii) the actual net cash flows of the City for a covered fund are reasonably projected to be

less than 95% of the net cash flows of the City for such covered fund for that Fiscal Year originally forecast at the time of adoption of the budget, such projection to be calculated from the beginning of the Fiscal Year for the entire Fiscal Year.

PICA may not take any action with respect to the City for variances if the City: (i) provides a written explanation of the variance that PICA deems reasonable; (ii) proposes remedial action that PICA believes will restore overall compliance with the then-current five-year plan; (iii) provides information in the immediately succeeding quarterly financial report demonstrating to the reasonable satisfaction of PICA that the City is taking remedial action and otherwise complying with the then-current five-year plan; and (iv) submits monthly supplemental reports until it regains compliance with the then-current five-year plan.

A failure by the City to explain or remedy a variance would, upon certification by PICA, require the Secretary of the Budget of the Commonwealth to withhold funds due to the City from the Commonwealth or any of its agencies (including, with certain exceptions, all grants, loans, entitlements and payments payable to the City by the Commonwealth, including payment of the portion of the PICA Tax, as further described under “DEBT OF THE CITY – PICA Bonds” below, otherwise payable to the City). The City uses its Quarterly City Manager’s Reports to satisfy the quarterly reporting requirement to PICA. Such reports are released within 45 days following the end of the applicable quarter and the most recent versions of such reports are available on the City’s Investor Website. The most recent Quarterly City Manager’s Report is the report for the period ending June 30, 2024, which was released on August 15, 2024 (the “FY 2024 Fourth Quarter QCMR”). The next Quarterly City Manager’s Report is the report for the period ending September 30, 2024, and it is expected to be released on or about November 15, 2024.

### **Summary of Operations**

The following table presents the summary of operations for the General Fund for Fiscal Years 2021-2023, budgeted amounts and current estimates for Fiscal Year 2024, and budgeted amounts Fiscal Year 2025. For a description of the legally enacted basis on which the City’s budgetary process accounts for certain transactions, see “CITY FINANCES AND FINANCIAL PROCEDURES – Budgetary Accounting Practices.” “Current Estimate,” as used in the tables and text below, refers (except as otherwise indicated) to the most recently revised estimates for Fiscal Year 2024, which were released by the City on August 15, 2024, as part of the FY 2024 Fourth Quarter QCMR, unless otherwise noted herein.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

**Table 1**  
**General Fund – Summary of Operations (Legal Basis)**  
**Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)**  
**(Amounts in Millions of USD)<sup>(1), (2)</sup>**

	Actual 2021	Actual 2022	Actual 2023	Adopted Budget 2024 (June 23, 2023)	Current Estimate 2024 (August 15, 2024)	Adopted Budget 2025 (June 14, 2024)
<b>Revenues</b>						
Real Property Taxes	\$723.3	\$700.6	\$809.6	\$845.9	\$825.7	\$925.0
Wage and Earnings Tax	1,450.7	1,653.9	1,732.8	1,767.1	1,844.3	1,930.6
Net Profits Tax	44.4	27.3	39.0	47.0	43.8	45.2
Business Income and Receipts Tax	541.6	749.9	673.3	669.7	606.7	616.7
Sales Tax <sup>(3)</sup>	230.4	277.7	302.2	307.1	300.5	316.9
Other Taxes <sup>(4)</sup>	363.3	654.6	524.0	430.9	317.5	355.0
Philadelphia Beverage Tax <sup>(5)</sup>	70.2	75.4	73.4	73.5	70.3	71.2
Total Taxes	<u>3,423.9</u>	<u>4,139.4</u>	<u>4,154.3</u>	<u>4,141.2</u>	<u>4,008.7</u>	<u>4,260.5</u>
Locally Generated Non-Tax Revenue	344.2	396.4	415.1	386.7	408.6	391.8
<b>Revenue from Other Governments</b>						
Net PICA Taxes Remitted to the City <sup>(6)</sup>	509.0	555.1	674.3	675.1	707.0	739.4
Other Revenue from Other Governments <sup>(7)</sup>	327.6	376.1	422.3	350.2	366.4	398.4
Total Revenue from Other Governments	<u>836.6</u>	<u>931.2</u>	<u>1,096.6</u>	<u>1,025.3</u>	<u>1,073.5</u>	<u>1,137.8</u>
Receipts from Other City Funds	87.8 <sup>(8)</sup>	300.6 <sup>(9)</sup>	381.0 <sup>(9)</sup>	458.8 <sup>(9)</sup>	454.8 <sup>(9)</sup>	481.2 <sup>(9)</sup>
Total Revenue	<u>4,692.5</u>	<u>5,767.5</u>	<u>6,047.0</u>	<u>6,012.1</u>	<u>5,945.6</u>	<u>6,271.4</u>
<b>Obligations/Appropriations</b>						
Personal Services	1,811.4	1,890.7	1,976.6	2,168.0	2,177.1	2,279.1
Purchase of Services <sup>(10)</sup>	941.4	1,014.4	1,207.3	1,380.1	1,400.5	1,422.3
Materials, Supplies and Equipment	90.9	125.6	167.7	145.1	204.7	148.3
Employee Benefits	1,275.1 <sup>(11)</sup>	1,690.0 <sup>(11)</sup>	1,625.0 <sup>(11)</sup>	1,661.0 <sup>(11)</sup>	1,625.5 <sup>(11)</sup>	1,677.1 <sup>(11)</sup>
Indemnities, Contributions, and Refunds <sup>(12)</sup>	368.0	384.9	480.8	425.2	475.7	432.7
City Debt Service <sup>(13)</sup>	178.5	188.7	190.5	201.6	201.6	234.7
Payments to Other City Funds	52.3	44.1	205.0	104.8	197.0	71.5
Advances & Miscellaneous Payments <sup>(14)</sup>	0.0	0.0	0.0	67.4 <sup>(15)</sup>	11.2 <sup>(15)</sup>	43.5 <sup>(15)</sup>
Payment to Budget Stabilization Reserve	0.0	0.0	65.1	42.3	42.3	58.3
Total Obligations/Appropriations	<u>4,717.8</u>	<u>5,338.5</u>	<u>5,918.4</u>	<u>6,195.4</u>	<u>6,335.5</u>	<u>6,367.5</u>
Operating Surplus (Deficit) for the Year	(25.3)	429.0	128.6	(183.3)	(390.0)	(96.1)
Net Adjustments – Prior Year <sup>(16)</sup>	33.1	51.6	73.8	29.5	36.5	36.5
Cumulative Fund Balance Prior Year	290.7	298.5	779.1	682.5 <sup>(17)</sup>	981.6 <sup>(17)</sup>	628.1
Cumulative Adjusted Year End Fund Balance (Deficit)	<u>\$298.5</u>	<u>\$779.1</u>	<u>\$981.6<sup>(17)</sup></u>	<u>\$528.7</u>	<u>\$628.1</u>	<u>\$568.5</u>

<sup>(1)</sup> Sources: For Fiscal Years 2021-2023, the City's ACFRs for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR, as applicable. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan, as applicable.

<sup>(2)</sup> Figures may not sum due to rounding.

<sup>(3)</sup> For more information on the City Sales Tax, see "REVENUES OF THE CITY – Sales and Use Tax."

<sup>(4)</sup> Includes Amusement Tax, Real Property Transfer Tax, Parking Tax, Smokeless Tobacco Tax and miscellaneous taxes. Starting in Fiscal Year 2024, Parking Tax revenues are no longer part of the General Fund. Such revenues have been reassigned to the newly created Transportation Fund, which is accounted for as a special revenue fund.

<sup>(5)</sup> The Philadelphia Beverage Tax (as defined herein) taxes the distribution of certain beverages at 1.5 cents per ounce and became effective January 1, 2017.

<sup>(6)</sup> For a detailed breakdown of "Net PICA Taxes Remitted to the City," see Table 43. Such figures reflect revenues received by the City from the PICA Tax of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on PICA Bonds and PICA expenses. After paying debt service and expenses, net proceeds from the tax are remitted to the City as Revenue from Other Governments. There are no PICA Bonds outstanding as of August 31, 2024 and no current debt service payments. See "DEBT OF THE CITY – PICA Bonds."

<sup>(7)</sup> For a detailed breakdown of "Other Revenue from Other Governments," see Table 12. "Other Revenue from Other Governments" includes state gaming revenues.

<sup>(8)</sup> In Fiscal Year 2020, the City made a deposit of \$34.3 million to the Budget Stabilization Reserve. In Fiscal Year 2021, the City drew down on such funds and redirected them to spending. For Fiscal Year 2021, such funds are shown as revenue in "Revenues from Other Funds of City."

<sup>(9)</sup> In Fiscal Year 2022, the City included approximately \$250 million in federal COVID-19 relief funding from the American Rescue Plan. In the Fiscal Year 2023, the City included approximately \$335 million in federal COVID-19 relief funding from the American Rescue Plan. In the Fiscal Year 2024 Adopted Budget, the City includes approximately \$391 million in federal COVID-19 relief funding from the American Rescue Plan, which amount remains unchanged in the Fiscal Year 2024 Current Estimate. In the Fiscal Year 2025 Adopted Budget, the City includes approximately \$419 million in federal COVID-19 relief funding from the American Rescue Plan.

<sup>(10)</sup> Includes debt service on lease and service agreement financings.

<sup>(11)</sup> For Fiscal Year 2021, includes \$55.2 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2022, includes \$78.8 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2023, includes \$92.1 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2024 (Adopted Budget), assumes \$93.5 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2024 (Current Estimate), assumes \$90.2 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2025 (Adopted Budget), assumes \$98.5 million from such tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."

<sup>(12)</sup> Includes contributions to the School District. See also Table 21 and the accompanying text herein.

<sup>(13)</sup> Includes debt service on General Obligation Debt (as defined herein) and, if issued and outstanding, interest on tax and revenue anticipation notes; excludes debt service on PICA Bonds and lease and service agreement financings.

<sup>(14)</sup> Advances & Miscellaneous Payments includes certain budgeted reserves for a given Fiscal Year. Any portion of such reserves that is not used to offset the applicable stated costs will increase the General Fund balance at the end of the given Fiscal Year, if not used by the City for other purposes.

<sup>(15)</sup> For Fiscal Year 2024 (Adopted Budget), includes \$13.4 million in the Labor Reserve and \$54.0 million in a recession, inflation, and reopening reserve. For Fiscal Year 2024 (Current Estimate), includes \$11.2 million all in the Labor Reserve. For Fiscal Year 2025 (Adopted Budget), includes \$43.5 million in the Labor Reserve.

<sup>(16)</sup> "Net Adjustments – Prior Year" includes the cancellation of commitments from previous Fiscal Years during the current Fiscal Year. Such figure for Fiscal Year 2021 includes a \$22 million contribution to the Municipal Pension Fund and the liquidation of \$47 million of pay-as-you-go capital encumbrances, each of which was obligated in Fiscal Year 2020.

<sup>(17)</sup> In its Fiscal Year 2024 Adopted Budget, the City projected that Fiscal Year 2023 would end with a General Fund balance of \$682.5 million. In the Fiscal Year 2023 ACFR, the City reported that Fiscal Year 2023 ended with a General Fund balance of \$981.6 million. Such number has been included as the "Cumulative Fund Balance Prior Year" in the FY 2024 Fourth Quarter QCMR.



## Current Financial Information

Table 2 below shows General Fund balances for Fiscal Year 2023, budgeted amounts and current estimates for Fiscal Year 2024, and the budgeted amounts for Fiscal Year 2025.

**Table 2**  
**General Fund – Fund Balance Summary**  
**(Amounts in Thousands of USD)<sup>(1)</sup>**

	Fiscal Year 2023 Actual <sup>(2)</sup> (June 30, 2023)	Fiscal Year 2024 Adopted Budget <sup>(2)</sup> (June 23, 2023)	Fiscal Year 2024 Current Estimate <sup>(2)</sup> (August 15, 2024)	Fiscal Year 2025 Adopted Budget <sup>(2)</sup> (June 14, 2024)
<b><u>REVENUES</u></b>				
Taxes	\$4,154,299 <sup>(3)</sup>	\$4,141,206 <sup>(3)</sup>	\$4,008,680 <sup>(3)</sup>	\$4,260,467 <sup>(3)</sup>
Locally Generated Non – Tax Revenues	415,117	386,733	408,609	391,844
Revenue from Other Governments	1,096,581	1,025,340	1,073,451	1,137,828
Revenues from Other Funds of City	381,017 <sup>(4)</sup>	458,835 <sup>(4)</sup>	454,830 <sup>(4)</sup>	481,223 <sup>(4)</sup>
<b>Total Revenue</b>	<b><u>\$6,047,014</u></b>	<b><u>\$6,012,114</u></b>	<b><u>\$5,945,570</u></b>	<b><u>\$6,271,362</u></b>
<b><u>OBLIGATIONS / APPROPRIATIONS</u></b>				
Personal Services	\$1,976,579	\$2,167,983	\$2,177,127	\$2,279,091
Personal Services – Employee Benefits	1,624,963 <sup>(5)</sup>	1,660,996 <sup>(5)</sup>	1,625,487 <sup>(5)</sup>	1,677,121 <sup>(5)</sup>
Purchase of Services <sup>(6)</sup>	1,207,275	1,380,127	1,400,501	1,422,267
Materials, Supplies, and Equipment	167,744	145,090	204,679	148,326
Contributions, Indemnities, and Taxes	480,792	425,194	475,703	432,724
Debt Service <sup>(7)</sup>	190,496	201,632	201,632	234,667
Payments to Other Funds	205,404	104,771	196,954	71,491
Advances & Miscellaneous Payments <sup>(8)</sup>	0	67,360 <sup>(9)</sup>	11,200 <sup>(9)</sup>	43,505 <sup>(9)</sup>
Payment to Budget Stabilization Reserve	65,128	42,261	42,261	58,291
<b>Total Obligations / Appropriations</b>	<b><u>\$5,918,381</u></b>	<b><u>\$6,195,414</u></b>	<b><u>\$6,335,544</u></b>	<b><u>\$6,367,483</u></b>
<b>Operating Surplus (Deficit)</b>	<b>128,633</b>	<b>(183,300)</b>		<b>(96,121)</b>
<b><u>OPERATIONS IN RESPECT TO PRIOR FISCAL YEARS</u></b>				
Net Adjustments – Prior Years <sup>(10)</sup>	73,795	29,500	36,500	36,500
Operating Surplus/(Deficit) & Prior Year Adj.	202,428	(153,800)	(353,474)	(59,621)
Prior Year Fund Balance	779,144	682,460 <sup>(11)</sup>	981,572 <sup>(11)</sup>	628,098
<b>Year End Fund Balance</b>	<b><u>\$981,572<sup>(11)</sup></u></b>	<b><u>\$528,660</u></b>	<b><u>\$628,098</u></b>	<b><u>\$568,477</u></b>

<sup>(1)</sup> Figures may not sum due to rounding.

<sup>(2)</sup> Sources: For Fiscal Year 2023, the Fiscal Year 2023 ACFR. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR, as applicable. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan, as applicable.

<sup>(3)</sup> For Fiscal Year 2023, includes \$73.4 million in revenue from the Philadelphia Beverage Tax. For Fiscal Year 2024 Adopted Budget, assumes \$73.5 million in revenue from such tax. For Fiscal Year 2024 Current Estimate, assumes \$70.3 million in revenue from such tax. For Fiscal Year 2025 Adopted Budget, assumes \$71.2 million in revenue from such tax. The Philadelphia Beverage Tax taxes the distribution of certain beverages at 1.5 cents per ounce and became effective January 1, 2017.

<sup>(4)</sup> In the Fiscal Year 2023, the City included approximately \$335 million in federal COVID-19 relief funding from the American Rescue Plan. In the Fiscal Year 2024, the City includes approximately \$391 million in federal COVID-19 relief funding from the American Rescue Plan. In the Fiscal Year 2025, the City includes approximately \$419 million in federal COVID-19 relief funding from the American Rescue Plan.

<sup>(5)</sup> For Fiscal Year 2023, includes \$92.1 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2024 (Adopted Budget), assumes \$93.5 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2024 (Current Estimate), assumes \$90.2 million from such tax revenues for the Municipal Pension Fund. For Fiscal Year 2025 (Adopted Budget), assumes \$98.5 million from such tax revenues for the Municipal Pension Fund. See "REVENUES OF THE CITY – Sales and Use Tax."

<sup>(6)</sup> Includes debt service on lease and service agreement financings.

<sup>(7)</sup> Includes debt service on General Obligation Debt (as defined herein) and, if issued and outstanding, interest on tax and revenue anticipation notes; excludes debt service on PICA Bonds and lease and service agreement financings.

<sup>(8)</sup> Advances & Miscellaneous Payments includes certain budgeted reserves for a given Fiscal Year. Any portion of such reserves that is not used to offset the applicable stated costs will increase the General Fund balance at the end of the given Fiscal Year, if not used by the City for other purposes.

<sup>(9)</sup> For Fiscal Year 2024 (Adopted Budget), includes \$13.4 million in the Labor Reserve and \$54.0 million in a recession, inflation, and reopening reserve. For Fiscal Year 2024 (Current Estimate), includes \$11.2 million all in the Labor Reserve. For Fiscal Year 2025 (Adopted Budget), includes \$43.5 million in the Labor Reserve.

<sup>(10)</sup> "Net Adjustments – Prior Year" includes the cancellation of commitments from previous Fiscal Years during the current Fiscal Year.

<sup>(11)</sup> In its Fiscal Year 2024 Adopted Budget, the City projected that Fiscal Year 2023 would end with a General Fund balance of \$682.5 million. In the Fiscal Year 2023 ACFR, the City reported that Fiscal Year 2023 ended with a General Fund balance of \$981.6 million. Such number has been included as the "Cumulative Fund Balance Prior Year" in the FY 2024 Fourth Quarter QCMR.

***The following discussion of the Fiscal Year 2024 Adopted Budget, the Thirty-Second Five-Year Plan, the Fiscal Year 2025 Adopted Budget, the Thirty-Third Five-Year Plan, and the FY 2024 Fourth Quarter QCMR, as applicable, is based, in part, on estimates, projections, and forward-looking statements related to Fiscal Year 2024 and Fiscal Year 2025. No assurance can be given that the applicable budget estimates and forward-looking statements will be realized. The accuracy of such budget estimates and forward-looking statements cannot be verified until after the close of the given Fiscal Year and the completion of the related audits.***

Fiscal Year 2024 Adopted Budget and Thirty-Second Five-Year Plan. The City's proposed Fiscal Year 2024 operating budget was submitted by the Mayor to City Council on March 2, 2023, along with the City's Proposed Five-Year Plan for Fiscal Years 2024-2028. On June 22, 2023, City Council approved the Fiscal Year 2024 operating budget ordinance, which was signed by the Mayor on June 23, 2023 (the "Fiscal Year 2024 Adopted Budget").

On June 26, 2023, the City submitted to PICA for approval its FY 2024-2028 Five Year Financial Plan (the "Thirty-Second Five-Year Plan"). PICA approved the Thirty-Second Five-Year Plan at a meeting on July 25, 2023.

Fiscal Year 2025 Adopted Budget and Thirty-Third Five-Year Plan. The City's proposed Fiscal Year 2025 operating budget was submitted by the Mayor to City Council on March 14, 2024, along with the City's Proposed Five-Year Plan for Fiscal Years 2025-2029. On June 13, 2024, City Council approved the Fiscal Year 2025 operating budget ordinance, which was signed by the Mayor on June 14, 2024 (the "Fiscal Year 2025 Adopted Budget").

On June 25, 2024, the City submitted to PICA for approval its FY 2025-2029 Five Year Financial Plan (the "Thirty-Third Five-Year Plan"). PICA approved the Thirty-Third Five-Year Plan at a meeting on July 25, 2024. PICA staff, in recommending that PICA approve the Thirty-Third Five-Year Plan, noted that the revenue and expenditure projections presented in the Plan were [quoting from the PICA Act] "based on reasonable and appropriate assumptions and methods of estimation . . . consistently applied."

The PICA staff report concluded that "[a]lthough PICA is confident that the [p]lan is based on reasonable and appropriate assumptions and includes year-end fund balances that are positive throughout the life of the [p]lan, certain factors were identified that may present risks to the [p]lan." In particular, the PICA staff report identified "external factors, internal policy, and operational choices [that] could unbalance the [p]lan and trigger a variance that would require the City to devise and deliver a new [p]lan for PICA approval." The PICA report identified such risks to the Plan and its projections as: (i) future labor costs; (ii) staffing levels; (iii) pension costs; (iv) interest rates and inflation; (v) funding shortfalls for SEPTA and the School District; (vi) unexpected events; and (vii) unplanned expenditures and revenue reductions.

The PICA staff report also provided certain recommendations to the City to address potential financial concerns that could impact the City's financial condition over the course of the Thirty-Third Five-Year Plan: (a) allocate additional resources for expected and unexpected circumstances and increase projected reserve levels; (b) seek structural balance between obligations and revenues (to address structural deficits, which increase the likelihood that the City could struggle to maintain positive fund balances and could undermine fiscal stability); and (c) enhance financial transparency of additional City funds (i.e., uses of funds in the Housing Trust Fund, the Transportation Fund, the Capital Fund, and the Grants Revenue Fund) and expand financial reporting thereon.

In the Fiscal Year 2025 Adopted Budget, the City is estimating (i) \$6.27 billion in General Fund revenues (compared to \$5.95 billion for Fiscal Year 2024 as set forth in the FY 2024 Fourth Quarter QCMR) and (ii) \$6.37 billion in General Fund obligations (compared to \$6.34 billion for Fiscal Year 2024 as set forth in the FY 2024 Fourth Quarter QCMR), with a General Fund year-end balance (on the

legally enacted basis) of approximately \$568.5 million (compared to \$628.1 million for Fiscal Year 2024 as set forth in the FY 2024 Fourth Quarter QCMR).

Fiscal Year 2024 Current Estimates. The current estimates for Fiscal Year 2024 are derived from information included in the FY 2024 Fourth Quarter QCMR. As such, current estimates are sourced to the FY 2024 Fourth Quarter QCMR throughout this APPENDIX C, unless otherwise noted herein.

In the FY 2024 Fourth Quarter QCMR, the City estimates that it will end Fiscal Year 2024 with a General Fund balance (on the legally enacted basis) of approximately \$628.1 million (\$99.4 million higher than projected in the Fiscal Year 2024 Adopted Budget).

For Fiscal Years 2025-2029, the Thirty-Third Five-Year Plan projects that the City will end such Fiscal Years with General Fund balances (on the legally enacted basis) of approximately (i) \$568.5 million (Fiscal Year 2025), (ii) \$329.9 million (Fiscal Year 2026), (iii) \$108.4 million (Fiscal Year 2027), (iv) \$78.2 million (Fiscal Year 2028), and (v) \$65.8 million (Fiscal Year 2029).

For information on the current assessment of the fiscal impact of COVID-19 on the City, see “OVERVIEW – Fiscal Health of the City – COVID-19.”

For more information on the City’s annual budget process under the City Charter and the five-year financial plans and quarterly reporting required under the PICA Act, see “– Budget Procedure,” “– Five-Year Plans of the City,” and “– Quarterly Reporting to PICA,” above.

## REVENUES OF THE CITY

### General

Prior to 1939, the City relied heavily on the Real Estate Tax as the mainstay of its revenue system. In 1932, the General Assembly adopted an act (commonly referred to as the Sterling Act) under which the City is permitted to levy any tax that was not specifically pre-empted by the Commonwealth. Acting under the Sterling Act and other Pennsylvania legislation, the City has taken various steps over the years to broaden its sources of income, including: (i) enacting the Wage, Earnings, and Net Profits tax in 1939; (ii) introducing a sewer service charge to make the sewage treatment system self-sustaining after 1945; (iii) requiring under the City Charter that the water, sewer, and other utility systems be fully self-sustaining; (iv) enacting the Mercantile License Tax (a gross receipts tax on business done within the City) in 1952, which was replaced as of the commencement of Fiscal Year 1985 by the Business Privilege Tax (renamed the Business Income and Receipts Tax in May 2012), and (v) enacting the City Sales Tax (as defined herein) for City general revenue purposes effective beginning in Fiscal Year 1992.

### Major Revenue Sources

The City derives its revenues primarily from various taxes, non-tax revenues, and receipts from other governments. See Table 3 for General Fund tax revenues for Fiscal Years 2021-2023, the budgeted amounts and current estimates for Fiscal Year 2024, and the budgeted amounts for Fiscal Year 2025. The following discussion of the City’s revenues does not take into account revenues in the non-debt related funds.

Table 3 provides a detailed breakdown of the “Total Taxes” line from Table 1 above. Table 3 does not include “Revenues from Other Governments,” which consists of “Net PICA Taxes Remitted to the City” and “Other Revenue from Other Governments.” “Net PICA Taxes Remitted to the City” is set forth in Table 1 and a detailed breakdown of such revenues is shown in Table 43. “Other Revenue from Other Governments” is set forth in Table 1 and a detailed breakdown of such revenues is shown in Table 12.

**Table 3**  
**General Fund Tax Revenues**  
**Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)**  
**(Amounts in Millions of USD) <sup>(1), (2), (3)</sup>**

	Actual 2021	Actual 2022	Actual 2023	Adopted Budget 2024 (June 23, 2023)	Current Estimate 2024 (August 15, 2024)	Adopted Budget 2025 (June 14, 2024)
<b>Real Property Taxes</b>						
Current	\$693.9	\$670.8	\$780.3	\$817.2	\$797.0	\$896.8
Prior	29.4	29.9	29.3	28.7	28.7	28.1
Total	<u>\$723.3</u>	<u>\$700.6</u>	<u>\$809.6</u>	<u>\$845.9</u>	<u>\$825.7</u>	<u>\$925.0</u>
<b>Wage and Earnings Tax<sup>(4)</sup></b>						
Current	\$1,447.7	\$1,648.1	\$1,730.1	\$1,761.7	\$1,838.9	\$1,925.2
Prior	3.0	5.8	2.7	5.4	5.4	5.4
Total	<u>\$1,450.7</u>	<u>\$1,653.9</u>	<u>\$1,732.8</u>	<u>\$1,767.1</u>	<u>\$1,844.3</u>	<u>\$1,930.6</u>
<b>Business Taxes</b>						
<b>Business Income and Receipts Tax</b>						
Current & Prior	\$541.6	\$749.9	\$673.3	\$669.7	\$606.7	\$616.7
<b>Net Profits Tax</b>						
Current	\$42.5	\$22.0	\$33.9	\$42.3	\$39.1	\$40.5
Prior	1.9	5.3	5.1	4.7	4.7	4.7
Subtotal Net Profits Tax	<u>\$44.4</u>	<u>\$27.3</u>	<u>\$39.0</u>	<u>\$47.0</u>	<u>\$43.8</u>	<u>\$45.2</u>
Total Business and Net Profits Taxes	<u>\$586.0</u>	<u>\$777.2</u>	<u>\$712.2</u>	<u>\$716.7</u>	<u>\$650.4</u>	<u>\$661.9</u>
<b>Other Taxes</b>						
Sales and Use Tax <sup>(5)</sup>	\$230.4	\$277.7	\$302.2	\$307.1	\$300.5	\$317.0
Amusement Tax	2.9	26.1	36.1	33.4	38.3	41.7
Real Property Transfer Tax	304.0	536.9	378.8	388.9	271.8	305.8
Parking Taxes <sup>(6)</sup>	53.2	86.6	101.9	0.0	0.0	0.0
Other Taxes	3.1	5.1	7.1	8.5	7.3	7.5
Subtotal Other Taxes	<u>\$593.7</u>	<u>\$932.4</u>	<u>\$826.2</u>	<u>\$737.9</u>	<u>\$617.9</u>	<u>\$671.9</u>
Philadelphia Beverage Tax <sup>(7)</sup>	70.2	75.4	73.4	73.5	70.3	71.2
<b>TOTAL TAXES</b>	<b><u>\$3,423.9</u></b>	<b><u>\$4,139.4</u></b>	<b><u>\$4,154.3</u></b>	<b><u>\$4,141.2</u></b>	<b><u>\$4,008.7</u></b>	<b><u>\$4,260.5</u></b>

<sup>(1)</sup> Sources: For Fiscal Years 2020-2023, the City's ACFRs for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR, as applicable. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan, as applicable.

<sup>(2)</sup> See Table 7 in the Fiscal Year 2023 ACFR for tax rates.

<sup>(3)</sup> Figures may not sum due to rounding.

<sup>(4)</sup> Does not include the PICA Tax of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on PICA Bonds and PICA expenses. After paying debt service and expenses, net proceeds from the tax are remitted to the City as Revenue from Other Governments. There are no PICA Bonds outstanding as of August 31, 2024 and no current debt service payments. See "DEBT OF THE CITY – PICA Bonds" for a description of the PICA Tax.

<sup>(5)</sup> For more information on the City Sales Tax, see "-- Sales and Use Tax" and Table 11.

<sup>(6)</sup> Starting in Fiscal Year 2024, Parking Tax revenues are no longer part of the General Fund. Such revenues have been reassigned to the newly created Transportation Fund, which will utilize the Parking Tax and certain fees and grants to support transportation activities including paving, traffic, engineering, school crossing guards, right-of-way management, public safety enforcement officers, surveys, and street lighting. The Transportation Fund is accounted for as a special revenue fund.

<sup>(7)</sup> The Philadelphia Beverage Tax taxes the distribution of certain beverages at 1.5 cents per ounce and became effective January 1, 2017.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## Wage, Earnings, and Net Profits Taxes

The largest tax revenue source (comprising approximately 42.6% of all tax revenues in Fiscal Year 2023) is the wage, earnings, and net profits tax (collectively, the “Wage, Earnings, and Net Profits Tax”). The Wage and Earnings Tax is collected from all employees whose employer is within City limits, with the exception of those non-residents who are required to work outside of the City. Wage Tax is also collected from all city residents regardless of work location. The Net Profits Tax is collected on the net profits from the operation of a trade, business, profession, enterprise or other activity conducted by individuals, partnerships, associations or estates and trusts within the City limits. The following table sets forth the resident and non-resident Wage, Earnings, and Net Profits Tax rates for Fiscal Years 2021-2024, the annual Wage, Earnings, and Net Profits Tax receipts in Fiscal Years 2021-2023, the budgeted amount and current estimate of such receipts for Fiscal Year 2024, and the budgeted amount of such receipts for Fiscal Year 2025.

**Table 4**  
**Summary of Wage, Earnings, and Net Profits Tax Rates and Receipts**  
**Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)<sup>(1)</sup>**

Fiscal Year	Resident Wage, Earnings and Net Profits Tax Rates <sup>(2)</sup>	Non-Resident Wage, Earnings and Net Profits Tax Rates	Annual Wage, Earnings and Net Profits Tax Receipts (including PICA Tax) (Amounts in Millions of USD) <sup>(3)</sup>
2021	3.8712%	3.5019%	\$2,019.3 (Actual)
2022	3.8398%	3.4481%	\$2,266.8 (Actual)
2023	3.79%	3.44%	\$2,469.1 (Actual)
2024	3.75%	3.44%	\$2,489.2 (Adopted Budget)
			\$2,595.1 (Current Estimate)
2025			\$2,715.2 (Adopted Budget)

<sup>(1)</sup> See Table 7 in the Fiscal Year 2023 ACFR for tax rates for Fiscal Years 2021-2023. For tax rates for Fiscal Year 2024, see the Fiscal Year 2024 Adopted Budget. For tax rates for Fiscal Year 2025, see the Fiscal Year 2025 Adopted Budget.

<sup>(2)</sup> Includes PICA Tax. See “DEBT OF THE CITY – PICA Bonds” for a description of the PICA Tax.

<sup>(3)</sup> Sources: For Fiscal Years 2021-2023, the City’s ACFRs for the City’s annual Wage, Earnings, and Net Profits Tax receipts and the City’s Quarterly City Manager’s Reports for gross PICA Tax (see first column in Table 43). For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR, as applicable. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan as applicable.

Commonwealth funding from gaming revenues is mandated by statute to be used to reduce the resident and nonresident Wage, Earnings, and Net Profits Tax rate. Gaming revenues averaged approximately \$86.3 million in Fiscal Years 2018-2022. For Fiscal Year 2023, the amount of gaming revenues was \$108.8 million. For Fiscal Year 2024, the budgeted amount and current estimate of gaming revenues is \$108.8 million. For Fiscal Year 2025, the budgeted amount of gaming revenues is \$130.6 million.

In a 2015 decision the Supreme Court of the United States (*Comptroller of the Treasury of Maryland v. Wynne*, 135 S. Ct. 1787 (2015)), held that Maryland’s failure to provide a full credit against its personal income tax for income taxes a resident paid to other states violated the dormant Commerce Clause of the United States Constitution. The Maryland personal income tax was applied to income earned outside of the state of residency, and residents were not given a full credit for income taxes paid to the state where such income was earned, resulting, in the circumstances presented, in income earned interstate being taxed twice. The City provides a credit to resident taxpayers against their respective Wage, Earnings, and Net Profits tax liabilities for similar taxes paid to another locality but does not provide a credit for similar taxes paid to another state. Taxpayers have challenged the City’s refusal to grant a credit for taxes paid to other states. The City’s position has been upheld by the Tax Review Board, the Philadelphia Court of Common Pleas, the Commonwealth Court, and the Pennsylvania Supreme Court. In February 2024, the taxpayer filed a petition asking the U.S. Supreme Court to hear the case and the City has filed its petition in opposition. As of the date of the Official Statement, the U.S.

Supreme Court has not ruled on the parties' petitions. The City estimates the cost of current appeals to be approximately \$10 million.

On May 3, 2023, the Pennsylvania Senate passed Senate Bill 671 ("SB 671"), which amends the Local Tax Enabling Act by adding a new chapter thereto and repeals the Sterling Act. SB 671 prohibits a city of the first class, such as the City, from imposing a tax on salaries, wages, commissions, or other compensation on a nonresident individual who is employed by an employer whose place of business is located within the City but performs all employment duties or services outside of the City. It clarifies that a city of the first class may only impose a tax on nonresident individuals' wages, or other compensation, on that portion of the nonresident's compensation attributable to duties performed by the individual while they are physically within the City. If SB 671 becomes law, it would reduce the amount of Wage and Earnings Taxes that the City collects and have a significant financial impact on the City. On May 3, 2023, SB 671 moved to the Pennsylvania House of Representatives for consideration. It was referred to the House Finance Committee on May 5, 2023 and it remains in committee. It is unclear at this time whether the Pennsylvania House of Representatives will advance the legislation or, if so advanced, whether the Governor would sign SB 671.

### **Business Income and Receipts Tax**

Pursuant to The First Class City Business Tax Reform Act of 1984, City Council imposed a business tax measured by gross receipts, net income or the combination of the two. The same year, City Council by ordinance repealed the Mercantile License Tax and the General Business Tax and imposed the Business Privilege Tax. As of May 1, 2012, the Business Privilege Tax was renamed the Business Income and Receipts Tax (or BIRT). The BIRT allows for alternative tax computations for regulated industries, public utilities, manufacturers, wholesalers, and retailers. Rental activities are usually considered to be business activities. Every estate or trust (whether the fiduciary is an individual or a corporation) must file a BIRT return if the estate or trust is engaged in any business or activity for profit within the City. There are also credit programs where meeting the requirement of the program allows for a credit against the BIRT. All persons subject to both the BIRT and the Net Profits Tax are entitled to apply a credit of 60% of the net income portion of their BIRT liability against what is due on the Net Profits Tax to the maximum of the Net Profits Tax liability for that tax year.

Significant tax legislation, passed in 2011, incorporated several changes intended to help small and medium sized businesses and lower costs associated with starting a new business in order to stimulate new business formation and increase employment in the City, including the following: (i) the fee for a Commercial Activity License for all businesses was eliminated in 2014; (ii) business taxes for the first two years of operations for all new businesses with at least three employees in their first year and six employees in their second year were eliminated beginning in 2012; and (iii) across the board exclusions on the gross receipts portion of the BIRT were provided for all businesses phased in over a three-year period beginning in 2014 and eventually excluding the first \$100,000 of gross receipts, along with proportional reductions in the net income portion of the BIRT. The legislation also provided for implementation of single sales factor apportionment in 2015, which enables businesses to pay BIRT based solely on sales in the City, rather than on property or payroll.

In addition, legislation was enacted, effective for tax year 2019, to (i) eliminate the requirement for new businesses to make an estimated business tax payment when filing a return for their first tax year of business operations and (ii) allow such estimated payments in the second year to be made in quarterly installments.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

The following table provides a summary of BIRT rates for tax years 2015-2024. Future BIRT rates remain subject to amendment by action of City Council and the Mayor.

**Table 5**  
**Summary of Business Income and Receipts Tax Rates**

Tax Year	Gross Receipts	Net Income
2015	1.415 mills	6.41%
2016	1.415 mills	6.39%
2017	1.415 mills	6.35%
2018	1.415 mills	6.30%
2019	1.415 mills	6.25%
2020	1.415 mills	6.20%
2021	1.415 mills	6.20%
2022	1.415 mills	6.20%
2023	1.415 mills	5.99%
2024	1.415 mills	5.81%
2025	1.415 mills	5.81%

**BIRT Lawsuit.** In August 2024, a lawsuit was filed against the City by a taxpayer challenging its BIRT liability, claiming that (i) the City’s single sales factor apportionment is not statutorily authorized and (ii) the small business exemption of the first \$100,000 of receipts from the BIRT tax (equally applicable to all taxpayers) violates the Uniformity Clause of the Pennsylvania Constitution. The City is evaluating this matter and the possible tax collections at issue, which could be significant.

**Real Property Taxes**

**Assessment and Collection.** Taxes are levied on the assessed value of all taxable residential and commercial real property located within the City’s boundaries for the City and for the School District (each, a “Real Estate Tax”) as assessed by the Office of Property Assessment (“OPA”) and collected by the Department of Revenue for both the City and the School District. Real Estate Taxes are authorized by Commonwealth law with the millage split between the City Real Estate Tax and the School District Real Estate Tax changing over the years. Currently, the City Real Estate Tax is equal to 44% of the total authorized millage and the School District Real Estate Tax is equal to 56% of the total authorized millage. Real Estate Taxes are levied on a calendar year basis. By separate ordinances, City Council authorizes and levies the rate of the City Real Estate Tax and authorizes the rate of the School District Real Estate Tax. The Board of Education levies all School District taxes, including the School District Real Estate Tax. Bills are sent in December for the following year and payments are due March 31.

In tax year 2014, all properties in Philadelphia were reassessed at their actual market value by OPA under the Actual Value Initiative (“AVI”) in order to replace outdated values and inequities within the system. Following this initial AVI assessment, such updated assessments became the baseline for future revaluations under the initiative. Under AVI, the total assessed value of all properties more accurately reflected the market in the City and the total assessment grew substantially. As a result, the Mayor and City Council significantly reduced the Real Estate Tax rate to ensure that, in its first year, the reassessment resulted in the collection of approximately the same amount of Real Estate Taxes as the prior year (tax year 2013).

In order to mitigate any hardship that could be created by the substantial increases in assessed value, the ordinance imposing the new Real Estate Tax rates included a Homestead Exemption of \$30,000 for all primary residential owner-occupants, which was subsequently increased to \$40,000 of assessed value in Fiscal Year 2019. In the adopted budget for Fiscal Year 2020, the Homestead Exemption was increased from \$40,000 to \$45,000 of assessed value. In the Fiscal Year 2023 Adopted Budget, the Homestead Exemption was increased from \$45,000 to \$80,000 of assessed value. Beginning in Fiscal Year 2025, the Homestead Exemption will be increased from \$80,000 to \$100,000 of assessed value. In

addition to the Homestead Exemption, the City has also instituted several other property tax relief programs for taxpayers, including, among others, the Low-Income Tax Freeze, which permits a freeze in property tax increases for low-income homeowners. Under the Low-Income Tax Freeze, the dollar amount of property taxes owed is frozen, while the assessment value continues to change. Those enrolled in the Low-Income Tax Freeze program remain enrolled so long as they meet eligibility requirements.

In December 2019, City Council also passed legislation to modify the existing 10-year property tax abatement for new construction of residential properties. The program has been adjusted to exempt 100% of the improvement value in the first year with graduated 10% annual reductions in the exemption percentage each subsequent year. No changes were made to the existing property tax abatement programs for commercial buildings or substantial rehabilitation of residential structures. Due to the COVID-19 pandemic, this legislation was amended to delay its effective date and applies to exemption applications beginning on or after January 1, 2022.

The Real Estate Tax rates for tax years 2021-2025 are set forth in Table 6 below:

**Table 6**  
**Real Estate Tax Rates and Allocations**

<u>Tax Year</u>	<u>City</u>	<u>School District</u>	<u>Total</u>
2021	0.6317%	0.7681%	1.3998%
2022	0.6317%	0.7681%	1.3998%
2023	0.6317%	0.7681%	1.3998%
2024	0.6317%	0.7681%	1.3998%
2025	0.6159%	0.7839%	1.3998%

For Fiscal Year 2023, the actual amount of Real Estate Tax revenue for the City was \$780.3 million (excluding delinquent collections). For Fiscal Year 2024, the budgeted amount of Real Estate Tax revenue for the City is \$817.2 million (excluding delinquent collections). For Fiscal Year 2024, the current estimate of Real Estate Tax revenue for the City is \$797.0 million (excluding delinquent collections). For Fiscal Year 2025, the budgeted amount of Real Estate Tax revenue for the City is \$896.8 million (excluding delinquent collections). See Table 3 above. For information on the process for appealing a property tax assessment, see the text before and after Table 7 below.

Table 7 shows certified property values for tax years 2024 and 2025.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]



**Table 7**  
**Certified Property Values for Tax Years 2024 and 2025**

**Tax Year 2024**

<b>Category</b>	<b>Market Value<sup>(1)</sup></b>	<b>Exempt Assessed Value</b>	<b>Homestead</b>	<b>Taxable Assessed Value</b>	<b># of Properties</b>
Single Family Residential	\$102,589,419,957	\$8,736,034,040	\$17,661,660,823	\$76,191,725,094	464,384
Multi-Family Residential (Apartments) <sup>(2)</sup>	32,445,423,233	8,030,525,563	653,870,858	23,761,026,812	42,595
Commercial <sup>(3)</sup>	22,968,017,205	2,793,950,898	3,330,553 <sup>(4)</sup>	20,170,735,754	8,631
Non-Residential <sup>(5)</sup>	43,086,684,685	27,807,260,760	82,167,781 <sup>(4)</sup>	15,197,256,144	24,866
Vacant Land	6,483,743,971	3,249,548,806	3,752,290	3,230,442,875	43,303
<b>Total</b>	<b>\$207,573,289,051</b>	<b>\$50,617,320,067</b>	<b>\$18,404,782,305</b>	<b>\$138,551,186,679</b>	<b>583,779</b>

<sup>1</sup> Assessment data current as of May 25, 2023.

<sup>2</sup> Apartments were split from the previous hotels and apartments category and are now reflected as multi-family residential.

<sup>3</sup> Includes retail and office.

<sup>4</sup> Values are estimated.

<sup>5</sup> Includes industrial, store with dwelling, hotels, motels, governmental, and institutional.

**Tax Year 2025**

<b>Category</b>	<b>Market Value<sup>(1)</sup></b>	<b>Exempt Assessed Value</b>	<b>Homestead</b>	<b>Taxable Assessed Value</b>	<b># of Properties</b>
Single Family Residential	\$122,718,187,566	\$10,267,003,210	\$22,329,404,447	\$90,121,779,909	463,981
Multi-Family Residential (Apartments) <sup>(2)</sup>	26,711,333,970	4,446,836,837	822,813,876	21,441,683,257	40,870
Commercial <sup>(3)</sup>	22,181,804,365	3,106,631,297	3,841,271	19,071,331,797	8,779
Non-Residential <sup>(4)</sup>	52,715,955,855	31,587,981,806	105,253,877	21,022,720,172	26,790
Vacant Land	7,177,593,098	3,451,387,978	6,262,699	3,719,942,421	43,934
<b>Total</b>	<b>\$231,504,874,854</b>	<b>\$52,859,841,128</b>	<b>\$23,267,576,171</b>	<b>\$155,377,457,555</b>	<b>584,354</b>

<sup>1</sup> Assessment data current as of May 31, 2024.

<sup>2</sup> Apartments were split from the previous hotels and apartments category and are now reflected as multi-family residential.

<sup>3</sup> Includes retail and office.

<sup>4</sup> Includes industrial, store with dwelling, hotels, motels, governmental, and institutional.

Assessment and Appeals. OPA is responsible for property assessments, while the Board of Revision of Taxes (“BRT”), an independent, seven-member board appointed by the Board of Judges of the Philadelphia Common Pleas Court, is the property assessment appeals board.

OPA certifies the market values during the prior year (i.e., for tax year 2024, OPA certified the market values on March 31, 2023). Taxpayers base their appeals on the certified market values, and therefore, the assessed values are adjusted as the appeals are finalized. In some circumstances and for certain tax years, taxpayers are permitted, during the appeals process, to pay their property tax bills based on the certified market value of their properties from the prior assessment. For budgetary purposes, OPA provides updated assessment data to the Office of the Director of Finance each year, from which Real Estate Tax projections are made. Certified values can vary substantially from the amounts included in such data and, as such, Real Estate Tax collections can also vary from the amounts included in the City’s proposed annual operating budget.

Under AVI, OPA set up a new process called a first level review (“FLR”), where a taxpayer could request an administrative review of its assessment notice prior to launching a formal appeal with the BRT. The BRT has the authority, following a formal appeal, to either increase, decrease, or leave unchanged the property assessment. Some appeals are not resolved before bills are sent to taxpayers. As such, some property assessments are modified after taxpayers receive bills.

For tax year 2018 (as certified on March 31, 2017), OPA changed the assessed values of over 45,000 parcels (which included properties of all categories, including commercial and residential parcels) throughout the City as part of its reassessment. In September 2017, the owners of multiple commercial properties in the City filed a lawsuit against the City in the Court of Common Pleas. The plaintiffs in such matter alleged, based on a July 2017 Pennsylvania Supreme Court decision, that OPA violated the uniformity clause of the Pennsylvania Constitution in reassessing commercial properties and not residential properties for tax year 2018. The plaintiffs sought declaratory relief, a permanent injunction, and an order directing OPA to recertify their properties at tax year 2017 values. Subsequently, twelve additional cases were filed, asserting virtually the same claims. All of the cases, which encompassed approximately 600 plaintiffs and approximately 700 properties, were consolidated for management purposes. In a ruling handed down on July 18, 2019, the Common Pleas Court found that plaintiffs were owed refunds for overpayments equal to the difference between the plaintiffs’ Real Estate Taxes for tax year 2017 and tax year 2018. The City and School District appealed the ruling on October 22, 2019, and oral arguments on such appeal were heard in the Commonwealth Court in June 2021. On July 29, 2021, the Commonwealth Court issued a decision that upheld the ruling of the Common Pleas Court. The City and School District applied to the Commonwealth Court for reargument, which was denied on September 28, 2021. The City and School District petitioned the Pennsylvania Supreme Court for allowance of appeal, which was denied on June 8, 2022. No further appeals are available. City-wide reassessments were conducted for tax years 2019 and 2020 and the City does not expect the Real Estate Taxes for such tax years to be impacted by the final judgment on this matter. For more general information on judgments and settlements on claims against the City, see “LITIGATION.”

For tax year 2023 (as certified on April 30, 2022), OPA revised the assessed values of over 550,000 parcels throughout the City as part of its first citywide revaluation since tax year 2020. The International Association of Assessing Officers (“IAAO”) conducted a ratio study on the 2023 assessments for single-family homes and determined that OPA met industry standards for both uniformity and equity. As of August 9, 2024, OPA has received approximately 19,833 FLRs, with approximately 5% that have yet to be decided. As of August 9, 2024, BRT has received 13,547 appeals, with approximately 1,587 that have yet to be decided.

For tax year 2024 (as certified on March 31, 2023), the City did not conduct a citywide revaluation so that OPA could focus on reviewing FLR applications submitted for tax year 2023. As such, the City carried forward the assessed values from tax year 2023, with the exception of properties that had new construction, expiring abatements, renovations, subdivisions, consolidations, or errors in prior year assessments. As of August 9, 2024, OPA has received approximately 210 FLRs, with approximately 15% that have yet to be decided. As of August 9, 2024, BRT has received 3,550 appeals, with approximately 2,550 that have yet to be decided.

For tax year 2025 (as certified on May 31, 2024), OPA revised the assessed values of over 550,000 parcels throughout the City as part of its first citywide revaluation since tax year 2023. OPA retained an outside firm to conduct a ratio study on the 2025 assessments for single-family homes, which determined that OPA met (and improved on) industry standards for uniformity, equity, and accuracy. Property owners have until October 7, 2024, to file an FLR or BRT appeal for tax year 2025.

Review of Assessment Methodology. OPA continues to review its assessment methodology in order to improve the transparency and accuracy of its assessment activities and the quality of assessments. Such efforts include (i) implementing a computer-assisted mass appraisal system program, (ii) contracting with an outside vendor to improve the quality of OPA's data, (iii) strengthening OPA's modeling team, and (iv) providing more training to the sales validation team, which was created in 2019, to help ensure improved data.

Real Estate Tax Tables. See Table 8 below for data with respect to Real Estate Taxes levied from 2019 to 2023 and collected by the City from January 1, 2019 to June 30, 2023. See Table 9 for the assessed property values of the City's principal taxable assessed parcels in 2025. See Table 10 for the 2025 market and assessed values of the ten highest valued taxable real properties in the City, as well as the amounts and duration of Real Estate Tax abatements with respect to such properties.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

**Table 8**  
**City of Philadelphia**  
**Real Property Taxes Levied and Collected**  
**For the Calendar Years 2019-2023**  
**(Amounts in Millions of USD)<sup>(1), (2)</sup>**

Calendar Year	Taxes Levied Based on Original Assessment <sup>(3)</sup>	Taxes Levied Based on Adjusted Assessment <sup>(4)</sup>	Collections in the Calendar Year of Levy <sup>(6)</sup>	Percentage Collected in the Calendar Year of Levy	Collections in Subsequent Years <sup>(5), (6)</sup>	Total Collections to Date: All Years <sup>(6)</sup>	Percentage Collected to Date: All Years <sup>(6)</sup>
2019	\$709.4	\$680.4	\$660.4	97.1%	\$15.6	\$676.0	99.4%
2020	\$722.7	\$701.0	\$672.3	95.9%	\$24.4	\$696.7	99.4%
2021	\$729.7	\$715.3	\$692.2	96.8%	\$19.9	\$712.1	99.6%
2022	\$732.2	\$723.2	\$705.7	97.6%	\$8.5	\$714.2	98.8%
2023	\$872.8	\$852.4	\$755.2	N/A	N/A	\$755.2	N/A

(1) Source: Fiscal Year 2023 ACFR.

(2) Real Estate Taxes are levied by the City and the School District. While this table reflects City General Fund Real Estate Tax revenues exclusively, the School District Real Estate Tax collection rates are the same.

(3) Taxes are levied on a calendar year basis. They are due on March 31.

(4) Adjustments include assessment appeals, the senior citizen tax discount, and the tax increment financing return of tax paid. For more information on the reassessment appeal process, see “– Real Property Taxes – Assessment and Appeals.”

(5) Includes payments from capitalized interest. This capitalization occurs only after the first year of the levy on any amount that remains unpaid at that time.

(6) For calendar year 2023, the data shown reflects collections through June 30, 2023. For earlier calendar years, the data shown reflects collections through December 31 of the respective year.

**Table 9**  
**Principal Taxable Assessed Parcels – 2025**  
**(Amounts in Millions of USD)<sup>(1)</sup>**

Taxpayer	2025	
	Assessment <sup>(2)</sup>	Percentage of Total Assessments
EQC Nine Penn Center Prop	\$390.5	0.22%
Kim Sub Cira Square LP	370.6	0.21%
Liberty Property Phila(3)	357.6	0.20%
Phila Liberty Place LP	310.7	0.17%
PRU 1901 Market LLC	278.0	0.16%
Brandywine Cira LP	260.1	0.15%
NG 1500 Market St LLC	250.7	0.14%
Brandywine Operating	239.8	0.13%
411 N Broad Fee Inter	235.4	0.13%
Philadelphia Market	221.4	0.12%
<b>Total</b>	<b>\$2,914.8</b>	<b>1.63%</b>
<b>Total Taxable Assessments<sup>(4)</sup></b>	<b>\$178,645.0</b>	

Source: City of Philadelphia, Office of Property Assessment.

(1) Figures may not sum due to rounding.

(2) Assessment Values rounded to the nearest \$100,000 and only include the largest assessed property for each taxpayer, additional properties owned by the same taxpayer are not included.

(3) Acquired by Prologis, Inc. in the first quarter of calendar year 2020.

(4) Total 2025 Taxable Assessment as of May 31, 2024.

**Table 10**  
**Ten Largest Certified Market and Assessment Values of Tax-Abated Properties**  
**Certified Values for 2025**  
**(Amounts in Millions of USD)<sup>(1), (2)</sup>**

Location	2025 Certified Market Value	Total Assessment	Total Taxable Assessment	Total Exempt Assessment	Exempt Through Tax Year
900 Packer Ave	\$440.0	\$440.0	\$43.8	\$396.2	2031
1800 Arch St	\$319.8	\$319.8	\$32.0	\$287.8	2027
2201 Park Towne Pl	\$276.9	\$276.9	\$166.0	\$110.9	2028
401 N Broad St	\$260.3	\$260.3	\$235.4	\$25.0	2025
1001-99 N Delaware Ave	\$242.0	\$242.0	\$129.0	\$113.0	2026
170 S Independence W Mall	\$186.5	\$186.5	\$157.3	\$29.1	2028
200 N 16th St	\$157.9	\$157.9	\$53.0	\$104.9	2029
1441 Chestnut St	\$156.5	\$156.5	\$15.6	\$140.8	2031
2400 Market St	\$151.8	\$151.8	\$39.5	\$112.2	2028
1112 N Hancock St Unit 1	\$150.0	\$150.0	\$15.0	\$135.0	2033

Source: City of Philadelphia, Office of Property Assessment.

<sup>(1)</sup> Figures may not sum due to rounding.

<sup>(2)</sup> Certified Values as of 05/31/2024.

### Sales and Use Tax

Pursuant to the authorization granted by the Commonwealth under the PICA Act, the City adopted a 1% sales and use tax (the “City Sales Tax”) for City general revenue purposes effective beginning in Fiscal Year 1992. It is imposed in addition to, and on the same basis as, the Commonwealth’s sales and use tax. Vendors are required to pay City Sales Taxes to the Commonwealth Department of Revenue together with the Commonwealth sales and use tax. The State Treasurer deposits the collections of City Sales Taxes in a special fund and disburses the collections, including any investment income earned thereon, less administrative fees of the Commonwealth Department of Revenue, to the City on a monthly basis.

The City’s budgets for Fiscal Years 2010-2014 provided for an increase in the City Sales Tax rate to 2%, as authorized by the Commonwealth effective October 8, 2009, through June 30, 2014. In July 2013, the Commonwealth authorized the implementation of a new, permanent 1% increase in the City Sales Tax rate effective July 1, 2014, which was adopted by the City on June 12, 2014 and became effective on July 1, 2014. Under the reauthorized City Sales Tax, the first \$120 million collected from the additional 1% is distributed to the School District. For Fiscal Years 2015-2018, the General Assembly authorized the City to use the next \$15 million of City Sales Tax revenues from such additional 1% collected in such Fiscal Years for the payment of debt service on obligations issued by the City for the benefit of the School District. Following such debt service payments, that remaining portion of the City Sales Tax revenues from such additional 1% distributed to the City is required to be used exclusively in accordance with Act 205 (as defined herein) and deposited to the Municipal Pension Fund. Post Fiscal Year 2018, all of the revenues from such additional 1% are required to be deposited to the Municipal Pension Fund.

The following table sets forth the City Sales Taxes collected in Fiscal Years 2021-2023, the budgeted amount and current estimate for Fiscal Year 2024, and the budgeted amount for Fiscal Year 2025.

**Table 11**  
**Summary of City Sales Tax Collections**  
**Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)**  
**(Amounts in Millions of USD)<sup>(1)</sup>**

<u>Fiscal Year</u>	<u>City Sales Tax Collections</u>
2021 (Actual)	\$230.4 <sup>(2)</sup>
2022 (Actual)	\$277.7 <sup>(2)</sup>
2023 (Actual)	\$302.2 <sup>(2)</sup>
2024 (Adopted Budget)	\$307.1 <sup>(2)</sup>
2024 (Current Estimate)	\$300.5 <sup>(2)</sup>
2025 (Adopted Budget)	\$316.9 <sup>(2)</sup>

<sup>(1)</sup> Sources: For Fiscal Years 2021-2023, the City's ACFRs for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR, as applicable. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget.

<sup>(2)</sup> Net collections estimated to be distributed to the City from the first 1% City Sales Tax and following the distribution of \$120 million of revenues from the second 1% City Sales Tax to the School District, as described above.

### **Real Property Transfer Tax**

Real Property Transfer Taxes are collected in connection with the sale of real property in the City. The Real Property Transfer Tax rate in the City is 4.278%, 3.278% of which is imposed by the City and 1% of which is charged by the Commonwealth. In the Fiscal Year 2023 ACFR, the City reported that it collected approximately \$378.8 million in revenues from the Real Property Transfer Tax in Fiscal Year 2023.

In the Thirty-Third Five-Year Plan (or with respect to Fiscal Year 2024, the FY 2024 Fourth Quarter QCMR), the City currently estimates that it will collect approximately (i) \$271.8 million (Fiscal Year 2024) and (ii) \$305.8 million (Fiscal Year 2025) in revenues from the Real Property Transfer Tax in such Fiscal Years.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## **Other Taxes**

The City also collects a Parking Tax, an Amusement Tax, a Valet Parking Tax, an Outdoor Advertising Tax, a Smokeless Tobacco Tax, the Philadelphia Beverage Tax (see below), and other miscellaneous taxes.

In June 2016, City Council passed the Philadelphia Beverage Tax (Chapter 19-4100 of the Philadelphia Code) (the “Philadelphia Beverage Tax”). On October 31, 2016, the Department of Revenue adopted regulations for the Philadelphia Beverage Tax. The Philadelphia Beverage Tax taxes the distribution of caloric and non-caloric sweetened beverages at 1.5 cents per ounce and became effective January 1, 2017.

The Philadelphia Beverage Tax is deposited into the General Fund, and with the additional revenue, the City has budgeted for pre-Kindergarten programs, community schools, and debt service for improvements to parks, playgrounds, recreation centers, and libraries, as contemplated by the City’s Rebuild program. In the Fiscal Year 2023 ACFR, the City reported that it collected approximately \$73.4 million in revenues from the Philadelphia Beverage Tax for Fiscal Year 2023.

In the Thirty-Third Five-Year Plan (or with respect to Fiscal Year 2024, the FY 2024 Fourth Quarter QCMR), the City currently estimates that it will collect approximately (i) \$70.3 million (Fiscal Year 2024) and (ii) \$71.2 million (Fiscal Year 2025) in revenues from the Philadelphia Beverage Tax in such Fiscal Years.

## **Collection Initiatives**

The City pursues a multifaceted strategy designed to improve on-time collections of various taxes while decreasing delinquencies. Key compliance strategies continue to include revocation of commercial licenses and sequestration, among others.

In addition to compliance efforts, the City has completed multiple technology projects – one to implement technology solutions for its cashiering and payments processing systems and another to develop an integrated data warehouse and case management system. These projects were prior to the City’s launch of its new tax system of record and its public facing counterpart, the Philadelphia Tax Center, which was completed in October 2022. These initiatives improve operational efficiencies, customer service and compliance, and drive enforcement efforts by providing tools previously unavailable to the City.

As a result of economic disruptions from the COVID-19 pandemic, the City modified its regular collection strategies. Throughout the pandemic, the Department of Revenue continued to send bills and notifications and pursue outreach efforts to both businesses and vulnerable residents. Some legal action, enforcement projects, and placements with collection agencies have resumed as economic conditions have improved, including the revocation of business licenses. The City continues to evaluate and pursue long-time delinquent accounts and place liens on properties for property-based taxes and fees. Along with existing flexible payment agreements for property tax and water fees, the City also launched new payment agreements for all business taxes to bring businesses affected by COVID-19 closures into compliance. Additionally, the Department of Revenue launched an “Offers in Compromise” program, which allows certain taxpayers to submit a request to settle their tax obligations for a payment of less than the full amount owed. Such requests are determined based on the taxpayer’s current and projected financial circumstances. The program is designed to bring long-time delinquent accounts into compliance.

In July 2024, the City resumed the Sheriff’s sale of properties with delinquent property tax accounts.

**Other Locally Generated Non-Tax Revenues**

These revenues include license fees and permit sales, traffic fines and parking meter receipts, court related fees, certain stadium revenues, interest earnings and other miscellaneous charges and revenues of the City. Beginning with Fiscal Year 2024, some of these revenues are no longer part of the General Fund and have been reassigned to the newly created Transportation Fund, which supports transportation activities including paving, traffic, engineering, school crossing guards, right-of-way management, public safety enforcement officers, surveys, and street lighting.

**Revenue from Other Governments**

The following table presents revenues received from other governmental jurisdictions for Fiscal Years 2021-2023, the budgeted amount and current estimate for Fiscal Year 2024, the budgeted amount for Fiscal Year 2025, and the percentage such revenues represent in the General Fund. The table does not reflect substantial amounts of revenues from other governments received by the Grants Revenue Fund, Community Development Fund, and other operating and capital funds of the City.

**Table 12**

**Revenue from Other Governmental Jurisdictions**

**Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)**  
**(Dollar Amounts in Millions of USD)<sup>(1), (2), (3)</sup>**

<b>Fiscal Year</b>	<b>Commonwealth<sup>(4)</sup></b>	<b>Federal Government</b>	<b>Other Governments<sup>(5)</sup></b>	<b>Total</b>	<b>Percentage of General Fund Revenues</b>
2021 (Actual)	\$229.8	\$62.4 <sup>(6)</sup>	\$35.4	\$327.6	7.0%
2022 (Actual)	\$228.9	\$84.6 <sup>(6)</sup>	\$62.6	\$376.1	6.5%
2023 (Actual)	\$252.7	\$42.9	\$67.6	\$363.2 <sup>(7)</sup>	6.0%
2024 (Adopted Budget)	\$256.9	\$29.3	\$64.0	\$350.2	5.8%
2024 (Current Estimate)	\$269.1	\$32.6	\$64.7	\$366.4	6.2%
2025 (Adopted Budget)	\$296.1	\$37.3	\$65.1	\$398.5	6.4%

<sup>(1)</sup> Sources: Derived from the applicable adopted budgets and five-year plans for the given Fiscal Year.

<sup>(2)</sup> Figures may not sum due to rounding.

<sup>(3)</sup> Does not include the PICA Tax.

<sup>(4)</sup> Such revenues are for health, welfare, court, and various other specified purposes.

<sup>(5)</sup> Such revenues primarily consist of payments from PGW, parking fines and fees from PPA, and other authorized adjustments.

<sup>(6)</sup> Includes federal relief funding from the CARES Act.

<sup>(7)</sup> Does not include other authorized adjustments of \$59.1 million.

**Revenues from City-Owned Systems**

In addition to taxes, the City realizes revenues through the operation of various City-owned systems, such as the Water and Wastewater Systems and PGW. The City has issued revenue bonds with respect to the Water and Wastewater Systems and PGW to be paid solely from and secured by a pledge of the respective revenues of these systems. The revenues of the Water and Wastewater Systems and PGW are not legally available for payment of other obligations of the City until, on an annual basis, all bond debt service requirements and covenants relating to those bonds have been satisfied, and then only in a limited amount and upon satisfaction of certain other conditions.



Water Fund. The revenues of the Water Department are required to be segregated from other funds of the City. Under the City’s Restated General Water and Wastewater Revenue Bond Ordinance of 1989 (the “Water Ordinance”), an annual transfer may be made from the Water Fund to the City’s General Fund in an amount not to exceed the lesser of (i) all Net Reserve Earnings and (ii) \$4,994,000. “Net Reserve Earnings” means the amount of interest earnings during the Fiscal Year on amounts in the Debt Reserve Account and Subordinated Bond Fund, each as defined in the Water Ordinance.

The following table shows the amounts transferred from the Water Fund to the General Fund for Fiscal Years 2021-2023, the budgeted amount and current estimate for Fiscal Year 2024, and the budgeted amount for Fiscal Year 2025.

**Table 13**  
**Transfers from Water Fund to General Fund (Excess Interest on Sinking Fund Reserve)**  
**Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)<sup>(1), (2)</sup>**

Fiscal Year	Amount Transferred
2021 (Actual)	\$2,586,100
2022 (Actual)	\$575,643
2023 (Actual)	\$0
2024 (Adopted Budget)	\$1,500,000
2024 (Current Estimate)	\$1,500,000
2025 (Adopted Budget)	\$1,500,000

<sup>(1)</sup> Sources: For Fiscal Years 2021-2023, the City’s Supplemental Report of Revenues & Obligations for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the Thirty-Third Five-Year Plan. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan.

<sup>(2)</sup> The Water Department’s budgeted amount for such transfers is typically greater than the figure included in the City’s operating budget.

The City also budgets for certain transfers from the Water Fund to the General Fund related to services performed and costs borne by the General Fund. For Fiscal Year 2022, the amount of such transfers was approximately \$6.5 million. For Fiscal Year 2023, the amount of such transfers was approximately \$4.6 million. For Fiscal Year 2024, the budgeted amount of such transfers is approximately \$7.5 million, while the current estimate is \$5.4 million. For Fiscal Year 2025, the budgeted amount of such transfers is approximately \$5.7 million.

PGW. The revenues of PGW are required to be segregated from other funds of the City. Payments for debt service on PGW bonds are made directly by PGW. PGW is required to make an annual payment of \$18 million to the General Fund. The Fiscal Year 2025 Adopted Budget includes such \$18 million annual payment to the General Fund from PGW for such Fiscal Year. For more information on PGW, see “THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Government Services.”

### **Philadelphia Parking Authority Revenues**

The PPA was established by City ordinance pursuant to the Pennsylvania Parking Authority Law (P.L. 458, No. 208 (June 5, 1947)). Various statutes, ordinances, and contracts authorize the PPA to plan, design, acquire, hold, construct, improve, maintain and operate, own or lease land and facilities for parking in the City, including such facilities at PHL, and to administer the City’s on-street parking program.

The PPA owned and operated five parking garages and a number of surface parking lots at PHL (collectively, the “Improvements”). The land on which these garages and surface lots are located was previously leased from the City, acting through the Department of Aviation, pursuant to a lease originally expiring in 2030 (the “Lease Agreement”). On August 14, 2020, pursuant to the Lease Agreement and that certain Parking Services Contract, the City exercised its option to purchase the Improvements. As of the date of this Official Statement, the City has terminated the Lease Agreement and provided the requisite funds to redeem the debt issued and outstanding under the PPA’s bond indenture related to the Improvements. The PPA now manages the PHL parking facilities under a management agreement with the City.

The PPA’s administrative costs are a component of its operating expenses. In 1999, at the request of the Federal Aviation Administration (“FAA”), the PPA and the City entered into a letter agreement (the “FAA Letter Agreement”), which contained a formula for calculating the PPA’s administrative costs and capped such costs at 28% of the PPA’s total administrative costs for all of its cost centers. The PPA owns and/or operates parking facilities at a number of locations in the City in addition to those at PHL. The PPA parking facilities at PHL are cost centers for purposes of the FAA Letter Agreement.

On-street parking revenues are administered and collected, on behalf of the City, by the PPA. Pursuant to Pennsylvania law, the PPA transmits these revenues to the City, net of any actual expenses incurred in the administration of the on-street parking system in accordance with the PPA’s approved budget. If such net revenues exceed a designated threshold, then any excess above that threshold is to be transmitted to the School District by PPA. The current threshold is estimated to be \$42.3 million and includes a mandatory escalator to take into account increases in revenues.

The following table presents payments received by the City from PPA for on-street parking and parking at certain off-street parking lots for Fiscal Years 2021-2023, the budgeted amount and current estimate for Fiscal Year 2024, and the budgeted amount for Fiscal Year 2025.

**Table 14**  
**PPA Payments to the City**  
**Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)<sup>(1), (2)</sup>**  
**(Amounts in Millions of USD)**

Fiscal Year	Payments to the City
2021 (Actual)	\$25.6
2022 (Actual)	\$44.6
2023 (Actual)	\$48.7
2024 (Adopted Budget)	\$45.7
2024 (Current Estimate)	\$45.7
2025 (Adopted Budget)	\$46.7

<sup>(1)</sup> Sources: For Fiscal Years 2021-2023, the City’s Supplemental Report of Revenues & Obligations for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the Thirty-Third Five-Year Plan. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan.

<sup>(2)</sup> Table 14 shows City revenues; none of such payments is transferred to the School District.

## Other Tax Rate Changes

The resident and non-resident Wage and Earnings Tax rates for Fiscal Years 2024-2029 are shown in the following table, which are maintained for the life of the Thirty-Third Five-Year Plan.

**Table 15**  
**Wage and Earnings Tax Rates<sup>(1)</sup>**

<b>Thirty-Third Five-Year Plan</b>		
<u>Fiscal Year</u>	<u>Resident Wage and Earnings Tax Rates<sup>(2)</sup></u>	<u>Non-Resident Wage and Earnings Tax Rates</u>
2024	3.75%	3.44%
2025	3.75%	3.44%
2026	3.75%	3.44%
2027	3.75%	3.44%
2028	3.75%	3.44%
2029	3.75%	3.44%

<sup>(1)</sup> Source: The Thirty-Third Five-Year Plan.

<sup>(2)</sup> Includes PICA Tax. See "DEBT OF THE CITY – PICA Bonds" for a description of the PICA Tax.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## EXPENDITURES OF THE CITY

Three of the principal City expenditures are for personal services (personnel) (including pensions and other employee benefits), purchase of services (including payments to SEPTA), and debt service. The expenditures for personal services (personnel) and purchase of services are addressed below under this caption; debt service is addressed below under “DEBT OF THE CITY.”

### Personal Services (Personnel)

As of June 30, 2024, the City employed 27,119 full-time employees, representing approximately 3.8% of employees in Philadelphia (approximately 720,237 employees, according to preliminary, non-seasonally adjusted data from the Bureau of Labor Statistics). Of the 27,119 full-time employees, the salaries of 20,865 were paid from the General Fund. Additional sources of funding for full-time City employees include the Grants Revenue Fund, the Water Fund, and the Aviation Fund, as well as grants and contributions from other governments. Activities funded through such grants and contributions are not undertaken if funding is not received. The following table sets forth the number of filled, full-time positions of the City as of the dates indicated.

**Table 16**  
**Filled, Full-Time Positions<sup>(1), (2)</sup>**

	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2023</u>	<u>June 30, 2024</u>
<u>General Fund</u>					
Police	7,175	6,869	6,651	6,351	6,204
Fire	2,628	2,678	2,667	2,794	2,815
Courts	1,825	1,773	1,686	1,685	1,707
Prisons	1,975	1,620	1,393	1,312	1,266
Streets	1,925	1,941	2,072	2,068	1,495
Public Health	739	716	689	690	730
Human Services <sup>(3)</sup>	437	492	492	535	441
All Other	<u>5,718</u>	<u>5,541</u>	<u>5,405</u>	<u>5,836</u>	<u>6,207</u>
<u>Total – General Fund</u>	<u>22,422</u>	<u>21,630</u>	<u>21,055</u>	<u>21,271</u>	<u>20,865</u>
<u>Other Funds</u>	<u>5,917</u>	<u>5,579</u>	<u>5,377</u>	<u>5,321</u>	<u>6,254</u>
<u>Total – All Funds</u>	<u>28,339</u>	<u>27,209</u>	<u>26,432</u>	<u>26,592</u>	<u>27,119</u>

<sup>(1)</sup> Source: Table P-1 in the City’s Quarterly City Manager’s Reports.

<sup>(2)</sup> Table 16 does not include part-time, seasonal, or temporary employees.

<sup>(3)</sup> Positions have been transferred to the Grants Revenue Fund. Non-reimbursed expenditures will be transferred to the General Fund during the fiscal year.

### Overview of City Employees

The wages and benefits of City employees vary not only by position, but also by whether the employees are represented by a union and, if so, which union. Employee wages and benefits may also be impacted by whether the employee is subject to the civil service system or exempt from those rules. Thus, City employees may be broken down into three major categories for purposes of understanding how their wages and benefits are determined: (i) employees who are not subject to the civil service system (“exempt employees”); (ii) employees who fall under the civil service system but are not represented by a union (“non-represented employees”); and (iii) employees who are subject to the civil service system and are represented by a union (“union employees”).

As of August 2024, the City had approximately 22,401 unionized employees, representing approximately 81% of the City's employees. Such employees were represented by the City's five municipal unions: (i) Fraternal Order of Police ("FOP") Lodge No. 5; (ii) International Association of Fire Fighters ("IAFF") Local 22; (iii) American Federation of State, County and Municipal Employees District Council 33 ("AFSCME DC 33"); (iv) American Federation of State, County and Municipal Employees District Council 47 ("AFSCME DC 47"); and (v) United Steelworkers Local 286 ("Steelworkers Local 286"). Table 18 below describes certain aspects of the collective bargaining agreements ("CBAs") or interest arbitration awards with the City's municipal unions.

In Fiscal Year 2022, the City received arbitration awards with the FOP and IAFF and reached CBAs with AFSCME DC 33 and AFSCME DC 47 covering the period July 1, 2022 through June 30, 2024. In Fiscal Year 2023, the City received an arbitration award with AFSCME DC 33, Local 159 Correctional Officers ("AFSCME DC 33 Local 159"). On August 12, 2022, the economic portion of the CBA with one new bargaining unit, Steelworkers Local 286, was resolved. The negotiations for the non-economic matters remain ongoing. During Fiscal Year 2024, the City reached a one-year extension with the FOP, IAFF, Deputy Sheriffs and Office of the Register of Wills, AFSCME DC 33, Local 159, and Steelworkers, Local 286 as noted in the sections below. During Fiscal Year 2025, the City reached a one-year extension with AFSCME DC 47, Locals 2186 and 2187, as noted in the sections below.

A brief description of certain terms of the current labor agreements is included below.

On September 3, 2021, a CBA, covering Fiscal Years 2022-2024, was reached with AFSCME DC 33 and provides for, among other things, (i) wages increases of 2.5%, 3.25%, and 3.25% in Fiscal Years 2022, 2023, and 2024, respectively, (ii) a one-time lump sum bonus for members (\$1,200 per member), and (iii) an increase to the City's monthly payments to the union health and welfare fund (item (iii) also applies to AFSCME DC 33 Local 159, which shares a common health fund with AFSCME DC 33, as described below). The CBA was ratified by AFSCME DC 33 members on September 24, 2021. Such agreement is expected to result in a projected aggregate cost to the City of approximately \$138.0 million over the course of Fiscal Years 2022-2024.

AFSCME DC 33 and AFSCME DC 33 Local 159 share a common health fund. Under prior CBAs, the cost of bonuses for such unions have been partially offset by reduced monthly City contributions to the health fund. Such reduced monthly contributions have been paused and the City is currently making full contributions to the health fund. It is not known at this time when or if the reduced monthly contributions may resume.

On November 15, 2023, the City and the FOP Lodge 5 (Police Department) entered into a one-year extension of the existing CBA, covering Fiscal Year 2025. It provides for (i) wage increases of 5%, (ii) a one-time lump sum bonus of \$1,800, (iii) a one-time lump sum payment of \$4.5 million dollars to the Joint Retiree Trust Fund, and (iv) a \$14 increase to current meal allowances, effective July 1, 2024. Such agreement is expected to result in a projected aggregate cost to the City of approximately \$51.7 million over the course of Fiscal Year 2025.

On December 19, 2023, the City and IAFF entered into a one-year extension of the existing CBA, covering Fiscal Year 2025. It provides for (i) wage increases of 5%; (ii) a onetime lump sum bonus of \$1,800; (iii) a one-time lump sum payment of \$3,050,000 to the Joint Retiree Trust Fund; and (iv) reimbursement to the union of reasonable and necessary funeral expenses associated with a line of duty death, up to a maximum of \$75,000. The extension was ratified by IAFF members on or about February

1, 2024. Such agreement is expected to result in a projected aggregate cost to the City of approximately \$22.2 million over the course of Fiscal Year 2025.

On December 8, 2023, the City and FOP Lodge No. 5 (Sheriff's Office and Register of Wills ("ROW")) entered into a one-year extension of the existing CBA, covering Fiscal Year 2025. It provides for (i) wage increases for Sheriffs of 4.5%; (ii) wage increases for ROW consistent with those negotiated with AFSCME District Council 33 (not yet negotiated); (iii) a one-time lump sum bonus for members (\$1,500 for the Sheriffs and, for ROW, the same bonus as negotiated with AFSCME District Council 33 (not yet negotiated)). Such agreement is expected to result in a projected aggregate cost to the City of approximately \$1.5 million over the course of Fiscal Year 2025.

The City and Steelworkers Local 286 agreed to the terms of a one-year extension (a 4.25% salary increase for Fiscal Year 2025, which will increase to 4.4%, and a \$1,300 bonus). Such agreement was ratified by the union members on June 1, 2024.

On June 17, 2024, an arbitration panel issued a one-year extension of the arbitration award for AFSCME DC 33 Local 159, which includes a 4.5% salary increase for Fiscal Year 2025 and a \$1,600 bonus.

On August 1, 2024, the City and AFSCME DC 47 agreed to the terms of a one-year extension (a 4.4% salary increase for Fiscal Year 2025 (and the last pay period of Fiscal Year 2024) and a \$1,400 bonus), which was ratified by the members on August 9, 2024.

On August 1, 2024, the City and AFSCME DC 47 Local 810 (representing professional rank and file employees at the First Judicial District) and Local 2186 (representing first-level supervisor at the First Judicial District) agreed to the terms of a one-year extension (a 4.4% salary increase for Fiscal Year 2025 (and the last pay period of Fiscal Year 2024) and a \$1,400 bonus), which was ratified by the members on August 19, 2024.

The City is currently negotiating with AFSCME DC 33.

Pension reforms that were agreed to in the 2017 labor agreements are maintained in the labor agreements described above.

The costs of the labor agreements discussed above have been included in the City's five-year plans, as applicable. See "DISCUSSION OF FINANCIAL OPERATIONS – Current Financial Information" herein).

For more information on the current status of the interest arbitration awards that have been issued for, and contract settlements reached with, the City's major labor organizations, as well as changes that have been made for non-represented employees, see Table 18.

Collective bargaining with respect to the wages, hours and other terms and conditions of employment of union employees, other than uniformed employees of the Police Department and the Fire Department, is governed by the Public Employee Relations Act (Pa. P.L. 563, No. 195 (1970)) ("PERA"). PERA requires the City and the unions to negotiate in good faith to attempt to reach agreement on new contract terms and, if an impasse exists after such negotiations, to mediate through the Commonwealth Bureau of Mediation. Once the mediation procedures have been satisfied, and if no CBA has been reached, most employees covered by PERA are permitted to strike. Certain employees, however,

including employees of the Sheriff's Office and the Register of Wills represented by the FOP, corrections officers represented by AFSCME DC 33, and employees of the First Judicial District represented by AFSCME DC 47, are not permitted to strike under PERA. These employees must submit any impasse to binding interest arbitration once the mediation procedures have been satisfied. PERA permits parties at an impasse, which are not required to submit to binding interest arbitration, to do so voluntarily. Provisions of an interest arbitration award issued under PERA that require legislative action are considered advisory only and the legislative body is permitted to meet, consider, and reject those provisions.

Uniformed employees of the Police Department and the Fire Department bargain under the Policemen and Firemen Collective Bargaining Act (Pa. P.L. 237, No. 111 (1968)) ("Act 111"), which provides for final and binding interest arbitration to resolve collective bargaining impasses and prohibits these employees from striking. Interest arbitration under Act 111 operates similarly to interest arbitration under PERA, but City Council is not permitted to reject the portions of an interest arbitration award that require legislative action. To the contrary, City Council is required to pass any legislation necessary to implement the award unless doing so would violate state or federal law. Thus, the arbitration panel has significant, although not limitless, power to issue an award on mandatory subjects of bargaining. As with interest arbitration under PERA, the arbitration panel cannot issue an award on a matter that is one of inherent managerial policy. In addition to the grounds available to challenge a PERA interest arbitration award on appeal, the PICA Act requires an Act 111 interest arbitration panel to, among other things, give substantial weight to the City's five-year plan and ability to pay for the cost of the award without negatively impacting services, and gives the City the right to appeal the award to the Court of Common Pleas if it believes the panel has failed to meet these responsibilities. If the arbitration panel fails to do so or, among other things, if it awards wages or benefits that exceed what is assumed in the most-recent five-year plan without substantial evidence in the record demonstrating that the City can afford these increases without adversely impacting service levels, the Court of Common Pleas is required to vacate the arbitration award and remand it to the arbitration panel.

### **Overview of Employee Benefits**

The City provides various pension, life insurance, and health benefits for its employees. The benefits offered depend on the employee's union status and bargaining unit, if applicable. Health equity and tackling the social determinants of health are the top priorities for the City's health plans. The City participated in an 18-month project with the Center for Disease Control (CDC) to evaluate the effectiveness of benefits programming based upon established national standards. The City received the highest rating in this project and its participation created a road map for future health benefit improvements. General Fund employee benefit expenditures for Fiscal Years 2020 through 2024 are shown in the following table.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

**Table 17**  
**General Fund Employee Benefit Expenditures**  
**Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)**  
**(Amounts in Millions of USD)<sup>(1)</sup>**

	<u>Actual 2021</u>	<u>Actual 2022</u>	<u>Actual 2023</u>	<u>Adopted Budget 2024</u>	<u>Current Estimate 2024</u>	<u>Adopted Budget 2025</u>
Pension Costs <sup>(2)</sup>	\$664.4 <sup>(5)</sup>	\$1,031.4 <sup>(6)</sup>	\$929.7 <sup>(7)</sup>	\$868.2 <sup>(8)</sup>	\$826.8 <sup>(9)</sup>	\$833.1 <sup>(10)</sup>
Health						
Payments under City-administered plan	81.2	91.9	90.3	120.6	126.5	152.9
Payments under union-administered plans	<u>358.8</u>	<u>392.4</u>	<u>409.5</u>	<u>456.1</u>	<u>456.1</u>	<u>455.1</u>
Total Health	440.0	484.3	499.8	576.7	582.6	608.0
Federal Insurance Contributions Act (FICA) Taxes <sup>(3)</sup>	81.5	81.9	89.1	98.2	98.2	101.7
Other <sup>(4)</sup>	<u>84.4</u>	<u>92.4</u>	<u>107.3</u>	<u>117.9</u>	<u>117.9</u>	<u>134.3</u>
<b>Total</b>	<u><b>\$1,270.3</b></u>	<u><b>\$1,690.0</b></u>	<u><b>\$1,625.9</b></u>	<u><b>\$1,661.0</b></u>	<u><b>\$1,625.5</b></u>	<u><b>\$1,677.1</b></u>

<sup>(1)</sup> Sources: The City’s five-year financial plans and the City’s Quarterly City Manager’s Reports. “Payments under City-administered plan” and “Payments under union-administered plans” were provided by the City, Department of Human Resources and the Office of Budget and Program Evaluation. Figures may not sum due to rounding.

<sup>(2)</sup> Includes debt service on Pension Bonds (as defined herein) and the Commonwealth contributions to the Municipal Pension Fund. See Tables 29 and 30.

<sup>(3)</sup> Includes payments of social security and Medicare taxes.

<sup>(4)</sup> Includes payments for unemployment compensation, employee disability, group life, group legal, tool allowance, and flex cash payments (and COVID-19 funeral expenses for Actual 2022 and Current Estimate 2023).

<sup>(5)</sup> Includes \$55.2 million from City Sales Tax revenues for the Municipal Pension Fund. See “REVENUES OF THE CITY – Sales and Use Tax.”

<sup>(6)</sup> Includes \$78.8 million from City Sales Tax revenues for the Municipal Pension Fund. See “REVENUES OF THE CITY – Sales and Use Tax.”

<sup>(7)</sup> Includes \$92.1 million from City Sales Tax revenues for the Municipal Pension Fund. See “REVENUES OF THE CITY – Sales and Use Tax.”

<sup>(8)</sup> Assumes \$85.4 million from City Sales Tax revenues for the Municipal Pension Fund. See “REVENUES OF THE CITY – Sales and Use Tax.”

<sup>(9)</sup> Assumes \$90.2 million from City Sales Tax revenues for the Municipal Pension Fund. See “REVENUES OF THE CITY – Sales and Use Tax.”

<sup>(10)</sup> Assumes \$98.5 million from City Sales Tax revenues for the Municipal Pension Fund. See “REVENUES OF THE CITY – Sales and Use Tax.”

Each of the City’s four municipal unions sponsors its own health plan that provides medical, prescription, dental and optical benefits to participating employees and eligible retirees through trusts on which the City has varying degrees of minority representation. Exempt and non-represented employees, along with represented employees of the Register of Wills, certain employees represented by AFSCME DC 33, and employees represented by Steelworkers Local 286 who have chosen not to become members of the union’s healthcare plan, receive health benefits through a plan sponsored and administered by the City. Each of the plans provides different benefits determined by the plan sponsor or through collective bargaining. To provide health care coverage, the City pays a negotiated monthly premium for employees covered by the union contract for AFSCME DC 33 and is self-insured for all other eligible employees. Aside from AFSCME DC 33, the City is responsible for the actual health care cost that is invoiced to the City’s unions by their respective vendors. The actual cost can be a combination of self-insured claim expenses, premiums, ancillary services, and administrative expenses. In addition, employees who satisfy certain eligibility criteria receive five years of health benefits after their retirement. See “OTHER POST-EMPLOYMENT BENEFITS” below. Such benefits are determined and administered by the plan in which the employee participated at the time of his or her retirement. Other employee benefits, including life insurance and paid leave, are similarly determined by the respective CBAs, as well as City policies and Civil Service Regulations. Employees also participate in the Municipal Pension Plan. See “PENSION SYSTEM” below.



## Overview of Current Labor Contract Settlements

Table 18 summarizes the current status of the contract settlements reached with the City’s major labor organizations, as well as changes that have been made for non-represented employees. It also provides a brief summary of pension reforms that have occurred since 2016, as part of previous labor contract settlements. The following table does not include exempt employees or employees from Steelworkers Local 286 (which as of August 31, 2024 totaled 4,043 and 664, respectively).

**Table 18**  
**Status of Arbitration Awards and Labor Contract Settlements**

<u>Organization</u>	<u>Authorized Number of Full-Time Citywide Employees Represented<sup>(1)</sup></u>	<u>Status of Arbitration Award or Contract Settlement</u>	<u>Wage Increases</u>	<u>Pension Reforms<sup>(2)</sup></u>
FOP Lodge No. 5 (Police Department)	5,560	One-year contract extension effective July 1, 2024	<ul style="list-style-type: none"> <li>5.00% in Fiscal Year 2025</li> </ul>	<ul style="list-style-type: none"> <li>Current employees in Plan 87 or Plan 10 will pay an additional .92% of salary effective 7/1/17, increasing by an additional .92% of salary effective 7/1/18 (total increase of 1.84%). These contributions are on top of the current 5% or 6% contribution rates in effect, varies by plan membership</li> <li>Employees hired on or after 7/1/17 are required to pay an additional 2.5% of salary</li> </ul>
FOP Lodge No. 5 (Sheriff’s Office and Register of Wills)	293	One-year contract extension effective July 1, 2024	<p><u>Sheriff’s Office employees:</u></p> <ul style="list-style-type: none"> <li>4.50% in Fiscal Year 2025</li> </ul> <p><u>Register of Wills employees:</u></p> <ul style="list-style-type: none"> <li>2.50% in Fiscal Year 2022</li> <li>3.25% in Fiscal Year 2023</li> <li>3.25% in Fiscal Year 2024</li> <li><i>Fiscal Year 2025 to be negotiated</i></li> </ul>	<ul style="list-style-type: none"> <li>Tiered contribution system for current employees under which employees who have higher salaries pay a higher percent of their salaries as contributions to the pension fund</li> <li>Mandatory stacked-hybrid plan for new hires under which employees receive a defined benefit pension for their first \$65,000 of earnings and a defined contribution pension for earnings above \$65,000</li> <li>Plan 10 is closed to new enrollment for members of Lodge 5</li> <li>DROP (as defined below) interest rate decreases from 4.5% to the rate on the one-year treasury effective January 1 of each year for participants not currently enrolled or eligible to enroll</li> </ul>
IAFF Local 22	2,742	One-year contract effective July 1, 2024	<ul style="list-style-type: none"> <li>5.00% in Fiscal Year 2025</li> </ul>	<ul style="list-style-type: none"> <li>Current employees in Plan 87 or Plan 10 will pay an additional .92% of salary effective 7/1/17, increasing by an additional .92% of salary effective 7/1/18 (total increase of 1.84%). These contributions are on top of the current 5% or 6% contribution rates in effect; varies by plan membership</li> <li>Employees hired on or after 7/1/17 are required to pay an additional 2.5% of salary</li> </ul>
AFSCME DC 33	7,513	Three-year contract effective July 1, 2021 through June 30, 2024	<ul style="list-style-type: none"> <li>2.50% in Fiscal Year 2022</li> <li>3.25% in Fiscal Year 2023</li> <li>3.25% in Fiscal Year 2024</li> </ul>	<ul style="list-style-type: none"> <li>Tiered contribution system for current employees under which employees who have higher salaries pay a higher percent of their salaries as contributions to the pension fund</li> <li>Mandatory stacked-hybrid plan for new hires under which employees receive a defined benefit pension for their first \$65,000 of earnings and a defined contribution pension for earnings above \$65,000</li> <li>Plan 10 is closed to new enrollment for members of DC 33</li> <li>DROP interest rate decreases from 4.5% to the rate on the one-year treasury effective January 1 of each year for participants not currently enrolled or eligible to enroll</li> </ul>

<sup>(1)</sup> From data provided by the Department of Labor in August 31, 2024.

<sup>(2)</sup> “Plan 87,” “Plan 10,” and “Plan 16” referenced in this column are described in Table 19.

<u>Organization</u>	<u>Authorized Number of Full-Time Citywide Employees Represented</u> <sup>(1)</sup>	<u>Status of Arbitration Award or Contract Settlement</u>	<u>Wage Increases</u>	<u>Pension Reforms</u> <sup>(2)</sup>
AFSCME DC 33, Local 159 Correctional Officers	1,335	One-year contract extension effective July 1, 2024	<ul style="list-style-type: none"> <li>• 2.75% in Fiscal Year 2022</li> <li>• 3.25% in Fiscal Year 2023</li> <li>• 3.25% in Fiscal Year 2024</li> <li>• 4.50% in Fiscal Year 2025</li> </ul>	<ul style="list-style-type: none"> <li>• Tiered contribution system for current employees under which employees who have higher salaries pay a higher percent of their salaries as contributions to the pension fund</li> <li>• Mandatory stacked-hybrid plan for new hires under which employees receive a defined benefit pension for their first \$65,000 of earnings and a defined contribution pension for earnings above \$65,000</li> <li>• Plan 10 is closed to new enrollment for members of DC 33</li> <li>• DROP interest rate decreases from 4.5% to the rate on the one-year treasury effective January 1 of each year for participants not currently enrolled or eligible to enroll</li> </ul>
AFSCME DC 47	3,881	One-year contract extension effective July 1, 2024	<ul style="list-style-type: none"> <li>• 2.50% in Fiscal Year 2022</li> <li>• 3.25% in Fiscal Year 2023</li> <li>• 3.25% in Fiscal Year 2024</li> <li>• 4.40% in Fiscal Year 2025</li> </ul>	<ul style="list-style-type: none"> <li>• Tiered contribution system for current employees under which employees who have higher salaries pay a higher percent of their salaries as contributions to the pension fund (effective January 1, 2019)</li> <li>• Mandatory stacked-hybrid plan for new hires under which employees receive a defined benefit pension for their first \$65,000 of earnings and a defined contribution pension for earnings above \$65,000 (effective January 1, 2019)</li> <li>• Plan 10 is closed to new enrollment for members of DC 47 (effective January 1, 2019)</li> </ul>
AFSCME DC 47 Local 810 Court Employees	385	One-year contract extension effective July 1, 2024	<ul style="list-style-type: none"> <li>• 2.50% in Fiscal Year 2022 (plus \$1,200 bonus)</li> <li>• 3.25% in Fiscal Year 2023</li> <li>• 3.25% in Fiscal Year 2024</li> <li>• 4.40% in Fiscal Year 2025</li> </ul>	<ul style="list-style-type: none"> <li>• Tiered contribution system for current employees under which employees who have higher salaries pay a higher percent of their salaries as contribution to the pension fund (effective January 1, 2019)</li> <li>• Mandatory stacked-hybrid plan for new hires under which employees receive a defined benefit pension for their first \$65,000 of earnings and a defined contribution pension for earnings above \$65,000 (effective January 1, 2019)</li> <li>• Plan 10 is closed to new enrollment for members of DC 47 (effective January 1, 2019)</li> </ul>
Non-Represented Employees	1,229	Changes for non-represented employees	<ul style="list-style-type: none"> <li>• 2.50% in Fiscal Year 2022</li> <li>• 3.25% in Fiscal Year 2023</li> <li>• 3.25% in Fiscal Year 2024</li> <li>• 4.40% in Fiscal Year 2025</li> </ul>	<ul style="list-style-type: none"> <li>• Tiered contribution system for current employees under which employees who have higher salaries pay a higher percent of their salaries as contribution to the pension fund (effective January 1, 2019)</li> <li>• Mandatory stacked-hybrid plan for new hires under which employees receive a defined benefit pension for their first \$65,000 of earnings and a defined contribution pension for earnings above \$65,000 (effective January 1, 2019)</li> <li>• Previous 2011 reforms to DROP program remain in place; interest rate was decreased from 4.5% to the rate on the one-year treasury effective January 1 of each year for participants not currently enrolled or eligible to enroll and eligibility age remains increased by two years</li> </ul>

<sup>(1)</sup> From data provided by the Department of Labor in August 31, 2024.

<sup>(2)</sup> “Plan 87,” “Plan 10,” and “Plan 16” referenced in this column are described in Table 19.

Certain features of the 1987 Plan (“Plan 87”), the 2010 Plan (“Plan 10”), and the 2016 Plan (“Plan 16”) are summarized below. Plan 87 is solely a defined benefit plan. Plan 10 and Plan 16 are “hybrid” plans that include both defined benefit and defined contribution components. A more comprehensive summary of each plan is included as Appendix D of the July 1, 2022 Valuation (as defined herein). See “PENSION SYSTEM” below.

**Table 19**  
**Summary of Key Aspects of Plan 87, Plan 10, and Plan 16**

<b>Plan 87</b>	<b>Normal Retirement Eligibility</b>	<b>Average Final Compensation (“AFC”)</b>	<b>Defined Benefit – Retirement Benefits Multiplier</b>
Municipal (Plan Y)	Age 60 and 10 years of credited service <sup>(1)</sup>	Average of three highest calendar or anniversary years	<ul style="list-style-type: none"> <li>(2.2% x AFC x years of service up to 10 years) plus (2.0% x AFC x numbers of years in excess of 10 years), subject to a maximum of 100% of AFC</li> </ul>
Police and Fire	Age 50 and 10 years of credited service <sup>(1)</sup>	Average of two highest calendar or anniversary years	<ul style="list-style-type: none"> <li>(2.2% x AFC x years of service up to 20 years) plus (2.0% x AFC x numbers of years in excess of 20 years), subject to a maximum of 100% of AFC</li> </ul>
Elected Official (Plan L)	Age 55 and 10 years of credited service <sup>(2)</sup>	Average of three highest calendar or anniversary years	<ul style="list-style-type: none"> <li>3.5% x AFC x years of service, subject to a maximum of 100% of AFC</li> </ul>
<b>Plan 10</b>	<b>Normal Retirement Eligibility</b>	<b>Average Final Compensation (“AFC”)</b>	<b>Defined Benefit – Retirement Benefits Multiplier</b>
Municipal	Age 60 and 10 years of credited service	Average of five highest calendar or anniversary years	<ul style="list-style-type: none"> <li>1.25% x AFC x years of service up to 20 years</li> </ul>
Police and Fire <sup>(3)</sup>	Age 50 and 10 years of credited service	Average of five highest calendar or anniversary years	<ul style="list-style-type: none"> <li>1.75% x AFC x years of service up to 20 years</li> </ul>
-----			
<b>Defined Contribution</b>			
<ul style="list-style-type: none"> <li>The City matches employee contributions at a 50% rate, with the total City match not to exceed 1.5% of compensation for each year.</li> <li>After five years of credited service, the full amount in the account is distributed to the employee when he or she separates from City service.</li> <li>The right to the portion of the account attributable to City contributions does not vest until the completion of five years of credited service.</li> </ul>			
<b>Plan 16</b>	<b>Normal Retirement Eligibility</b>	<b>Average Final Compensation (“AFC”)</b>	<b>Defined Benefit – Retirement Benefits Multiplier</b>
Municipal	Age 60 and 10 years of credited service	Lesser of (i) AFC under Plan Y (of Plan 87) (which is the average of three highest calendar or anniversary years) or (ii) \$65,000	<ul style="list-style-type: none"> <li>(2.2% x AFC x years of service up to 10 years) plus (2.0% x AFC x numbers of years in excess of 10 years), subject to a maximum of 100% of AFC</li> </ul>
-----			
<b>Defined Contribution</b>			
<ul style="list-style-type: none"> <li>Employees may voluntarily participate in the defined contribution portion; employee contributions vest immediately.</li> <li>For employees with annual salaries above the cap, the City matches employee contributions at a 50% rate, with the total City match not to exceed 1.5% of compensation for each year (only if employee is contributing); the City’s matching contributions vest after five years of credited service.</li> <li>The maximum annual employee contribution is \$20,500, excluding the City’s matching contributions.</li> </ul>			

<sup>(1)</sup> Five years of credited service for those who make additional contributions. See “PENSION SYSTEM – Pension System; Pension Board – Membership.”

<sup>(2)</sup> The lesser of two full terms or eight years of credited service for those elected officials who make additional contributions. See “PENSION SYSTEM – Pension System; Pension Board – Membership.”

<sup>(3)</sup> Under Plan 10 (Police and Fire), pension contributions freeze after 20 years. At such time and for each subsequent year, the employee’s pension payments remain fixed and the employee may no longer make pension contributions.

## Purchase of Services

The following table shows the City’s major purchase of services, which represents one of the major classes of expenditures from the General Fund. Table 20 shows contracted costs of the City for Fiscal Years 2021-2023, the budgeted amounts and current estimates for Fiscal Year 2024, and the budgeted amounts for Fiscal Year 2025.

**Table 20**  
**Purchase of Services in the General Fund**  
**Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)**  
**(Amounts in Millions of USD)<sup>(1), (7)</sup>**

	<u>Actual</u> <u>2021</u>	<u>Actual</u> <u>2022</u>	<u>Actual</u> <u>2023</u>	<u>Adopted</u> <u>Budget</u> <u>2024</u>	<u>Current</u> <u>Estimate</u> <u>2024</u>	<u>Adopted</u> <u>Budget</u> <u>2025</u>
Human Services <sup>(2)</sup>	\$123.4	\$138.8	\$151.0	\$180.5	\$180.5	\$182.6
Public Health	87.8	86.9	64.9	70.2	69.9	73.1
Public Property <sup>(3)</sup>	165.0	162.0	215.7	226.7	227.7	248.6
Streets <sup>(4)</sup>	67.2	60.4	70.7	60.6	57.4	62.4
First Judicial District	9.3	13.4	17.7	9.9	10.0	9.1
Licenses & Inspections	12.1	13.0	14.2	14.9	16.4	13.9
Homeless Services <sup>(5)</sup>	36.8	45.8	69.8	69.5	81.4	77.7
Prisons	95.2	97.9	108.4	111.9	120.9	119.8
All Other <sup>(6)</sup>	349.4	396.2	494.9	635.9	636.3	635.1
<b>Total</b>	<b><u>\$946.2</u></b>	<b><u>\$1,014.4</u></b>	<b><u>\$1,207.3</u></b>	<b><u>\$1,380.1</u></b>	<b><u>\$1,400.5</u></b>	<b><u>\$1,422.3</u></b>

<sup>(1)</sup> For Fiscal Years 2021-2023, the City’s Supplemental Report of Revenues & Obligations for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the Fiscal Year 2025 Adopted Budget, as applicable. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget.

<sup>(2)</sup> Includes payments for care of dependent and delinquent children.

<sup>(3)</sup> Includes payments for SEPTA, space rentals, and utilities.

<sup>(4)</sup> Includes solid waste disposal costs.

<sup>(5)</sup> Includes homeless shelter and boarding home payments.

<sup>(6)</sup> Includes the Convention Center subsidy, payments for vehicle leasing, and debt service on lease and service agreement financings, among other things.

<sup>(7)</sup> Figures may not sum due to rounding.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## City Payments to School District

The following table presents the City’s payments to the School District from the General Fund for Fiscal Years 2021-2023, the budgeted amount and current estimate for Fiscal Year 2024, and the budgeted amount for Fiscal Year 2025.

**Table 21**  
**City Payments to School District**  
**Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)**  
**(Amounts in Millions of USD)<sup>(1)</sup>**

	Actual 2021	Actual 2022	Actual 2023	Adopted Budget 2024	Current Estimate 2024	Adopted Budget 2025
City Payments to School District	\$252.6	\$256.0	\$270.0	\$282.1	\$282.1	\$284.1

<sup>(1)</sup> Sources: For Fiscal Years 2021-2023, the City’s ACFRs for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan.

For more discussion of the School District, see “THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Local Government Agencies – *Mayoral-Appointed or Nominated Agencies* – The School District,” above. For a discussion of changes in the funding provided by the City to the School District, see “REVENUES OF THE CITY – Sales and Use Tax.” For a discussion of the transition to AVI and how such transition affects funding for the School District, see “REVENUES OF THE CITY – Real Property Taxes.”

## City Payments to Southeastern Pennsylvania Transportation Authority (SEPTA)

SEPTA operates a public transportation system within the City and Bucks, Chester, Delaware, and Montgomery counties. SEPTA’s operating budget is supported by federal, Commonwealth, and local subsidies, including payments from the City. The following table presents the City’s payments to SEPTA from the General Fund for Fiscal Years 2021-2023, the budgeted amount and current estimate for Fiscal Year 2024, and the budgeted amount for Fiscal Year 2025.

**Table 22**  
**City Payments to SEPTA**  
**Fiscal Years 2021-2023 (Actual), 2024 (Adopted Budget and Current Estimate), and 2025 (Adopted Budget)**  
**(Amounts in Millions of USD)<sup>(1)</sup>**

	Actual 2021	Actual 2022	Actual 2023	Adopted Budget 2024	Current Estimate 2024	Adopted Budget 2025
City Payment to SEPTA	\$84.6	\$91.2	\$100.7	\$109.6	\$109.6	\$133.3

<sup>(1)</sup> Sources: For Fiscal Years 2021-2023, the City’s ACFRs for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan.

The City budgets operating subsidies each Fiscal Year to match the estimated operating subsidies of the Commonwealth under Act 89. The state operating subsidy is funded through the Pennsylvania Public Transportation Trust Fund as created by Act 44 of 2007, amended by Act 89 of 2013. The local match requirement is calculated to match state operating subsidies. In addition, local matching funds must be appropriated each Fiscal Year in which state funds are received in order for SEPTA to receive the full allocation of state funds. The Thirty-Third Five-Year Plan projects annual operating subsidy payments to SEPTA from the City will increase to approximately \$159.9 million by Fiscal Year 2029. For more information on SEPTA, see APPENDIX D – “TRANSPORTATION – Southeastern Pennsylvania Transportation Authority (SEPTA).”

### **City Payments to Convention Center Authority**

In connection with the financing of the expansion to the Pennsylvania Convention Center and the refinancing of debt for the original Pennsylvania Convention Center construction, the Commonwealth, the City, and the Convention Center Authority entered into an operating agreement in 2010 (the “Convention Center Operating Agreement”). The Convention Center Operating Agreement provides for the operation of the Convention Center by the Convention Center Authority and includes an annual subsidy of \$15,000,000 from the City to the Convention Center Authority in each Fiscal Year through Fiscal Year 2040.

As authorized by ordinance, the City has agreed to pay to the Convention Center Authority on a monthly basis a certain percentage of hotel room taxes and hospitality promotion taxes collected during the term of the Convention Center Operating Agreement. The remaining percentages of such taxes are paid to the City’s tourism and marketing agencies. The General Fund does not retain any portion of the proceeds of the hotel room rental tax or the hospitality promotion tax.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## PENSION SYSTEM

*The amounts and percentages set forth under this heading relating to the City's pension system, including, for example, actuarial liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including the investment return rates, inflation rates, salary increase rates, post-retirement mortality, active member mortality, rates of retirement, etc. The reader should review and carefully consider the assumptions set forth in the documents that are cited as the sources for the information in this section. In addition, the reader is cautioned that such sources and the underlying assumptions are relevant as of their respective dates, and are subject to changes, any of which could cause a significant change in the unfunded actuarial liability.*

*Each year, an actuarial valuation report of the City's pension system is published in late March or early April. Such report includes, as of July 1 of a given Fiscal Year, an examination of the current financial condition of the pension system, key historical trends, and the projected financial outlook of the pension system, among other information. In addition, an annual report on the audited financial statements of the City's pension system is published in late December or early January. The information included under the caption "PENSION SYSTEM" is derived from the actuarial valuation reports or the annual reports on the audited financial statements of the City's pension system, unless otherwise noted herein.*

### Overview

The City faces significant ongoing financial challenges in meeting its pension obligations, including an unfunded actuarial liability ("UAL") of approximately \$4.84 billion as of July 1, 2023. In Fiscal Year 2023, the City's contribution to the Municipal Pension Fund was approximately \$1,165.0 million, of which the General Fund's share (including the Commonwealth contribution) was \$1,023.4 million. See Table 29. With respect to the General Fund budget, the City's aggregate pension costs (consisting of payments to the Municipal Pension Fund and debt service on the Pension Bonds (as defined herein)) have ranged from a low of approximately 12.44% to a high of approximately 17.74% in Fiscal Years 2014-2023. See Table 31.

The funded ratio of the Municipal Pension Plan was 76.7% on July 1, 1999 (at which time the UAL was approximately \$1.4 billion), and was 62.2% on July 1, 2023 (at which time the UAL was approximately \$4.84 billion). These metrics are the product of a number of factors, including the following:

- The City and its actuary monitor declines in the fixed income and equity markets, the potential negative investment returns for the Municipal Pension System's assets, and the related impact on future City contributions to the Municipal Pension System. The actual investment return rate for Fiscal Year 2023 is reflected in the July 1, 2023 Valuation.
- A reduction in the assumed rate of return, from 8.75% as of July 1, 2008, to 7.35% effective July 1, 2023 (i.e., Fiscal Year 2024). The City also approved a further reduction in the assumed rate of return from 7.35% to 7.30% effective July 1, 2024 (Fiscal Year 2025). Although the gradual reductions in the assumed rates of return reflected in Table 24 are considered a prudent response to market conditions and experience studies, by reducing the assumed return in the measurement of the actuarial liabilities, it serves to increase the UAL from what it otherwise would have been.
- Adopting more conservative mortality rates in response to experience studies performed by the Municipal Pension Plan actuary.

- The Municipal Pension Plan is a mature system, which means the number of members making contributions to the Municipal Pension Plan is less than the number of retirees and other beneficiaries receiving payments from the Municipal Pension Plan, by approximately 11,100. As a result, the aggregate of member contributions and the City's contributions would be less than the amount of benefits and refunds payable in most years, with the result that in such years investment income must be relied upon to meet such difference before such income can contribute to an increase in the Municipal Pension System's assets growth. See Table 26 (which reflects that in Fiscal Years 2019-2023, however, the aggregate of member contributions and the City's contribution exceeded the amount of benefits and refunds payable in such Fiscal Years).
- The determination by the City, commencing in Fiscal Year 2005, to fund in accordance with the "minimum municipal obligation" ("MMO"), as permitted and as defined by Pennsylvania law, in lieu of the City Funding Policy (as defined herein), resulted in the City contributing less than otherwise would have been contributed. See below, "– Funding Requirements; Funding Standards."
- Revising, in Fiscal Year 2009, in accordance with Pennsylvania law, the period over which the UAL was being amortized, such that the UAL as of July 1, 2009 was "fresh started" to be amortized over a 30-year period ending June 30, 2039. In addition, changes were made to the periods over which actuarial gains and losses and assumption changes were amortized under Pennsylvania law. See "– UAL and its Calculation – Actuarial Valuations."

The City has taken a number of steps to address the funding of the Municipal Pension Plan, including the following:

- Reducing the assumed rate of return on a gradual and consistent basis, which results in the City making larger annual contributions. See Table 24 below.
- Adopting more conservative mortality rates in response to experience studies performed by the Municipal Pension Plan actuary reducing the potential for future experience losses due to mortality experience.
- Changing from a level percent of pay amortization schedule to a level dollar amortization schedule, in conjunction with the revisions to the amortization periods that occurred in Fiscal Year 2009. This results in producing payments that ensure that a portion of principal on the UAL is paid each year.
- Funding consistently an amount greater than the MMO. See Table 29.
- Entering into CBAs by which additional contributions are being made (and will be made) by certain current (and future) members and by which benefits will be capped for certain future members of the Municipal Pension Plan. See Table 18.
- Securing additional funding, including funds required to be deposited by the City to the Municipal Pension Fund from its share of sales tax revenue.
- Adopting a Revenue Recognition Policy or RRP (as defined and described below), by which sources of anticipated additional revenue that will be received by the Municipal Retirement System are specifically dedicated toward paying down the unfunded pension liability and not to reducing future costs of the City. The additional revenue is tracked and accumulated in a notional



account, which is then deducted from the Actuarial Asset Value to determine the contribution under the Revenue Recognition Policy. As a result, such contribution is higher than the MMO.

- Changing the investment strategy to increase the use of passive investment vehicles, which has resulted in increased returns and decreased fees.

As a result of (i) pension reforms adopting a defined benefit plan capped at \$65,000 for new municipal employees, along with increased employee contributions, (ii) a portion of the sales tax dedicated to paying down the UAL, (iii) the various other reforms mentioned above, and (iv) the City making contributions in excess of MMO and in some years in excess of RRP, the funded ratio of the Municipal Pension Plan increased from 49.7% in Fiscal Year 2019 to 62.2% in Fiscal Year 2023. During Fiscal Years 2021, 2022, and 2023, the UAL decreased by 6.1%, 3.1%, and 8.2%, respectively. The Municipal Pension Fund had a positive cash flow, excluding investment returns, for Fiscal Years 2019-2023 (see “– Rates of Return; Asset Values; Changes in Plan Net Position – Changes in Plan Net Position” and Table 26).

This “Overview” is intended to highlight certain of the principal factors that led to the pension system’s current funded status, and significant steps the City and the Pension Board (as defined herein) have taken to address the underfunding. The reader is cautioned to review with care the more detailed information presented below under this caption, “PENSION SYSTEM.”

### **Pension System; Pension Board**

The City maintains two defined-benefit pension programs: (i) the Municipal Pension Plan, a single employer plan, which provides benefits to police officers, firefighters, non-uniformed employees, and non-represented appointed and elected officials, and (ii) the PGW Pension Plan, a single employer plan, which provides benefits to PGW employees. The Municipal Pension Plan is administered through 9 benefit plans with 21 separate contribution rates, the funding for which is accounted for on a consolidated basis by the Municipal Pension Fund.

Such benefit structures establish for their respective members different contribution levels, retirement ages, etc., but all assets are available to pay benefits to all members of the Municipal Pension Plan. The Municipal Pension Plan is a mature plan, initially established in 1915, with net investment assets that totaled approximately \$7.8 billion as of June 30, 2023. The Municipal Pension Plan has approximately 26,600 members who make contributions to the plan and provides benefits to approximately 37,700 retirees and other beneficiaries including terminated vested members.

PGW is principally a gas distribution facility owned by the City. For accounting presentation purposes, PGW is a component unit of the City and follows accounting rules as they apply to proprietary fund-type activities. The PGW Pension Plan is funded with contributions by PGW to such plan, which are treated as an operating expense of PGW, and such plan is not otherwise addressed under the caption “PENSION SYSTEM.” See “PGW PENSION PLAN” below.

Contributions are made by the City to the Municipal Pension Fund from: (i) the City’s General Fund; (ii) funds that are received by the City from the Commonwealth for deposit into the Municipal Pension Fund; and (iii) various City inter-fund transfers, representing amounts contributed, or reimbursed, to the City’s General Fund for pensions from the City’s Water Fund, Aviation Fund, and certain other City funds or agencies. See Table 29. In addition to such City (employer) contribution, the other principal additions to the Municipal Pension Fund are: (i) member (employee) contributions; (ii) interest and dividend income; (iii) net appreciation in asset values; and (iv) net realized gains on the sale of investments. See Table 26 below. An additional source of funding is that portion of the 1% Sales Tax

rate increase that is required under Pennsylvania law to be deposited to the Municipal Pension Fund. See “REVENUES OF THE CITY – Sales and Use Tax.”

The City of Philadelphia Board of Pensions and Retirement (the “Pension Board”) was established by the City Charter to administer “a comprehensive, fair and actuarially sound pension and retirement system covering all officers and employees of the City.” The City Charter provides that the Pension Board “shall consist of the Director of Finance, who shall be its chairman, the Managing Director, the City Controller, the City Solicitor, the Personnel Director and four other persons who shall be elected to serve on the Board by the employees in the civil service in such manner as shall be determined by the Board.” In addition, there is one non-voting member on the Pension Board, who is appointed by the President of City Council. An Executive Director, together with a budgeted staff of 72 personnel, administers the day-to-day activities of the retirement system, providing services to approximately 64,400 members.

The Municipal Pension Plan, the Municipal Pension Fund, and the Pension Board are for convenience sometimes collectively referred to under this caption as the “Municipal Retirement System.”

Membership. The following table shows the membership totals for the Municipal Pension Plan, as of July 1, 2023 and as compared to July 1, 2022.

**Table 23**  
**Municipal Pension Plan – Membership Totals**

	<u>July 1, 2023</u>	<u>July 1, 2022</u>	<u>% Change</u>
Actives	26,646	26,723	-0.3%
Terminated Vesteds	781	832	-6.1%
Disabled	3,758	3,757	0.0%
Retirees	22,409	22,392	0.1%
Beneficiaries	8,565	8,523	0.5%
Deferred Retirement Option Plan (“DROP”)	<u>2,210</u>	<u>1,921</u>	15.0%
Total City Members	64,369	64,148	0.3%
Annual Salaries	\$1,993,014,337	\$1,921,141,531	3.7%
Average Salary per Active Member	74,796	71,891	4.0%
Annual Retirement Allowances	\$848,128,541	\$828,187,638	2.4%
Average Retirement Allowance	\$24,419	\$23,886	2.2%

Source: July 1, 2023 Valuation.

As shown in Table 23, total membership in the Municipal Pension Plan increased by 0.3%, or from 64,148 to 64,369 members, from July 1, 2022 to July 1, 2023, including a decrease of 0.3% in active members from 26,723 to 26,646 (who were contributing to the Municipal Pension Fund). Of the 64,369 members as of July 1, 2023, 37,723 were retirees, beneficiaries, disabled, and other members (who were withdrawing from, or not contributing to, the Municipal Pension Fund).

Subject to the exceptions otherwise described in this paragraph, employees and officials become vested in the Municipal Pension Plan upon the completion of ten years of service. Employees and appointed officials who hold positions that are exempt from civil service and who are not entitled to be represented by a union, and who were hired before January 13, 1999, may elect accelerated vesting after five years of service in return for payment of a higher employee contribution than if the vesting period

were ten years. Such employees and officials become vested after five years of service if hired after January 13, 1999, or seven years of service if hired after January 1, 2019, and pay a higher employee contribution than if the vesting period were ten years. Elected officials become vested in the Municipal Pension Plan once they complete service equal to the lesser of two full terms in their elected office or eight years and pay a higher contribution than if the vesting period were ten years. Elected officials pay an additional employee contribution for the full cost of the additional benefits they may receive over those of general municipal employees. Upon retirement, employees and officials may receive up to 100% of their average final compensation depending upon their years of credited service and the plan in which they participate.

All City employees participate in the U.S. Social Security retirement system except for uniformed Police and uniformed Fire employees.

Certain membership information relating to the City's municipal retirement system provided by the Pension Board is set forth in Appendix A to the July 1, 2023 Actuarial Valuation Report (the "July 1, 2023 Valuation") and includes as of July 1, 2023, among other information, active and non-active member data by plan, age/service distribution for active participants and average salary for all plans, and age and benefit distributions for non-active member data.

### **Funding Requirements; Funding Standards**

City Charter. The City Charter establishes the "actuarially sound" standard quoted above. Case law has interpreted "actuarially sound" as used in the City Charter to require the funding of two components: (i) "normal cost" (as defined below) and (ii) interest on the UAL. (*Dombrowski v. City of Philadelphia*, 431 Pa. 199, 245 A.2d 238 (1968)).

Pennsylvania Law. The Municipal Pension Plan Funding Standard and Recovery Act (Pa. P.L. 1005, No. 205 (1984)) ("Act 205"), applies to all municipal pension plans in Pennsylvania, "[n]otwithstanding any provision of law, municipal ordinance, municipal resolution, municipal charter, pension plan agreement or pension plan contract to the contrary . . . ." Act 205 provides that the annual financial requirements of the Municipal Pension Plan are: (i) the normal cost; (ii) administrative expense requirements; and (iii) an amortization contribution requirement. In addition, Act 205 requires that the MMO be payable to the Municipal Pension Fund from City revenues, and that the City shall provide for the full amount of the MMO in its annual budget. The MMO is defined as "the financial requirements of the pension plan reduced by . . . the amount of any member contributions anticipated as receivable for the following year." Act 205 further provides that the City has a "duty to fund its municipal pension plan," and the failure to provide for the MMO in its budget, or to pay the full amount of the MMO, may be remedied by the institution of legal proceedings for mandamus.

In accordance with Pennsylvania law and Act 205, the City uses the entry age normal actuarial funding method, whereby "normal cost" (associated with active employees only) is the present value of the benefits that the City expects to become payable in the future distributed evenly as a percent of expected payroll from the age of first entry into the plan to the expected age at retirement. The City's share of such normal cost (to which the City adds the Plan's administrative expenses) is reduced by member contributions. The term "level" means that the contribution rate for the normal cost, expressed as a percentage of active member payroll, is expected to remain relatively level over time.

The City has budgeted and paid at least the full MMO amount since such requirement was established. Prior to Fiscal Year 2005, the City had been contributing to the Municipal Pension Plan the greater amount as calculated pursuant to the City Funding Policy, which was implemented before Act 205 was effective, as described below. Beginning in Fiscal Year 2018, the City is contributing under the

Revenue Recognition Policy (defined below), which requires higher contribution amounts than under the MMO. Payment of the MMO is a condition for receipt of the Commonwealth contribution to the Municipal Pension Fund. See Table 29.

Act 205 was amended in 2009 by Pa. P.L. 396, No. 44 (“Act 44”) to authorize the City to: (i) “fresh start” the amortization of the UAL as of July 1, 2009 by a level annual dollar amount over 30 years ending June 30, 2039; and (ii) revise the amortization periods for actuarial gains and losses and assumption changes in accordance with Act 44, as described below under “UAL and its Calculation – Actuarial Valuations.” In addition, Act 44 authorized the City to defer, and the City did defer, \$150 million of the MMO otherwise payable in Fiscal Year 2010, and \$80 million of the MMO otherwise payable in Fiscal Year 2011, subject to repayment of the deferred amounts by June 30, 2014. The City repaid the aggregate deferred amount of \$230 million, together with interest at the then-assumed interest rate of 8.25%, in Fiscal Year 2013. Because the final amortization date is fixed, if all actuarial assumptions are achieved, the unfunded liability would decline to zero as of the final amortization date. To the extent future experience differs from the assumptions used to establish the 30-year fixed amortization payment schedule, new amortization bases attributable to a particular year’s difference would be established and amortized over their own 20-year schedule.

GASB; City Funding Policy. Governmental Accounting Standards Board (“GASB”) Statement No. 27, “Accounting for Pensions by State and Local Governmental Employers” (“GASB 27”), applied to the City for Fiscal Years beginning prior to July 1, 2014. For the Fiscal Year beginning July 1, 2014, GASB Statement No. 68 (“GASB 68”), which amends GASB 27 in several significant respects, applies. GASB 27 defined an “annual required contribution” (“ARC”) as that amount sufficient to pay (i) the normal cost and (ii) the amortization of UAL, and provides that the maximum acceptable amortization period is 30 years (for the initial 10 years of implementation, 1996-2006, a 40-year amortization period was permitted). GASB 27 did not establish funding requirements for the City but rather was an accounting and financial reporting standard. GASB 68 does not require the calculation of an ARC but does require the City to include as a liability on its balance sheet the City’s “net pension liability,” as defined by GASB 68. The City has been funding the Municipal Pension Fund since Fiscal Year 2003 based on the MMO (at a minimum), including the deferral permitted by Act 44. See Table 29 below.

The City, prior to Fiscal Year 2005, had been funding the Municipal Pension Fund in accordance with what the City referred to as the “City Funding Policy.” That reference was used and continues to be used in the Actuarial Reports. Under the City Funding Policy, the UAL as of July 1, 1985, was to be amortized over 34 years ending June 30, 2019, with payments increasing at 3.3% per year, the assumed payroll growth. This initial UAL base under the City’s Funding Policy has now been fully amortized. Other changes in the unfunded actuarial liability were amortized in level-dollar payments over various periods as prescribed in Act 205. In 1999, the City issued pension funding bonds, the proceeds of which were deposited directly into the Municipal Pension Fund to pay down its UAL. See “– Annual Contributions – *Annual Debt Service Payments on the Pension Bonds*” below.

Revenue Recognition Policy. The City follows a policy (the “Revenue Recognition Policy” or “RRP”) to contribute each year to the Municipal Pension Fund an amount in excess of the MMO. Aspects of such policy are mandated by City ordinance or labor agreements, as applicable. The determination for such additional funding is based on not including in the actuarial asset value when determining the annual contribution obligation, the following revenue sources: (i) the portion of the amounts generated by the increase in the Sales Tax rate that became effective on July 1, 2014 and are deposited to the Municipal Pension Fund (see “REVENUES OF THE CITY – Sales and Use Tax”), (ii) contributions to be made by City employees that are under Plan 16 (described above in the text that immediately follows Table 19), and (iii) additional member contributions for current and future members in Plan 87 Police, Plan 87 Fire, and all Municipal Plans.

The amounts projected by the City in the Thirty-Third Five-Year Plan (or with respect to Fiscal Year 2024, the FY 2024 Fourth Quarter QCMR) to be deposited from Sales Tax revenue into the Municipal Pension Fund, for Fiscal Years 2024-2029, respectively, are as follows: (i) \$90.2 million; (ii) \$98.5 million; (iii) \$107.3 million; (iv) \$115.7 million; (v) \$124.5 million; and (vi) \$133.2 million.

### **UAL and its Calculation**

According to the July 1, 2023 Valuation, the funded ratio (the valuation of assets available for benefits to total actuarial liability) of the Municipal Pension Fund as of July 1, 2023 was 62.2% and the Municipal Pension Fund had an unfunded actuarial liability (“UAL”) of \$4.842 billion. The UAL is the difference between total actuarial liability (\$12.821 billion as of July 1, 2023) and the actuarial value of assets (\$7.979 billion as of July 1, 2023).

Key Actuarial Assumptions. In accordance with Act 205, the actuarial assumptions must be, in the judgment of both Cheiron (the independent consulting actuary for the Municipal Pension Fund) and the Pension Board, “the best available estimate of future occurrences in the case of each assumption.” The assumed investment return rate used in the July 1, 2023 Valuation was 7.35% a year (which includes an inflation assumption of 2.75%), net of administrative expenses, compounded annually. For the prior actuarial valuation, the assumed investment return rate was 7.40%. See Table 24 for the assumed rates of return for Fiscal Years 2014 to 2023. The 7.40% was used to establish the MMO payment for Fiscal Year 2024 and 7.35% will be used to establish the MMO payment for Fiscal Year 2025.

Other key actuarial assumptions in the July 1, 2023 Valuation include the following: (i) total annual payroll growth of 3.30%, (ii) annual administrative expenses assumed to increase 3.30% per year, (iii) to recognize the expense of the benefits payable under the Pension Adjustment Fund (as described below), actuarial liabilities were increased by 0.54%, based on the statistical average expected value of the benefits, (iv) a vested employee who terminates will elect a pension deferred to service retirement age so long as their age plus years of service at termination are greater than or equal to 55 (45 for police and fire employees in the 1967 Plan), (v) for municipal and elected members, 65% of all disabilities are ordinary and 35% are service-connected, and (vi) for police and fire members, 25% of all disabilities are ordinary and 75% are service-connected.

“Smoothing Methodology”. The Municipal Retirement System uses an actuarial value of assets to calculate its annual pension contribution, using an asset “smoothing method” to dampen the volatility in asset values that could occur because of fluctuations in market conditions. The Municipal Retirement System used a five-year smoothing prior to Fiscal Year 2009, and beginning with Fiscal Year 2009 began employing a ten-year smoothing. Using the ten-year smoothing methodology, investment returns in excess of or below the assumed rate are prospectively distributed in equal amounts over a ten-year period, subject to the requirement that the actuarial value of assets will be adjusted, if necessary, to ensure that the actuarial value of assets will never be less than 80% of the market value of the assets, nor greater than 120% of the market value of the assets. The actuarial value of assets as of July 1, 2023, was approximately 102.3% of the market value of the assets, as compared to 103.9% as of July 1, 2022.

Actuarial Valuations. The Pension Board engages an independent consulting actuary (currently Cheiron) to prepare annually an actuarial valuation report. Act 205, as amended by Act 44, establishes certain parameters for the actuarial valuation report, including: (i) use of the entry age normal actuarial cost method; (ii) that the report shall contain: (a) actuarial exhibits, financial exhibits, and demographic exhibits; (b) an exhibit of normal costs expressed as a percentage of the future covered payroll of the active membership in the Municipal Pension Plan; and (c) an exhibit of the actuarial liability of the Municipal Pension Plan; and (iii) that changes in the actuarial liability be amortized in level-dollar

payments as follows: (a) actuarial gains and losses be amortized over 20 years beginning July 1, 2009 (prior to July 1, 2009, gains and losses were amortized over 15 years); (b) assumption changes be amortized over 15 years beginning July 1, 2010 (prior to July 1, 2010, assumption changes were amortized over 20 years); (c) plan changes for active members be amortized over 10 years; (d) plan changes for inactive members be amortized over one year; and (e) plan changes mandated by the Commonwealth be amortized over 20 years.

Act 205 further requires that an experience study be conducted at least every four years, and cover the five-year period ending as of the end of the plan year preceding the plan year for which the actuarial valuation report is filed. An experience study was prepared by Cheiron in March 2022 for the period July 1, 2016 – June 30, 2021 (the “Experience Study”). The actuarial and demographic assumptions that were adopted by the Pension Board in response to such Experience Study were employed for the July 1, 2022 Valuation and remained in effect for the July 1, 2023 Valuation (which was used to determine the June 30, 2025 fiscal year end MMO, City Funding Policy, and Revenue Recognition Policy contributions). Details of the assumption changes and the experience of the Municipal Pension Plan can be found in the *The City of Philadelphia Municipal Retirement System Experience Study Results for the period covering July 1, 2016 – June 30, 2021*. Such Experience Study can be found under the “Financial Reports” section of the City’s Investor Website.

### **Pension Adjustment Fund**

Pursuant to § 22-311 of the Philadelphia Code, the City directed the Pension Board to establish a Pension Adjustment Fund (“PAF”) on July 1, 1999, and further directed the Pension Board to determine, effective June 30, 2000, and each Fiscal Year thereafter, whether there are “excess earnings” (as defined therein) available to be credited to the PAF. The Pension Board’s determination is to be based upon the actuary’s certification using the “adjusted market value of assets valuation method” as defined in § 22-311. Although the portion of the assets attributed to the PAF is not segregated from the assets of the Municipal Pension Fund, the Philadelphia Code provides that the “purpose of the Pension Adjustment Fund is for the distribution of benefits as determined by the Board for retirees, beneficiaries or survivors [and] [t]he Board shall make timely, regular and sufficient distributions from the Pension Adjustment Fund in order to maximize the benefits of retirees, beneficiaries or survivors.” Distributions are to be made “without delay” no later than six months after the end of each Fiscal Year. The PAF was established, in part, because the Municipal Retirement System does not provide annual cost-of-living increases to retirees or beneficiaries. At the time the PAF was established, distributions from the PAF were subject to the restriction that the actuarial funded ratio using the “adjusted market value of assets” be not less than such ratio as of July 1, 1999 (76.7%). That restriction was deleted in 2007.

The amount to be credited to the PAF is 50% of the “excess earnings” that are between one percent (1%) and six percent (6%) above the actuarial assumed investment rate. Earnings in excess of six percent (6%) of the actuarial assumed investment rate remain in the Municipal Pension Fund. Although the Pension Board utilizes a ten-year smoothing methodology, as explained above, for the actuarial valuation of assets for funding and determination of the MMO, § 22-311 provides for a five-year smoothing to determine the amount to be credited to the PAF.

The actuary determined that for the Fiscal Year ended June 30, 2023, there were no “excess earnings” as defined to be credited to the PAF. The Pension Board transfers to the PAF the full amount calculated by the actuary as being available in any year for transfer within six months of the Pension Board designating the amount to be transferred.

Transfers to the PAF and the resultant additional distributions to retirees result in removing assets from the Municipal Pension Plan. To account for the possibility of such transfers, and as an alternative to

adjusting the assumed investment return rate to reflect such possibility, the actuary applies a load of 0.54% to the calculated actuarial liability as part of the funding requirement and MMO. Such calculation was utilized for the first time in the July 1, 2013 actuarial valuation.

The market value of assets as used under this caption, “PENSION SYSTEM,” represents the value of the assets if they were liquidated on the valuation date and this value includes the PAF (except as otherwise indicated in certain tables), although the PAF is not available for funding purposes. The actuarial value of assets does not include the PAF.

**Rates of Return; Asset Values; Changes in Plan Net Position**

Rates of Return. The following table sets forth for the Fiscal Years 2014-2023 the market value of assets internal rate of return and actuarial value of assets internal rate of return experienced by the Municipal Pension Fund, and the assumed rate of return. The 5-year and 10-year annual average returns as of June 30, 2023, were 6.85% and 6.79% respectively, on a market value basis.

**Table 24**  
**Municipal Pension Fund**  
**Annual Rates of Return**

<u>Year Ending</u> <u>June 30,</u>	<u>Market Value</u>	<u>Actuarial Value<sup>(1)</sup></u>	<u>Assumed Rate of Return</u>
2014	15.7%	4.8%	7.85%
2015	0.3%	5.8%	7.80%
2016	-3.2%	4.5%	7.75%
2017	13.1%	4.4%	7.70%
2018	9.0%	5.1%	7.65%
2019	5.7%	7.6%	7.60%
2020	1.5%	6.5%	7.55%
2021	28.4%	6.3%	7.50%
2022	-6.5%	7.7%	7.45%
2023	8.1%	6.5%	7.40%

Source: July 1, 2023 Valuation.

<sup>(1)</sup> Net of PAF. See “Pension Adjustment Fund” above. The actuarial values reflect a ten-year smoothing.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

Asset Values. The following table sets forth, as of the July 1 actuarial valuation date for the years 2014-2023, the actuarial and market values of assets in the Municipal Pension Fund and the actuarial value as a percentage of market value.

**Table 25**  
**Actuarial Value of Assets vs. Market Value of Net Assets**  
**(Dollar Amounts in Millions of USD)**

Actuarial Valuation Date (July 1)	Actuarial Value of Assets <sup>(1)</sup>	Market Value of Net Assets <sup>(1)</sup>	Actuarial Value as a Percentage of Market Value
2014	\$4,814.9	\$4,854.3	99.2%
2015	\$4,863.4	\$4,636.1	104.9%
2016	\$4,936.0	\$4,350.8	113.5%
2017	\$5,108.6	\$4,873.0	104.8%
2018	\$5,397.4	\$5,340.1	101.1%
2019	\$5,852.5	\$5,687.2	102.9%
2020	\$6,242.7	\$5,781.6	108.0%
2021	\$6,633.1	\$7,348.5	90.3%
2022	\$7,176.1	\$6,905.5	103.9%
2023	\$7,979.2	\$7,800.9	102.3%

Source: July 1, 2023 Valuation for Actuarial Value of Assets; 2014-2023 Actuarial Reports for Market Value of Net Assets.

<sup>(1)</sup> For purposes of this table, the Market Value of Net Assets excludes the PAF, which as of June 30, 2023 equaled \$7.2 million. The Actuarial Value of Assets excludes that portion of the Municipal Pension Fund that is allocated to the PAF. The actuarial values reflect a ten-year smoothing.

Changes in Plan Net Position. The following table sets forth, for Fiscal Years 2019-2023, the additions, including employee (member) contributions, City contributions (including contributions from the Commonwealth), investment income and miscellaneous income, and deductions, including benefit payments and administration expenses, for the Municipal Pension Fund. Debt service payments on pension funding bonds (as described below at “Annual Contributions – *Annual Debt Service Payments on the Pension Bonds*”) are made from the City’s General Fund, Water Operating Fund, and Aviation Operating Fund, but are not made from the Municipal Pension Fund, and therefore are not included in Table 26. In those years in which the investment income is less than anticipated, the Municipal Pension Fund may experience negative changes (total deductions greater than total additions). If unrealized gains are excluded from the calculation, resulting in a comparison of cash actually received against actual cash outlays, it could result in a negative cash flow in some Fiscal Years, which is typical of a mature retirement system. However, in Fiscal Years 2019-2023, there was a positive cash flow.

Contributions from the Commonwealth are provided pursuant to the provisions of Act 205. Any such contributions are required to be used to defray the cost of the City’s pension system. The amounts contributed by the Commonwealth for each of the last ten Fiscal Years are set forth in Table 29 below. The contributions from the Commonwealth are capped pursuant to Act 205, which provides that “[n]o municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount greater than 25% of the total amount of the general municipal pension system State aid available.”

Employee (member) contribution amounts reflect contribution rates as a percent of pay, which for the plan year beginning July 1, 2023, vary from 6.00% to 8.50% for police and fire employees, and from 2.60% to 7.00% for municipal employees excluding elected officials. These rates include the increases



for police employees effective July 1, 2017, resulting from the FOP Lodge No. 5 and IAFF Local No. 22 Labor Contracts. Such contracts increased member contributions for current police officers in Plan 87 and Plan 10 by 0.92% effective July 1, 2017, and an additional 0.92% effective July 1, 2018. For new police officers and fire fighters hired or rehired on or after July 1, 2017, the member contribution rate is increased by 2.5% over the rate which would otherwise be in effect as of July 1, 2017. The rates also include the increases in contributions for certain municipal employees and elected officials currently in Plans 67, 87 and 87 Prime and elected officials as required by legislation. This legislation called for employees in these groups to pay an additional 0.5% of compensation from January 1, 2015 to December 31, 2015 and an additional 1.0% from January 1, 2016 onwards. New employees in these groups entering Plan 87 Municipal Prime will pay an additional 1.0% of compensation, which is included in the table below. Finally, these rates do not include the additional tiered contributions paid by current and future municipal employees based on their level of compensation.

**Table 26**  
**Changes in Net Position of the Municipal Pension Fund**  
**Fiscal Years 2019-2023**  
**(Amounts in Thousands of USD)**

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Beginning Net Assets (Market Value) <sup>(1)</sup>	\$5,341,286	\$5,688,383	\$5,782,891	\$7,424,983	\$6,939,834
Additions					
- Member Contributions	99,180	111,825	111,273	110,447	120,691
- City Contributions <sup>(2)</sup>	797,806	768,721	788,483	859,787	1,164,974
- Investment Income <sup>(3)</sup>	301,749	85,228	1,642,217	(480,676)	568,995
- Miscellaneous Income <sup>(4)</sup>	1,987	1,923	1,273	913	1,962
Total	<u>\$1,200,721</u>	<u>\$967,697</u>	<u>\$2,543,246</u>	<u>\$490,471</u>	<u>\$1,856,622</u>
Deductions					
- Benefits and Refunds	(842,469)	(862,198)	(891,445)	(966,686)	(979,429)
- Administration	<u>(11,155)</u>	<u>(10,991)</u>	<u>(9,709)</u>	<u>(8,933)</u>	<u>(8,938)</u>
Total	<u>\$(853,624)</u>	<u>\$(873,189)</u>	<u>\$(901,154)</u>	<u>\$(975,619)</u>	<u>\$(988,367)</u>
Ending Net Assets (Market Value)	\$5,688,383	\$5,782,891	\$7,424,983	\$6,939,834	\$7,808,089

Source: Municipal Pension Fund's audited financial statements.

(1) Includes the PAF, which is not available for funding purposes.

(2) City Contributions include pension contributions from the Commonwealth. See Table 29.

(3) Investment income is shown net of fees and expenses, and includes interest and dividend income, net appreciation (depreciation) in fair value of investments, and net gains realized upon the sale of investments.

(4) Miscellaneous income includes securities lending and other miscellaneous revenues.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

**Funded Status of the Municipal Pension Fund**

The following two tables set forth, as of the July 1 actuarial valuation date for the years 2014-2023, the asset value, the actuarial liability, the UAL, the funded ratio, covered payroll and UAL, as a percentage of covered payroll for the Municipal Pension Fund on actuarial and market value bases, respectively.

**Table 27**  
**Schedule of Funding Progress (Actuarial Value)**  
**(Dollar Amounts in Millions of USD)**

Actuarial Valuation Date (July 1)	Actuarial Value of Assets (a)	Actuarial Liability (b)	UAL (Actuarial Value) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a % of Covered Payroll [(b-a)/c]
2014	\$4,814.9	\$10,521.8	\$5,706.9	45.8%	\$1,495.4	381.6%
2015	\$4,863.4	\$10,800.4	\$5,937.0	45.0%	\$1,597.8	371.6%
2016	\$4,936.0	\$11,024.8	\$6,088.8	44.8%	\$1,676.5	363.2%
2017	\$5,108.6	\$11,275.7	\$6,167.1	45.3%	\$1,744.7	353.5%
2018	\$5,397.4	\$11,521.0	\$6,123.5	46.8%	\$1,805.4	339.2%
2019	\$5,852.5	\$11,783.1	\$5,930.6	49.7%	\$1,842.6	321.9%
2020	\$6,242.7	\$12,038.1	\$5,795.4	51.9%	\$1,921.2	301.7%
2021	\$6,633.1	\$12,074.0	\$5,441.0	54.9%	\$1,886.5	288.4%
2022	\$7,176.1	\$12,448.4	\$5,272.3	57.6%	\$1,921.1	274.4%
2023	\$7,979.2	\$12,821.4	\$4,842.2	62.2%	\$1,993.0	243.0%

Source: July 1, 2023 Valuation.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

**Table 28**  
**Schedule of Funding Progress (Market Value)**  
**(Dollar Amounts in Millions of USD)**

Actuarial Valuation Date (July 1)	Market Value of Net Assets (a)	Actuarial Liability (b)	UAL (Market Value) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a % of Covered Payroll [(b-a)/c]
2014	\$4,854.3	\$10,521.8	\$5,667.6	46.1%	\$1,495.4	379.0%
2015	\$4,636.1 <sup>(1)</sup>	\$10,800.4	\$6,164.3	42.9%	\$1,597.8	385.8%
2016	\$4,350.8 <sup>(1)</sup>	\$11,024.8	\$6,674.0	39.5%	\$1,676.5	398.1%
2017	\$4,873.0 <sup>(1)</sup>	\$11,275.7	\$6,402.7	43.2%	\$1,744.7	367.0%
2018	\$5,340.1 <sup>(1)</sup>	\$11,521.0	\$6,180.9	46.4%	\$1,805.4	342.4%
2019	\$5,687.2 <sup>(1)</sup>	\$11,783.1	\$6,095.9	48.3%	\$1,842.6	330.8%
2020	\$5,781.6 <sup>(1)</sup>	\$12,038.1	\$6,256.5	48.0%	\$1,921.2	325.7%
2021	\$7,348.5 <sup>(1)</sup>	\$12,074.0	\$4,725.5	60.9%	\$1,886.5	250.5%
2022	\$6,905.5 <sup>(1)</sup>	\$12,448.4	\$5,542.9	55.5%	\$1,921.1	288.5%
2023	\$7,800.9 <sup>(1)</sup>	\$12,821.4	\$5,020.5	60.8%	\$1,993.0	251.9%

Source: 2014-2023 Actuarial Valuation Reports.

<sup>(1)</sup> For purposes of this table, the Market Value of Net Assets excludes the PAF, which as of June 30, 2015 equaled \$38,198,762; as of June 30, 2016 equaled \$7,222,828; as of June 30, 2017 equaled \$1,097,499; as of June 30, 2018 equaled \$1,160,247; as of June 30, 2019 equaled \$1,225,114; as June 30, 2020 equaled \$1,243,871; as June 30, 2021 equaled \$76,471,047; as June 30, 2022 equaled \$34,340,630; and as June 30, 2023 equaled \$7,221,239.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## Annual Contributions

### *Annual Municipal Pension Contributions*

Table 29 shows the components of the City's annual pension contributions to the Municipal Pension Fund for the Fiscal Years 2014-2023.

**Table 29**  
**Total Contribution to Municipal Pension Fund**  
**(Dollar Amounts in Millions of USD)**

Fiscal Year	General Fund Contribution (A)	Commonwealth Contribution (B)	Aggregate General Fund Contribution (A+B)	Water Fund Contribution	Aviation Fund Contribution	Grants Funding and Other Funds Contribution <sup>(1)</sup>	Contributions from Quasi-governmental Agencies	Pension Bond Proceeds	Total Contribution (C)	MMO (D)	MMO (Deferred) Makeup Payments	% of MMO Contributed (C/D)
2014	\$365.8	\$69.6	\$435.4	\$45.5	\$22.5	\$30.0	\$19.8	\$0.0	\$553.2	\$523.4	-	105.7%
2015	\$388.5	\$62.0	\$450.5	\$48.3	\$23.9	\$33.4	\$21.1	\$0.0	\$577.2	\$556.0	-	103.8%
2016	\$449.6	\$62.6	\$512.2	\$55.1	\$27.1	\$34.8	\$31.0	\$0.0	\$660.2	\$595.0	-	111.0%
2017	\$487.0	\$68.7	\$555.7	\$61.0	\$28.8	\$33.3	\$27.4	\$0.0	\$706.2	\$629.6	-	112.2%
2018	\$559.7	\$72.4	\$632.1	\$62.7	\$28.8	\$32.5	\$25.9	\$0.0	\$782.0	\$661.3	-	118.3%
2019	\$567.7	\$74.8	\$642.5	\$64.7	\$31.6	\$33.8	\$25.2	\$0.0	\$797.8	\$668.3	-	119.4%
2020	\$545.1	\$82.0	\$627.1	\$71.6	\$34.0	\$14.6	\$21.4	\$0.0	\$768.7	\$675.8	-	113.7%
2021	\$558.5	\$81.3	\$639.8	\$81.2	\$34.7	\$12.5	\$20.3	\$0.0	\$788.5	\$673.9	-	117.0%
2022	\$671.9	\$79.3	\$751.2	\$59.0	\$21.8	\$12.6	\$15.2	\$0.0	\$859.8	\$678.2	-	126.8%
2023	\$939.2	\$84.2	\$1,023.4	\$57.8	\$22.2	\$44.4	\$17.2	\$0.0	\$1,165.0	\$664.1	-	175.4%

<sup>(1)</sup> Other Funds Contributions represents contributions to the Municipal Pension Fund from the City's Special Gasoline Tax Fund, Community Development Block Grant Fund, Municipal Pension Fund, and Housing Trust Fund.

*Annual Debt Service Payments on the Pension Bonds*

Pension funding bonds (“Pension Bonds”) were initially issued in Fiscal Year 1999 (the “1999 Pension Bonds”), at the request of the City, by PAID. Debt service on the Pension Bonds is payable pursuant to a Service Agreement between the City and PAID. The Service Agreement provides that the City is obligated to pay a service fee from its current revenues and the City covenanted in the agreement to include the annual amount in its operating budget and to make appropriations in such amounts as are required. If the City’s revenues are insufficient to pay the full service fee in any Fiscal Year as the same becomes due and payable, the City has covenanted to include amounts not so paid in its operating budget for the ensuing Fiscal Year.

The 1999 Pension Bonds were issued in the principal amount of \$1.3 billion, and the net proceeds were used, together with other funds of the City, to make a contribution in Fiscal Year 1999 to the Municipal Pension Fund in the amount of approximately \$1.5 billion.

In October 2012, PAID, at the request of the City, issued Pension Bonds in the principal amount of \$231.2 million, the proceeds of which were used principally to make the \$230 million repayment of deferred contributions to the Municipal Pension Fund reflected in Table 29 above. These bonds had maturities of April 1, 2013 and 2014, and have been repaid.

In December 2012, PAID, at the request of the City, issued Pension Bonds in the approximate principal amount of \$300 million (the “2012 Pension Bonds”), the proceeds of which were used to currently refund a portion of the 1999 Pension Bonds. The refunding generated savings of approximately \$22.6 million, which the City deposited into the Municipal Pension Fund.

In April 2021, PAID, at the request of the City, issued bonds in the approximate principal amount of \$137 million, the proceeds of which were used, among other things, to refund a portion of the 1999 Pension Bonds and the 2012 Pension Bonds. Such refunding restructured debt service to provide the City with budgetary relief in Fiscal Years 2021 and 2022. No proceeds of the bonds were used to make a deposit to the Municipal Retirement System.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

Table 30 shows the components of the City’s annual debt service payments on the Pension Bonds for the Fiscal Years 2014-2023.

**Table 30**  
**Total Debt Service Payments on Pension Bonds**  
**(Amounts in Millions of USD)**

Fiscal Year	General Fund Payment	Water Fund Payment	Aviation Fund Payment	Other Funds Payment <sup>(1)</sup>	Grants Funding	Total Payment
2014 <sup>(2)</sup>	\$211.0	\$23.6	\$11.2	\$1.4	\$3.7	\$250.9
2015	\$107.7	\$12.6	\$5.9	\$0.8	\$4.0	\$131.0
2016	\$109.9	\$13.7	\$6.4	\$0.9	\$3.8	\$134.7
2017	\$109.5	\$14.5	\$6.6	\$0.9	\$3.3	\$134.8
2018	\$110.1	\$14.3	\$6.3	\$0.9	\$3.1	\$134.7
2019	\$109.8	\$14.2	\$6.6	\$1.1	\$3.0	\$134.7
2020	\$110.1	\$15.7	\$7.1	\$1.2	\$0.6	\$134.7
2021 <sup>(2)</sup>	\$28.4	\$4.5	\$1.9	\$0.3	\$0.5	\$35.6
2022 <sup>(2)</sup>	\$91.7	\$8.5	\$3.1	\$0.5	\$0.9	\$104.7
2023	\$111.0	\$10.8	\$4.1	\$0.7	\$7.5	\$134.1

<sup>(1)</sup> Other Funds Payments represents the allocable portion of debt service payments on the City’s Pension Bonds from the City’s Community Development Block Grant Fund and Municipal Pension Fund.

<sup>(2)</sup> For more information on debt service payments on Pension Bonds issued in October 2012, which increased debt service in 2014, and in April 2021, which decreased debt service in 2021 and 2022, see “– *Annual Debt Service Payments on the Pension Bonds*” above.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

*Annual Pension Costs of the General Fund*

Table 31 shows the annual pension costs of the General Fund for the Fiscal Years 2014-2023, being the sum of the General Fund Contribution to the Municipal Pension Fund (column (A) in Table 29 above) and the General Fund debt service payments on Pension Bonds (Table 30 above).

**Table 31**  
**Annual Pension Costs of the General Fund**  
**(Amounts in Millions of USD)**

Fiscal Year	General Fund Pension Fund Contribution (A) <sup>(1)</sup>	General Fund Pension Bond Debt Service Payment (B)	Annual Pension Costs (A+B)	Total General Fund Expenditures (C)	General Fund portion of Annual Pension Costs as % of Total General Fund Expenditures ( <u>A+B</u> ) C
2014	\$365.8	\$211.0	\$576.8	\$3,886.6	14.84%
2015	\$388.5	\$107.7	\$496.2	\$3,831.5	12.95%
2016	\$449.6	\$109.9	\$559.5	\$4,015.8	13.93%
2017	\$487.0	\$109.5	\$596.5	\$4,139.8	14.41%
2018	\$559.7	\$110.1	\$669.8	\$4,402.9	15.21%
2019	\$567.7	\$109.8	\$677.5	\$4,772.4	14.20%
2020	\$545.1	\$110.1	\$655.2	\$5,036.5	13.01%
2021	\$558.5	\$28.4	\$586.9	\$4,717.8	12.44%
2022	\$671.9	\$91.7	\$763.6	\$5,338.5	14.30%
2023	\$939.2	\$111.0	\$1,050.2	\$5,918.4	17.74%

<sup>(1)</sup> Does not include Commonwealth contribution. See Table 29.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

The following table shows the annual City contribution to the Municipal Pension Fund as a percentage of the covered employee payroll.

**Table 32**  
**Annual City Contribution (“ACC”) as % of Covered Employee Payroll**  
**(Dollar Amounts in Thousands of USD)**

Fiscal Year	Annual City Contribution	Fiscal Year Covered Employee Payroll <sup>(1)</sup>	ACC as % of Payroll
2014	\$553,179	\$1,495,421	36.99%
2015	\$577,195	\$1,597,849	36.12%
2016	\$660,247	\$1,676,549	39.38%
2017	\$706,237	\$1,744,728	40.48%
2018	\$781,984	\$1,805,400	43.31%
2019	\$797,806	\$1,842,555	43.30%
2020	\$768,721	\$1,921,217	40.01%
2021	\$788,483	\$1,886,512	41.80%
2022	\$859,787	\$1,921,142	44.75%
2023	\$1,164,974	\$2,025,114	57.53%

Source: Municipal Pension Fund Financial Statements, June 30, 2023.

(1) The definition of “covered-employee payroll” in GASB 68 differs slightly from the “covered payroll” definition in GASB 27. See “PENSION SYSTEM – Funding Requirements; Funding Standards – *GASB: City Funding Policy.*”

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]



## Actuarial Projections of Funded Status

Cautionary Note. The information under this subheading, “Actuarial Projections of Funded Status,” was prepared by Cheiron. The table below shows a five-year projection of RRP payments, Actuarial Value of Assets, Actuarial Liability, UAL, and Funded Ratio. The charts below show projections of funded ratios and City contributions based on the RRP through Fiscal Year 2043. All projections, whether for five years or for twenty years, are subject to actual experience deviating from the underlying assumptions and methods, and that is particularly the case for the charts below for the periods beyond the projections in the five-year table. **Projections and actuarial assessments are “forward looking” statements and are based on assumptions which may not be fully realized in the future and are subject to change, including changes based on the future experience of the City’s Municipal Pension Fund and Municipal Pension Plan.**

The projections are on the basis that all assumptions as reflected in the July 1, 2023 Valuation are exactly realized and the City makes all future RRP payments on schedule as required by the RRP funding policy, and must be understood in the context of the assumptions, methods and benefits in effect as described in the July 1, 2023 Valuation. Included among such assumptions are: (i) the rates of return for the Municipal Pension Fund over the projection period will equal 7.35% in Fiscal Year 2024 and 7.30% annually thereafter, (ii) RRP contributions will be made each year, (iii) the provisions of Act 205 as amended by Act 44 will remain in force during the projection period, and (iv) the future population changes of the participants in the pension plan will follow the demographic actuarial assumptions with the active population remaining constant in the future.

The July 1, 2023 Valuation includes charts reflecting the contributions based on MMO (Baseline projection set 1), and charts reflecting the additional contributions in accordance with the RRP (Baseline projection set 2). The charts provided below reflect the RRP contributions, which are higher than the MMO required under Pennsylvania law. Using the RRP, the Municipal Retirement System is projected to be 80% funded by 2028 and 100% funded by 2033, three years earlier than under the MMO projections. By the end of the projection period, the Municipal Retirement System is expected to be funded at 130.0% compared to 115.4% when MMO contributions are made. See the July 1, 2023 Valuation for further discussion of the assumptions and methodologies used by the Actuary in preparing the July 1, 2023 Valuation and the following projections, all of which should be carefully considered in reviewing the projections. The July 1, 2023 Valuation is available for review on the website of the City’s Board of Pensions. The table and charts below separately set forth estimates of Sales Tax revenues that will be deposited by the City into the Municipal Pension Fund, which were provided by the City to Cheiron based on current estimates or budgeted amounts of such revenues as included in the Thirty-Third Five-Year Plan. Cheiron has not analyzed and makes no representation regarding the validity of the sales tax revenue assumptions and estimates provided by the City. See “REVENUES OF THE CITY – Sales and Use Tax.”

Each of the tables and graphs that follow are shown in Appendix E of the July 1, 2023 Valuation and such report should be referenced regarding the underlying benefits, methods, and assumptions utilized in the production of these values.

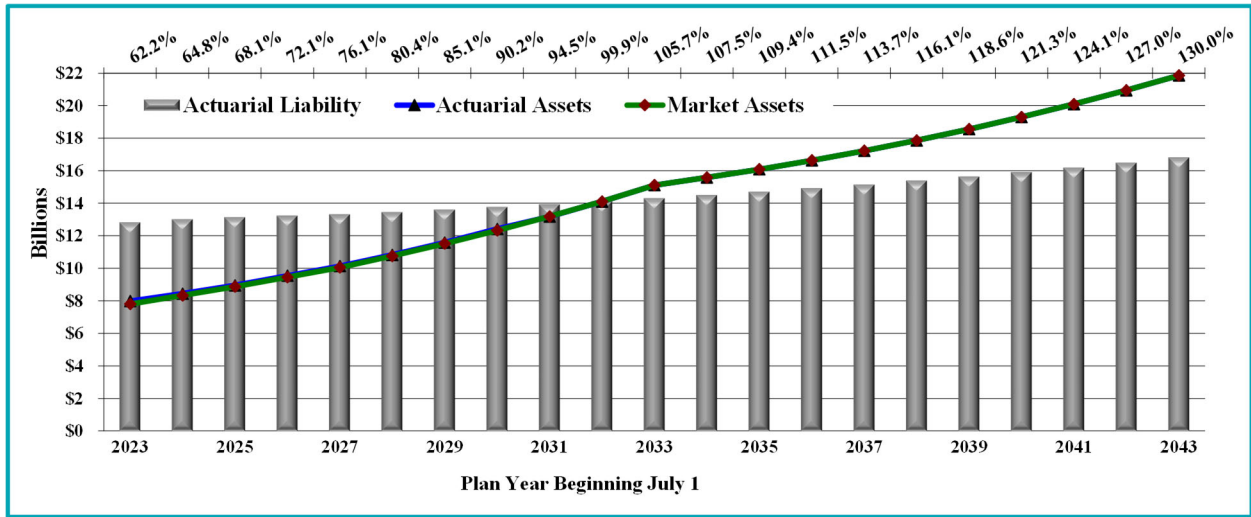
[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

Five-Year Projection. The following chart provides dollar amounts in millions of USD.

Table E-1 (\$ millions)							
Fiscal Year	RRP	Sales Tax	Actuarial	Actuarial	Unfunded	Funded	
End	Contributions	Contributions	Value of	Liability	Actuarial	Ratio	Ratio
			Assets		Liability		
2024	\$ 742.8	\$ 96.1	\$ 7,979.2	\$ 12,821.4	\$ 4,842.2		62.2%
2025	741.5	104.6	8,439.3	13,020.1	4,580.8		64.8%
2026	760.7	113.7	8,947.8	13,139.4	4,191.6		68.1%
2027	755.5	122.4	9,544.7	13,238.9	3,694.2		72.1%
2028	755.2	131.4	10,134.4	13,317.4	3,183.1		76.1%
2029	750.6	140.4	10,824.5	13,458.5	2,634.0		80.4%

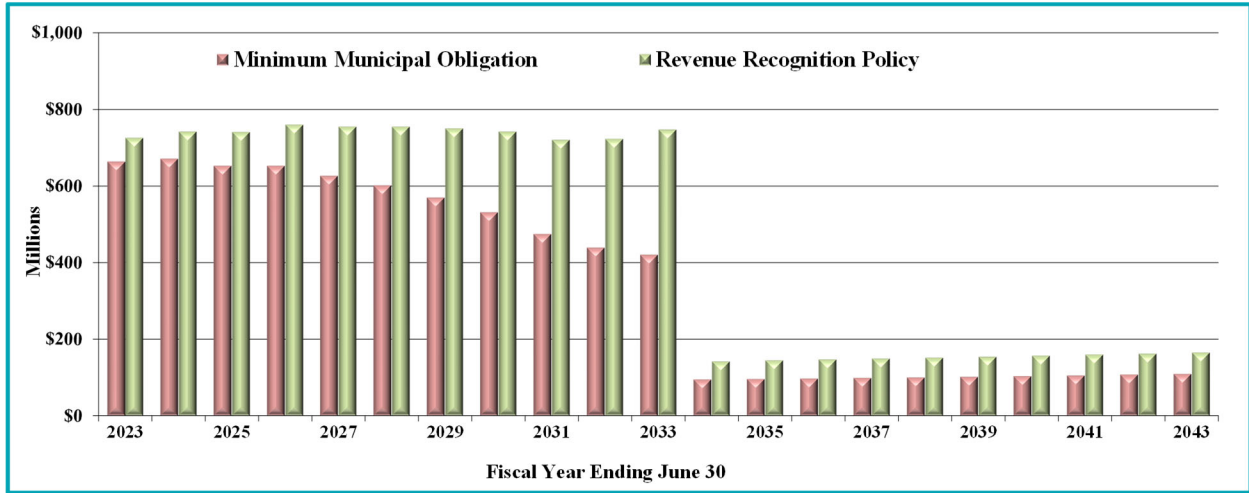
Twenty-Year Projections.

Funded Ratio Chart based on the RRP:



[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

Expected City Contribution Chart based on the RRP:



[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## OTHER POST-EMPLOYMENT BENEFITS

The City self-administers a single employer, defined benefit plan for post-employment benefits other than pension benefits (“OPEB”), and funds such plan on a pay-as-you-go basis. The City’s OPEB plan provides for those persons who retire from the City and are participants in the Municipal Pension Plan: (i) post-employment healthcare benefits for a period of five years following the date of retirement and (ii) lifetime life insurance coverage (\$7,500 for firefighters who retired before July 1, 1990; \$6,000 for all other retirees). In general, retirees eligible for OPEB are those who terminate their employment after ten years of continuous service to immediately become pensioned under the Municipal Pension Plan.

To provide health care coverage, the City pays a negotiated monthly premium for retirees covered by the union contract for AFSCME DC 33 and is self-insured for all other eligible pre-Medicare retirees. Aside from AFSCME DC 33, the City is responsible for the actual health care cost that is invoiced to the City’s unions by their respective vendors. The actual cost can be a combination of self-insured claim expenses, premiums, ancillary services, and administrative expenses. Eligible union represented employees receive five years of coverage through their union’s health fund. The City’s funding obligation for pre-Medicare retiree benefits is the same as for active employees. Union represented and non-union employees may defer their retiree health coverage until a later date. For some groups, the amount that the City pays for their deferred health care is based on the value of the health benefits at the time the retiree claims the benefits, but for police and fire retirees who retired after an established date, the City pays the cost of five years of coverage when the retiree claims the benefits.

The annual payments made by the City for OPEB for Fiscal Years 2019-2023 are shown in Table 33 below.

**Table 33**  
**Annual OPEB Payment**  
**(Amounts in Thousands of USD)**

<u>Fiscal Year ended June 30,</u>	<u>Annual OPEB Payment</u>
2019	\$96,900
2020	\$104,600
2021	\$97,800
2022	\$118,300
2023	\$101,100

Source: See Note IV.3 to the City’s ACFRs for such Fiscal Years.

For financial reporting purposes, although the City funds OPEB on a pay-as-you-go basis, it is required to include in its financial statements (in accordance with GASB Statement No. 75) a calculation similar to that performed to calculate its pension liability. Pursuant to GASB 75, an annual required contribution is calculated which, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liability over a period not to exceed 30 years. The City’s total OPEB liability reported as of June 30, 2023 of \$1.785 billion, was measured as of June 30, 2022 based on an actuarial valuation as of July 1, 2022. See Note IV.3 to the Fiscal Year 2023 ACFR.

## **PGW PENSION PLAN**

### **General**

PGW consists of all the real and personal property owned by the City and used for the acquisition, manufacture, storage, processing, and distribution of gas within the City, and all property, books, and records employed and maintained in connection with the operation, maintenance, and administration of PGW. The City Charter provides for a Gas Commission (the “Gas Commission”) to be constituted and appointed in accordance with the provisions of contracts between the City and the operator of PGW as may from time to time be in effect, or, in the absence of a contract, as may be provided by ordinance. The Gas Commission consists of the City Controller, two members appointed by City Council and two members appointed by the Mayor.

PGW is operated by PFMC, pursuant to an agreement between the City and PFMC dated December 29, 1972, as amended, authorized by ordinances of City Council (the “Management Agreement”). Under the Management Agreement, various aspects of PFMC’s management of PGW are subject to review and approval by the Gas Commission. The Pennsylvania Public Utility Commission (the “PUC”) has the regulatory responsibility for PGW with regard to rates, safety, and customer service.

The City sponsors the Philadelphia Gas Works Pension Plan (the “PGW Pension Plan”), a single employer defined benefit plan, to provide pension benefits for certain current and former PGW employees and other eligible class employees of PFMC and the Gas Commission. As plan sponsor, the City, through its General Fund, could be responsible for plan liabilities if the PGW Pension Plan does not satisfy its payment obligations to PGW retirees. At June 30, 2024, the PGW Pension Plan membership total was 3,700, comprised of: (i) 2,548 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them; and (ii) 1,152 participants, of which 816 were vested and 336 were nonvested.

### **PGW Pension Plan**

The PGW Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after five years of credited service. Retirement payments for vested employees commence: (i) at age 65 and five years of credited service; (ii) age 55 and 15 years of credited service; or (iii) without regard to age, after 30 years of credited service. For covered employees hired prior to May 21, 2011 (union employees) or prior to December 21, 2011 (non-union employees), PGW pays the entire cost of the PGW Pension Plan. Union employees hired on or after May 21, 2011 and non-union employees hired on or after December 21, 2011 have the option to participate in the PGW Pension Plan and contribute 6% of applicable wages or participate in a plan established in compliance with Section 401(a) of the Internal Revenue Code (defined contribution plan) and have PGW contribute 5.5% of applicable wages.

PGW is required by statute to contribute the amounts necessary to fund the PGW Pension Plan. The PGW Pension Plan is funded with (i) contributions by PGW, (ii) contributions from the Sinking Fund Commission of the City (the “Sinking Fund Commission”), (iii) investment earnings, and (iv) employee contributions required for new hires after December 2011 who elect to participate in the PGW Pension Plan. Each month, the Sinking Fund Commission sends, in two separate payments, (i) approximately \$2.5 million and (ii) one-twelfth of PGW’s annual contribution to the applicable bank account for processing and payment to PGW pensioners.

Benefit and contribution provisions are established by City ordinance and may be amended only as allowed by City ordinance. The pension payments are treated as an operating expense of PGW and are

included as a component of PGW's base rate. The PUC approves all items that are to be included in PGW's base rates.

Effective October 2015, payments to beneficiaries of the PGW Pension Plan are made by the PGW Retirement Reserve Fund. Prior to October 2015, payments to beneficiaries of the PGW Pension Plan were made by PGW through its payroll system. The financial statements for the PGW Pension Plan for the fiscal year ended June 30, 2021, show an amount due to PGW of approximately \$0.2 million, which represents the cumulative excess of payments made to the retirees and administrative expenses incurred by PGW, over the sum of PGW's required annual contribution and reimbursements received from the PGW Pension Plan.

### **Pension Costs and Funding**

PGW pays an annual amount that is projected to be sufficient to cover its normal cost and an amortization of the PGW Pension Plan's UAL. The following table shows the normal cost, the amortization payment, and the resulting annual required contribution as of the last five actuarial valuation dates for the PGW Pension Plan. Prior to fiscal year 2016, PGW had been using a 20-year open amortization period (and the payments in Table 34 are on the basis of a 20-year open amortization). Commencing in PGW's fiscal year 2016, PGW calculated an annual required contribution on the basis of both a 20-year open amortization period and a 30-year closed amortization period and contributed the higher of the two amounts. An open amortization period is one that begins again or is recalculated at each actuarial valuation date. With a closed amortization period, the unfunded liability is amortized over a specific number of years to produce a level annual payment. Because the final amortization date is fixed, if all actuarial assumptions are achieved, the unfunded liability would decline to zero as of the final amortization date. To the extent future experience differs from the assumptions used to establish the 30-year fixed amortization payment schedule, new amortization bases attributable to a particular year's difference would be established and amortized over their own 30-year schedule. Commencing in PGW's fiscal year 2021, PGW's annual contribution is required to be at least \$30,000,000 annually unless changed by written directive of the Finance Director. The contribution amount exceeds the suggested level of funding in the Actuarial Valuation Report (Funding) for the Plan Year July 1, 2023 – June 30, 2024 for the PGW Pension Plan and is consistent with the contribution amount in PGW's base rates (i.e., rates PGW charges for services).

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

**Table 34**  
**PGW Pension – Annual Required Contributions (“ARC”)**  
**(Dollar Amounts in Thousands of USD)**

<b>Calculation of ARC for the 12- month period ended:</b>	<b>Normal Cost<sup>(1)</sup></b> (A)	<b>Amortization Payment<sup>(1)</sup></b> (B)	<b>ARC<sup>(1), (2)</sup></b> (A + B)	<b>Payments to Beneficiaries<sup>(3)</sup></b>
7/1/2019	\$7,282	\$18,617	\$25,899	\$53,893
7/1/2020	\$6,161	\$16,504	\$22,665	\$55,061
7/1/2021	\$7,892	\$17,375	\$25,267	\$56,647
7/1/2022	\$7,732	\$17,470	\$25,202	\$58,502
7/1/2023	\$7,754	\$17,306	\$25,060	\$60,312

<sup>(1)</sup> Source: The Actuarial Valuation Report (Funding) for the Plan Year July 1, 2023 – June 30, 2024 for the PGW Pension Plan.

<sup>(2)</sup> Each ARC is the sum reflected in this table, but the “Calculated Mid-Year Contribution” in Tables 36 and 37 more closely approximates the actual pension contributions made by PGW.

<sup>(3)</sup> Sources: For 2019, the audited financial statements for PGW for the fiscal years ended August 31, 2019 and 2018. For 2020, the audited financial statements for PGW for the fiscal years ended August 31, 2020 and 2019. For 2021, the audited financial statements for PGW for fiscal years ended August 31, 2021 and 2020. For 2022, the audited financial statements for PGW for fiscal years ended August 31, 2022 and 2021. For 2023, the audited financial statements for PGW for fiscal years ended August 31, 2023 and 2022.

Although PGW has paid its annual required contribution each year, the market value of assets for the PGW Pension Plan is less than the actuarial accrued liability, as shown in the next table. Table 35 shows such values as of the applicable actuarial valuation dates (July 1, 2018 through July 1, 2023).

**Table 35**  
**Schedule of Pension Funding Progress**  
**(Dollar Amounts in Thousands of USD)<sup>(1)</sup>**

<b>Actuarial Valuation Date</b>	<b>Market Value of Assets</b>	<b>Actuarial Liability</b>	<b>UAL (Market Value)</b>	<b>Funded Ratio</b>
7/1/2018	\$543,246	\$758,069	\$214,823	71.66%
7/1/2019	\$553,240	\$755,782	\$202,542	73.20%
7/1/2020	\$543,230	\$741,279	\$198,049	73.28%
7/1/2021	\$673,542	\$792,325	\$118,783	85.01%
7/1/2022	\$565,748	\$806,257	\$240,509	70.17%
7/1/2023	\$604,133	\$812,231	\$208,098	74.38%

<sup>(1)</sup> Source: The Actuarial Valuation Report (Funding) for the Plan Year July 1, 2023 – June 30, 2024 for the PGW Pension Plan.

The current significant actuarial assumptions for the PGW Pension Plan are: (i) investment return rate of 7.00% compounded annually; (ii) salaries are assumed to increase by an amount based on years of service, see table 3 in The Actuarial Valuation Report (Funding) for the Plan Year July 1, 2023 – June 30, 2024 for the PGW Pension Plan; and (iii) retirements that are assumed to occur at the ages detailed in The Actuarial Valuation Report (Funding) for the Plan Year July 1, 2023 – June 30, 2024 for the PGW Pension Plan.

The Actuarial Valuation Report (Funding) for the Plan Year July 1, 2023 – June 30, 2024 for the PGW Pension Plan includes certain changes to the actuarial assumptions, including (i) modifications to mortality tables, turnover rates, disability rates, retirement rates, and salary scales, (ii) increases to assumed participant compensation in the final year of employment prior to retirement, and (iii) modifications to the optional payment form election percentages and the surviving spouse benefit assumptions.

PGW uses a September 1 – August 31 fiscal year, while the PGW Pension Plan uses a July 1 – June 30 fiscal year (the same as the City’s fiscal year). The last five actuarial valuation reports for the PGW Pension Plan utilized a plan year of July 1 to June 30. This is reflected in Table 35 above.

The PGW Pension Plan actuary prepared a separate actuarial valuation report (“GASB 67 Report”) for the fiscal year ending June 30, 2023, for purposes of plan reporting information under Governmental Accounting Standards Board Statement No. 67, “Financial Reporting for Pension Plans.” The GASB 67 Report shows for the fiscal year ending June 30, 2023, an unfunded liability of approximately \$229.4 million (rather than the approximately \$208.1 million reflected in Table 35), which results in a funded ratio of 72.48%. In addition, that report provides an interest rate sensitivity, which shows that were the investment rate to be 6.00% (1% lower than the assumed investment rate of 7.00%), the unfunded liability would be approximately \$318.2 million.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]



## Projections of Funded Status

The information under this subheading, “Projections of Funded Status,” is extracted from tables prepared by Aon, as actuary to the PGW Pension Plan, which were included in their “Philadelphia Gas Works Pension Plan – Funding Alternative Funding Schedules July 1, 2023-June 30, 2024”. The charts show projections, using both the current amortization method (20-year, open) and the alternative amortization method (30-year, fixed). See “– Pension Costs and Funding” above. Projections are subject to actual experience deviating from the underlying assumptions and methods. **Projections and actuarial assessments are “forward looking” statements and are based upon assumptions that may not be fully realized in the future and are subject to change, including changes based upon the future experience of the PGW Pension Plan.**

**Table 36**  
**Schedule of Prospective Funded Status (20-Year Open Amortization)**  
**(Dollar Amounts in Thousands of USD)**

<b>Actuarial Valuation Date (July 1)</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>UAL (Actuarial Value)</b>	<b>Calculated Mid-Year Contribution<sup>(1), (2)</sup></b>	<b>Funded Ratio</b>
2023	\$616,058	\$812,231	\$196,173	\$25,908	75.85%
2024	621,531	815,047	193,516	25,601	76.26%
2025	631,653	817,409	185,756	24,871	77.28%
2026	617,566	819,408	201,842	26,339	75.37%
2027	630,464	821,160	190,696	25,360	76.78%
2028	637,139	822,993	185,855	24,985	77.42%
2029	646,940	825,064	181,124	24,644	78.05%
2030	650,941	827,444	176,503	24,311	78.67%
2031	657,768	829,765	171,997	23,956	79.27%
2032	664,740	832,328	167,588	23,643	79.87%

<sup>(1)</sup> Source: The Actuarial Valuation Report (Funding) for the Plan Year July 1, 2023 – June 30, 2024 for the PGW Pension Plan.

<sup>(2)</sup> PGW makes monthly contributions to the PGW Retirement Reserve Fund. The actuary’s report assumes contributions at the beginning, middle, and end of the plan year. PGW utilizes the mid-year contribution level to approximate the actual funding methodology.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

**Table 37**  
**Schedule of Prospective Funded Status (30-Year Closed Amortization)**  
**(Dollar Amounts in Thousands of USD)**

<b>Actuarial Valuation Date (July 1)</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>UAL (Actuarial Value)</b>	<b>Calculated Mid-Year Contribution<sup>(1), (2)</sup></b>	<b>Funded Ratio</b>
2023	\$616,058	\$812,231	\$196,173	\$25,908	75.85%
2024	620,708	815,047	194,339	25,214	76.16%
2025	630,373	817,409	187,036	24,955	77.12%
2026	616,283	819,408	203,124	26,561	75.21%
2027	629,322	821,160	191,838	26,114	76.64%
2028	636,698	822,993	186,296	26,166	77.36%
2029	644,690	825,064	180,374	26,241	78.14%
2030	653,398	827,444	174,047	26,314	78.97%
2031	662,469	829,765	167,295	26,355	79.84%
2032	672,253	832,328	160,074	26,427	80.77%

<sup>(1)</sup> Source: The Actuarial Valuation Report (Funding) for the Plan Year July 1, 2023 – June 30, 2024 for the PGW Pension Plan.

<sup>(2)</sup> PGW makes monthly contributions to the PGW Retirement Reserve Fund. The actuary's report assumes contributions at the beginning, middle, and end of the plan year. PGW utilizes the mid-year contribution level to approximate the actual funding methodology.

**Additional Information**

The City issues a publicly available financial report that includes financial statements and required supplementary information for the PGW Pension Plan. The report is not incorporated into this Official Statement by reference. The report may be obtained by writing to the Office of the Director of Finance of the City.

Further information on the PGW Pension Plan, including with respect to its membership, plan description, funding policy, actuarial assumptions and funded status is contained in the Fiscal Year 2023 ACFR.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## PGW OTHER POST-EMPLOYMENT BENEFITS

PGW provides post-employment healthcare and life insurance benefits to its participating retirees and their beneficiaries and dependents. The City, through its General Fund, could be responsible for costs associated with post-employment healthcare and life insurance benefits if PGW fails to satisfy its post-employment benefit obligations.

PGW pays the full cost of medical, basic dental, and prescription coverage for employees who retired prior to December 1, 2001. Employees who retire after December 1, 2001 are provided a choice of three plans at PGW's expense and can elect to pay toward a more expensive plan. Union employees hired prior to May 21, 2011 and non-union employees hired prior to December 21, 2011 who retire from active service to immediately begin receiving pension benefits are entitled to receive lifetime post-retirement medical, prescription, and dental benefits for themselves and, depending on their retirement plan elections, their dependents. Employees hired on or after those dates are entitled to receive only five years of post-retirement benefits. Currently, PGW provides for the cost of healthcare and life insurance benefits for retirees and their beneficiaries on a pay-as-you-go-basis.

As part of a July 29, 2010 rate case settlement (the "Rate Settlement"), which provided for the establishment of an irrevocable trust for the deposit of funds derived through a rider from all customer classes to fund OPEB liabilities (the "OPEB Surcharge"), PGW established the trust in July 2010, and began funding the trust in accordance with the Rate Settlement in September 2010. The Rate Settlement provided that PGW was to deposit \$15.0 million annually for an initial five-year period towards the ARC, and an additional \$3.5 million annually, which represented a 30-year amortization of the OPEB liability at August 31, 2010. These deposits were funded primarily through increased rates of \$16.0 million granted in the Rate Settlement. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period of 30 years. In PGW's 2015-2016 Gas Cost Rate ("GCR") proceeding, PGW proposed to continue its OPEB Surcharge. The parties to the GCR proceeding submitted a settlement agreement continuing the OPEB Surcharge at the same level of revenue (\$16.0 million annually) and funding (\$18.5 million annually). Such settlement agreement was approved by the PUC.

The current significant actuarial assumptions for the PGW OPEB Plan are: (i) investment return rate of 7.00% compounded annually; (ii) salaries assumed to increase by an amount based on years of service, and (iii) retirements assumed to occur at the ages detailed in The Actuarial Valuation Report – Retiree Health Insurance Program GASB 74 (Valuation Date: December 31, 2023).

PGW uses a September 1 – August 31 fiscal year, while the PGW OPEB Plan uses a January 1 – December 31 calendar year. The last seven actuarial valuation reports for the PGW OPEB Plan utilized a plan year of January 1 – December 31. This is reflected in Table 39 below.

In Table 39, the PGW OPEB Plan shows an unfunded liability of approximately \$113.7 million, which results in a funded ratio of 77.9%. In addition, The Actuarial Valuation Report – Retiree Health Insurance Program GASB 74 report provides an interest rate sensitivity, which shows that if the investment rate were to be 6.00% (1% lower than the assumed investment rate of 7.00%), the unfunded liability would be approximately \$183.3 million.

Table 38 provides detail of actual PGW OPEB payments for PGW Fiscal Years 2019-2023 and projected PGW OPEB payments for PGW Fiscal Years 2024-2028. **Projections and actuarial assessments are "forward looking" statements and are based upon assumptions that may not be fully realized in the future and are subject to change, including changes based upon the future experience.**

**Table 38**  
**PGW OPEB Payments**  
**(Amounts in Thousands of USD)**

<b>Calculation of OPEB Payment for the 12-month period ended:</b>	<b>Healthcare</b>	<b>Life Insurance</b>	<b>OPEB Trust</b>	<b>Total</b>
<u>Actual<sup>(1)</sup></u>				
8/31/2019	\$27,419	\$1,629	\$18,500	\$47,548
8/31/2020	\$26,944	\$1,661	\$18,500	\$47,105
8/31/2021	\$24,655	\$1,725	\$18,500	\$44,880
8/31/2022	\$21,970	\$1,778	\$18,500	\$42,248
8/31/2023	\$24,746	\$1,797	\$18,500	\$45,043
<u>Projections<sup>(2)</sup></u>				
12/31/2024	\$27,681	\$1,700	\$18,500	\$47,881
12/31/2025	\$28,573	\$1,700	\$18,500	\$48,773
12/31/2026	\$29,512	\$1,700	\$18,500	\$49,712
12/31/2027	\$30,422	\$1,700	\$18,500	\$50,622
12/31/2028	\$31,565	\$1,700	\$18,500	\$51,765

<sup>(1)</sup> Source: PGW audited financial statements for fiscal year ended August 31, 2023.

<sup>(2)</sup> The Actuarial Valuation Report for the PGW Health and Life Insurance Plan GASB 75 Projected Costs – Discount Rate = 7.0%.

Table 39 is the schedule of PGW OPEB funding progress.

**Table 39**  
**Schedule of OPEB Funding Progress**  
**(Dollar Amounts in Thousands of USD)**

<b>Actuarial valuation date</b>	<b>Actuarial value of assets</b>	<b>Actuarial liability</b>	<b>Unfunded actuarial liability</b>	<b>Funded ratio</b>
12/31/2017 <sup>(1)</sup>	\$180,743	\$559,631	\$378,888	32.3%
12/31/2018 <sup>(1)</sup>	\$184,455	\$520,533	\$336,078	35.4%
12/31/2019 <sup>(1)</sup>	\$245,361	\$493,570	\$248,209	49.7%
12/31/2020 <sup>(1)</sup>	\$306,079	\$507,667	\$201,588	60.3%
12/31/2021 <sup>(1)</sup>	\$365,944	\$515,175	\$149,231	71.0%
12/31/2022 <sup>(1)</sup>	\$320,635	\$529,342	\$208,707	60.6%
12/31/2023 <sup>(2)</sup>	\$393,913	\$507,620	\$113,707	77.6%

<sup>(1)</sup> The Actuarial Valuation Report for the PGW Health and Life Insurance Plan for Retired Employees GASB 75 Financial Disclosure Report for the Fiscal Year Ended August 31, 2023.

<sup>(2)</sup> The Actuarial Valuation Report – Retiree Health Insurance Program GASB 74.

## **CITY CASH MANAGEMENT AND INVESTMENT POLICIES**

### **General Fund Cash Flow**

Because the receipt of revenues into the General Fund generally lags behind expenditures from the General Fund during each Fiscal Year, the City issues notes in anticipation of General Fund revenues and makes payments from the Consolidated Cash Account (described below) to finance its on-going operations.

The timing imbalance referred to above results from several factors, principally the following: (i) Real Estate Taxes, BIRT, and Net Profits Taxes are not due until the latter part of the Fiscal Year; and (ii) the City experiences lags in reimbursement from other governmental entities for expenditures initially made by the City in connection with programs funded by other governments.

From time to time, the City issues, or PICA has issued on behalf of the City, tax and revenue anticipation notes. Each issue was repaid when due, prior to the end of the particular Fiscal Year. The City did not issue tax and revenue anticipation notes in Fiscal Year 2023 or Fiscal Year 2024. The City does not expect to issue tax and revenue anticipation notes in Fiscal Year 2025.

The repayment of the tax and revenue anticipation notes is funded through cash available in the General Fund.

### **Consolidated Cash**

The Act of the General Assembly of June 25, 1919 (Pa. P.L. 581, No. 274, Art. XVII, § 6) authorizes the City to make temporary inter-fund loans between certain operating and capital funds. The City maintains a Consolidated Cash Account for the purpose of pooling the cash and investments of all City funds, except those which, for legal or contractual reasons, cannot be commingled (e.g., the Municipal Pension Fund, sinking funds, sinking fund reserves, funds of PGW, the Aviation Fund, the Water Fund, and certain other restricted purpose funds). A separate accounting is maintained to record the equity of each member fund that participates in the Consolidated Cash Account. The City manages the Consolidated Cash Account pursuant to the procedures described below.

To the extent that any member fund temporarily experiences the equivalent of a cash deficiency, an advance is made from the Consolidated Cash Account, in an amount necessary to result in a zero balance in the cash equivalent account of the borrowing fund. All subsequent net receipts of a member fund that has negative equity are applied in repayment of the advance.

All advances are made within the budgetary constraints of the borrowing funds. Within the General Fund, this system of inter-fund advances has historically resulted in the temporary use of tax revenues or other operating revenues for capital purposes and the temporary use of capital funds for operating purposes. With the movement of the reimbursable component of DHS activities from the General Fund to the Grants Revenue Fund, a similar system of advances has resulted in the use of tax revenues or other operating revenues in the General Fund to make expenditures from the Grants Revenue Fund, which advances may be outstanding for multiple Fiscal Years, but which are expected to be reimbursed by the Commonwealth.

The City maintains an ongoing cash reconciliation process, which, in short, reconciles the account balance and activity shown on the records of the bank at which the cash balance of the Consolidated Cash Account is maintained to that shown on the City's records. The City periodically reviews its internal policies to improve the cash reconciliation process and resolve any variances.

Procedures governing the City's cash management operations require the General Fund-related operating fund to borrow initially from the General Fund-related capital fund, and only to the extent there is a deficiency in such fund may the General Fund-related operating fund borrow money from any other funds in the Consolidated Cash Account.

## **Investment Practices**

Cash balances in each of the City's funds are managed to maintain daily liquidity to pay expenses, and to make investments that preserve principal while striving to obtain the maximum rate of return. Pursuant to the City Charter, the City Treasurer is the City official responsible for managing cash collected into the City Treasury. The available cash balances in excess of daily expenses are placed in demand accounts, swept into money market mutual funds, or used to make investments directed by professional investment managers. These investments are held in segregated trust accounts at a separate financial institution. Cash balances related to revenue bonds for water and sewer and the airport are directly deposited and held separately in trust. A fiscal agent manages these cash balances in accordance with the applicable bond documents and the investment practice is guided by administrative direction of the City Treasurer per the Investment Committee and the Investment Policy (as described below). In addition, certain operating cash deposits (such as Community Behavioral Health, Special Gas/County Liquid and "911" surcharge) of the City are restricted by purpose and required to be segregated into accounts in compliance with federal or Commonwealth reporting.

Investment guidelines for the City are embodied in Section 19-202 of the Philadelphia Code. In furtherance of these guidelines, as well as Commonwealth and federal legislative guidelines, the Director of Finance adopted a written Investment Policy (the "Policy") that went into effect in August 1994 and was most recently revised in January 2023. The Policy supplements other legal requirements and establishes guiding principles for the overall administration and effective management of all of the City's monetary funds (except the Municipal Pension Fund, the PGW Retirement Reserve Fund, the PGW OPEB Trust and the PGW Workers' Compensation Reserve Fund).

The Policy delineates permitted investments as authorized by the Philadelphia Code and the funds to which the Policy applies. Investment managers may invest in the instruments expressly listed in the Policy, which states that investments in instruments not listed as authorized investments are prohibited. The authorized investments include U.S. government securities, U.S. treasuries, U.S. agencies, repurchase agreements, commercial paper, corporate bonds, money market mutual funds, obligations of the Commonwealth, collateralized banker's acceptances and certificates of deposit, and collateralized mortgage obligations and pass-through securities directly issued by a U.S. agency or instrumentality, all of investment grade rating or better and with maturity limitations.

U.S. government treasury and agency securities carry no limitation as to the percent of the total portfolio. Commercial paper and corporate bonds are limited to investment of no more than 30% of the total portfolio. Repurchase agreements and money market mutual funds are limited to investment of no more than 25% of the total portfolio. Obligations of the Commonwealth and collateralized banker's acceptances and certificates of deposit are limited to no more than 15% of the total portfolio. Collateralized mortgage obligations and pass-through securities directly issued by a U.S. agency or instrumentality are limited to no more than 5% of the total portfolio.

U.S. government securities carry no limitation as to the percent of the total portfolio per issuer. U.S. agency securities are limited to no more than 33% of the total portfolio per issuer. Repurchase agreements and money market mutual funds are limited to no more than 10% of the total portfolio per issuer. Commercial paper, corporate bonds, obligations of the Commonwealth, collateralized banker's acceptances and certificates of deposit, and collateralized mortgage obligations and pass-through

securities directly issued by a U.S. agency or instrumentality are limited to no more than 3% of the total portfolio per issuer.

The Policy provides for an ad hoc Investment Committee consisting of the Director of Finance, the City Treasurer and one representative each from the Water Department, the Department of Aviation, and PGW. The Investment Committee meets quarterly with each of the investment managers to review each manager's performance to date and to plan for the next quarter. Investment managers are given any changes in investment instructions at these meetings. The Investment Committee approves all modifications to the Policy. The Investment Committee may from time to time review and revise the Policy and may approve temporary waivers of the restrictions on assets based on cash management needs and recommendations of investment managers.

Investment managers provide monthly compliance reports to the Investment Committee, which certify that the manager has received, read, and established control measures for ensuring compliance with the Policy, and that the applicable City accounts are in compliance with the Policy. Such reports must include instances of non-compliance, if any, and indicate corrective action taken, gains or losses, and the timeframe, to bring the account into compliance.

The Policy expressly forbids the use of any derivative investment product as well as investments in any security whose yield or market value does not follow the normal swings in interest rates. Examples of these types of securities include, but are not limited to, structured notes, floating rate (excluding U.S. Treasury and U.S. agency floating rate securities) or inverse floating rate instruments, securities that could result in zero interest accrual if held to maturity, and mortgage derived interest and principal only strips. The City currently makes no investments in derivatives.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## DEBT OF THE CITY

### General

Section 12 of Article IX of the Constitution of the Commonwealth provides that the authorized debt of the City “may be increased in such amount that the total debt of [the] City shall not exceed 13.5% of the average of the annual assessed valuations of the taxable realty therein, during the ten years immediately preceding the year in which such increase is made, but [the] City shall not increase its indebtedness to an amount exceeding 3.0% upon such average assessed valuation of realty, without the consent of the electors thereof at a public election held in such manner as shall be provided by law.” The Supreme Court of Pennsylvania has held that bond authorizations once approved by the voters need not be reduced as a result of a subsequent decline in the average assessed value of City property. The general obligation debt subject to the limitation described in this paragraph is referred to herein as “Tax-Supported Debt.”

The Constitution of the Commonwealth further provides that there shall be excluded from the computation of debt for purposes of the Constitutional debt limit, debt (herein called “Self-Supporting Debt”) incurred for revenue-producing capital improvements that may reasonably be expected to yield revenue in excess of operating expenses sufficient to pay interest and sinking fund charges thereon. In the case of general obligation debt, the amount of such Self-Supporting Debt to be so excluded must be determined by the Court of Common Pleas of Philadelphia County upon petition by the City. Self-Supporting Debt is general obligation debt of the City, with the only distinction from Tax-Supported Debt being that it is not used in the calculation of the Constitutional debt limit. Self-Supporting Debt has no lien on any particular revenues.

For purposes of this Official Statement, Tax-Supported Debt and Self-Supporting Debt are referred to collectively as “General Obligation Debt.” The term “General Fund-Supported Debt” is comprised of: (i) General Obligation Debt; and (ii) PAID, PMA, PPA, PEA, and PRA bonds, which are secured by agreements with the City to appropriate and pay amounts sufficient to pay principal, interest, or redemption price when due on the bonds.

Using the methodology described above, as of August 31, 2024, the Constitutional debt limitation for Tax-Supported Debt was \$18,336,884,508. The total amount of authorized debt applicable to the debt limit was \$2,399,992,000, including \$1,265,981,000 of authorized but unissued debt, leaving a legal debt margin of 15,936,892,508. Based on the foregoing figures, the calculation of the legal debt margin is as follows:

**Table 40**  
**General Obligation Debt Limit**  
**As of August 31, 2024**  
**(Amounts in Thousands of USD)**

Authorized, issued and outstanding	\$1,521,940
Authorized and unissued	1,265,981
Total	\$2,787,921
Less: Self-Supporting Debt	(\$352,614)
Less: Serial bonds maturing within a year	(35,315)
Total amount of authorized debt applicable to debt limit	2,399,992
Legal debt limit	18,336,885
Legal debt margin	\$15,936,893



As a result of the implementation of the City’s AVI, the assessed value of taxable real estate within the City has increased substantially. See “REVENUES OF THE CITY – Real Property Taxes.” The \$18.337 billion Constitutional debt limit calculation includes ten years of property values certified under the City’s AVI program. Assuming no increase or decrease in property values used to calculate the Constitutional debt limit in Table 40, the Constitutional debt limit is estimated to be \$26.357 billion by 2033.

The City is also empowered by statute to issue revenue bonds and, as of August 31, 2024, had outstanding \$3.16 billion aggregate principal amount of Water and Wastewater Revenue Bonds (“Water and Wastewater Bonds”), \$883.0 million aggregate principal amount of Gas Works Revenue Bonds, and \$1.37 billion aggregate principal amount of Airport Revenue Bonds. As of August 31, 2024, the City has also enacted ordinances authorizing the issuance of (i) up to \$500 million aggregate principal amount in Airport Revenue Commercial Paper Notes for the Department of Aviation, (ii) up to \$1 billion of Airport Revenue Bonds to finance capital projects for the Department of Aviation (of which approximately \$179.6 million has been issued), (iii) up to \$270 million of Gas Works Revenue Notes to finance working capital and capital projects for PGW, (iv) up to \$760 million of Gas Works Revenue Bonds to finance capital projects for PGW, of which approximately \$203.2 million has been issued, (v) up to \$400 million of Water and Wastewater Commercial Paper Notes for the Philadelphia Water Department, and (vi) up to \$3.1 billion of Water and Wastewater Revenue Bonds for the Philadelphia Water Department, of which approximately \$1.3 billion has been issued. For information on recent and upcoming financings, see “OTHER FINANCING RELATED MATTERS – Recent and Upcoming Financings.”

The PICA Bonds reached final maturity on June 15, 2023, and there are no PICA Bonds outstanding as of August 31, 2024. For more information on PICA Bonds, see “– PICA Bonds” below.

### **Short-Term Debt**

As provided in the PICA Act, the City’s tax and revenue anticipation notes are general obligations of the City but do not constitute debt of the City subject to the limitations of the Constitutional debt limit. The City did not issue tax and revenue anticipation notes in Fiscal Year 2023 or Fiscal Year 2024. The City does not expect to issue tax and revenue anticipation notes in Fiscal Year 2025. See “OTHER FINANCING RELATED MATTERS – Recent and Upcoming Financings” and “CITY CASH MANAGEMENT AND INVESTMENT POLICIES – General Fund Cash Flow.”

### **Long-Term Debt**

The following table presents a synopsis of the bonded debt of the City and its component units as of the date indicated. Of the total balance of the City’s General Fund-Supported Debt issued and outstanding as of August 31, 2024, approximately 45% is scheduled to mature within five Fiscal Years and approximately 72% is scheduled to mature within ten Fiscal Years.

**Table 41**  
**Bonded Debt**  
**as of August 31, 2024**  
**(Amounts in Thousands of USD)<sup>(1), (2)</sup>**

<b>General Obligation Debt and PICA Bonds</b>		
General Obligation Bonds	\$1,521,940	
PICA Bonds	<u>0</u>	
<b>Subtotal: General Obligation Debt and PICA Bonds</b>		<b>\$1,521,940</b>
<b>Other General Fund-Supported Debt<sup>(3)</sup></b>		
Philadelphia Municipal Authority		
Juvenile Justice Center	\$67,225	
Public Safety Campus	54,635	
Energy Conservation	<u>4,160</u>	
		\$126,020
Philadelphia Authority for Industrial Development		
Pension capital appreciation bonds	\$51,955	
Pension fixed rate bonds	715,405	
Stadiums	149,430	
Library	795	
Cultural and Commercial Corridor	55,620	
One Parkway	10,455	
Affordable Housing	41,165	
400 N. Broad <sup>(4)</sup>	216,574	
Art Museum	8,115	
Rebuild	<u>155,600</u>	
		1,405,114
Philadelphia Redevelopment Authority		
Neighborhood Transformation Initiative	100,900	
Home Repair Program	32,840	
Neighborhood Preservation Initiative	<u>190,095</u>	
		323,835
Philadelphia Energy Authority		
Streetlight Improvement Project	83,525	
		83,525
Philadelphia Parking Authority		<u>5,680</u>
<b>Subtotal: Other General Fund-Supported Debt</b>		<b>\$1,944,174</b>
<b>Revenue Bonds</b>		
Water Fund <sup>(5)</sup>	\$3,159,634	
Aviation Fund <sup>(5)</sup>	1,370,385	
Gas Works <sup>(5)</sup>	<u>882,995</u>	
<b>Subtotal: Revenue Bonds</b>		<b><u>\$5,413,014</u></b>
<b>Grand Total</b>		<b><u>\$8,879,128</u></b>

(1) Unaudited; figures may not sum due to rounding.

(2) For tables setting forth a ten-year historical summary of Tax-Supported Debt of the City and the School District and the debt service requirements to maturity of the City's outstanding bonded indebtedness as of June 30, 2023, see the Fiscal Year 2023 ACFR.

(3) The principal amount outstanding relating to the PAID 1999 Pension Obligation Bonds, Series B (capital appreciation bonds) is reflected as the accreted value thereon as of August 31, 2024.

(4) Includes (i) sublease payments of approximately \$15.2 million annually for the police headquarters renovation; and (ii) an assumption that the City issues approximately \$200 million in bonds in 2026 to acquire the project at an assumed interest rate of 5% over the next 20 years.

(5) Does not include any outstanding commercial paper or short-term note issuances for the Department of Aviation, the Water Department, or PGW, as applicable.

**Table 42**  
**Annual Debt Service on General Fund-Supported Debt**  
**(as of August 31, 2024)**  
**(Amounts in Millions of USD)<sup>(1)</sup>**

Fiscal Year	General Obligation Debt <sup>(2)</sup>			Other General Fund-Supported Debt <sup>(4), (5)</sup>			Aggregate General Fund-Supported Debt		
	Principal	Interest <sup>(3)</sup>	Total	Principal	Interest <sup>(6), (7)</sup>	Total	Principal	Interest	Total
2025	\$ 21.21	\$ 39.77	\$ 60.97	\$ 160.84	\$ 113.60	\$ 274.44	\$ 182.05	\$ 153.37	\$ 335.41
2026	116.58	64.25	180.83	177.19	101.85	279.04	293.77	166.09	459.86
2027	121.81	58.73	180.53	199.28	75.98	275.26	321.09	134.71	455.80
2028	127.90	53.02	180.92	209.76	68.40	278.16	337.66	121.42	459.08
2029	104.04	47.98	152.02	284.78	49.84	334.62	388.82	97.82	486.64
2030	121.06	43.17	164.23	84.89	39.30	124.19	205.95	82.47	288.41
2031	127.22	37.77	164.99	88.99	35.18	124.17	216.21	72.95	289.16
2032	132.98	32.09	165.07	49.93	31.45	81.38	182.91	63.53	246.44
2033	101.58	26.98	128.56	50.09	29.23	79.32	151.67	56.21	207.87
2034	91.43	22.80	114.22	66.79	26.94	93.72	158.21	49.74	207.95
2035	80.37	19.02	99.39	84.42	24.11	108.53	164.79	43.13	207.91
2036	84.03	15.35	99.37	50.31	20.65	70.96	134.34	36.00	170.34
2037	72.71	11.80	84.51	52.74	18.23	70.96	125.45	30.03	155.48
2038	76.04	8.55	84.59	55.28	15.68	70.95	131.32	24.23	155.55
2039	59.09	5.69	64.77	45.93	13.10	59.03	105.02	18.79	123.80
2040	26.83	3.37	30.19	38.26	10.95	49.21	65.09	14.32	79.40
2041	27.95	2.25	30.19	40.10	9.11	49.21	68.05	11.35	79.40
2042	29.16	1.04	30.20	42.02	7.18	49.20	71.18	8.22	79.40
2043	0.00	0.00	0.00	37.08	5.30	42.37	37.08	5.30	42.37
2044	0.00	0.00	0.00	38.94	3.44	42.37	38.94	3.44	42.37
2045	0.00	0.00	0.00	14.04	1.86	15.90	14.04	1.86	15.90
2046	0.00	0.00	0.00	14.76	1.14	15.90	14.76	1.14	15.90
2047	0.00	0.00	0.00	15.52	0.39	15.90	15.52	0.39	15.90
2048	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$1,521.94</b>	<b>\$493.63</b>	<b>\$2,015.57</b>	<b>\$1,901.89</b>	<b>\$702.90</b>	<b>\$2,604.78</b>	<b>\$3,423.83</b>	<b>\$1,196.53</b>	<b>\$4,620.36</b>

- (1) Does not include letter of credit fees. Figures may not sum due to rounding.
- (2) Includes both Tax-Supported Debt and Self-Supporting Debt. See “– General.” Does not include PICA Bonds (no PICA Bonds are currently outstanding).
- (3) Assumes interest rate on hedged variable rate bonds to be the associated fixed swap rate.
- (4) Includes PAID, PMA, PPA, PEA, and PRA bonds, which are secured by agreements with the City to appropriate and pay amounts sufficient to pay principal, interest, or redemption price when due on such bonds, with capital appreciation bonds including only actual amounts payable. The original issuance amount of such capital appreciation bonds is included under the “Principal” column in the Fiscal Year such bonds mature and the full accretion amount at maturity less the original issuance amount is included in the “Interest” column in the Fiscal Year such bonds mature.
- (5) Includes (i) sublease payments of approximately \$15.2 million annually for the police headquarters renovation; and (ii) an assumption that the City issues approximately \$200 million in bonds in 2026 to acquire the project at an assumed interest rate of 5% over the next 20 years.
- (6) Assumes interest rate on hedged variable rate bonds to be the associated fixed swap rate.
- (7) Net of capitalized interest, if any.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## **Other Long-Term Debt Related Obligations**

The City has entered into other contracts and leases to support the issuance of debt by public authorities related to the City pursuant to which the City is required to budget and appropriate tax or other general revenues to satisfy such obligations, as shown in Table 41. The City budgets all other long-term debt-related obligations as a single budget item with the exception of PPA.

The Hospitals Authority and the State Public School Building Authority have issued bonds on behalf of the Community College of Philadelphia (“CCP”). Under the Community College Act (Pa. P.L. 103, No. 31 (1985)), each community college must have a local sponsor, which for CCP is the City. As the local sponsor, the City is obligated to pay up to 50% of the annual capital expenses of CCP, which includes debt service. The remaining 50% is paid by the Commonwealth. Additionally, the City annually appropriates funds for a portion of CCP’s operating costs (less tuition and less the Commonwealth’s payment), as well as certain scholarship programs. The amount paid by the City in Fiscal Year 2023 was \$67.1 million. The budgeted amount for Fiscal Year 2024 is \$51.0 million. The current estimate for Fiscal Year 2024 is \$61.0 million. The budgeted amount for Fiscal Year 2025 is \$56.0 million.

## **PICA Bonds**

PICA issued several series of bonds at the request of, or for the benefit of, the City (the “PICA Bonds”). Under the PICA Act (both before and after the recent amendments thereto), PICA no longer has authority to issue bonds to finance cash flow deficits but may refund bonds previously issued. The proceeds of the PICA Bonds were used to: (i) make grants to the City to fund its General Fund deficits, to fund all or a portion of the costs of certain City capital projects, to provide other financial assistance to the City to enhance operational productivity, and to defease certain of the City’s general obligation bonds; (ii) refund other PICA Bonds; and (iii) pay costs of issuance. The PICA Bonds reached final maturity on June 15, 2023, and there are no PICA Bonds outstanding as of August 31, 2024.

The PICA Act authorizes the City to impose a tax for the sole and exclusive purposes of PICA. In connection with the adoption of the Fiscal Year 1992 budget and the execution of the PICA Agreement, as so authorized by the PICA Act, the City reduced the wage, earnings, and net profits taxes on City residents by 1.5% and enacted a new tax of 1.5% on wages, earnings, and net profits of City residents (the “PICA Tax”), which continues in effect. When outstanding, the PICA Tax secures the PICA Bonds. There are currently no PICA Bonds outstanding.

Pursuant to recent amendments to the PICA Act, PICA may, at the request of the City, issue bonds to finance capital projects from time to time in accordance with the timelines set forth therein. Further, the amendments to the PICA Act provide that the PICA Tax will continue to be authorized and dedicated for so long as PICA remains in existence (regardless of whether any PICA Bonds are outstanding). As amended, the PICA Act provides that PICA will remain in existence until the later of January 2, 2047 or one year after all its liabilities are met or, in the case of PICA Bonds, one year after provision for such payment shall have been made or provided for in the applicable bond indenture. In June 2023, City Council passed, and the Mayor signed, an amendment to the PICA Tax ordinance to extend its duration in response to the continued authorization of the PICA Tax pursuant to the amendments to the PICA Act. In addition, the City and PICA approved and entered into the 2023 PICA Agreement that reflects and implements the PICA Act as amended, and replaces the expired 1992 PICA Agreement.

At any time, the City is authorized to increase for its own use its various taxes, including its wage, earnings, and net profits taxes on City residents and could do so upon the expiration of the PICA

Tax. Certain taxes, such as sales, liquor, and hotel taxes, among others, cannot be increased by the City without Commonwealth approval.

The PICA Tax is collected by the City’s Department of Revenue, as agent of the State Treasurer, and deposited in the Pennsylvania Intergovernmental Cooperation Authority Tax Fund (the “PICA Tax Fund”) of which the State Treasurer is custodian. The PICA Tax Fund is not subject to appropriation by City Council or the General Assembly. See “THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Local Government Agencies – *Non-Mayoral-Appointed or Nominated Agencies* – PICA.”

The PICA Act authorizes PICA to pledge the PICA Tax to secure its bonds and prohibits the Commonwealth and the City from repealing the PICA Tax or reducing its rate while PICA remains in existence. PICA Bonds are payable from PICA revenues, including the PICA Tax, pledged to secure PICA’s bonds, the Bond Payment Account (as described below) and any debt service reserve fund established for such bonds and have no claim on any revenues of the Commonwealth or the City.

The PICA Act establishes a “Bond Payment Account” for PICA as a trust fund for the benefit of PICA bondholders and authorizes the creation of a debt service reserve fund for bonds issued by PICA. The State Treasurer is required to pay the proceeds of the PICA Tax held in the PICA Tax Fund directly to the Bond Payment Account. The proceeds of the PICA Tax in excess of amounts required for: (i) debt service; (ii) replenishment of any debt service reserve fund for bonds issued by PICA; and (iii) certain PICA operating expenses, are required to be deposited in a trust fund established exclusively to benefit the City and designated the “City Account.” Amounts in the City Account are required to be remitted to the City not less often than monthly, unless PICA certifies the City’s non-compliance with the then-current five-year financial plan.

The total amount of PICA Tax remitted by the State Treasurer to PICA (which is net of the costs of the State Treasurer in collecting the PICA Tax), PICA annual debt service and investment expenses, and net PICA tax revenue remitted to the City for Fiscal Years 2021-2023, the budgeted amounts and current estimates for Fiscal Year 2024, and the budgeted amounts for Fiscal Year 2025 are set forth below.

**Table 43**  
**Summary of PICA Tax Remitted by the State Treasurer to PICA**  
**and Net Taxes Remitted by PICA to the City**  
**(Amounts in Millions of USD)<sup>(1), (2)</sup>**

<b>Fiscal Year</b>	<b>PICA Tax<sup>(3)</sup></b>	<b>PICA Annual Debt Service and Expenses<sup>(3)</sup></b>	<b>Net taxes remitted to the City<sup>(3)</sup></b>
2021 (Actual)	\$524.2	\$15.2	\$509.0
2022 (Actual)	\$585.6	\$30.5	\$555.1
2023 (Actual)	\$697.2	\$23.0	\$674.3
2024 (Adopted Budget)	\$675.1	\$0.0	\$675.1
2024 (Current Estimate)	\$707.0	\$0.0	\$707.0
2025 (Adopted Budget)	\$739.4	\$0.0	\$739.4

<sup>(1)</sup> Figures may not sum due to rounding.

<sup>(2)</sup> As of the date of this Official Statement, there are no PICA Bonds outstanding.

<sup>(3)</sup> Source: For Fiscal Years 2021-2023, the City’s ACFRs for such Fiscal Years. For Fiscal Year 2024, the Fiscal Year 2024 Adopted Budget and the FY 2024 Fourth Quarter QCMR, as applicable. For Fiscal Year 2025, the Fiscal Year 2025 Adopted Budget and the Thirty-Third Five-Year Plan, as applicable.

## OTHER FINANCING RELATED MATTERS

### Swap Information

The City is a party to various swaps related to its outstanding General Fund-Supported Debt as detailed in the table below.

**Table 44**  
**Summary of Swap Information**  
**for General Fund-Supported Debt (as of August 31, 2024)**

City Entity	City GO	City Lease PAID	City Lease PAID
<b>Related Bond Series</b>	2009B <sup>(1)</sup>	2007B-2 (Stadium) <sup>(3)</sup>	2007B-2 (Stadium) <sup>(4)</sup>
<b>Initial Notional Amount</b>	\$313,505,000	\$217,275,000	\$72,400,000
<b>Current Notional Amount</b>	\$100,000,000	\$34,934,341	\$11,640,659
<b>Termination Date</b>	8/1/2031	10/1/2030	10/1/2030
<b>Product</b>	Fixed Payer Swap	Fixed Payer Swap	Fixed Payer Swap
<b>Rate Paid by Dealer</b>	SIFMA	SIFMA	SIFMA
<b>Rate Paid by City Entity</b>	3.829%	3.9713%	3.9713%
<b>Dealer</b>	Royal Bank of Canada	JPMorgan Chase Bank, N.A.	Merrill Lynch Capital Services, Inc.
<b>Fair Value<sup>(2)</sup></b>	(\$5,178,636)	(\$1,870,769)	(\$623,405)
<b>Additional Termination Events</b>	<u>For Dealer:</u> Rating change below BBB- or Baa3  <u>For City:</u> Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3)	<u>For Dealer:</u> Rating change below BBB- or Baa3  <u>For PAID:</u> Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3)	<u>For Dealer:</u> Rating change below BBB- or Baa3  <u>For PAID:</u> Rating change below BBB- or Baa3 upon insurer event (includes insurer being rated below A- or A3)

<sup>(1)</sup> On July 28, 2009, the City terminated a portion of the swap in the amount of \$213,505,000 in conjunction with the refunding of its Series 2007B bonds with the Series 2009A fixed rate bonds and the Series 2009B variable rate bonds. The City made a termination payment of \$15,450,000.

<sup>(2)</sup> Fair values are as of August 31, 2024, and are shown from the City's perspective and include accrued interest.

<sup>(3)</sup> On July 15, 2014, PAID terminated a portion of the swap in the amount of \$41,555,000 in conjunction with the refunding of a portion of its Series 2007B bonds with the Series 2014B fixed rate bonds. PAID made a termination payment of \$4,171,000 to JPMorgan. On September 11, 2019, PAID terminated a portion of the swap in the amount of \$33,455,654 in conjunction with the refunding of a portion of its Series 2007B bonds with the Series 2019 fixed rate bonds. PAID made a termination payment of \$6,051,000 to JPMorgan.

<sup>(4)</sup> On July 15, 2014, PAID terminated a portion of the swap in the amount of \$13,840,000 in conjunction with the refunding of a portion of its Series 2007B bonds with the Series 2014B fixed rate bonds. PAID made a termination payment of \$1,391,800 to Merrill Lynch. On September 11, 2019, PAID terminated a portion of the swap in the amount of \$11,149,346 in conjunction with the refunding of a portion of its Series 2007B bonds with the Series 2019 fixed rate bonds. PAID made a termination payment of \$1,998,000 to Merrill Lynch.

While the City is party to several interest rate swap agreements, for which there is General Fund exposure and on which the swaps currently have a negative mark against the City, the City has no obligation to post collateral on these swaps while the City's underlying ratings are investment grade.

For more information related to certain swaps entered into in connection with revenue bonds issued for PGW, the Water Department, and the Department of Aviation, see the Fiscal Year 2023 ACFR.

### **Swap Policy**

The City has adopted a swap policy for the use of swaps, caps, floors, collars and other derivative financial products (collectively, "swaps") in conjunction with the City's debt management. The swap program managed by the City includes swaps related to the City's general obligation bonds, tax-supported service contract debt issued by related authorities, debt of the Water Department, Department of Aviation, and debt of PGW. When outstanding, swaps related to debt of PICA, the School District, and the PPA are managed by those governmental entities, respectively.

The Director of Finance has overall responsibility for entering into swaps. Day-to-day management of swaps is the responsibility of the City Treasurer, and the Executive Director of the Sinking Fund Commission is responsible for making swap payments. The Office of the City Treasurer and the Law Department coordinate their activities to ensure that all swaps that are entered into are in compliance with applicable federal, state, and local laws.

The swap policy addresses the circumstances when swaps can be used, the risks that need to be evaluated prior to entering into swaps and on an ongoing basis after swaps have been executed, the guidelines to be employed when swaps are used, and how swap counterparties will be chosen. The swap policy is used in conjunction with the City's Debt Management Policy, reviewed annually, and updated as needed.

Under the swap policy, permitted uses of swaps include: (i) managing the City's exposure to floating interest rates through interest rate swaps, caps, floors and collars; (ii) locking in fixed rates in current markets for use at a later date through the use of forward starting swaps and rate locks; (iii) reducing the cost of fixed or floating rate debt through swaps and related products to create "synthetic" fixed or floating rate debt; and (iv) managing the City's credit exposure to financial institutions and other entities through the use of offsetting swaps.

Since swaps can create exposure to the creditworthiness of financial institutions that serve as the City's counterparties on swap transactions, the City has established standards for swap counterparties. As a general rule, the City enters into transactions with counterparties whose obligations are rated in the A rated category or better from two nationally recognized rating agencies. If the counterparty's credit rating is below the double-A rating category, the swap policy requires that the City's exposure be collateralized. If a counterparty's credit is downgraded below the A category, even with collateralization, the swap policy requires a provision in the swap permitting the City to exercise a right to terminate the transaction prior to its scheduled termination date.

### **LIBOR Phase-Out**

Since June 30, 2023, the 1-month, 3-month, and 6-month US dollar LIBOR settings have permanently ceased. The City does not have any outstanding bonds or notes with interest rates determined by any tenor of LIBOR.

**Letter of Credit Agreements**

The City has entered into various letter of credit agreements related to its General Fund-Supported Debt as detailed in the table below. Under the terms of such letter of credit agreements, following a purchase of the applicable bonds, the City may be required to amortize such bonds more quickly than as originally scheduled at issuance.

**Table 45**  
**Summary of Letter of Credit Agreements**  
**for General Fund-Supported Debt**  
**as of August 31, 2024**

<u>Variable Rate Bond Series</u>	<u>Amount Outstanding</u>	<u>Bond Maturity Date</u>	<u>Provider</u>	<u>Expiration Date</u>	<u>Rating Thresholds <sup>(1)</sup></u>
General Obligation Multi-Modal Refunding Bonds, Series 2009B	\$100,000,000	August 1, 2031	Barclays Bank PLC	May 23, 2025	The long-term rating assigned by any one of the rating agencies to any unenhanced long-term parity debt of the City is (i) withdrawn or suspended for credit-related reasons or (ii) reduced below investment grade.
PAID Multi-Modal Lease Revenue Refunding Bonds, Series 2007B-2	\$46,575,000	October 1, 2030	TD Bank	October 1, 2030 <sup>(2)</sup>	The long-term ratings assigned by at least two of the rating agencies to any unenhanced general obligation bonds of the City is (i) withdrawn or suspended for credit-related reasons, or (ii) reduced below investment grade.

---

(1) The occurrence of a Rating Threshold event would result in an event of default under the reimbursement agreement with the related bank.  
(2) The stated Expiration Date may be advanced at the option of the Provider to a date that is one hundred eighty days after the date the Provider gives notice of its exercise of such option (the "Option Notification Date"). Such Option Notification Date may occur between February 26, 2027 and August 26, 2027.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]



## Recent and Upcoming Financings

*Recent Financings.* The following is a list of financings that the City has entered into in Fiscal Year 2024.

- In July 2023, PEA issued \$83,525,000 in City Service Agreement Revenue Bonds for the benefit of the City.
- In September 2023, the City issued \$564,835,000 in Water and Wastewater Revenue Bonds.
- In June 2024, PAID issued \$91,750,000 in City Service Agreement Revenue Bonds for the benefit of the City.

*Upcoming Financings.* In addition to the financing contemplated by this Official Statement, the following is a list of financings that the City expects to enter into in calendar year 2024.

- The City expects to issue approximately \$500 million in Water and Wastewater Revenue Bonds.
- PRA expects to issue approximately \$150 million in City Service Agreement Revenue Bonds for the benefit of the City.

## CITY CAPITAL PROGRAM

As part of the annual budget process, the Mayor submits for approval a six-year capital program to City Council, together with the proposed operating budget. For more information on the City’s budget process, see “DISCUSSION OF FINANCIAL OPERATIONS – Budget Procedure.”

### Certain Historical Capital Expenditures

Table 46 shows the City’s historical expenditures for Fiscal Years 2020-2024 for certain capital purposes, including expenditures for projects related to transit, streets and sanitation, municipal buildings, recreation, parks, museums, and stadia, and economic and community development. The source of funds used for such expenditures are primarily general obligation bond proceeds, but also include federal, state, private, and other government funds and operating revenue. Figures in the table below are generated after the Fiscal Year closes and may not sum due to rounding.

**Table 46**  
**Historical Expenditures for Certain Capital Purposes**  
**Fiscal Years 2020-2024**

Purpose Category	2020	2021	2022	2023	2024
Transit	\$ 2,118,190	\$ 275,524	\$ 7,391,397	\$ 2,252,818	\$ 1,403,503
Streets & Sanitation	55,819,152	74,069,852	49,505,218	79,721,589	94,759,334
Municipal Buildings	113,997,857	88,706,617	89,560,752	75,369,416	80,029,033
Recreation, Parks, Museums & Stadia	23,488,384	28,727,639	26,443,401	44,565,539	141,339,977
Economic & Community Development	19,160,053	10,219,384	12,952,262	15,135,822	11,408,633
<b>Total</b>	<b><u>\$214,583,636</u></b>	<b><u>\$201,999,016</u></b>	<b><u>\$185,853,030</u></b>	<b><u>\$217,045,184</u></b>	<b><u>\$328,940,480</u></b>

Table 47 shows the City’s historical expenditures for Fiscal Years 2020-2024 for certain capital purposes from general obligation bond proceeds only and the percentage of the total costs covered by such proceeds in such Fiscal Years. Figures in the table below are generated after the Fiscal Year closes and may not sum due to rounding.

**Table 47**  
**Historical Expenditures for Certain Capital Purposes**  
**(General Obligation Bond Proceeds Only)**  
**Fiscal Years 2020-2024**

<u>Purpose Category</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Transit	\$ 2,115,963	\$ 274,336	\$ 7,391,397	\$ 2,252,818	\$ 1,403,503
Streets & Sanitation	30,392,324	27,389,047	20,984,230	26,035,836	38,118,666
Municipal Buildings	86,218,008	60,609,517	62,468,532	60,607,214	64,204,573
Recreation, Parks, Museums & Stadia	10,870,133	23,396,808	21,981,840	42,672,209	85,038,878
Economic & Community Development	<u>19,160,053</u>	<u>9,934,028</u>	<u>11,301,908</u>	<u>12,392,809</u>	<u>11,040,070</u>
<b><u>Total</u></b>	<b><u>\$148,756,480</u></b>	<b><u>\$121,603,736</u></b>	<b><u>\$124,127,907</u></b>	<b><u>\$143,960,886</u></b>	<b><u>\$199,805,690</u></b>
<b>Percentage of Total Costs</b>	<b>69%</b>	<b>60%</b>	<b>67%</b>	<b>66%</b>	<b>61%</b>

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## Fiscal Year 2025-2030 Adopted Capital Program

The Fiscal Year 2025-2030 Adopted Capital Program contemplates a total budget of \$16.21 billion (compared to \$13.3 billion as budgeted in the Fiscal Year 2024-2029 Adopted Capital Program). In the Fiscal Year 2025-2030 Adopted Capital Program, approximately \$5.86 billion is expected to be provided from federal, Commonwealth, and other sources and approximately \$10.36 billion through City funding. For Fiscal Year 2025, the City has budgeted \$6.09 billion for capital projects (compared to \$4.75 billion in Fiscal Year 2024). The following table shows the amounts budgeted each year from various sources of funds for capital projects in the Fiscal Year 2025-2030 Adopted Capital Program.

**Table 48**  
**Fiscal Year 2025-2030 Adopted Capital Program**  
**(Amounts in Thousands of USD)**

Funding Source	2025	2026	2027	2028	2029	2030	2025-2030
<b><u>City Funds--Tax Supported</u></b>							
Carried-Forward Loans	587,332	-	-	-	-	-	587,332
Operating Revenue	496,052	7,250	7,250	7,250	7,250	7,250	532,302
New Loans	328,472	214,785	224,953	224,848	229,867	220,011	1,442,936
Prefinanced Loans	13,597	-	-	-	-	-	13,597
PICA Prefinanced Loans	557	-	-	-	-	-	557
<b>Tax Supported Subtotal</b>	<b>\$1,426,010</b>	<b>\$222,035</b>	<b>\$232,203</b>	<b>\$232,098</b>	<b>\$237,117</b>	<b>\$227,261</b>	<b>\$2,576,724</b>
<b><u>City Funds--Self Sustaining</u></b>							
Self-Sustaining Carried Forward Loans	1,201,542	-	-	-	-	-	1,201,542
Self-Sustaining Operating Revenue	146,945	61,642	86,376	102,049	116,412	117,000	630,424
Self-Sustaining New Loans	1,096,055	1,139,278	964,364	795,111	946,258	774,634	5,715,700
<b>Self-Sustaining Subtotal</b>	<b>\$2,444,542</b>	<b>\$1,200,920</b>	<b>\$1,050,740</b>	<b>\$897,160</b>	<b>\$1,062,670</b>	<b>\$891,634</b>	<b>\$7,547,666</b>
<b><u>Other City Funds</u></b>							
Revolving Funds	55,000	55,000	32,000	32,000	32,000	22,000	228,000
<b><u>Other Than City Funds</u></b>							
Carried-Forward Other Government	36,459	-	-	-	-	-	36,459
Other Government Off Budget	173,353	76,193	155,942	117,716	222,743	196,376	942,323
Other Governments/Agencies	1,600	100	100	100	100	100	2,100
Carried-Forward State	336,765	-	-	-	-	-	336,765
State Off Budget	265,936	333,479	335,353	296,147	267,912	220,715	1,719,542
State	71,904	68,354	66,354	57,104	56,854	52,254	372,824
Carried-Forward Private	139,017	-	-	-	-	-	139,017
Private	14,995	10,220	9,220	9,220	9,220	9,020	61,895
Carried-Forward Federal	672,295	-	-	-	-	-	672,295
Federal Off-Budget	186,393	143,369	116,419	98,734	73,879	77,217	696,011
Federal	263,216	172,516	128,516	108,516	103,516	99,916	876,196
<b>Other Than City Funds Subtotal</b>	<b>\$2,161,933</b>	<b>\$804,231</b>	<b>\$811,904</b>	<b>\$687,537</b>	<b>\$734,224</b>	<b>\$655,598</b>	<b>\$5,855,427</b>
<b><u>TOTAL</u></b>	<b><u>\$6,087,485</u></b>	<b><u>\$2,282,186</u></b>	<b><u>\$2,126,847</u></b>	<b><u>\$1,848,795</u></b>	<b><u>\$2,066,011</u></b>	<b><u>\$1,796,493</u></b>	<b><u>\$16,207,817</u></b>

## LITIGATION

Generally, judgments and settlements on claims against the City are payable from the General Fund, except for claims against the Water Department, the Department of Aviation, and PGW, which are paid out of their respective funds or revenues and only secondarily out of the General Fund.

The Act of October 5, 1980, P.L. 693, No. 142, known as the “Political Subdivision Tort Claims Act,” (the “Tort Claims Act”) established a \$500,000 aggregate limitation on damages for injury to a person or property arising from the same cause of action or transaction or occurrence or series of causes of action, transactions or occurrences with respect to governmental units in the Commonwealth such as the City. The constitutionality of that aggregate limitation on damages was upheld by the Pennsylvania Supreme Court in *Zauflik v. Pennsbury School District*, 104 A.3d 1096 (Pa. 2014). Under Pennsylvania Rule of Civil Procedure 238, delay damages are not subject to the \$500,000 limitation. The limit on damages is inapplicable to any suit against the City that does not arise under state tort law, such as claims made against the City under federal civil rights laws.

### General Fund

The following table presents the City’s aggregate losses from settlements and judgments paid out of the General Fund for Fiscal Years 2021-2023 and the budgeted amounts for Fiscal Years 2024-2025.

**Table 49**  
**Aggregate Losses – General and Special Litigation Claims (General Fund)**  
**Fiscal Years 2021-2023 (Actual) and 2024-2025 (Budget)**  
**(Amounts in Millions of USD)**

	Actual 2021	Actual 2022	Actual 2023	Budget 2024	Budget 2025
Aggregate Losses	\$47.7	\$48.0	\$68.9	\$73.9	\$61.2

Sources: The City, Budget Office, Indemnity Account, Status Reports.

The current estimate of settlements and judgments from the General Fund for Fiscal Year 2024 is \$73.9 million. This estimate is based on internal calculations using (i) the “Probable Costs” listed in its Quarterly Litigation Reports, (ii) the 3-year average cost for closed cases, and (iii) current year-to-date spending reports. Current year spending includes payments made for settled cases pursuant to payment plans over multiple years. Such payments are generally made at the start of a Fiscal Year, which can result in the current estimate being skewed higher during the early part of such Fiscal Year.

In budgeting for settlements and judgments in the annual operating budget and projecting settlements and judgments for each five-year plan, the City bases its estimates on past experience and on an analysis of estimated potential liabilities and the timing of outcomes, to the extent a proceeding is sufficiently advanced to permit a projection of the timing of a result. General and special litigation claims are budgeted separately from back-pay awards and similar settlements relating to labor disputes. Usually, some of the costs arising from labor litigation are reported as part of current payroll expenses.

In addition to routine litigation incidental to performance of the City’s governmental functions and litigation arising in the ordinary course relating to contract and tort claims and alleged violations of law, certain special litigation matters are currently being litigated and/or appealed and adverse final outcomes of such litigation could have a substantial or long-term adverse effect on the General Fund. These proceedings involve: (i) environmental-related actions and proceedings in which it has been or may

be alleged that the City is liable for damages, including but not limited to property damage and bodily injury, or that the City should pay fines or penalties or the costs of response or remediation, because of the alleged generation, transport, or disposal of toxic or otherwise hazardous substances by the City, or the alleged disposal of such substances on or to City-owned property; (ii) contract disputes and other commercial litigation; (iii) union arbitrations and other employment-related litigation; (iv) potential and certified class action suits; and (v) civil rights litigation. The ultimate outcome and fiscal impact, if any, on the General Fund of the claims and proceedings described in this paragraph are not currently predictable.

In August 2024, there was a notable development in one of the City’s litigation matters. The case involves a class action arising out of the conditions of confinement at the Philadelphia Department of Prisons (“PDP”). In April 2022, the City entered into a settlement agreement, which was approved by the U.S. District Court for the Eastern District of Pennsylvania and entered as a court order in July 2022. The plaintiffs in this case filed a motion requesting the court find the City in contempt because of its alleged failure to meet the provisions of the settlement agreement. In August 2024, the U.S. District Court issued the contempt order, pursuant to which the City is ordered to spend \$25 million, approximately equal to the amount of unspent money from the PDP budget over the four years of the litigation, on specific remediation measures at the prisons as set forth in the settlement agreement. The \$25 million is expected to be paid out of the City’s Indemnity Account in Fiscal Year 2025.

For more information on the City litigation, see Note IV.8 to the Fiscal Year 2023 ACFR, “Contingencies – Primary Government – Claims and Litigation.” In addition, see “REVENUES OF THE CITY – Real Property Taxes” for a discussion of litigation relating to the reassessment of commercial property in tax year 2018.

**Water Fund**

Various claims have been asserted against the Water Department and in some cases lawsuits have been instituted. Many of these Water Department claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Water Department. The following table presents the Water Department’s aggregate losses from settlements and judgments paid out of the Water Fund for Fiscal Years 2021-2023 and the budgeted amounts for Fiscal Years 2024-2025. The current estimate for Fiscal Year 2024 is \$5.9 million. The Water Fund is the first source of payment for any of the claims against the Water Department.

**Table 50**  
**Aggregate Losses – General and Special Litigation Claims (Water Fund)**  
**Fiscal Years 2021-2023 (Actual) and 2024-2025 (Budget)**  
**(Amounts in Millions of USD)**

	Actual 2021	Actual 2022	Actual 2023	Budget 2024	Budget 2025
Aggregate Losses	\$2.5	\$5.8	\$5.9	\$6.0	\$6.5

Sources: The City, Budget Office, Indemnity Account, Status Reports.

**Aviation Fund**

Various claims have been asserted against the Department of Aviation and in some cases lawsuits have been instituted. Many of these Department of Aviation claims have been reduced to judgment or

otherwise settled in a manner requiring payment by the Department of Aviation. The following table presents the Department of Aviation’s aggregate losses from settlements and judgments paid out of the Aviation Fund for Fiscal Years 2021-2023 and the budgeted amount for Fiscal Year 2024-2025. The current estimate for Fiscal Year 2024 is \$1.1 million. The Aviation Fund is the first source of payment for any of the claims against the Department of Aviation.

**Table 51**  
**Aggregate Losses – General and Special Litigation Claims (Aviation Fund)**  
**Fiscal Years 2021-2023 (Actual) and 2024-2025 (Budget)**  
**(Amounts in Millions of USD)**

	Actual 2021	Actual 2022	Actual 2023	Budget 2024	Budget 2025
Aggregate Losses	\$1.2	\$1.0	\$1.8	\$2.5	\$2.5

Sources: The City, Budget Office, Indemnity Account, Status Reports.

## PGW

Various claims have been asserted against PGW and in some cases lawsuits have been instituted. Many of these PGW claims have been reduced to judgment or otherwise settled in a manner requiring payment by PGW. The following table presents PGW’s settlements and judgments paid out of PGW revenues, with accompanying reserve information, in PGW Fiscal Years 2019 through 2023. PGW revenues are the first source of payment for any of the claims against PGW. PGW currently estimates approximately \$3.6 million and \$2.5 million in settlements and judgments for PGW Fiscal Years 2024 and 2025, respectively.

**Table 52**  
**Claims and Settlement Activity (PGW)**  
**PGW Fiscal Years 2019-2025**  
**(Amounts in Thousands of USD)**

Fiscal Year (ending August 31)	Beginning of Year Reserve	Current Year Claims and Adjustments	Claims Settled	End of Year Reserve	Current Liability Amount (due within one year)
2019	\$14,064	(\$1,582)	(\$2,922)	\$9,560	\$3,925
2020	\$9,560	\$1,973	(\$2,091)	\$9,442	\$5,435
2021	\$9,442	\$2,384	(\$1,845)	\$9,981	\$4,584
2022	\$9,981	\$808	(\$2,536)	\$8,253	\$3,917
2023	\$8,253	\$1,207	(\$2,671)	\$6,789	\$3,769
2024 <sup>(1)</sup>	\$6,789	\$4,676	(\$3,602)	\$7,863	\$1,810
2025 <sup>(2)</sup>	\$7,863	\$1,912	(\$2,039)	\$7,736	\$1,985

Sources: For fiscal years ended August 31, 2019, through August 31, 2023, PGW’s audited financial statements.

<sup>(1)</sup> Estimated Period – September 1, 2023, through August 31, 2024.

<sup>(2)</sup> Budget Period – September 1, 2024, through August 31, 2025.

**APPENDIX D**

**THE CITY OF PHILADELPHIA SOCIOECONOMIC INFORMATION**

## TABLE OF CONTENTS

INTRODUCTION .....	D-1
Geography .....	D-1
Strategic Location .....	D-2
Population and Demographics .....	D-3
Family and Household Income .....	D-3
Cost of Living and Affordability .....	D-6
ECONOMIC BASE AND EMPLOYMENT .....	D-7
The Philadelphia Economy .....	D-7
Key Industries .....	D-7
Principal Private Sector Employers in the City.....	D-14
Office Market.....	D-14
Major Projects .....	D-16
Housing .....	D-17
TALENT AND HUMAN CAPITAL .....	D-20
Workforce Development.....	D-20
Employment.....	D-23
Unemployment.....	D-24
ECONOMIC DEVELOPMENT STRATEGIES AND IMPLEMENTATION.....	D-25
City of Philadelphia Economic Development Mission and Goals.....	D-25
City and Quasi-City Economic Development Agencies.....	D-27
Private and Nonprofit Economic Development Agencies .....	D-31
CULTURE, TOURISM, AND AMENITIES .....	D-34
Museum and Attractions .....	D-34
Sports .....	D-34
Music, Theater, and Dance .....	D-35
Historic District.....	D-35
Retail Market .....	D-36
Restaurants and Nightlife.....	D-37
Casinos.....	D-37
Waterfront Developments .....	D-38
TRANSPORTATION .....	D-39
Public Transportation.....	D-39
Southeastern Pennsylvania Transportation Authority.....	D-40
Airport System .....	D-41
Port of Philadelphia.....	D-42
KEY CITY-RELATED SERVICES AND BUSINESSES.....	D-43
Water and Wastewater .....	D-43
Gas Works.....	D-44
Libraries .....	D-44
Streets and Sanitation.....	D-45
Sustainability and Green Initiatives .....	D-45



*This APPENDIX D includes historical demographic and socioeconomic information regarding the City of Philadelphia (the “City” or “Philadelphia”), some of which describes periods of time prior to the outbreak of the COVID-19 pandemic in early 2020. The reader is cautioned that this APPENDIX D may not fully reflect the impact of COVID-19 on the City’s demographic and socioeconomic conditions. Historical data points included under this caption should be viewed in the proper context. For more information on the City’s response to COVID-19 and the related financial impact on the City, see the forepart of this Official Statement and “INTRODUCTION – COVID-19 Response” and APPENDIX C – “OVERVIEW – Fiscal Health of the City – COVID-19.”*

## INTRODUCTION

The City is the sixth largest city in the nation, second largest on the East Coast, and located at the center of the United States’ seventh largest metropolitan statistical area. The Philadelphia MSA (further described below) includes a substantial retail sales market, as well as a diverse network of business suppliers and complementary industries. Some of the City’s top priorities include growing quality jobs, increasing educational attainment and employment skills among Philadelphians, equitable neighborhood revitalization, promoting Philadelphia as a desirable location for business, and fostering inclusive growth.

According to the U.S. Census data, the City increased its population by 5.2% to 1.593 million residents from 2011 to 2022. While longer-term population growth trends have been positive, single year population estimates have shown modest decreases in City population figures (with a slight decrease to 1.55 million residents estimated for 2023).

Given the City’s strategic geographical location, relative affordability, diversified economy, cultural and recreational amenities, and its growing strength in key industries, such as health care, life sciences, and higher education, among others, Philadelphia is well-positioned to attract new businesses and investment over the coming years. For more information on the fiscal strategies of the City and related challenges, see APPENDIX C – “OVERVIEW – Fiscal Health of the City.”

### Geography

The City has an area of approximately 134 square miles and is located along the southeastern border of the Commonwealth of Pennsylvania (the “Commonwealth”), at the confluence of the Delaware and Schuylkill Rivers. The City, highlighted in orange in Figure 1, lies at the geographical and economic center of the MSA and PMSA (described below). Philadelphia is both the largest city and the only city of the first class in the Commonwealth, and is coterminous with the County of Philadelphia.

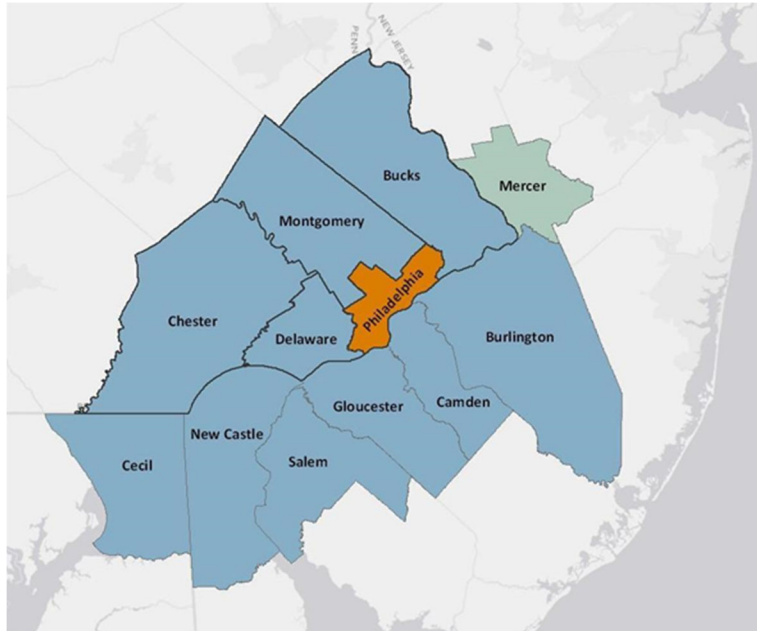
*Philadelphia Metropolitan Statistical Area (the “MSA”),* highlighted in blue in Figure 1, is the eleven-county area named the Philadelphia-Camden-Wilmington metropolitan statistical area, representing an area of over 5,100 square miles with approximately 6.2 million residents.<sup>1</sup>

*Philadelphia Primary Metropolitan Statistical Area (the “PMSA”),* highlighted with bold black outlines, in Figure 1, is a five-county area within the MSA that lies in the Commonwealth and is sometimes called the Philadelphia Metropolitan Division. The counties of Bucks, Chester, Delaware, and Montgomery are referred to as the Suburban PMSA herein.

---

<sup>1</sup> Due to its close proximity and impact on the region’s economy, Mercer County, New Jersey, highlighted in green in Figure 1, is included in the MSA by many regional agencies, although it is not officially part of the MSA.

**Figure 1**  
**Map of Philadelphia Region including the MSA, PMSA, and Mercer County, NJ**



Source: 2009 TIGER County Shapefiles

Several key areas across the City have been instrumental to the economic and commercial development of Philadelphia over the past 25 years. In particular, concentrated development has occurred in key commercial districts such as Philadelphia’s Historic District, Center City, University City, North Broad Street, Avenue of the Arts, Benjamin Franklin Parkway, and the Navy Yard. Center City is Philadelphia’s central business and office region, as well as the strongest employment center within the City, with access to retail, dining, arts and culture, entertainment, and mass transportation services. Opened in 1929, the Benjamin Franklin Parkway (also called the “Parkway” or the “Museum Mile”) runs from City Hall to the Philadelphia Museum of Art and serves as a central public space for art, museums, and other tourist attractions. West of Center City is University City – a hub for the health care, life sciences, and higher education sectors. East of Center City is Philadelphia’s Historic District in Old City, which remains a major tourist destination year-round. The North Broad Street corridor is the City’s main thoroughfare, spanning four miles from City Hall to Germantown Avenue. In South Philadelphia, the Navy Yard is a 1,200-acre former military facility that has been redeveloped into a mixed-use campus with over 150 companies in office, retail, research and development (R&D), life sciences, and industrial/manufacturing sectors. Many industry observers, including the Urban Land Institute, have recognized the Navy Yard as a leading model for repurposing military and industrial assets for a diversified modern economy.

### **Strategic Location**

Philadelphia is at the center of the third largest MSA on the East Coast, and is served by a robust transportation infrastructure, including: the Philadelphia International Airport, Amtrak’s Northeast Corridor rail service, major interstate highway access, regional train service provided by Southeastern Pennsylvania Transportation Authority (“SEPTA”) and New Jersey’s PATCO (as defined herein), and the Port of Philadelphia. Due to the transportation infrastructure centered in the City, Philadelphia is accessible to regional and international markets, and is within a day’s drive of 50% of the nation’s population. Philadelphia’s central location along the East Coast, an hour from New York City and less

than two hours from Washington, D.C. by high-speed rail, also allows for convenient access to these significant economic centers.

### Population and Demographics

As the sixth largest city in the nation, Philadelphia has seen population growth over the last 15 years. While the City’s population reached its nadir in 2006 with 1.45 million residents, the City has increased its population by 5.2% to 1.593 million residents from 2011 to 2022. Longer-term population growth trends have been positive. Recent, single year population estimates have shown modest decreases in City population figures.

Compared to the rest of the region and the state, Philadelphia’s population is both younger and more diverse. In 2022, 26% of Philadelphia’s population was comprised of “millennials,” or those within the 25- to 39-year-old age bracket. This demographic group tends to be better educated than the City’s and the nation’s adult population as a whole. In 2022, 49.7% of 25- to 34-year-olds in Philadelphia held a bachelor’s degree or higher, while only 38.1% of 25- to 34-year-olds in the United States held a bachelor’s degree or higher. The City’s many universities, diverse employment opportunities, and relative affordability are likely reasons for Philadelphia’s large millennial population.

Philadelphia is also a highly diverse city in terms of race and ethnicity. In 2022, 40.1% of the population identified as Black or African American, 37.1% identified as white, 7.6% identified as Asian, and 6.7% identified as some other race. Additionally, 15.7% of the population identified as Hispanic or Latino.

**Table 1**  
**Population: City, MSA, Pennsylvania & Nation**

	2011	2022	Percent Change 2011 - 2022
<b>Philadelphia</b>	1,514,456	1,593,208	5.2%
<b>Philadelphia-Camden-Wilmington MSA</b>	5,938,918	6,232,894	5.0%
<b>Pennsylvania</b>	12,660,739	12,989,208	2.6%
<b>United States</b>	306,603,772	331,097,593	8.0%

Source: U.S. Census Bureau, Population Estimates, Census 2022, Census 2011

**Table 2**  
**Population: Millennials, Non-White, and Foreign-Born**

	2013	2020	2022	2-Year Change	Change 2013-2022
<b>Millennials (age 25-39)</b>	23.0%	20.5%	27.0%	6.5%	4.0%
<b>Foreign-Born</b>	12.2%	14.3%	14.6%	0.3%	2.4%
<b>Minority (non-white)</b>	58.5%	60.7%	62.9%	2.2%	4.4%

Source: 2013, 2020, and 2022 American Community Survey, 5-Year Estimates.

### Family and Household Income

Table 3 shows median family income, which includes related people living together, and Table 4 shows median household income, which includes unrelated individuals living together, for Philadelphia,

the MSA, the Commonwealth and the United States. Over the period 2013-2022, median family income for Philadelphia increased by 50.6% (see Table 3), while median household income increased by 56.3% over the period 2013-2022 as a result of an influx of higher income households (see Table 4).

**Table 3**  
**Median Family Income\* for Selected Geographical Areas, 2013-2022**  
**(Dollar Amounts in Thousands)**

<b>Year</b>	<b>Philadelphia</b>	<b>Philadelphia-Camden-Wilmington MSA</b>	<b>Pennsylvania</b>	<b>United States</b>	<b>Philadelphia as a percentage of the US</b>
2013	\$44.60	\$78.20	\$66.50	\$64.00	69.7%
2014	\$47.00	\$80.60	\$67.90	\$65.90	71.3%
2015	\$49.30	\$83.00	\$70.20	\$68.30	72.2%
2016	\$50.30	\$84.80	\$72.30	\$71.10	70.7%
2017	\$50.40	\$86.20	\$72.70	\$70.90	71.1%
2018	\$55.10	\$90.43	\$77.49	\$76.40	72.1%
2019	\$54.78	\$94.79	\$81.08	\$80.94	67.7%
2020	\$58.09	\$95.37	\$81.00	\$80.07	72.5%
2021	\$61.65	\$100.85	\$86.14	\$85.28	72.3%
2022	\$67.17	\$108.97	\$93.03	\$92.64	72.5%
<b>Change 2013-2022</b>	<b>50.6%</b>	<b>39.3%</b>	<b>39.9%</b>	<b>44.8%</b>	

\* Includes related people living together.  
Source: 2022 American Community Survey 5-Year Estimates.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

**Table 4**  
**Median Household Income\* for Selected Geographical Areas, 2013-2022**  
**(Dollar Amounts in Thousands)**

Year	Philadelphia	Philadelphia-Camden-Wilmington MSA	Pennsylvania	United States	Philadelphia as a percentage of the US
2013	\$36.80	\$60.50	\$52.00	\$52.30	70.4%
2014	\$39.00	\$62.20	\$53.20	\$53.70	72.6%
2015	\$41.20	\$65.10	\$55.70	\$55.80	73.8%
2016	\$41.40	\$66.00	\$56.90	\$57.60	71.9%
2017	\$41.00	\$66.30	\$57.00	\$57.70	71.1%
2018	\$46.12	\$70.75	\$60.91	\$61.94	74.5%
2019	\$47.47	\$74.53	\$63.46	\$65.71	72.2%
2020	\$49.13	\$74.83	\$63.63	\$64.99	75.6%
2021	\$52.65	\$79.07	\$67.58	\$69.02	76.3%
2022	\$57.53	\$85.55	\$73.17	\$75.14	76.6%
Change 2013-2022	56.3%	41.4%	40.7%	43.7%	

\* Includes unrelated people living together.  
Source: 2022 American Community Survey 5-Year Estimates.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## Cost of Living and Affordability

Philadelphia has a lower cost of living compared to other major urban areas in the Northeast, as shown in Table 5 below. For example, approximately \$5,845 per month in Philadelphia maintains the same standard of living as \$9,100 per month in New York City. Additionally, the City’s Wage, Earnings, and Net Profits Tax rates have decreased in recent Fiscal Years. See “REVENUES OF THE CITY – Wages, Earnings, and Net Profits Taxes” in APPENDIX C for this Official Statement.

**Table 5**  
**Cost of Living Index, 2023**  
**(Other cities compared to Philadelphia)**

<b>Urban Area</b>	<b>Cost of Living Index</b>
Detroit	87.21
Pittsburgh	90.60
Baltimore	96.92
Atlanta	96.92
<b>Philadelphia</b>	<b>100.00</b>
Dallas	100.92
Denver	106.32
Chicago	106.47
Austin	107.70
Los Angeles	117.87
Washington, D.C.	118.18
Boston	123.73
Seattle	124.81
San Francisco	148.07
New York- Manhattan	154.08
<b>Average of Listed Locations</b>	<b>111.99</b>

Source: Numbeo.com 2023

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## ECONOMIC BASE AND EMPLOYMENT

### The Philadelphia Economy

The City's economy is composed of diverse industries, with virtually all classes of industrial and commercial businesses represented. The City is a major regional business and personal services center with strengths in insurance, law, finance, health, education, utilities, and the arts. Philadelphia's anchor institutions – including the City's renowned universities, hospitals, and Fortune 500 companies – play an integral role in boosting the City's quality of life and investing in the local economy. The City also provides a destination for entertainment, arts, dining and sports for residents of the suburban counties, as well as for those residents of the counties comprising the MSA plus Mercer County, New Jersey.

As shown in Table 5, the cost of living in the City is relatively moderate and affordable compared to other major metropolitan areas along the East Coast. The City, as the commercial center of an MSA of approximately 6.2 million people, offers its business community access to a large, diverse, and industrious labor pool. As one of the country's education centers, these businesses also enjoy access to a large pool of recent graduates from the institutions of higher education in the MSA.

### Key Industries

Table 6 provides location quotients for Philadelphia's most concentrated industry sectors. Location quotients quantify how concentrated a particular industry is in a region as compared to a base reference area, usually the nation. A location quotient greater than 1.00 indicates an industry with a greater share of the local area employment than is the case in the reference area.

As shown in Table 6, compared to the nation, Philadelphia County has higher concentrations in six sectors: 1. Educational Services; 2. Health Care and Social Assistance; 3. Professional and Technical Services; 4. Other Services, Except Public Administration; 5. Arts, Entertainment, and Recreation; and 6. Management of Companies and Enterprises.<sup>2</sup> Of these six sectors, the City has a higher concentration of employment than the Commonwealth in three sectors: Educational Services; Health Care and Social Assistance; Professional and Technical Services.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

---

<sup>2</sup> The Bureau of Labor Statistics ("BLS") defines the "Other Services" (except Public Administration) sector as establishments engaged in providing services not specifically provided for elsewhere in the BLS classification system, such as equipment and machinery repairing, promoting or administering religious activities, grant making, advocacy, providing dry cleaning and laundry services, personal care services, death care services, pet care services, photofinishing services, temporary parking services, and dating services.

**Table 6**  
**Ratio of Philadelphia County and Pennsylvania Industry Concentrations**  
**Compared to the United States**

Industry	Philadelphia County to the US	Pennsylvania to the US
Educational Services	4.03	1.52
Health Care and Social Assistance	1.87	1.29
Professional and Technical Services	1.22	0.94
Other Services, Except Public Administration	1.14	1.14
Management of Companies and Enterprises	1.13	1.48
Arts, Entertainment, and Recreation	1.12	1.12
Finance and Insurance	0.94	1.11
Transportation and Warehousing	0.80	1.18

Source: Bureau of Labor Statistics - June 2023 Employment Location Quotient, Quarterly Census of Employment and Wages

The concentration of Educational Services not only provides stable support to the local economy, but also generates a steady and educated workforce, fueling the City’s professional services and healthcare industries. Data from the Bureau of Labor Statistics show that in 2023, the Education and Health Services; Professional and Business Services; and Trade, Transportation and Utilities sectors collectively represented 54.9% of total employment in the City for the year. From 2014 to 2023, Philadelphia gained 171,700 private sector jobs.

*Educational Institutions*

The Philadelphia region has one of the largest concentrations of undergraduate and graduate students on the East Coast, with approximately 100 degree-granting institutions. Included among these institutions are the University of Pennsylvania, Temple University, Drexel University, St. Joseph’s University, LaSalle University, and the Community College of Philadelphia. Within a short drive from the city center are schools that include Princeton University, Villanova University, Bryn Mawr College, Haverford College, Swarthmore College, Lincoln University, and the Camden Campus of Rutgers University.

University of Pennsylvania (“Penn”). Founded in 1740, Penn is the first university in the United States and a prominent Ivy League institution located in West Philadelphia. Combined with its health system, Penn is the largest private sector employer in Philadelphia. Penn is also consistently one of the largest annual recipients of funding from the National Institutes of Health (NIH).

Penn has undergone a significant expansion in the last decade. In 2016, Penn opened Pennovation Works, a 55,000 square foot business incubator and laboratory that houses researchers, innovators, and entrepreneurs for the commercialization of research discoveries. In 2022, Penn selected Longfellow Real Estate Partners, the nation’s largest private developer of life sciences buildings, to lead construction worth \$365 million for three new buildings covering 484,000 square feet. The new life sciences facility will be segmented into 387,000 square feet of research and development space and 68,000 square feet of biomanufacturing space, with rooftop terraces offering views of Philadelphia’s skyline. The main complex will have two adjoining six-story buildings with flexible lab and office space for tenants. The facilities are the latest piece of the university’s master plan for Pennovation Works, which saw the completion of the Inventor Office Building in 2018 and Pennovation Lab in 2021.



Currently, Penn has \$1.3 billion in construction underway and \$440 million more in the pipeline. The projects under construction include \$772 million of new development, \$388 million of reinvestment and renovations, and \$133 million in projects underway by third-party developers. Projects include a \$36 million expansion for the Graduate School of Education, a new \$173 million Vagelos Laboratory for Energy Science and Technology, \$69 million for a new Ott Center for Track and Field, \$363 million to add seven floors to the Perelman School of Medicine.

Drexel University (“Drexel”). Founded in 1891, Drexel is one of Philadelphia’s largest employers, and a major engine for economic development in the region. Drexel is known for its technical innovation and civic engagement. Drexel is unique in that it provides its students with a co-op work experience every six months throughout the four-year college experience. Over the last decade, Drexel has undergone significant expansion and has major plans for future development. Most recently in 2022, Drexel opened a new 460,000-square-foot, 12-story building that will bring together the College of Nursing and Health Professions, College of Medicine, and Graduate School of Biomedical Sciences and Professional Studies in University City, enhancing collaboration, research, and practice opportunities.

Temple University (“Temple”). Founded in 1884, Temple has undergone a significant transformation over the past three decades from a university with a mostly commuter-based enrollment to one in which on and near-campus housing is now in high demand. As the largest university and fourth largest employer in Philadelphia, Temple features 17 schools and colleges, nine campuses, and hundreds of degree programs. Temple continues to implement key elements of “Visualize Temple,” the university’s master plan by renovating its current buildings, adding new amenities, and new constructions. In 2019, Temple opened the new Charles Library, a four-story, 225,000-square-foot facility on main campus. In 2023, Temple broke ground on a 160,000-square-foot expansion and 150,000-square-foot renovation of Paley Hall. Formerly known as Paley Library, the building will become the new home of Temple’s College of Public Health (CPH) upon completion. The project is budgeted at almost \$130 million. In March 2024, Temple opened the Innovation Nest, which provides office, work, and collaboration spaces for start-up businesses.

Thomas Jefferson University (“Jefferson”). In 2017, Thomas Jefferson University and Philadelphia University merged to create the fourth largest university in the City. With this merger, Jefferson creates a national comprehensive university designed to deliver high-impact education and value for students in medicine, science, architecture, design, fashion, textiles, health, business, engineering, and other disciplines. In addition to ten colleges and three schools from both universities, the formation of the Philadelphia University Honors Institute and the Philadelphia University Design Institute are key components of the combined university’s educational ecosystem. Jefferson has campuses in Center City, Philadelphia, East Falls, Montgomery County, Bucks County, and Atlantic County, New Jersey.

Community College of Philadelphia (“CCP” or the “College”). Founded in 1964, CCP serves over 19,000 students in Associate’s degree and certificate programs. The College operates four campuses: its main Campus in Center City Philadelphia and three regional campuses in West Philadelphia, Northeast Philadelphia, and Northwest Philadelphia. The College offers a total of more than 100 Associate degrees, academic and proficiency certificates, and workforce programs. The College has several transfer agreements and partnerships with other higher education institutions, which assist students who seek a seamless transition to a bachelor’s degree program.

In August 2022, the College opened a new \$40 million Advanced Technology Center in West Philadelphia to offer short-term certificate and associate degree programs in the Automotive, Advanced Manufacturing, Health Care, and Transportation Technology fields. It will also serve as a hub supporting the region’s small businesses and as a resource connecting the community to technology-rich spaces. The

College is one of 30 community colleges in the nation to undertake a new Career Pathways model under which it has expanded its dual enrollment programs, including establishing the first Middle College in the Commonwealth, with the School District of Philadelphia. Upon completion of high school, enrolled students will receive both a high school degree and an Associate's degree. In 2021, the College launched the Octavius Catto Scholarship (the "Catto Scholarship"), which is a new anti-poverty initiative funded by the City of Philadelphia designed to make education available to students by providing funding and support for tuition and fees, costs associated with books, food, transportation, benefits, childcare, and housing. The Catto Scholarship is available to Philadelphia residents who also meet income eligibility.

Saint Joseph's University ("St. Joe's"). Saint Joseph's University (also called St. Joe's) was established in 1821. It is a private Jesuit university in Philadelphia and Lower Merion, Pennsylvania. In 2022, it merged with the University of the Sciences ("USciences") another well-established Philadelphia college with an emphasis on science oriented higher education. USciences was originally founded as the Philadelphia College of Pharmacy in 1821. The combined school is now the fifth largest university in Philadelphia and will serve over 9,000 students between two campuses. With the acquisition of additional academic programs, St. Joe's now offers hundreds of programs to undergraduate, graduate, and adult learners. The merger allows St. Joe's to add former USciences programs in areas such as pharmacy, neuroscience, and occupational therapy, in addition to established business and education offerings.

#### *Hospitals and Medical Centers*

The City is a center for health, education, research, and science facilities with the nation's largest concentration of healthcare resources within a 100-mile radius. Philadelphia is home to several world-class medical systems and the first FDA-approved cell and gene therapies. There are presently more than 30 hospitals, five medical schools, two dental schools, two pharmacy schools, as well as schools of optometry, podiatry, and veterinary medicine located in the City. The City is one of the largest health care and health care education centers in the world, and several of the nation's largest pharmaceutical companies are located in the Philadelphia area. Major research facilities are also located in the City, including those located at its universities and medical schools: Children's Hospital of Philadelphia ("CHOP"), the Hospital of the University of Pennsylvania, The Wistar Institute, the Fox Chase Cancer Center, and the University City Science Center. Philadelphia is home to two of the nation's 71 National Cancer Institute ("NCI")-designated Comprehensive Cancer Centers: the Abramson Cancer Center at the University of Pennsylvania and Fox Chase Cancer Center, which is part of the Temple University Health System. Additionally, Philadelphia is also home to two NCI-designated Cancer Centers: Kimmel Cancer Center and The Wistar Institute Cancer Center.

Penn Medicine University of Pennsylvania Health System ("Penn Medicine"). Penn Medicine includes Pennsylvania Hospital, the nation's first hospital and the nation's first medical school, the University of Pennsylvania School of Medicine. In addition, the Hospital of the University of Pennsylvania was established in 1874 as the nation's first teaching hospital. Penn Medicine's hospitals are consistently ranked among the top ten hospitals in the country with the combined University of Pennsylvania and Penn Presbyterian Medical Center among the top-ranked in the region by *U.S. News and World Report*. In 2021, Penn Medicine completed construction on a new 1.5 million square foot Patient Pavilion, one of the largest hospital projects in the nation and the largest capital project in Penn's history. Combined, the University of Pennsylvania and its health system is the largest private sector employer in Philadelphia. Recently, Penn Medicine entered into a non-binding letter of intent with Doylestown Hospital in Bucks County in the first quarter of 2024 to pursue an integration of Doylestown Hospital as part of Penn Medicine

Children's Hospital of Philadelphia Expansion ("CHOP"). CHOP is the oldest children's hospital in the nation and one of the largest in the world. Beyond its pediatric medical care, it is known for its

research and innovative medical breakthroughs. Over the past two decades, CHOP has invested billions in its expansion in Philadelphia. In late 2022, CHOP opened a new Center for Advanced Behavioral Healthcare in West Philadelphia, with 47,000 square feet dedicated to patient care, including consultation rooms, group therapy rooms, and calming areas.

Temple UHealth System (“TUS”). Temple Health comprises the health, education and research activities carried out by the affiliates of Temple University Health System and the Lewis Katz School of Medicine at Temple University. TUS is one of the region’s most respected academic medical centers. The 732-bed Philadelphia hospital is also the chief clinical training site for the Lewis Katz School of Medicine at Temple University. TUS is regularly ranked among the “Best Regional Hospitals” in various specialties by *U.S. News & World Report* regional rankings. A \$30 million project to turn the former Cancer Treatment Center of America’s Philadelphia campus into the Women & Families campus was completed in the spring of 2023.

Thomas Jefferson University and Jefferson Health (“TJUH”). TJUH is consistently at the top of the list of hospitals in Pennsylvania and the Philadelphia metro area in *U.S. News & World Report’s* annual listing of the best hospitals and specialties. Jefferson Health has recently participated in several significant mergers, integrating Magee Hospital, Kennedy Health System (located in New Jersey), the Aria Health system, and Abington Hospital into its system. In 2017, Thomas Jefferson University acquired Philadelphia University and is now the ninth largest educational institution in Philadelphia. In 2021, Einstein Healthcare Network merged with Thomas Jefferson University, creating an integrated 18-hospital health system. Einstein Healthcare Network’s facilities and outpatient centers have been in existence for over 150 years.

In August 2024, TJUH and Lehigh Valley Health Network merged. The combined system is now among the top 15 not-for-profit health systems in the U.S. with 32 hospitals, more than 700 sites of care, and approximately 65,000 employees, along with a health plan and further clinical research programs.

### *Life Sciences*

The City has capitalized on the region’s assets to become a leader in life science research and development generated by the City’s healthcare and educational institutions. The Greater Philadelphia region is recognized worldwide as a leader in cell therapy, gene therapy, and gene editing. More than 50 cell and gene therapy development firms have been established in the Philadelphia region and investment is at an all-time high. Approximately 80% of all pharmaceutical and biotech companies in the U.S. have offices in Greater Philadelphia. The City has over 2,000 medical technology companies and numerous research labs. In 2022, Philadelphia received over \$1.2 billion in NIH funding.

Several sites now foster life science incubator facilities, including the Cambridge Innovation Center (CIC); Biolabs in the Curtis Center; B+ Labs in the Cira Center; University of Pennsylvania’s Pennovation Works; and Temple University’s Innovation Nest (I-Nest). Developers at Wexford and Brandywine Realty Trust have several million square feet of laboratory space in various stages of development in Philadelphia. Other developers, such as Gattuso Development Partners, are actively developing research facilities including 500,000 square feet of laboratory space at 3201 Cuthbert Street.

Over the last few years, there has been a significant geographic shift in laboratory development. Prior to 2020, lab space was almost exclusively relegated to University City and the Navy Yard. Presently, there are completed and planned developments in the Gray’s Ferry, Allegheny West, Kensington, and South Philadelphia neighborhoods. Significant developments are also planned in the traditional Navy Yard and University City hubs, including 40 acres of the Lower Schuylkill Biotech

Campus. These developments accommodate all stages of life science company growth. With several million square feet of lab space in development and an approximate vacancy rate of 14% (compared to 1.4% in 2019), there is tremendous room for continued growth.

### *Technology and Innovation*

With over 5,100 tech businesses, Philadelphia's Tech and Innovation industry is growing and evolving in the post pandemic world. From 2020-2021, the City's share of the nation's startups rose 1.7% according to the Brookings Institute. The City is poised to continue to expand its share of both startups and maturing tech firms as companies search for more affordable locales. Philadelphia's tech ecosystem will continue to benefit from the diffusion of firms in known traditional tech hubs. In addition to growing attraction efforts, Philadelphia's "eds and meds" along with media communications companies like Comcast/ NBC Universal have created sizable opportunities for investment in technology, robotics, and automation startups.

The traditional technology industry was once centered in the Old City section of Philadelphia. However, as the industry continues to evolve, co-working and lab spaces housing emerging tech startups have gone through a geographic shift. Biotech and robotics companies such as Ghost Robotics are more likely to be found in University City, on North Broad Street, or Spring Garden sections of the City.

The City's Most Diverse Tech Hub paired with The Enterprise Center's Innovate Capital, Benjamin Franklin Technology Partners, Comcast Lift Labs, Philly Startup Leaders, Coded by Kid's Philadelphia, and Venture Café, encourage growth and investment across the tech ecosystem. The Most Diverse Tech Hub manages a fund of \$750,000 to support tech pipelines. Innovate Capital is growing an equity fund valued at \$19 million to encourage participation by black, indigenous, and people of color (BIPOC) in the industry.

### *Hospitality and Leisure*

Prior to the pandemic, the hospitality and leisure sector historically demonstrated consistent growth, setting a record-high for room revenue generated for lodging in 2019 until contracting in 2020. The City is regularly listed as a top domestic and international destination in tourism publications and was one of only three U.S. destinations to make Condé Nast Traveler's 2021 Gold List. Tourism Economics projects that it will take until 2023-2024 for Philadelphia's tourism and hospitality sector to fully rebound. In fact, Visit Philadelphia and the Philadelphia Convention and Visitors Bureau (PHLCVB) hosted the Philadelphia 2024 Tourism Outlook. During this event, it was announced that nearly 43 million people visited the 5-County Philadelphia region in 2023, a 6% increase over 2022. Those visitors spent \$7.6 billion in the greater Philadelphia market, and as those funds cycled through the regional economy, they generated an economic impact of \$12.4 billion. Across all tourism industry KPIs, year-over-year gains were achieved showing continued post-pandemic recovery, either meeting or beating 2019 benchmarks in all categories except visitation.

Philadelphia has seen an influx in hotel development in recent years, with numerous new developments recently completed and underway, including the Four Seasons, Pod Philly, LIVE Hotel & Casino, Element Hotel, Hyatt Centric, W Hotel, Guild House, and Delta Hotel. These hotels added 777 rooms and bringing the total downtown room inventory to 13,375. Additional projects are under construction, including Mainstay Suites/Ascend Hotel Collection and Comfort Inn. Proposed downtown hotels include AC Hotel by Marriott and Blue Ivy Hotel. Three downtown hotels – Rittenhouse Hotel, Four Seasons Philadelphia at the Comcast Center, and Kimpton Hotel Monaco – are rated by U.S. News and World Report as among the best in the nation.

Looking at recent statistics for the County of Philadelphia, all key metrics show growth in the hotel industry. Hotels reached 62.3% occupancy in 2023, a 7.0% increase over 2022. Average daily rate was \$202.05, a 2.0% increase over 2022. Revenue per available room was \$125.95, a 9.0% increase over 2022. Hotel supply was 6.8 million room nights available, a 2.0% increase over 2022. Hotel demand was 4.25 million room nights sold, a 9.0% increase over 2022. Hotel revenue was \$859 million, an 11% increase over 2022. Hotel supply and average daily rate both surpassed 2019 levels.

In recent years, Philadelphia's global tourism has also had a strong recovery with more visitors choosing to travel to the City from overseas. The top overseas markets for Philadelphia were United Kingdom, India, Germany, France, and Ireland.

Visitation to Philadelphia (and the greater metropolitan area) is projected to exceed prior levels as the City commemorates the nation's 250th birthday in 2026. The city has recently hosted, or will host, several major sporting events, including six NCAA Championships, WrestleMania 40, the PGA Championship, and Major League Baseball All-Star Game. In 2022, Philadelphia was named one of 11 cities chosen to host the 2026 FIFA World Cup, an event expected to bring thousands of soccer fans and hundreds of millions of dollars in spending to the region. Philadelphia has also been a regular host of medical conferences and the Army-Navy Game, which will return in 2027.

### *Creative Economy*

The Creative Economy is one of the most dynamic areas of economic development. The sector stimulates innovation and promotes Philadelphia cultural diversity. The creative sector includes the people and the products that make up the for-profit and nonprofit arts-related creative industries, such as visual and performing arts, graphic design, music, fashion, public relations, and architecture.

The Arts, Culture, and Creative Economy's impact is profound, generating a total of \$4.1 billion in total economic impact, 55,000 full-time equivalent jobs, \$1.3 billion in household income, and \$224.3 million in state and local taxes. Annual visitors who attend craft events in the City spend approximately \$10.2 million. According to Forbes, the fashion and garment industry is a growing market with a global valuation of over \$2 trillion dollars annually. The Philadelphia Fashion Week attracts over 10,000 industry leaders and consumers to the City.

Looking forward, Philadelphia is well-positioned as a national leader in the craft and maker sector. The City has a wide array of craft organizations, maker spaces, cultural non-profits, and art schools. It is home to some of the nation's leading gallerists, artists, and collectors of craft. Furthermore, in 2024, the Mayor added a cabinet position, the Director of Arts and Culture, which is expected to focus on the creative sector of the economy in the City, among other artistic and cultural endeavors.

### *Manufacturing*

The manufacturing industry has been a major contributor to Philadelphia's economy, particularly after the COVID-19 pandemic. Philadelphia's strategic location, skilled workforce, and diverse manufacturing base in various fields such as chemicals, pharmaceuticals, food and beverage, machinery, eCommerce, transportation equipment, 3D printing, and artisanal manufacturing have made it a hub for manufacturing and production. The industry has been a significant driver of job creation, innovation, and economic growth, providing employment to thousands of workers in the City and contributing significantly to the City's tax base. Additionally, Philadelphia's industrial research and development centers have been at the forefront of innovation and technological advancements in various fields, such as

biotechnology, energy, and materials science. Overall, manufacturing remains a crucial industry for the growth and prosperity of Philadelphia’s economy.

**Principal Private Sector Employers in the City**

Table 7 lists the 20 largest private employers that are based in Philadelphia. Penn and Thomas Jefferson University and Jefferson Health top this list.

**Table 7**  
**Largest Private Employers Based in Philadelphia**  
**Ranked by Number of Local Employees, 2023**

<b>Employer</b>	<b>Local Employees</b>
University of Pennsylvania and Health System	51,309
Thomas Jefferson University and Jefferson Health	42,000
Children's Hospital of Philadelphia	29,103
Temple University Health System	18,991
Comcast Corp	16,264
Independence Health Group	8,642
Drexel University	5,177
Wells Fargo Bank	4,593
Deloitte	2,175
Ernst & Young LLP	1,610
KPMG	1,362
Rivers Casino	1,125
AON	1,100
Burns’ Family Neighborhood Markets	997
American Heritage Credit Union	720
Fox Rothschild LLP	694
Cozen O’Connor	673
Duane Morris LLP	661
Pennoni	652
Aecom	<u>648</u>
<b>Total</b>	<b>188,496</b>

---

Source: Philadelphia Business Journal, 2021 Book of Lists (Revised in November 2023)

**Office Market**

In the fourth quarter of 2023, most commercial leasing activity followed common patterns, including renewals or moves to higher-quality spaces, impacting certain properties positively while increasing vacancies in other properties. There were no major deals that significantly changed occupancy rates in specific buildings. However, there is noticeable investment in the Central Business District (“CBD”), with construction projects, new residential openings, and restaurant announcements. Economic indicators, like foot traffic, are showing positive trends. The CBD has 438,000 square feet under construction according to Jones Lang LaSalle’s (“JLL”) statistics for the fourth quarter of 2023.

The average direct asking rental rates in the City’s CBD rose to \$34.09 per square foot in the fourth quarter of 2023, with a vacancy rate of 19.1%.

Table 8 shows comparative overall fourth quarter 2022 office vacancy rates for selected office markets.

**Table 8**  
**Total Office Vacancy Rates of Selected Office Markets**  
**Fourth Quarter 2022**

<b>Market</b>	<b>Vacancy Rate</b>
Houston	25.7%
San Francisco	25.1%
Dallas	24.6%
Phoenix	23.1%
Los Angeles	22.5%
Chicago	22.5%
Atlanta	21.4%
Washington, DC	20.7%
United States CBD, All Markets	19.6%
Detroit	19.2%
Charlotte	18.9%
San Antonio	18.8%
<b>Philadelphia</b>	<b>18.5%</b>
Boston	18.1%
Austin	18.1%
Baltimore	18.0%
Seattle	16.7%
Cleveland	16.0%
New York	15.9%
San Diego	12.1%

Source: JLL, National CBD Data, Fourth Quarter 2022

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## **Major Projects**

Over the last two decades, the City's economic development agencies and others have spurred significant economic revitalization throughout the City. In particular, a number of geographic areas have experienced concentrated developments: Center City, University City, Philadelphia's Historic District, Avenue of the Arts, North Broad Street, the Navy Yard, and the Benjamin Franklin Parkway. Many of these developments, such as a significant increase to Philadelphia's hotel room inventory in Center City and expansion of the Pennsylvania Convention Center, have been key to the growth of Philadelphia's leisure and hospitality sector. Several key areas within the City have been instrumental in the economic and commercial development of Philadelphia over the past 25 years.

Taking advantage of the City's major waterways, the Schuylkill and the Delaware Rivers, the City is redeveloping its waterfronts to accommodate a variety of developments, including mixed-use projects, housing, parks, recreational trails, and hotels. These projects improve quality of life for residents and enhance the visitor experience. In addition, they serve as the impetus for environmental remediation, job creation and private development of former industrial properties within the City.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]



**Table 9**  
**Projects Under Construction in the Key Commercial Districts**

Project Name, by Neighborhood	Project Type	Cost in Millions	Est. Completion Date
<b>CENTER CITY</b>			
Jefferson Health Specialty Care Pavilion (1100 Chestnut Street)	Medical	\$762	2024
204 S. 12th Street	Residential	\$180	2024
123 S. 12th Street	Residential	\$225	2024
Toll Brothers Apartments (Broad & Noble St)	Residential	\$150	2024
1001 South Broad Street	Retail/Residential	\$500	2024
<b>OLD CITY</b>			
I-95 Overcap Park (Penn's Landing)	Public	\$329	2026
702 Samson St	Retail/Residential	\$100	2027
<b>OTHER NEIGHBORHOODS</b>			
650 Fairmount Avenue	Retail/Residential	\$100	2025
200 Spring Garden	Retail/Residential	\$76	2024
300 N. Christopher Columbus Ave	Retail/Residential	\$200	2024
Festival Pier (501 N. Christopher Columbus)	Retail/Residential	\$250	2024
418 Spring Garden Street	Retail/Residential	\$200	2024
1130 N Delaware Avenue	Residential	\$55	2024
1001 S Broad Street	Mixed	\$306	2024 (First building) 2026 (Fully completed)
918-80 N Delaware Avenue	Mixed	\$30	2024
Reading Viaduct Expansion	Public	\$30	2025
1000 Spring Garden Avenue	Mixed	\$225	2024
817-21 N 3rd Street	Mixed	\$105	2024
1705-41 N American Street (The Luxe Fishtown)	Residential	\$15	2024
1518-28 N Broad Street (Legacy on Broad)	Mixed	\$20	2027
<b>UNIVERSITY CITY</b>			
3151 Market St (Schuylkill Yards)	Office/Medical	\$3,500	2024
CHOP Schuylkill Ave Expansion (Phase 2)	Medical	\$600	2024
<b>TOTAL</b>		<b>\$7,958</b>	

Source: Philadelphia Department of Planning and Development.

## Housing

Philadelphia's housing market has undergone a significant revitalization over the last two decades. The period between the 2000 and 2010 censuses was the first wherein Philadelphia experienced a net population increase since 1940 to 1950, due both to rapid growth in the number of higher income households in these core neighborhoods and to a significant influx in the foreign-born population in more peripheral neighborhoods of the City.

The City's population growth has driven significant new construction and investment in many of its neighborhoods resulting in increases in the value of the City's housing stock. Most housing indicators for Philadelphia indicate an upward outlook, in terms of prices and construction, for the near future. Nevertheless, the City continues to face significant challenges caused by the persistent problems of poverty, crime, underperforming schools, and lack of employment opportunities in some sectors.

The total housing stock, measured by the number of units, increased by 13.5% from 2012-2022, for a total of 757,656 in 2022.<sup>3</sup> This increase of 89,410 units is the result of a net increase of 48,832

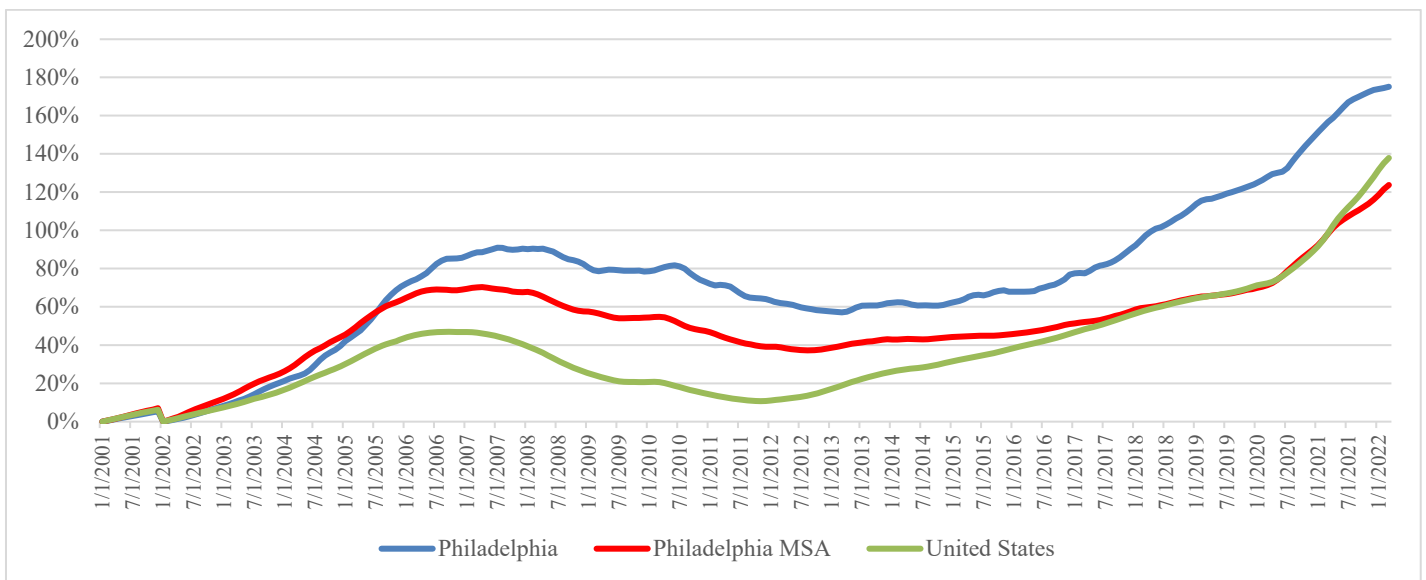
<sup>3</sup> US Census Bureau, American Communities Survey, 1-Year Survey

multifamily units, 38,999 single-family homes, and 1,578 “other” units (such as mobile homes and boats). The homeownership rate in the City in 2022 was 50.8%, which represents a decline from 52.2% in 2012.<sup>3</sup> Accordingly, properties in the City have continued to command higher rents, with the median monthly rent in April 2024 equal to \$1,788, representing a 21.0% increase over the prior five-year period.<sup>4</sup>

### Home Prices

As shown in the chart below, after eight years of moderate house price deflation following the peak of the 2007 recession, Philadelphia’s housing market began posting rapid increases in prices, citywide, starting in 2013. In late 2017, home values in Philadelphia recovered to their pre-recession peak and have continued to climb to 43% above that peak as of March 2022. The following chart uses the Home Value Index to chart changes in home values in Philadelphia, the Philadelphia region, and the U.S. as a whole over the 20-year period from January 2001 through March 2022.<sup>5</sup>

**Percent Change in Median Nominal Home Value (Zillow Home Value Index), 2001-2021**



Source: Zillow Research, ZHVI Time Series

Over this entire period, Philadelphia’s median home prices have been lower than that of the region or the country as a whole. However, because the rate of growth in the City’s home values matched or outpaced these comparison regions and the housing market in Philadelphia retained a much greater share of its pre-recession gains, it has significantly closed that gap. Whereas the median home value in Philadelphia was 56% that of the US in 2002, it was 71% of the national average by 2021.

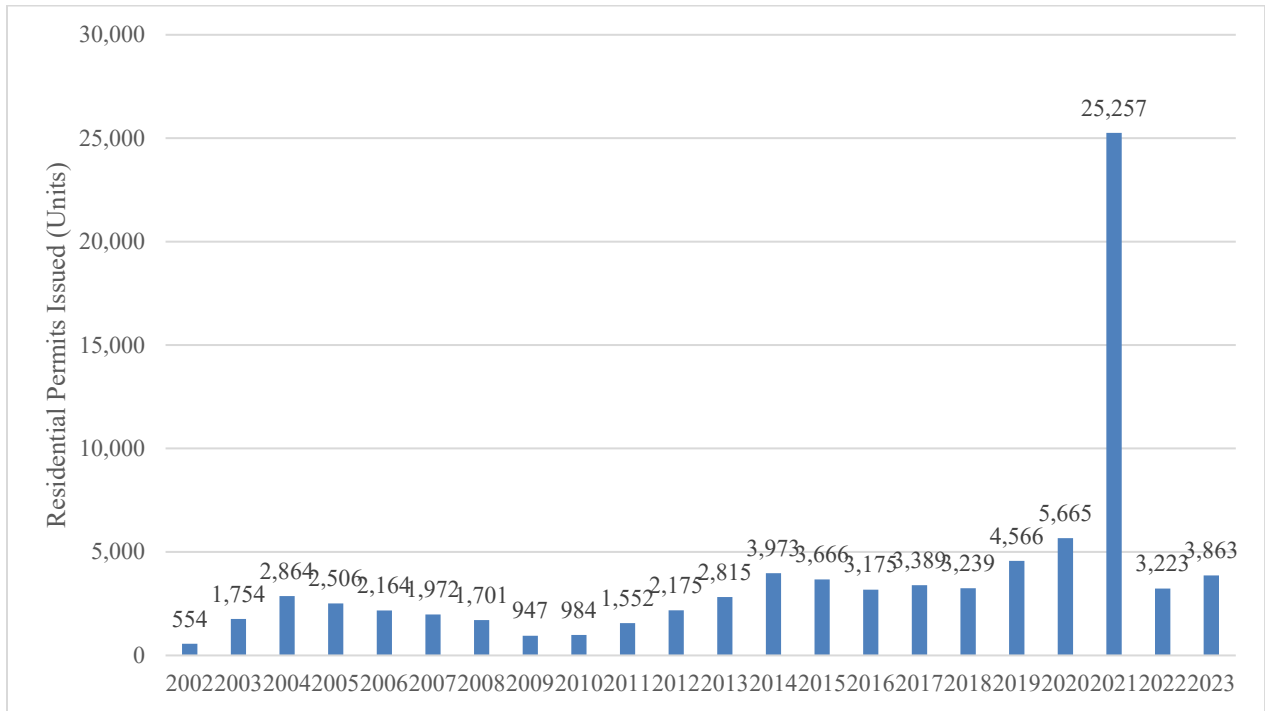
### Home Construction

Home building activity in Philadelphia has also made significant progress since hitting its recessionary low in 2009. The following chart shows the number of newly constructed units being added to Philadelphia’s housing stock, as represented by the number of building permits issued for such units, from 2002 through 2023.

<sup>4</sup> Zillow Research, ZORI Time Series

<sup>5</sup> Zillow Research, ZHVI Time Series

**Building Permits Issued in Philadelphia, New Construction Only  
(Number of Units), 2002-2023**



Source: US Census, Building Permits Survey

The number of building permits for new residential units issued significantly increased in 2021, with a 361% increase over the previous calendar year. The large increase coincided with changes to the City’s 10-year tax abatement, which had been set to expire at the end of 2020, to be replaced by a modified version. The original abatement was extended by a year because of the pandemic. The City’s new tax-abatement program went into effect in January 2022. For more information on the new tax-abatement program, see APPENDIX C – “REVENUES OF THE CITY – Real Property Taxes.”

Historically, construction of new housing units in Philadelphia was low by both absolute and relative measures, averaging only 507 units per year in the decade from 1990 through 1999. However, since 2003, permits for new construction have not been for less than 947 units in any single year, including during the nadir of the 2007 recession. Notably, these data do not include additions or substantial alterations to existing buildings, which together account for nearly a third of all new housing units in Philadelphia.

Despite rising income levels and the relative affordability of home prices in Philadelphia, the City seeks to address housing inequities that can be exacerbated by a strong real estate market. To further increase the supply of affordable housing, the City launched the Neighborhood Preservation Initiative (“NPI”) in 2021. NPI supports the production and preservation of affordable housing units, home repair and tangled title programs, eviction diversion services, and other innovative programs relating to neighborhood and small business corridor investments. In October 2021 and May 2023, the Philadelphia Redevelopment Authority (“PRA”) issued \$98,560,000 and \$99,455,000 in City Service Agreement Revenue Bonds, respectively, to finance certain costs of the NPI program. Data on all NPI funded programs, including funds expended by program and households served, is available on the City’s

website through the NPI dashboard, which is updated quarterly. NPI funds leverage federal and state Low Income Housing Tax Credit projects and local, long term funding through the Housing Trust Fund.

Additionally, the City used its American Rescue Plan Act of 2021 funding to operate rental assistance programs during the COVID-19 pandemic. Along with multiple rounds of funding from both the Commonwealth and federal direct allocation, the City released over \$299 million in over 46,000 payments to landlords and tenants to secure their housing needs. Data on this program is also available on the City’s website through the PHLRentAssist dashboard, which shows rental and utility assistance for residents affected by COVID-19 and funds dispersed and the households served.

## **TALENT AND HUMAN CAPITAL**

### **Workforce Development**

#### *Higher Education*

According to Campus Philly, over the last twenty years, the young adult population in Greater Philadelphia has experienced significant growth, surpassing national demographic trends and driving overall population expansion in the region. Notably, the increase in young adults with bachelor’s degrees in Philadelphia has outpaced similar growth in comparable peer cities. This trend reflects the effectiveness of Greater Philadelphia’s colleges and universities. The City retains 50% of the graduates of local colleges and universities. In 2022, 32.5% of Philadelphia’s population age 25+ had an Associate Degree or higher. Because the Philadelphia region has one of the largest concentrations of students and degree-granting institutions, the City consistently produces an abundant workforce of highly qualified workers for tech and life science companies.

In 2022, Philadelphia exceeded many selected peer cities in its share of students who are enrolled in an undergraduate, graduate or professional education program. Selected peer cities (as shown in Table 10) reflect characteristics consistent with Philadelphia, such as geography, socio-economic statistics, industrial legacies, or port facilities.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

**Table 10**

**2022 Total Number of Students - Percent of Total Population of Selected Cities,  
Ranked by Total Number of Students Enrolled in Higher Education**

	<b>Total Number of Students Enrolled in School (all years)</b>	<b>Total Number of Students Enrolled in Higher Education</b>	<b>Percent of All Students Enrolled in Higher Education</b>	<b>Percent of Total Population Enrolled in Higher Education</b>
<b>United States</b>	<b>80,425,705</b>	<b>21,985,950</b>	27.3%	<b>6.9%</b>
Los Angeles, CA	934,487	324,054	34.7%	8.6%
Chicago, IL	632,447	204,284	32.3%	7.8%
Houston, TX	579,933	155,383	26.8%	7.1%
San Diego, CA	346,859	141,150	40.7%	10.5%
<b>Philadelphia, PA</b>	<b>397,505</b>	<b>132,204</b>	<b>33.3%</b>	<b>8.6%</b>
San Antonio, TX	379,156	103,402	27.3%	7.4%
Boston, MA	183,215	100,326	54.8%	15.5%
Phoenix, AZ	398,394	95,939	24.1%	6.2%
Washington, D.C.	156,326	58,937	37.7%	9.1%
Baltimore, MD	141,438	51,798	36.6%	9.2%
Milwaukee, WI	159,144	43,425	27.3%	7.9%
Memphis, TN	151,808	36,419	24.0%	6.0%
Detroit, MI	152,587	33,355	21.9%	5.5%
Cleveland, OH	87,096	24,379	28.0%	6.8%

Source: 2022 American Community Survey, 5-Year Estimates.

*Workforce Professionals Alliance (“WPA”)*

The WPA is a partnership of 30+ (and counting) workforce development organizations committed to increasing access to career readiness programs for Philadelphians. The WPA works to connect, advocate, and drive the impact of workforce development services in Philadelphia. The WPA works collaboratively amongst its members and City government to lead strategy and vision for how partners can work together to bridge programs, industries and respond to the demands of employers and residents. WPA member organizations are used as a first point of contact to connect employers that are looking for talent in the region to hire directly from the workforce ecosystem.

*Fair Chance Hiring Initiative (“FCHI”)*

FCHI supports local businesses by referring Philadelphia job seekers returning from incarceration as well as those that are on probation or parole for open positions and providing financial incentives to businesses in the form of wage reimbursements and employment retention grants. About 300,000 Philadelphians have had contact with the criminal justice system. Integrating these individuals into the workforce is a priority. This program was introduced as an alternative to the Philadelphia Re-Entry Program (PREP) Tax Credit. Since the program’s inception in 2017, FCHI has distributed over \$69,000 in grant money to residents, and over \$400,000 to FCHI small business employers.

*PHL Taking Care of Business Clean Corridors Program (“TCB”)*

TCB is a \$10 million program that funds community-based nonprofits to sweep sidewalks and remove litter across low-moderate income neighborhood commercial corridors. PHL TCB invests in people and small businesses by creating employment opportunities for residents and keeping Philadelphia’s neighborhood commercial corridors clean. TCB cleaning is carried out by small crews of uniformed Cleaning Ambassadors. TCB currently funds 39 organizations to clean 116 total commercial corridors, employing approximately 240 Cleaning Ambassadors.

Participating organizations are encouraged to hire neighborhood residents, including formerly incarcerated individuals. Cleaning Ambassadors earn a minimum of \$15.71 per hour and are offered paid workforce training opportunities to equip them to perform their jobs and help them advance in their careers. Trainings include an OSHA 10 certification course for basic workplace safety, as well as digital literacy, workplace readiness, tree-tending and landscaping trainings and Mental Health First Aid trainings. Previous work experience and a high school diploma are not required.

*Career Connected Learning (“C2L”)*

Career Connected Learning (C2L-PHL) is the system of connections that is currently being built between youth-serving partners such as the School District of Philadelphia, City of Philadelphia, Philadelphia Works, and JEVS Human Services, among many others. The premise is to embed career awareness and exposure into City schools, curriculum and programming offered to all students. C2L-PHL offers year-round work-based learning opportunities, during the summer and school year, for Philadelphia residents ages 12-24 to explore different career paths, gain hands-on experience, and develop essential skills. Paid summer and school year work and learning experiences are part of C2L-PHL. JEVS Human Services is contracted to oversee a network of organizations to provide this service. The programs under the C2L currently aim to engage roughly 10,000 students a year, and this system aims to expand programmatic opportunities to be available to any student in the School District.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## Employment

Table 11 shows non-farm payroll employment in the City over the last decade by industry sectors. In the past 10 years, growth has occurred in several sectors including Mining, Logging, and Construction; Professional and Business Services; Education and Health Services; Financial Activities; and Information. These sectors continue to provide stability to the City’s overall economy. As of March 2023, employer demand remains strong, with City employers creating more new job postings than ever before. Regional employers in the Professional Services, Education and Health Services and Transportation sectors have added more than 36,700 jobs since 2020. Overall, total employment in the City is at an all-time high.

**Table 11**  
**Philadelphia Non-Farm Payroll Employment<sup>(1)</sup>**  
**(Amounts in Thousands)**

Sector	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Change 2014-23	% Change 2014-23
Leisure and hospitality	66.9	68.5	70.8	73.1	74.3	76.2	47.2	55.0	68.7	73.5	6.6	9.87%
Mining, logging, and construction	11.0	11.5	12.0	12.1	12.6	12.4	10.8	11.7	12.5	12.7	1.7	15.45%
Professional and business services	88.6	91.2	95.2	97.4	99.6	104.2	98.8	102.2	110.3	115.6	27.0	30.47%
Education and health services	213.2	217.3	223.8	230.2	238.2	242.8	232.7	234.1	247.0	258.0	44.8	21.01%
Other services	26.8	27.1	27.8	27.8	28.3	28.6	24.1	25.4	27.9	29.0	2.2	8.21%
Trade, transportation, and utilities	90.9	92.1	92.5	92.3	92.8	93.8	85.6	88.4	90.3	87.5	-3.4	-3.74%
Financial activities	41.7	42.3	42.4	41.6	42.5	43.1	41.8	42.5	46.9	49.8	8.1	19.42%
Information	11.5	11.8	11.8	12.5	13.4	14.9	15.3	12.3	16.5	16.0	4.5	39.13%
Manufacturing	21.5	21.0	20.5	20.2	19.9	19.4	17.4	18.2	19.1	19.4	-2.1	-9.77%
<i>Private Sector Total</i>	<i>572.1</i>	<i>582.8</i>	<i>596.8</i>	<i>607.2</i>	<i>621.6</i>	<i>635.4</i>	<i>573.7</i>	<i>589.8</i>	<i>639.2</i>	<i>661.5</i>	<i>89.4</i>	<i>15.63%</i>
Government	102.2	101.6	101.3	102.2	103.7	105.2	105.5	103.4	102.6	104.0	1.8	1.76%
<b>Total</b>	<b>674.3</b>	<b>684.4</b>	<b>698.1</b>	<b>709.4</b>	<b>725.3</b>	<b>740.6</b>	<b>679.2</b>	<b>693.2</b>	<b>741.8</b>	<b>765.5</b>	<b>91.2</b>	<b>13.53%</b>

Source: Bureau of Labor Statistics, 2023 annual average totals may not sum due to rounding.

1. Includes person employed within the City, without regard to residency.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

**Table 12**  
**Philadelphia Change in Share of Employment Sectors<sup>(1)</sup>**

Sector	Share of Total Employment 2014	Share of Total Employment 2023	Change 2014-2023
Leisure and hospitality	9.9%	9.9%	0.0%
Mining, logging, and construction	1.6	1.7	0.1
Professional and business services	13.1	14.6	1.5
Education and health services	31.6	34.0	2.4
Other services	4.0	3.8	-0.2
Trade, transportation, and utilities	13.5	11.8	-1.7
Financial activities	6.2	6.2	0.0
Information	1.7	2.2	0.5
Manufacturing	3.2	2.5	-0.7
Government	15.2	13.3	-1.8
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

Source: Bureau of Labor Statistics, 2023 annual average; totals may not sum due to rounding.

1. Includes persons employed within the City, without regard to residency.

## Unemployment

Philadelphia has recently narrowed the gap between its unemployment levels and the national unemployment levels. As shown in Table 13, with the exception of the COVID-19 pandemic, employment gains in 2014 through 2023 resulted in a decline in Philadelphia's unemployment rate from an annual average high of 8.2% in 2013 to 4.5% in 2023.

Table 13 below shows unemployment information for Philadelphia, the MSA, the Commonwealth, and the United States.

**Table 13**  
**Unemployment Rate in Selected Geographical Areas**  
**(Annual Average 2014-2023)**

Geographical Area	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Change in rate from 2014-2023
United States	6.20	5.30	4.90	4.40	3.90	3.70	8.10	5.40	3.60	3.70	-2.5
Pennsylvania	5.90	5.30	5.40	5.00	4.50	4.50	9.10	6.60	4.40	3.80	-2.1
Philadelphia-Camden-Wilmington MSA	6.30	5.50	5.00	4.70	4.30	4.10	9.20	6.30	4.10	3.70	-2.6
Philadelphia	8.20	7.20	6.70	6.40	5.70	5.60	12.30	8.90	5.90	4.50	-3.7

Source: Local Area Unemployment Statistics, Bureau of Labor Statistics, 2023.

. [REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]



## ECONOMIC DEVELOPMENT STRATEGIES AND IMPLEMENTATION

### City of Philadelphia Economic Development Mission and Goals

The City's economic development strategy is to (i) grow quality jobs by fostering an improved business environment; (ii) increase the City's population and visitation; (iii) boost Philadelphia's competitiveness through strategic and sectoral investments; and (iv) enable inclusive growth and neighborhood revitalization. The City partners with numerous quasi-city and private agencies to accomplish these objectives.

#### *Economic Competitiveness*

In addition to the Mayor's initiatives of a safer, cleaner, and greener Philadelphia, which are part of a broader economic development strategy, the City utilizes several place-based economic development strategies to spur development in Philadelphia. These strategies include: (i) a 10-year real estate tax abatement on all new construction, as well as on improvements to existing properties (legislative changes to this program are described in APPENDIX C – "REVENUES OF THE CITY – Real Property Taxes – Assessment and Collection"); (ii) Commonwealth-designated Keystone Opportunity Zones in which eligible businesses may be exempt from all Commonwealth and local business taxes until a specified date; (iii) Commonwealth-designated Keystone Innovation Zones in which energy, defense, technology, and life-sciences companies may be eligible for saleable tax credits worth up to \$100,000 annually for the first eight years of operations; (iv) tax increment financing; and (v) neighborhood revitalization investments including staffing and physical improvements to facilitate commercial corridors that are attractive places for people to work, shop, and live.

The City and its partners work to attract and retain businesses through business resources, strategic investments, and marketing. Philadelphia offers a suite of additional incentives to businesses, including, but not limited to, the Quality Jobs Grant, Job Creation Tax Credit, Fair Chance Hiring Initiative, Boost Your Business! Fund, and Philadelphia Business Lending Network Incentive Grant. The City provides financial support to a number of nonprofit partners to provide business planning, technical assistance, and access to capital. The City also convenes workforce development organizations and provides financial support for workforce solutions initiatives to train and connect the City's population to career opportunities in the business community.

#### *International Business & Global Strategy*

The City actively works to raise its profile in the international business community. In pre-COVID years, the City hosted delegations of business leaders and officials on trade missions to the United States, reaching a high of 156 delegations in 2019, and participated in business missions to Germany, France, Portugal, China, South Korea, Canada, Denmark, Sweden, Chile, and Israel. These efforts have resulted in new business attraction leads, enhanced cooperation, support to international air route development, and opening of foreign government offices (Quebec Office, South Korean Consulate, Canada Trade Commissioner, Chilean trade and investment office).

Despite the pandemic and closing of the U.S. borders to most foreign markets until late 2021, the City continues to engage with foreign businesses and partners to strengthen exchanges, resulting in delegations and visits for new business attraction projects in 2022 and 2023 (189 foreign businesses engaged within calendar year 2022 and over 235 in calendar year 2023). In particular, primarily out of European markets, several life sciences projects came to fruition in 2021 and 2022, as well as tech companies opening operations in 2022 and 2023 once borders reopened. As most Asian countries lifted

travel restrictions at the end of 2022, the City has seen the beginning of a rebound in delegations and business visits from those markets in 2023, and expects this trend to continue. Foreign companies increasingly leverage Philadelphia’s assets of talent availability, academics, hospitals, relatively low costs, and connectivity, along with City and State support.

A definite rebound of foreign visitors has been observed in the City. European tourists have been returning to the City since 2022, which has helped rebuild international flight routes between PHL International Airport and Europe – along with increased domestic tourism. PHL has consequently seen an increase in passengers of 12.6% over 2023, which includes a 20% increase for international passengers. The City, Visit Philadelphia, PHLCVB, PHL and other partners closely collaborate on messaging and marketing efforts to support those trends. Asian markets show signs of potential growth and rebound, but partially remain hampered by lengthy visa timelines, and limited flight timeslots between China and the U.S.

The City also started to support trade opportunities considering the global supply chain shifts, centered around export initiatives, to connect Philadelphia businesses, particularly minority-owned businesses, with market intelligence, and export-readiness programs and service providers. In 2023, Philadelphia was designated as “Certified Welcoming” by the nonprofit organization Welcoming America, a formal designation given to cities that have policies and programs in place that reflect their values and commitment to immigrant inclusion. Beyond the recognition of the City’s efforts to support immigrants coming to Philadelphia, the designation helps solidify the policies around immigrant inclusion with positive economic impacts on the City (population growth, business creation, etc.) and the messaging that Philadelphia is a globally welcoming city. The City also supported local universities gathering a coalition to identify shared efforts to improve Philadelphia’s perception as a global education hub, in an attempt to counter COVID impacts on international student recruitment and the negative perception of the U.S. in terms of safety.

### *Industry Partnerships*

Industry partnerships bring together multiple employers in the same industry, along with workforce development and community partners. These public-private partnerships convene to align workforce planning with the needs of employers in order to create industry-specific solutions. The Philadelphia region has several industry partnerships in the following industries: Advanced Manufacturing; Logistics, Transportation, and Distribution; Hospitality and Entertainment; Technology; and Life Sciences/Cell and Gene Therapy.

### *Neighborhood Revitalization*

The City drives inclusive growth and neighborhood revitalization through strategic investments and place-based economic development strategies. These strategies include (i) providing direct support and investing in businesses and entrepreneurs; (ii) investing in the capacity of community organizations and business associations; and (iii) investing in physical environment and infrastructure of neighborhood commercial districts.

The Planning Commission has identified approximately 300 commercial corridors in the City. While the City’s Department of Commerce supports all businesses throughout the City, there are approximately 80 corridors that are targeted for support and investment. These 80 areas are neighborhood based, pedestrian and transit oriented, and have a high density of commercial spaces (average 100 businesses in a 3-4 block area). Examples of vibrant commercial corridors include 2<sup>nd</sup> Street in Old City,

52<sup>nd</sup> Street in West Philadelphia, Main Street in Manayunk, North 5<sup>th</sup> Street in Olney, and Woodland Avenue in Southwest Philadelphia.

The City's Commerce Department employs a three-prong corridor strategy. First, it provides direct support to the businesses through its Business Services Managers, through grant programs like the InStore Forgivable Loan and Storefront Improvement Program, and through referrals to partner agencies funded to provide technical assistance, training, and lending, such as The Enterprise Center and PIDC. Commerce also funds two firms as Business Coaches to be matched with individual minority businesses with an assessment and one-on-one help to position such businesses for a grant or loan. Commerce also supports the Philadelphia Business Lending Network (PBLN), which simplifies the process for businesses applying for loans. This service provides access to nonprofit and for-profit lenders with one form.

Second, the City drives commercial corridor revitalization through support of local management organizations such as business improvement districts (BIDs), community development corporations (CDCs), and business associations. More information about BIDs and CDCs can be found in the following section. The City currently provides funding to 48 organizations through corridor management, a CDC Tax Credit Program, and/or CDC Economic Development Support Grants. These community-based staff help neighborhood businesses take advantage of programs and resources, as well as attract new businesses to vacant properties and storefronts. For the targeted corridors that do not have a caretaker, the Commerce Department provides Business Services Managers that perform that role and work to build local capacity so the City has a partner to support businesses. The City also provides funding to neighborhood nonprofits for acquisition and construction of commercial and mixed-use properties to remove blight and encourage commercial development.

Third, the City invests in the public environment. It supports Business Improvement Districts (BIDs) and manages the \$10 million PHL Taking Care of Business (PHL TCB) Clean Corridors Program, which provides sidewalk cleaning on 85 corridors around the City. The City provides funding and design support to reimburse businesses for improvements to their storefronts, including lighting, signage, windows, and for installation of security camera systems. Lastly, the City manages streetscape improvement projects and funds other capital investments like bus shelters, Bigbelly waste control, and police cameras.

### **City and Quasi-City Economic Development Agencies**

#### *City of Philadelphia - Department of Commerce ("Commerce")*

The mission of the Department of Commerce is to help all businesses thrive by growing quality jobs, building capacity in under-resourced communities, and making it easier to start and run a successful business in Philadelphia. Commerce focuses on the following strategic priorities and investments:

- Provide trusted guidance and a simplified process to establish, grow, and operate a business;
- Drive equitable neighborhood revitalization that contributes to vibrant commercial corridors;
- Attract and retain businesses through business resources and strategic investments;
- Connect talent to growth industries and to jobs that pay family-sustaining wages;
- Bolster equitable access to capital and contracting opportunities for people who have been historically underserved; and

- Leverage partnerships and research to drive policy and strategy.

*City of Philadelphia - Department of Planning and Development (“DPD”)*

The Department of Planning and Development (DPD) aligns the City’s agencies whose missions relate to regulating the built environment and allocating resources to support the development of housing and investment into communities. DPD works in collaboration with communities to promote, plan, preserve, and develop successful neighborhoods. DPD includes the Division of Housing and Community Development (DHCD); Division of Planning and Zoning (DPZ); and Division of Development Services (DS). DPD works closely with the Philadelphia Housing Development Corporation (PHDC), the City’s full-service community development organization. DS guides ambitious development projects from concept to completion. DPZ promotes development of healthy, equitable, and resilient communities through its boards and commissions: Philadelphia City Planning Commission (PCPC), Philadelphia Historical Commission (PHC), Philadelphia Art Commission (AC), and Zoning Board of Adjustment (ZBA). DHCD leads the City’s efforts to address the ongoing national housing crisis in Philadelphia by financing and facilitating housing construction and housing renovation, improving and adapting individual homes and advancing neighborhood quality of life improvements. DHCD, formerly known as the Office of Housing and Community Development and now part of DPD, manages planning, policy, and investment in low-income housing through several assistance programs. Most significantly, the DHCD creates and manages implementation of the Consolidated Plan, a federally-mandated plan and budget that must be updated yearly in order to receive federal Community Development Block Grant funding.

*Philadelphia Housing Authority (“PHA”)*

PHA is funded primarily by the federal government and is the largest landlord in Pennsylvania. PHA develops, acquires, leases, and operates affordable housing for City residents with limited incomes. PHA works in partnership with the City and Commonwealth governments, as well as private investors. Over 93% of PHA’s annual budget is funded directly or indirectly by the U.S. Department of Housing and Urban Development, and most of the balance of PHA’s budget is derived from resident rent payments. Neither PHA’s funds nor its assets are available to pay City expenses, debts, or other obligations, and the City has no power to tax PHA or its property. Neither the City’s funds nor its assets are subject to claims for the expenses, debts, or other obligations of PHA.

*Philadelphia Housing Development Corporation (“PHDC”)*

PHDC is a 30-year-old, full-service community, and economic development entity with an annual program budget of more than \$60 million and \$23 million for operations. It works to build stronger communities by creating and preserving affordable housing, supporting economic development projects, and redeveloping vacant land and properties throughout the City.

PHDC staffs the PLB (as defined herein) and the PRA boards and functions. All land management, community investment functions, and housing improvement programs now operate under one leadership team at PHDC. PHDC’s Home Improvement programs serve approximately 5,000 people annually and help to stabilize over 100 small businesses. Under a contract with the DPD, from Fiscal Years 2020 through 2022, \$65.5 million in PHDC financing leveraged funding for 1,313 units at 26 developments.

PHDC also supports the Philly First Home Program, providing grants of up to \$10,000 to low and middle-income first-time home buyers. To date, such program has supported over 3,700 residents in home purchases and has led to approximately \$600 million in mortgages from banking institutions.

PHDC is continuing to expand homeownership opportunities by leveraging the land acquired by the PLB to support private developers to build 100 new homes on these parcels. In Fiscal Year 2022, PLB disposed of 70 parcels, on which 203 housing units were built and title to 27 side yards/gardens was transferred. Such parcels also support four economic development projects.

*Philadelphia Land Bank (“PLB”)*

Established in 2013, the PLB is an institutional partner in land use. The aim of the PLB is to consolidate many of the land acquisition and disposition processes of the City under one umbrella, making it easier for private individuals and organizations to acquire properties that otherwise contribute to neighborhood disinvestment and turn them into assets for the community in which they are located. The PLB can: (i) consolidate properties owned by multiple public agencies into single ownership to speed property transfers to new, private owners; (ii) acquire tax-delinquent properties through purchase or by bidding the City’s lien interests at a tax foreclosure; (iii) with consent of the City, clear the title to those properties so new owners are not burdened by old liens; and (iv) assist in the assemblage and disposition of land for community, non-profit, and for-profit uses.

Another PLB responsibility is to develop a strategic plan for vacant land in Philadelphia. In the PLB’s 2019 update to its strategic plan, certain key achievements were highlighted, including, among other things, (i) an increase in acquisitions (up from 21 in Fiscal Year 2017 to 276 in Fiscal Year 2018 and 463 through the second quarter of Fiscal Year 2019); (ii) an increase in dispositions (up from 18 properties conveyed in Fiscal Year 2017 to 78 conveyed in Fiscal Year 2018 and 132 properties conveyed through the second quarter of Fiscal Year 2019); [and (iii) formalizing the process for executing license agreements.

*Philadelphia Industrial Development Corporation (“PIDC”)*

Established as a public-private partnership in 1958 by the City and the business community, PIDC is a non-profit organization that offers flexible financing tools, a targeted portfolio of industrial and commercial real estate, and expertise to help clients invest, develop, and grow in Philadelphia. PIDC also structures and invests in public-private partnerships for key City policy areas and development priorities. Over the past 65+ years, PIDC and its affiliates have settled over 13,000 transactions, including more than \$19 billion in financing that has leveraged tens of billions of dollars of total investment and assisted in creating and retaining hundreds of thousands of jobs in Philadelphia. Its direct loan and managed third-party portfolio at year-end 2023 was more than \$407 million, representing 598 loans.

PIDC is in the process of selecting a development partner to shape the next phase of growth and development on Philadelphia’s Schuylkill River with a landmark development opportunity for up to one million square feet of state-of-the-art cell and gene therapy manufacturing. The development opportunity, marketed as the Lower Schuylkill Biotech Campus, is offering exclusive development rights across approximately 40 riverfront acres between two riverfront sites. The Lower Schuylkill Biotech Campus will be an integral component of the Lower Schuylkill Innovation District, which was an outcome of a City-led master planning process to transform a deteriorating 3,700-acre industrial corridor into modern business campuses for innovation. The district consists of a total of 75 acres of sites suitable for biotech companies at every stage of development. The district also provides streamlined connections to I-95, I-76 and the Philadelphia International Airport. Once completed, the Lower Schuylkill Biotech Campus development is poised to create up to 2,800 jobs, including positions across the economic ladder accessible to area residents and offering family-sustaining wages.

In 2023 (and continuing in 2024), PIDC and its developer partners continued to implement the updated Navy Yard master plan released in summer 2022, which details a comprehensive vision for the

Navy Yard that incorporates development that has occurred to date, integrates and refines future development plans, and charts an innovative course for public realm, transportation, infrastructure, and sustainability in the Navy Yard's next stage of growth. The plan calls for a total of over 4.3 million square feet of new construction and adaptive reuse supporting commercial and life sciences development, complemented with retail, hospitality, additional welcoming open spaces, expanded transit options, and – for the first time since the military base closure – residential units. In fall 2023, PIDC broke ground on the \$285 million Chapel Block residential project which will bring 614 units (including 91 affordable units) and residents to the Navy Yard for the first time in decades. This project includes a \$100 million MBE-led equity investment by Basis Investment Group. Also, the Navy Yard Skills Initiative, a workforce training and development partnership between PIDC and the West Philadelphia Skills Initiative, marked a milestone in 2023 by connecting the 100th Philadelphian to full-time employment. This program continues to create equitable access to meaningful career opportunities in one of the region's fastest growing sectors by lowering the barrier of entry.

After a \$22 million reconstruction project to rebuild Broad Street at the Navy Yard, improvements will continue throughout 2024 with enhancements to a two-way bike lane, a new scenic pedestrian plaza overlooking the Reserve Basin, and new street landscaping to beautify the space. This project was a critical step in restoring safe, multimodal access to the Navy Yard for its 150 companies, more than 15,000 employees, and thousands of annual visitors, while also advancing PIDC's \$6 billion equitable redevelopment partnership that, at full buildout, is expected to generate over 12,000 additional quality jobs over the next 20 years. PIDC continues to work on this long-term plan for the Navy Yard, which has a comprehensive approach to equity in all aspects of the plan.

#### *Philadelphia Redevelopment Authority (“PRA”)*

In 1945, the Commonwealth enacted the Urban Renewal Law and created the PRA as the City's urban renewal agency. Today, the PRA continues its role as a key financier, project manager, leader, and expert of developing and maintaining land in the City. The PRA is one of five municipal land holding agencies. Its Real Estate Division facilitates the redevelopment of PRA assets, and it provides project management and analysis for real estate sales, acquisitions, redeveloper agreements, developer submissions, and required approvals. PHDC leads the underwriting and loan closing process for all affordable housing projects within the City and works primarily with non-profit and for-profit developers as a lender.

#### *Philadelphia Works, Inc. (“PhilaWorks”)*

PhilaWorks is the City of Philadelphia's designated workforce development board and a 501(c)(3) non-profit organization. PhilaWorks invests in solutions and services that support the growth of Philadelphia's economy by connecting employers to workforce talent and career seekers to employment and training opportunities. Additionally, PhilaWorks influences the public policies that support economic growth throughout the region and optimizes funding and resources to invest in solutions that build a skilled and thriving workforce.

PhilaWorks manages the City's public workforce system, PA CareerLink® Philadelphia, and a network of youth workforce providers. The system offers skills gap training/upskilling, long-term career planning, and tech talent solutions for career seekers and talent pipeline development, subsidized wage programs, and tax incentives for employers. Annually, PhilaWorks engages approximately 60,000 local career seekers through in-person and online services, another 200,000 via direct outreach, and more than 2,000 businesses. PhilaWorks receives approximately \$70 million in state and federal investments to administer these services. This money is divided between WIOA (Workforce Innovation and Opportunity Act) and TANF (Temporary Assistance for Needy Families) funds.

In 2022, PhilaWorks secured \$22.7 million from the Economic Development Administration’s (EDA) Good Jobs Challenge to accelerate equitable recovery and targeted growth in Healthcare & Life Sciences, Energy, and Infrastructure over the next 24-36 months.

*Rebuilding Community Infrastructure Program (“Rebuild”)*

The Rebuild program, using funds from the Philadelphia Beverage Tax (see “REVENUES OF THE CITY – Other Taxes”), will invest hundreds of millions of dollars in Philadelphia’s parks, recreation centers, and libraries over a seven-year period. Rebuild prioritizes sites in high-need neighborhoods, as well as sites that are in extremely poor condition. This program is intended to catalyze economic development in some of Philadelphia’s most impoverished communities and neighborhoods. Rebuild is not only committed to making transformative capital improvements in neighborhood public and shared spaces but will also strive to build capacity and opportunities for minority and women-owned businesses and job opportunities for local residents. The Rebuild initiative will complete 72 playground and rec center projects. In 2024, the Rebuild program will have \$100 million of construction underway, with over 20 groundbreaking and ribbon cuttings planned.

**Private and Nonprofit Economic Development Agencies**

*Local Chambers of Commerce (“Chambers”)*

The City of Philadelphia partners with multiple chambers representing the county and region. In 2021, a collective of local diverse chambers of commerce announced the Diverse Chambers Coalition of Philadelphia as a formal partnership to collaboratively facilitate entrepreneurship and growth, advocate on shared issues, and increase each member’s organizational efficiency. The Diverse Chambers Coalition comprises the African American Chamber of Commerce of Pennsylvania, New Jersey, and Delaware; the Asian American Chamber of Commerce of Greater Philadelphia; the Greater Philadelphia Hispanic Chamber of Commerce; and the Independence Business Alliance (Greater Philadelphia’s LGBTQ+ chamber of commerce. A similar partnership, called the Inclusive Growth Coalition, comprises these organizations as well as the Greater Philadelphia Chamber of Commerce. The Greater Philadelphia Chamber of Commerce leads the region’s business advocacy and business and talent attraction efforts, which include Select Greater Philadelphia.

Additional chambers in Philadelphia include the Greater Northeast Philadelphia Chamber of Commerce, British American Business Council, French American Chamber of Commerce, German American Chamber of Commerce, Irish American Business Chamber & Network, Philadelphia Israel Chamber of Commerce, and the Center City Business Association.

*Business Improvement Districts (“BIDs”)*

Since the founding of the Center City District (CCD) in 1990, BIDs have been important partners in the economic development of Philadelphia. BIDs are local organizations that are organized by property owners and businesses to cooperatively fund services within their local area. BIDs are formed when these stakeholders create a plan and secure approval through City Council which enables BIDs to collect a mandatory annual BID assessment from property owners in the area receiving the BID services. Philadelphia has 15 BIDs, including the North Broad Business Improvement District which was approved in November 2022. BIDs typically provide cleaning and beautification services, and market their districts and host special events to attract shoppers to the area. BIDs are important advocates for the businesses located in their areas. BID staff are important partners to the City in making sure that neighborhood businesses are aware of local programs and other business development resources.

The Philadelphia BID Alliance, formed in 2020, is a citywide association of the 15 BIDs and aligned organizations. It is a venue for sharing best practices among BID staff and advocates for BIDs and the interests of the businesses their organizations support.

#### *Community Development Corporations (“CDCs”)*

Philadelphia has more than 40 non-profit CDCs, that invest resources in managing a neighborhood commercial corridor. CDCs work to keep commercial areas safe, free of litter, and attractive. They strive to bring visitors and shoppers to support local economies and create opportunities for local entrepreneurs and small businesses that seek a brick-and-mortar space from which to operate. CDC staff, including the position of “commercial corridor manager” or “business district manager,” are often the most visible faces working to build trust with business owners, respond to their concerns, and help them grow and succeed in business.

Philadelphia offers various grant and partnership programs to support the work of these important community partners, including the CDC Tax Credit and Economic Development Support grants, the Targeted Commercial Corridor Management Program, and partnership with the Philadelphia Association of CDCs and Local Initiatives Support Corporation (LISC) Philadelphia for capacity-building and staff training programs. The City also has a CDC Tax Credit program that allows businesses to support local CDCs in exchange for a one-to-one tax credit. Through this program and its accompanying CDC Economic Development Support Grant, the City provides operating support to 47 community based nonprofit organizations that perform economic development activities.

Within these programs, economic development activities are defined as business support services such as assistance in navigating City business processes, accessing grants and financing, connecting to technical assistance providers, and supporting business associations, as well as undertaking planning and commercial development projects that improve access to high-quality, culturally relevant goods and services in all neighborhoods of the City.

#### *Visit Philadelphia*

Established in 1996, Visit Philadelphia markets Philadelphia domestically, as well as in Canada and Mexico, to promote leisure travel. The organization utilizes robust campaigns, media relations, advertising, websites, and social media to promote tourism. According to the Visit Philly 2021 Annual Report, of the 2 million rooms consumed, demand was greatest among leisure visitors, who were projected to lead the travel industry’s recovery. Center City hotels saw actuals above projections in all key metrics: occupancy, average daily rate, RevPAR, supply and demand, and revenue, putting them on track to make an even greater recovery in 2023. Tourism Economics projects that both Center City and Philadelphia County broadly are expected to surpass pre-pandemic hotel revenue in 2023.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]



*Philadelphia Convention & Visitors Bureau (“PHLCVB”)*

Established in 1941, the Philadelphia Convention and Visitors Bureau (PHLCVB) is a private, nonprofit corporation that serves as the official tourism promotion agency for the City to overseas markets, as well as the primary sales and marketing agency for the Pennsylvania Convention Center. PHLCVB also books domestic group tours. PHLCVB markets Philadelphia broadly to attract overnight visitors through innovative content such as advertising, marketing, public relations, and digital campaigns. In 2023, PHLCVB had 20 citywide events on the books – gatherings that generate 2,000 or more hotel room stays on its peak night.

The Philadelphia Convention Center (the “Convention Center”) was completed in 1993, providing a total of 624,000 square feet of saleable space across its four exhibit halls, ballroom and banquet spaces. In 2023, the Pennsylvania Convention Center held 264 events with 550,136 attendees.

*Pennsylvania Community Development Financial Institution Network (“PA CDFI Network”)*

Founded in 1997, the PA CDFI Network is a statewide collective of mission-driven community development financial institutions (CDFI) that provide affordable loans and technical advisory services to companies unable to access financing through traditional channels. Most financing services are directed to small businesses serving lower-income neighborhoods. The network seeks to build the capacity and expand the reach of its CDFI members, individually and collectively, to serve all people and places across Pennsylvania. In order to do this, the Network educates Pennsylvania residents, businesses and legislators about the purpose and function of CDFIs in promoting equitable community development. In 2022, local CDFIs also secured a \$100 million commitment through an emerging bank-led Greater Philadelphia Financial Services Leadership Coalition to further support Philadelphia’s Black and Latino(a)-owned businesses. These collaborations present a promising model to create systematic supports for the City’s small businesses and showcase the potential for future collaborations across the entrepreneurship ecosystem.

CDFIs are certified by the Community Development Financial Institutions Fund at the U.S. Department of the Treasury, which provides funds to CDFIs through a variety of programs.

*Entrepreneurship Ecosystem*

Philadelphia has a legacy of community and small business development supported by many nonprofit organizations and government-supported endeavors. The City was the original headquarters of the Opportunity Finance Network and is home to unique public-private partnerships like PIDC and Ben Franklin Technology Partners. In 2021, United Way of Greater Philadelphia and Southern New Jersey, in partnership with the City and PIDC, issued an Equitable Entrepreneurship Ecosystem Assessment and Strategy that is guiding future investments. The strategy reflects the multitude of nonprofits actively supporting entrepreneurs in Philadelphia. These organizations continue to convene and collaborate in quarterly meetings. The Business Resource Convening brings together business service nonprofit organizations to network and tackle barriers to equitable entrepreneurship. The Philadelphia Business Lending Network also convenes private banks and nonprofit lenders that collaborate around improved access to capital.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## **CULTURE, TOURISM, AND AMENITIES**

### **Museum and Attractions**

Crucial to tourism is the City's robust arts and culture sector. One in three tourists who come to Center City cites museums and cultural events as the primary reason for their visit. Top attractions include Independence National Park, the Philadelphia Museum of Art, the Philadelphia Zoo, Reading Terminal Market, the Franklin Institute, Eastern State Penitentiary, and Franklin Square, among others.

Philadelphia is considered the "mural capital of the world" and provides the largest collection of public art in the U.S. The Benjamin Franklin Parkway (also called the "Parkway" or the "Museum Mile") alone comprises renowned art and cultural sites, such as Love Park, the Philadelphia Museum of Art, the Rodin Museum, the Franklin Institute, The Barnes Foundation, the Free Library of Philadelphia, the Academy of Natural Sciences, and numerous pieces of public art. In 2021, over \$230 million in renovations were completed at the Philadelphia Museum of Art, opening 90,000 square feet of new public space. The Franklin Institute's space exhibit is currently under construction to expand to about 7,000 square feet, which is almost three times its current size. The \$8 million project was opened in November 2023. In addition, a new \$70 million museum, Calder Gardens, is being constructed and is scheduled to open in 2025. Over the next several years, the African American Museum in Philadelphia is also expected to move to a new location on the Parkway.

Organizations like the Philadelphia Museum of Art, the Kimmel Center, Pennsylvania Academy of the Fine Arts, Fringe Arts, and more than 490 smaller cultural organizations throughout the City help improve the quality of life for residents and visitors. Philadelphia's downtown arts and cultural organizations, the second largest concentration in the country, were challenged by the pandemic, but adapted with virtual programming and outdoor performances, and are now rapidly recovering. Philadelphia was recently named one of 11 cities around the world that are home to "Must-See Public Art," per Travel + Leisure's 2022 list, which cites iconic sculptures such as LOVE and Rocky, as well as the work done by Mural Arts Philadelphia and the Association for Public Art.

### **Sports**

Another key element of Philadelphia's hospitality industry is professional sports. Philadelphia is the only city to have a professional hockey, basketball, baseball, and football team playing in a single district, the Sports Complex Special Services District, created by the City in 2000. Over the next five years, Philadelphia will host several of the world's biggest sporting events, including six NCAA Championships and WrestleMania 40 in 2024, as well as the PGA Championship (to be held within the greater metropolitan area), Major League Baseball All-Star Game, FIFA World Cup in 2026, the Penn Relays, and Big 5 Basketball (University of Pennsylvania, La Salle University, Saint Joseph's University, Temple University, Villanova University, and Drexel University (added 2023-2024)). The Army-Navy Game will return in 2027.

Within the greater metropolitan area, the Philadelphia Union of Major League Soccer play their home games (at Subaru Park in Chester, Pennsylvania, next to the Commodore Barry Bridge on the waterfront along the Delaware River).

The South Philadelphia Sports Complex houses three professional sports facilities: The Wells Fargo Center opened in 1996 and is home to the Philadelphia Flyers (National Hockey League) and Philadelphia 76ers (National Basketball Association); Lincoln Financial Field opened in 2003 and is home to the Philadelphia Eagles (National Football League); and Citizens Bank Park opened in 2004 and is home to the Philadelphia Phillies (Major League Baseball). The Phillies and the Eagles are

contractually obligated to play in Philadelphia until 2033 and 2034, respectively. The 76ers have announced plans for a new arena in Center City on the site of Fashion District Philadelphia. Early plans indicate that the arena is expected to be privately funded by team owners and development partners and open in 2031. Within the South Philadelphia Sports Complex is Xfinity Live!, a sports entertainment and dining complex. For information on casino development in the City and in the area near Xfinity Live!, see “ECONOMIC DEVELOPMENT STRATEGIES AND IMPLEMENTATION – Casinos” herein.

The Phillies and Comcast Spectacor, which owns the Philadelphia Flyers, have announced joint efforts to transform the South Philadelphia Sports Complex. The plans include two phases – (i) phase one would include upgrades to Xfinity Live!, and the addition of a mid-sized concert venue, a hotel, new retail shops, and an outdoor plaza to the South Philadelphia Sports Complex between Pattison Avenue and the Wells Fargo Center, and (ii) phase two would include additional development around the Wells Fargo Center, expand the outdoor plaza to Citizens Bank Park, and add another hotel, residential units, an office space, and additional restaurants, retail shops, and green space.

In 2021, Philadelphia opened The Block, the nation’s first esports campus spanning 40,000 square feet. Located in Center City, The Block is also home to Localhost, a dedicated esports arena, which is accessible to the public for hourly gameplay and hosts local and national, amateur and professional esports events.

### **Music, Theater, and Dance**

Considered to be one of the top theater cities in the U.S. with the oldest theater in America built in 1809, Philadelphia continues to entertain audiences centuries later with theatre, musicals, shows, orchestras and operas. Theaters and performing arts institutions include the Philadelphia Orchestra, Opera Philadelphia, Kimmel Center for Performing Arts, Walnut Street Theater, Philadelphia Ballet, Penn Live Arts, Philadelphia Theater Company, Curtis Institute of Music, Academy of Music, and more.

As aforementioned, music is key to Philadelphia’s creative economy. Prominent concert venues include the Met, the Fillmore, Theater of the Living Arts (TLA), Wells Fargo Center, Union Transfer, Franklin Music Hall, World Café Live, the Pennsylvania Convention Center, in addition to numerous local music bars, clubs, coffee houses, and smaller live music venues. Philadelphia has hosted multiple annual music festivals such as Jay Z’s Made in America, the Roots Picnic, the Philadelphia Folk Festival, and HiJinx. Millennials cite the Philadelphia music scene as one of their primary reasons for permanently moving into the City and making it their home.

Philadelphia Ballet broke ground in September 2022 to expand its home on North Broad Street, the Philadelphia Ballet Center for Dance. The five-story center will feature, among other things, new rehearsal studios, administrative offices, a black box performance space, innovation and rehearsal space, new spaces for community programs and events. The transformative renovation and expansion will add 43,000 square feet to the company’s existing building.

### **Historic District**

Key to the City’s leisure and hospitality growth is the maintenance and investment in the City’s extraordinary historic assets. Philadelphia has 67 National Historical Landmarks in what’s called the nation’s “most historic square mile.” As the birthplace of the country, Philadelphia remains a major tourist destination year-round, particularly the City’s Historic District in Old City, which includes various museums and cultural centers, as well as such national treasures as the Liberty Bell, Independence Hall, Carpenters’ Hall, the Betsy Ross House and Elfreth’s Alley, the oldest residential street in the U.S. The City continues to invest in the maintenance and expansion of the Historic District’s tourist experience.

Old City is home to some of the country's oldest historical assets. Independence National Historical Park is an international destination, attracting 4.8 million visitors annually. Important culturally and economically, Old City is also home to world-class museums, theaters and art galleries. The neighborhood offers excellent hotels, a wide range of dining and nightlife establishments, independent retailers, public parks, and a diverse mix of technology, media, professional, and service organizations. Some 5,200 residents live in Old City's historic townhouses, industrial loft apartments, and new condominium properties. Old City is located within a Keystone Innovation Zone, meaning that technology, energy, and life sciences businesses may be eligible for up to \$100,000 in Commonwealth tax credits.

Old City District ("OCD") is a business improvement district that promotes the area and fosters economic development locally. OCD helps companies find suitable real estate and actively promotes the sector to attract businesses. Over the last few years, technology and creative businesses have established an increasingly important presence in the area.

## **Retail Market**

For two decades, Philadelphia has steadily diversified downtown land use creating a broad retail customer base that includes workers, tourists, regional customers and a downtown population that is the third largest in the U.S. Staple downtown shopping destinations include Rittenhouse Square, Shops at Liberty Place, University Square, and Fashion District in Market East. During the winter holidays, Center City also opens Christmas Village and the Made in Philadelphia Holiday Market.

Center City's vibrant sidewalks offer customers the ability to discover a mix of local and regional retailers and restaurants. Downtown foot traffic recovery also outpaced other large cities including New York, Boston, and San Francisco. Downtown retail has proven resilient, with vacancy declining and brokers reporting an uptick in tenant interest and leasing activity. More than 235 new retailers, restaurants and service-oriented businesses have opened in Center City since 2020, with 80 signed leases in 2023. In 2023, Center City's occupancy rate was 84.5%, nearing the pre-pandemic level of 89%. Retail brokers have also reported continued tenant inquiries, tours, and active lease negotiations.

Market East, an important commercial area between City Hall and the City's Historic District is experiencing significant development. In late 2019, Fashion District Philadelphia (formerly the Gallery mall) opened to the public. A \$420 million redevelopment project, the Fashion District is a unique retail development offering fashion, dining, entertainment, and arts and culture. The revitalization of this section of the City, also considered a major transport hub, is expected to be transformative. As of 2023, the Philadelphia 76ers propose to build a brand-new basketball arena in the Fashion District after the lease of the current South Philadelphia location expires in 2031. The new arena, to be called 76 Place at Market East, would also host concerts. It is being developed by 76 Devcorp and Mosaic Development Partners, a Philadelphia-based real estate development company and certified MBE (Minority Business Enterprise). The team launched a website ([76place.com](http://76place.com)) explaining the proposal.

Philadelphia's more than 300 commercial corridors are vibrant retail hubs in neighborhoods like Old City, the Gayborhood, Midtown Village, Fishtown, Northern Liberties, Germantown, Manayunk, Chinatown, as well as throughout Philadelphia. The City's retail market generates more than \$1 billion in annual retail demand, and such figure is expected to increase as more retail space is currently under construction.

## **Restaurants and Nightlife**

Complementing the rise of retail, the City has experienced a revival of restaurant establishments downtown and in neighborhoods, indicating an improved quality of life and cultural vibrancy in those areas. Center City alone has 422 full-service restaurants and almost a thousand food establishments concentrated downtown. Philadelphia has a nationally recognized dining scene known for international cuisine, over 300 bring-your-own-bottle (BYOB) restaurants, and famous food destinations like Chinatown, the Italian Market, the Southeast Asian Market at FDR Park, and Reading Terminal Market. The latter recently completed a \$1 million “festival street” leveraging 15,000 square feet of public space to add outdoor dining, pop-up retail kiosks, and capacity to hold events. The market is currently open for indoor dining and shopping. In 2023 the Philadelphia received the designation of being the city with the most James Beard Award-winning restaurants, including Friday/Saturday/Sunday, Kayla, and Fork.

One of the silver linings of the COVID-19 pandemic was the growth of “streeteries” that added new vitality to Center City and neighborhood commercial districts, keeping many restaurants active during the most challenging months. During the COVID-19 pandemic, the City offered emergency outdoor dining permits and implemented an open streets initiative in Center City. Parts of certain streets were closed off to traffic and parking to allow restaurants to expand outdoor seating options. In 2022, the City established a permanent outdoor dining program where eligible businesses can apply for a Streeterie or Sidewalk Café license. In 2023, there was a 14% increase in sidewalk café seating, as compared to 2022.

Philadelphia also has a vibrant bar and nightlife scene, known for world class bars and clubs. In 2022, recognizing the need to build Philadelphia’s after dark economy, the City hired a full time Director of the Nighttime Economy. This role is tasked with building Philadelphia into a 24-hour city. The Director of Nighttime Economy conducted a citywide listening tour, resulting in a year in review report on Philadelphia’s night economy. The year in review report assisted in designing programs and provided guidance for opportunities to engage the business community to create a stronger night economy in the City. The Department of Commerce will commission an impact study to provide data of the overall economic impact the City’s night economy has on the City and regional landscape.

## **Casinos**

### *Rivers Casino*

Philadelphia’s first casino, Rivers (formerly SugarHouse), originally opened in September 2010 and underwent a \$15 million rebrand in 2019. One of Philadelphia’s largest employers, Rivers Casino sits on the Delaware River waterfront offering an array of slot machines, table games and dining options. Its operations also include a multi-purpose event space with waterfront views, restaurants, live entertainment, and a parking garage.

### *Cordish Live! Casino*

Live! Casino & Hotel Philadelphia, which opened in January 2021, is a \$700 million world-class hotel, gaming, dining and entertainment destination featuring 2,000+ slot machines and 150+ live action table games, an upscale 200+ room hotel, a new 2,700-space parking garage, locally and nationally-recognized restaurants and live entertainment venues. The project is located in the heart of the Stadium District in South Philadelphia, immediately proximate to Xfinity Live!, The Cordish Companies’ premier dining and entertainment district. The project creates the first comprehensive gaming, resort, entertainment, and sports destination in the United States, making it a true regional destination.

## Waterfront Developments

Taking advantage of the City's geographic assets, the Schuylkill River and the Delaware River, the City is redeveloping its waterfront to accommodate a variety of developments, including mixed-use projects and housing, parks and recreational trails, and hotels. These projects improve quality of life for residents and improve the visitor experience, but also are an impetus for environmental remediation and private development of former industrial property within the City.

### *Delaware River Waterfront Corporation ("DRWC")*

The Delaware River has historically been a center of activity, industry, and commerce, bounded at its north and south ends by active port facilities. The City adopted a Master Plan for the central Delaware River in 2011. DRWC, in partnership with the City, is a nonprofit corporation that works to transform the central Delaware River waterfront into a vibrant destination for recreational, cultural, and commercial activities. Over the last 10 years, DRWC has successfully opened four adaptive reuse park projects built on former pier structures, including the expansive Delaware River Trail in 2022 and the newly renovated Cherry Street Pier in 2018. DRWC has several development projects underway, such as Graffiti Pier, the South Wetlands Park, and the Park at Penn's Landing, which will include the creation of a cap over I-95 and connect Old City Philadelphia with the Delaware River. The proposed 11-acre, multimillion-dollar park project is in the planning stages. Construction of the park began in early 2023 and is scheduled to be completed in 2028. DRWC, the City, and the Commonwealth have also partnered to redevelop Penn's Landing, a major public space along the Delaware River waterfront. The resulting civic space will leverage investment from private sources for the redevelopment of the adjoining parcels. The City's contribution to this project is \$80 million (\$60 million toward the park/topside amenities and \$20 million toward the Schuylkill River Trail). The project is expected to generate approximately \$1.6 billion of new revenues benefiting the City, School District, and Commonwealth. Potential future development includes two parcels that could bring 1,500 new housing units, 500 hotel rooms, and over 100,000 square feet of retail, dining, and entertainment to the waterfront.

### *Schuylkill River Development Corporation ("SRDC")*

Redevelopment along the Schuylkill River is managed by a partnership among SRDC, the Department of Parks & Recreation, and the Department of Commerce. SRDC works with federal, Commonwealth, City, and private agencies to coordinate, plan and implement economic, recreational, environmental and cultural improvements, and tourism initiatives on the Schuylkill River. From 1992 to 2017, \$70 million was invested by SRDC, the City, and partners along the tidal Schuylkill to create 3.65 miles of riverfront trails within 30 acres of premiere park space in the heart of the City, and has added amenities to the Schuylkill River Park such as floating docks, fishing piers, a composting toilet, and architectural bridge lighting. SRDC continues to work towards meeting its goal of creating and maintaining trails and green space along the tidal Schuylkill River in Philadelphia, such as the Christian to Crescent Connection. This trail section will connect neighborhoods on both sides of the Schuylkill River to a vast existing network of parks and trails, including the Schuylkill River trail, Fairmount Park, and the regional network of recreational trails and related facilities known as the Circuit. It will also provide those neighborhoods with a direct pedestrian and bicycle route to Center City's jobs and services. In addition, it will help complete Philadelphia's segment of the East Coast Greenway.

SRDC also worked with the City to extend Schuylkill Banks to 61st Street. The project included the construction of approximately 1,800 feet of trail, shoreline stabilization, constructing stormwater infiltration basins, planting approximately 125 trees, restoring approximately 1.6 acres of degraded industrial land, as well as constructing an overlook, and a fishing plaza. This project is the first phase of a larger trail extension project. Bartram's to 61st Street was completed in 2021. Bartam's Mile Fishing Pier

was also rehabilitated in 2022. Work is underway on the Schuylkill Crossing at Grays Ferry and the Christian to Crescent Connector trail segment. Plans continue for the 61st Street to Passyunk trail segment, bringing the City closer to installing a trail and greenway with vital riverfront access along the entire tidal Schuylkill. Since 2005, Philadelphia has benefitted from more than \$1 billion in development along the Schuylkill River, with more planned by private developers, universities, and healthcare institutions.

## TRANSPORTATION

### Public Transportation

COVID. The COVID-19 pandemic has had an unprecedented impact on the City’s transit system. On an average day before COVID-19, people in the Philadelphia region made over a million trips on public transit to access jobs, shopping, medical appointments, school, and many other destinations. During the pandemic, transit ridership hit historically low levels in the City.

Transit ridership in Philadelphia is recovering, with ridership back to approximately 55% of its pre-COVID-19 levels. Public spending, including investments in transit, has recovered since the pandemic and the Bipartisan Infrastructure Law (described below) is expected to also increase spending on transit and transportation.

Bipartisan Infrastructure Law. The federal Bipartisan Infrastructure Law, as enacted in the Infrastructure Investment and Jobs Act, provides unprecedented funding levels for infrastructure upgrades to not only the City, but also SEPTA, PennDOT, AMTRAK, and the Port of Philadelphia. The City estimates over \$700 million in federal funding to be available through this program, in addition to approximately \$180 million in State funds for infrastructure projects. The City has already been awarded over \$300 million in formula and discretionary funding as of April of 2024.

General. The residents of the City and surrounding counties are served by a commuter transportation system operated by SEPTA. This system includes two subway lines, a network of buses and trolleys, and a commuter rail network joining Center City and other areas of the City to PHL (as defined herein) and to the surrounding counties. For more information on SEPTA, see “– Southeastern Pennsylvania Transportation Authority” and APPENDIX C – “EXPENDITURES OF THE CITY – City Payments to Southeastern Pennsylvania Transportation Authority (SEPTA).”

A high-speed train line runs from southern New Jersey to Center City and is operated by the Port Authority Transit Corporation (“PATCO”), a subsidiary of the Delaware River Port Authority. On the average pre-COVID-19 weekday, PATCO brings approximately 30,000 riders to Philadelphia.

New Jersey Transit operates 16 different bus routes that serve Philadelphia, as well as the Atlantic City Train Line, which terminates in Philadelphia. In Fiscal Year 2023, there were almost 3 million passenger trips on these bus lines. There were also 500,000 passenger trips on the Atlantic City Line in the same period.

AMTRAK, SEPTA, Norfolk Southern, CSX Transportation, Conrail and the Canadian Pacific provide inter-city commuter and freight rail services connecting the City to other major cities and markets in the United States. According to Amtrak, Philadelphia’s 30th Street Station is the third busiest station in the United States. Amtrak provides direct service along the Northeast corridor to destinations such as New York, Trenton, Wilmington, Baltimore, and DC, and well as service along the Keystone line to Harrisburg and Lancaster, plus several long-distance routes to other national locations.

Philadelphia's 30th Street Station is undergoing a large-scale restoration and renovation project, which is expected to enhance the station's functionality and improve the customer experience for Amtrak, SEPTA, and NJ TRANSIT customers. Improvements at the Market Street Plaza, with expanded retail offerings and other benefits to the local community, are part of the project. The project is also part of a larger development project and part of the Philadelphia 30th Street Station District Plan.

Center City, the City's downtown core, is one of the most accessible downtown areas in the nation with respect to highway transportation by virtue of Interstate 95 ("I-95"); Interstate 676 (the "Vine Street Expressway"), running east-to-west through the CBD between Interstate 76 (the "Schuylkill Expressway") and I-95; and Interstate 476 (the "Blue Route") in suburban Delaware and Montgomery Counties, which connects the Pennsylvania Turnpike and I-95 and connects to the Schuylkill Expressway, which runs to Center City. In addition, more than 100 truck lines serve the Philadelphia area.

The City is served within City limits by numerous private buses and shuttles. These buses and shuttles are operated by apartment complexes, universities, and private companies. These buses and shuttles connect Philadelphians to transit hubs, employment, and residences. A rail line reaches PHL in less than 20 minutes from the City's central business district and connects directly with the commuter rail network and the Pennsylvania Convention Center.

Philadelphia launched the Indego bike share program, sponsored by Independence Blue Cross, in April 2015. The system launched with 600 bicycles and 70 stations in central Philadelphia and the surrounding neighborhoods. Since that time, it has more than doubled in size to a network of 200 stations spanning from East Falls to the Navy Yard, and from the Delaware River to 53rd street. Indego was launched with racial and economic equity as a core value. The program has led the nation in a number of key metrics on social equity – first system with an integrated low-income pass option, first to develop connections with communities through its Indego Community Ambassador program, and as a core member of the Better Bike Share Partnership, a national initiative aimed at understanding and eliminating barriers to use of bike share by underserved populations.

Ridership continues to grow and, as of March 2024, ridership was at 80,000 trips made (a 30% year-over-year increase in ridership over March 2023). This growth is an effect of the concession contract for the operations of Indego. Bicycle Transit Systems, a Philadelphia-based company, which began a 10-year agreement in January 2021 and will fund significant expansion over the coming years. When complete, the system will include more than 350 stations and 3,500 bicycles with a fleet of approximately 50% electric assist bicycles. In 2024, the Indego system has expanded to over 250 stations and 2,000 bikes.

### **Southeastern Pennsylvania Transportation Authority**

SEPTA operates facilities across the PMSA, encompassing approximately 2,200 square miles and serving approximately 4.1 million inhabitants. SEPTA operates service 24 hours a day, seven days a week, 365 days a year. A significant segment of the region relies on SEPTA for public transportation and annual SEPTA ridership totaled more than 292.9 million in Fiscal Year 2019, which dropped to 146.9 million in Fiscal Year 2022.

SEPTA's operations are accounted for in three separate divisions: City Transit; Regional Rail; and Suburban Transit. The City Transit Division serves the City with a network of 89 subway-elevated, light rail, trackless trolley and bus routes, providing approximately 852,000 pre-COVID-19 unlinked passenger trips per weekday. The Regional Rail Division serves the City and the local counties with a network of 13 commuter rail lines providing approximately 120,000 pre-COVID-19 passenger trips per weekday.



SEPTA continues to rehabilitate and replace critical infrastructure and systems, such as substations, bridges, and stations. Its long-term capital program includes (i) safety and security enhancements, (ii) modernization of communication, signal equipment, and fare collection systems, (iii) replacement of rail vehicles that have exceeded their useful life, (iv) enhancing accessibility, (v) expanding capacity to address ridership growth on applicable lines, (vi) expanding its fleet of hybrid buses, and (vii) performing vehicle overhauls to optimize vehicle performance. SEPTA's capital budget for Fiscal Year 2023 is the largest in its history at over \$1 billion dollars. The coordinated SEPTA Forward initiative is guiding the capital spending to ensure strategic alignment, along with bus and regional rail planning initiatives to increase ridership. SEPTA has been aggressive at pursuing federal and State funding for state-of-good-repair and strategic investments.

As part of a two-year pilot program, the City has partnered with SEPTA to provide free SEPTA passes to eligible City employees through the SEPTA Key Advantage Program. All permanent full-time, part-time and provisional City employees are eligible to participate in this program, which gives them access to travel on all modes of SEPTA transit at no cost.

For more information on SEPTA funding, see APPENDIX C – EXPENDITURES OF THE CITY – City Payments to Southeastern Pennsylvania Transportation Authority (SEPTA).”

## **Airport System**

The Airport System serves residents and visitors from a broad geographic area that includes 11 counties within four states: Pennsylvania, New Jersey, Delaware, and Maryland. The Airport System consists of the Philadelphia International Airport (“PHL” or the “Airport”) and Northeast Philadelphia Airport (“PNE”).

### *Philadelphia International Airport*

PHL is classified by the Federal Aviation Administration as a large air traffic hub (enplaning 1.0% or more of the total passengers enplaned in the United States). According to data reported by Airports Council International – North America, PHL was ranked the twenty-second busiest airport in the United States, serving 25.2 million passengers in calendar year 2022. The Airport serves as a primary hub in American Airlines’ route system. PHL is located approximately seven miles from Center City on approximately 2,598 acres.

PHL has four runways, consisting of two parallel runways, a crosswind runway, and a commuter runway, as well as interconnecting taxiways. PHL also has six active cargo facilities, various support buildings, training areas, an air traffic control tower, a fixed-base operator, corporate hangars, a fueling supply facility, and two American Airlines aircraft maintenance hangars.

PHL’s terminal facilities consist of seven terminal units, totaling approximately 3.2 million square feet, which include ticketing areas, passenger and baggage screening areas, passenger hold rooms, baggage claim areas, a variety of food, retail and service establishments, and other support areas. PHL has a 14-story hotel, seven rental car facilities, a cell-phone lot, employee parking lots, five public parking garages, and a first-class office complex.

PHL’s three-year Airport-Airline Use and Lease Agreement (the “Airline Agreement”) with its signatory airlines took effect on July 1, 2023 and includes options for two one-year extensions. The Airline Agreement includes pre-approval of \$935 million in new capital funding to support operations at both PHL and PNE during its term. Funding is expected to be used for state of good repair work,

upgrades throughout PHL’s terminals, cargo program projects, as well as initial funding to support aviation-related development within the former economy parking lot.

Capital Development. The Airport System’s long-term capital program includes (i) terminal and landside improvements, (ii) airfield improvements, (iii) security and information technology improvements, and (iv) land acquisition and ground transportation improvements, among other things.

PHL Passenger and Other Traffic Activity. The total number of passengers served by the Airport in Calendar Year 2023 was 28.1 million, which is an increase of approximately 13% from Calendar Year 2022 passengers of 25.0 million. Domestic passenger traffic increased to 85% of 2019 levels in 2023, a 12% increase from 2022. International passenger traffic continued its steady return as 2023 activity increased by 20% when compared to 2022, bringing international passengers to 89% of 2019 levels. The table below provides key metrics for activity at PHL for Calendar Year 2023 versus Calendar Year 2022.

Activity	Calendar Year		% Change
	through December 2023	through December 2022	
Landed Weight - Revenue (000 lbs.)	18,905,908	17,887,233	5.7%
Operations	294,716	284,141	3.7%
Enplaned Passengers	14,018,006	12,517,464	12.0%
Cargo (Mail + Freight) (Tons)	523,915	625,261	(16.2%) <sup>(1)</sup>

<sup>(1)</sup> Global cargo tonnage continues to decrease. PHL also recently had two cargo operators either reduce service or leave PHL entirely. The United States Postal Service has also announced its reduction in the use of air mail, opting for truck use instead.

*Northeast Philadelphia Airport*

PNE is located approximately ten miles northeast of Center City on approximately 1,118 acres. PNE serves as a reliever airport for PHL and provides for general aviation, air taxi, corporate, and occasional military use. PNE currently has no scheduled commercial service. There are a variety of hangars (corporate and general aviation) at PNE. The Airport System’s long-term capital program includes PNE improvement projects.

**Port of Philadelphia**

The Port of Philadelphia (the “Port”) is located on the Delaware River within the City limits. The Philadelphia Regional Port Authority, recently rebranded as PhilaPort, is an independent Commonwealth of Pennsylvania agency that manages port infrastructure. The Port’s facilities are serviced by two Class I railroads (CSX and Norfolk Southern) and provide service to major eastern Canadian points, as well as Midwestern, southern and southeastern U.S. destinations. Over 1,600 local general freight trucking companies operate in the MSA.

The Port has 11 marine terminal leases and 14 deep water berths. The Port’s facilities encompass four million square feet of warehousing capacity and are located in close proximity to Interstate 95 and Interstate 76.

From 2020 to 2023, the Port has seen vessel and barge traffic increase 15%. During the same period, total cargo has increased 8% to \$6.9 million metric tons. Breakbulk tonnage (cocoa bean bags,

paper rolls) has increased 4% to 1.1 million metric tons. Container volumes have increased 16% to 743,891 TEUs (Twenty Foot Equivalent Units).

In recent years, PhilaPort, along with the U.S. Army Corps of Engineers, completed the Delaware River Main Channel Deepening Project, a long-term project to deepen the main channel of the Delaware River from 40 to 45 feet. To take advantage of the channel deepening project PhilaPort programmed over \$500 million in capital funding to increase port capacity and competitiveness for containers, automobiles and breakbulk cargo.

## **KEY CITY-RELATED SERVICES AND BUSINESSES**

Municipal services provided by the City include: (i) police and fire protection; (ii) health care; (iii) certain welfare programs; (iv) construction and maintenance of local streets, highways, and bridges; (v) trash collection, disposal, and recycling; (vi) provision for recreational programs and facilities; (vii) maintenance and operation of the Water and Wastewater Systems; (viii) acquisition and maintenance of City real and personal property, including vehicles; (ix) maintenance of building codes and regulation of licenses and permits; (x) maintenance of records; (xi) collection of taxes and revenues; (xii) purchase of supplies and equipment; (xiii) construction and maintenance of the Airport System (see “TRANSPORTATION – Airport System”); and (xiv) maintenance of a prison system. Certain of these services are described in more detail below.

### **Water and Wastewater**

The water and wastewater systems of the City are owned by the City and operated by the City’s Water Department (the “Water Department”). The water and wastewater systems are referred to herein individually as the “Water System” and “Wastewater System”, respectively.

The Water System service area includes the City and has one wholesale water service contract. Based on the 2022 U.S. Census Bureau estimate, the Water System served 1,567,258 individuals. As of June 30, 2023, the Water System served approximately 511,000 active customer accounts using approximately 3,200 miles of mains and approximately 25,000 fire hydrants.

The City obtains approximately 56.8% of its water from the Delaware River and the balance from the Schuylkill River. The City is authorized by the Pennsylvania Department of Environmental Protection (the “PaDEP”) to withdraw up to 423 million gallons per day (“MGD”) from the Delaware River and up to 258 MGD from the Schuylkill River.

Water treatment is provided by the Samuel S. Baxter Water Treatment Plant on the Delaware River and by the Belmont and Queen Lane Water Treatment Plants on the Schuylkill River. The combined rated treatment capacity of these plants under the Water Department’s Partnership for Safe Water procedures is 546 MGD. The combined maximum source water withdrawal capacity from the two rivers that supply these plants is 680 MGD. The excess source water capacity enables higher than normal withdrawal from either river should conditions limit withdrawals from one.

The Wastewater System’s service area includes the City and ten wholesale wastewater service contracts. Based on the 2022 U.S. Census Bureau estimate, the Wastewater System served 1,567,258 individuals that live in the City and ten wholesale contracts.

As of June 30, 2023, the Wastewater System served approximately 542,000 accounts, including approximately 46,000 stormwater-only accounts and ten wholesale contracts with neighboring municipalities, authorities and one corporation.

The Wastewater System consists of three water pollution control plants, the Northeast, Southwest and Southeast water pollution control plants (the “WPCPs”), 29 wastewater pumping stations, approximately 3,700 miles of sewers, and a privately managed centralized biosolids handling facility. It includes approximately 1,850 miles of combined sewers, 770 miles of sanitary sewers, 750 miles of stormwater sewers, 16 miles of force mains (sanitary and storm), and 330 miles of appurtenant piping. The three WPCPs processed a combined average of 522 MGD of wastewater in Fiscal Year 2022, have a 783 MGD combined average daily design capacity and a peak capacity of 1,059 MGD.

## **Gas Works**

The City owns the assets that comprise the Philadelphia Gas Works (“PGW” or the “Gas Works”). PGW is (i) the largest municipally-owned gas utility in the nation, (ii) responsible for the acquisition and storage of natural gas, and (iii) the sole distributor of natural gas within the limits of the City. Such limits also define the service area of PGW which, being the corporate limits of the City, is a mostly dense urban area of 143 square miles located in southeast Pennsylvania along the Delaware River and within the smallest county of the Commonwealth.

PGW is principally a gas distribution utility, with a distribution system of approximately 3,041 miles of gas mains and 476,605 service lines. In addition, PGW operates facilities for the liquefaction, storage, and vaporization of natural gas to supplement gas supply taken directly from interstate pipeline and storage companies. The principal PGW natural gas supply facilities include nine City gate stations, owned in large part by the interstate natural gas pipeline companies serving PGW, and two liquefied natural gas plants owned by the City and operated by PGW.

The City Charter provides for a Gas Commission (the “Gas Commission”) to be constituted and appointed in accordance with the provisions of contracts between the City and the operator of PGW as may from time to time be in effect, or, in the absence of a contract, as may be provided by ordinance. The Gas Commission consists of the City Controller, two members appointed by City Council and two members appointed by the Mayor.

PGW’s operations are managed by the Philadelphia Facilities Management Corporation (“PFMC”), a Pennsylvania non-profit corporation specifically organized to manage and operate PGW for the benefit of the City. PFMC’s responsibilities are set forth in a Management Agreement between the City and PFMC dated December 29, 1972, as subsequently amended (“Management Agreement”), which delegates responsibility for PGW’s operation to an executive management team provided by PFMC. Under the Management Agreement, those responsibilities that are not specifically granted to PFMC are the responsibilities of the Gas Commission, except to the extent preempted by the Pennsylvania Public Utility Commission (the “PUC”) pursuant to the Pennsylvania Natural Gas Choice and Competition Act (the “Gas Choice Act”). The Gas Choice Act made PGW subject to regulation by the PUC effective July 1, 2000, and provides that choice among natural gas suppliers will be provided to PGW’s customers.

For more information on PGW, see APPENDIX C – “THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Government Services, “PGW PENSION PLAN,” “PGW OTHER POST-EMPLOYMENT BENEFITS,” “EXPENDITURES OF THE CITY – PGW Annual Payments,” and “LITIGATION – PGW.”

## **Libraries**

The Free Library of Philadelphia, the City’s public library system, comprises 54 branches (with a variety of digital, computer-based services at certain locations) and an extensive online resource system.

## **Streets and Sanitation**

The Philadelphia Streets Department (the “Streets Department”) and the divisions within it are responsible for the City’s large network of streets and roadways. The City’s pavement condition is considered to be in “Fair” pavement condition. In order for the City to maintain its pavement in a state of good repair, local streets should be repaved once every 20 years and arterials should be repaved once every 10 years. This requires approximately 131 miles of paving every year, but, over the years, this pavement program has accumulated a backlog. The Streets Department has invested in critical equipment replacements and implemented a strategy to address recurring state of good repair needs. The Streets Department is also emphasizing an objective, data-oriented approach towards strategically addressing roadway conditions throughout the City. New geographical information system (GIS) and global position system (GPS) technology and systems are being used, along with objective assessment tools, to rate and monitor the quality and condition of streets and roadways to prioritize paving plans.

The Streets Department is also responsible for the ongoing collection and disposal of residential trash and recyclables, the overall cleanliness of City streets, the construction and maintenance of City streets roadways, bridges and street lighting system and management and engineering of the City’s local traffic network. The streets system in Philadelphia totals 2,575 miles – 2,180 miles of City streets, 35 miles of Fairmount Park roads, and 360 miles of state highways. The Sanitation Division annually collects and disposes of over 620,000 tons of rubbish and 80,000 tons of recycling and works to combat illegal dumping.

## **Sustainability and Green Initiatives**

Mayor Parker has committed to make Philadelphia the safest, cleanest, and greenest big city in the nation with economic opportunity for everyone. To aid in achieving this goal, the Philadelphia Energy Authority has been tasked with improving energy sustainability and affordability in the City and with educating consumers on their energy choices. Certain energy savings financing has also been undertaken by the Philadelphia Energy Authority, Philadelphia Municipal Authority, and the Philadelphia Authority for Industrial Development. The City is investing in and evaluating additional options and investing in both green and traditional infrastructure to better manage storm water reclamation and reduce pollution of the City’s public waters. There has been extensive investment in creating more and better public spaces, such as Love Park in Center City, as well as green spaces along both the Delaware and Schuylkill Rivers. Finally, the City has been taking steps to further reduce automobile traffic, congestion and pollution by making Philadelphia’s streets increasingly friendly to bicyclists. The City introduced its bicycle sharing system, Indego, in 2015, as further described in “TRANSPORTATION.”

In furtherance of sustainability and environmental issues that affect the health and wellbeing of Philadelphians, in 2022, the City launched Philadelphia’s first Environmental Justice Advisory Commission (PEJAC), a historic step in the City’s commitment to supporting the leadership of frontline communities in addressing environmental harms. Alongside the launch, the City announced the establishment of a community resilience and environmental justice grant fund and interagency Environmental Justice and Climate Resilience Committee (EJCRC) to affirm the City’s commitment to pursuing environmental justice and climate resilience for all Philadelphians. The City has begun looking beyond risks posed to municipal government and is in the process of updating its citywide resilience plan. Collaboration and coordination through the EJCRC will ensure climate resilience is incorporated throughout City operations and planning. The Office of Sustainability, in coordination with the EJCRC is updating citywide vulnerability assessments and developing tools to better understand neighborhood-level vulnerability to climate change. Another inter-agency working group, the Flood Risk Management Task Force, focuses specifically on flood mitigation. The Office of Sustainability also runs a Place-Based

resilience initiative that engages regional, state, and federal partners to address flood risk along the Lower Schuylkill, in concert with the Eastwick community and other stakeholders. This group will collaborate to define short-, medium- and long-term solutions to flooding that center community input. Other planning activities are underway that will identify strategic actions and funding sources to advance resilience citywide. The City is developing a strategy to pursue benefits from the Biden Administration’s Justice40 commitment and Inflation Reduction Act grants, with the potential to secure significant federal funding for climate resilience and mitigation efforts. Upon its successful completion of a strategic planning process for the urban forest, Philadelphia Parks and Recreation is increasing tree canopy in neighborhoods vulnerable to the effects of extreme heat since trees cool the air and reduce heat islands. Parks and Recreation and partners are also working to implement the City’s Urban Agriculture Plan which will play an important role in increasing local food production and climate resilience and addressing hunger and food apartheid, biodiversity loss, soil degradation and waste. The Philadelphia Office of Emergency Management is integrating climate change and climate adaptation strategies in the update of the Hazard Mitigation Plan, which will assist with both local and statewide planning aimed at increasing community resilience. The Philadelphia Energy Authority’s Philly Streetlight Improvement Project will convert approximately 130,000 high pressure sodium streetlights into a network of more efficient, longer-lasting LED lights. By upgrading to higher performing streetlights with a new lighting management system, the project is expected to: (i) foster public safety improvements for pedestrians, cyclists, and motorists; (ii) reduce energy consumption and operating costs associated with such system; and (iii) benefit local, diverse businesses.

For more information on climate change in the City, see APPENDIX C – “THE GOVERNMENT OF THE CITY OF PHILADELPHIA – Climate Change.”

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

## APPENDIX E

### SUMMARY OF THE 1998 GENERAL ORDINANCE

The following are summaries of certain provisions of the 1998 General Ordinance. The summary does not purport to be comprehensive or definitive and is subject to the complete text of the terms and provisions of the 1998 General Ordinance, to which reference is hereby made. Copies of the complete text of the 1998 General Ordinance are available from the Office of the Director of Finance, Municipal Services Building, 1401 John F. Kennedy Boulevard, Suite 1330, Philadelphia, Pennsylvania 19102.

#### Certain Definitions

Set forth below are definitions in summary form of certain terms used in the forepart of this Official Statement and in this APPENDIX E – “SUMMARY OF THE 1998 GENERAL ORDINANCE.” Many of these terms and the complete text of the definitions can be found in the 1998 General Ordinance. Certain terms in this APPENDIX E vary from the terms defined in the 1998 General Ordinance. In that event, the defined term used in the 1998 General Ordinance is included in parentheses with the applicable summary definition below.

“Accreted Value” means, with respect to any Capital Appreciation 1998 Ordinance Bond as of any specified date, the Original Value of such 1998 Ordinance Bond plus interest accreted on such 1998 Ordinance Bond to such date, all as may be provided in an applicable Supplemental Ordinance.

“Act” means The First Class City Revenue Bond Act approved October 18, 1972 (Act No. 234, 53 P.S. 15901 to 15924), as from time to time amended.

“Bond Counsel” means any firm of nationally recognized bond counsel acceptable to the City.

“Bondholder or Holder” means the registered owner of any 1998 Ordinance Bonds.

“Bond Register” means the list of the names and addresses of Bondholders and the principal amounts and numbers of the 1998 Ordinance Bonds held by them maintained by the Fiscal Agent on behalf of the City.

“Capital Appreciation 1998 Ordinance Bonds” (Capital Appreciation Bonds) means any 1998 Ordinance Bonds issued under the 1998 General Ordinance which do not pay interest until maturity or until a specified date prior to maturity, but whose Original Value accretes periodically to the amount due on the maturity date.

“City Charges” means the proportionate charges, if any, for services performed for the Gas Works by all officers, departments, boards or commissions of the City which are contained in the computation of operating expenses of the Gas Works including, without limitation, the expenses of the Gas Commission, and also means the base payments to the City contained in the Management Agreement and all other payments made to the City from Gas Works Revenues.

“City Solicitor” means the head of the City’s law department as provided by the Philadelphia Home Rule Charter.

“Code” means the Internal Revenue Code of 1986, as amended, or any successor legislation, and the regulations and published rulings promulgated thereunder or applicable thereto.

“Credit Facility” means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement (other than a Qualified Swap or an Exchange Agreement) that is provided by a commercial bank, insurance company or other institution, with a current long term rating (or whose obligations thereunder are guaranteed by a financial institution with a long term rating) from Moody’s and S&P not lower than “A” provided that, with respect to the Sixteenth Series Bonds and the Seventeenth Series Bonds, the term “Credit Facility” means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement

(other than a Qualified Swap or an Exchange Agreement) that is provided by a commercial bank, insurance company or other institution, with a current long term rating (or whose obligations thereunder are guaranteed by a financial institution with a long term rating) from Moody's or S&P not lower than "A".

"Credit Facility Issuer or issuer of a Credit Facility" means each issuer of a Credit Facility then in effect, and its successors. References to the Credit Facility Issuer shall be read to mean the issuer of the Credit Facility applicable to a particular Series of 1998 Ordinance Bonds or each issuer of a Credit Facility, as the context requires.

"Debt Service Requirements" means, for a specified period, the sum of (i) the principal of (whether at maturity or pursuant to mandatory redemption) and interest (other than capitalized interest) on Outstanding 1998 Ordinance Bonds payable during the period and (ii) all net amounts due and payable by the City under Qualified Swaps and Exchange Agreements during the period. For purposes of estimating Debt Service Requirements for any future period, (i) any Option 1998 Ordinance Bond outstanding during such period shall be assumed to mature on the stated maturity date thereof, except that the principal amount of any Option 1998 Ordinance Bond tendered for payment and cancellation before its stated maturity date shall be deemed to accrue on the date required for payment pursuant to such tender; (ii) Debt Service Requirements on 1998 Ordinance Bonds for which the City has entered into a Qualified Swap or an Exchange Agreement shall be calculated assuming that the interest rate on such 1998 Ordinance Bonds shall equal the stated fixed or variable rate payable by the City on the Qualified Swap or Exchange Agreement or, if applicable and if greater than such stated rate, the applicable rate for any 1998 Ordinance Bonds issued in connection with the Qualified Swap or Exchange Agreement adjusted, in the case of variable rate obligations, as described below in the second to last paragraph under the heading "**Covenants – Rate Covenant**"; and (iii) Debt Service Requirements with respect to Variable Rate 1998 Ordinance Bonds shall be subject to adjustments as described below in the second to last paragraph under the heading "**Covenants – Rate Covenant**."

"Director of Finance" means the chief financial, accounting and budget officer of the City as established by the Philadelphia Home Rule Charter, including a person acting as Director of Finance under applicable law.

"Engineer" means a consulting engineer or a firm of consulting engineers, in either case having broad experience in the design and analysis of the operation of gas works or gas distribution systems of the magnitude and scope of the Gas Works and a favorable reputation for competence in such field.

"Exchange Agreement" means, with respect to a Series of 1998 Ordinance Bonds, or any portion thereof to the extent from time to time permitted by applicable law, any interest exchange agreement, interest rate swap agreement, currency swap agreement or other contract or agreement, other than a Qualified Swap, authorized, recognized and approved by a Supplemental Ordinance as an Exchange Agreement and providing for payments to and from an entity whose senior long term debt obligations, other senior unsecured long term obligations, or claims paying ability or whose obligations under an Exchange Agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated not less than "A3" by Moody's, "A-" by S&P or "A-" by Fitch, or the equivalent thereof by any successor thereto as of the date the Exchange Agreement is entered into, which payments are calculated by reference to fixed or variable rates and constituting a financial accommodation between the City and the counterparty.

"Fiscal Agent" means any bank, bank and trust company or trust company named as such pursuant to the 1998 General Ordinance or its successor.

"Fiscal Year" means the Fiscal Year of the Gas Works.

"Fitch" means Fitch IBCA, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of Fitch are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations within a category.



“Gas Commission” means the Gas Commission provided for by the Philadelphia Home Rule Charter as presently constituted or hereafter reconstituted in accordance with law.

“Gas Works” means all property, real and personal, owned by the City and used in the acquisition or manufacture, storage and distribution of natural, liquefied, synthetic or manufactured gas or in the maintenance, management or administration thereof and all activities ancillary and related thereto, and also means, as the context may require, the business entity managed by the Manager.

“Gas Works Revenues” means all operating and nonoperating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. Revenues derived from activities unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto shall not be included in Gas Works Revenues, provided that the Gas Works receives fair payment for the use of gas related assets and personnel of the Gas Works used in such activities, which payments shall be included in Gas Works Revenues. In particular, Gas Works Revenues do not include revenues from enterprises or functions not related to gas activities (*e.g.*, activities involving the supply, generation or distribution of electricity). Gas Works Revenues shall not include those portions of the Gas Works’ rents, rates and charges which are securitized and sold pursuant to the 1998 General Ordinance as described below under “Permitted Securitization of Gas Works Revenues.” Gas Works Revenues may be divided into separate components in one or more Supplemental Ordinances and any Series of 1998 Ordinance Bonds issued thereafter may be limited as to source of payment to one or more of such components as provided in the Supplemental Ordinance authorizing the particular Series of 1998 Ordinance Bonds.

“Government Obligations” means any of the following which are noncallable and which at the time of investment are legal investments under the Act for the moneys proposed to be invested therein:

(a) direct general obligations of, or obligations the payment of principal of and interest on which are unconditionally guaranteed as to full and timely payment by the United States of America;

(b) direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association; participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association; guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; or

(c) obligations issued by the Resolution Funding Corporation pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (the “FIRRE Act”), (i) the principal of which obligations is payable when due from payments of the maturing principal of non-interest bearing direct obligations of the United States of America which are issued by the Secretary of the Treasury and deposited in the Funding Corporation Principal Fund established pursuant to the FIRRE Act, and (ii) the interest on which obligations, to the extent not paid from other specified sources, is payable when due by the Secretary of the Treasury pursuant to the FIRRE Act.

“Independent” means a person who is not a salaried employee or elected or appointed official of the City; provided, however, that the fact that such person is retained regularly by or transacts business with the City shall not make such person an employee within the meaning of this definition.

“Interim Debt” means any bond anticipation notes or other temporary borrowing which the City anticipates permanently financing with 1998 Ordinance Bonds or other long term indebtedness under the 1998 General Ordinance or otherwise.

“Management Agreement” means the Agreement dated December 29, 1972 between the City and the Manager for the management and operation of the Gas Works, as presently or hereafter amended, or any successor agreement which may be entered into by the City pertaining to the management of the Gas Works.

“Manager” means Philadelphia Facilities Management Corporation, currently managing the Gas Works pursuant to the Management Agreement, or its successor or such other person, corporation, board, commission or department of the City, which may be designated by the City to manage the Gas Works.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of Moody’s are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations.

“Net Operating Expenses” means Operating Expenses exclusive of City Charges.

“1998 Ordinance Bond or Bonds” (Bond or Bonds) means any Gas Works Revenue bond or note issued and outstanding pursuant to the Act under the 1998 General Ordinance and any Supplemental Ordinance.

“Operating Expenses” means all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year, and shall include, without limitation, the Manager’s fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Gas Works, which does not have a probable useful life of at least five years, pension and welfare plan and workmen’s compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted municipal accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges. Operating Expenses shall not include Unrelated Expenses.

“Option 1998 Ordinance Bond” (Option Bond) means any 1998 Ordinance Bond which by its terms may be tendered by and at the option of the Holder thereof for payment by the City prior to its stated maturity date or the maturity date of which may be extended by and at the option of the Holder thereof.

“Original Value,” with respect to a Series of 1998 Ordinance Bonds issued as Capital Appreciation 1998 Ordinance Bonds, means the principal amount paid by the initial purchasers thereof on the date of original issuance.

“Outstanding,” when used with reference to the 1998 Ordinance Bonds, means, as of any particular date, all 1998 Ordinance Bonds which have been authenticated and delivered under the 1998 General Ordinance, except:

(a) 1998 Ordinance Bonds canceled after purchase in the open market or because of payment or redemption prior to maturity;

(b) 1998 Ordinance Bonds for the payment or redemption of which sufficient moneys shall have been theretofore deposited with the Fiscal Agent (whether upon or prior to the maturity or redemption date of any such 1998 Ordinance Bonds), provided that, if such 1998 Ordinance Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the 1998 General Ordinance or arrangements satisfactory to the Fiscal Agent shall have been made therefor, or waiver of such notice satisfactory in form to the Fiscal Agent shall have been filed with the Fiscal Agent; and

(c) 1998 Ordinance Bonds in lieu of which or in substitution for which others have been authenticated and delivered pursuant to the 1998 General Ordinance.

1998 Ordinance Bonds paid with the proceeds of any Credit Facility shall be Outstanding until the issuer of such Credit Facility has been reimbursed for the amount of the payment or has presented the 1998 Ordinance Bonds for cancellation.

“Philadelphia Home Rule Charter” means the Philadelphia Home Rule Charter, as amended or superseded by any new home rule charter, adopted pursuant to authorization of the First Class City Home Rule Act approved April 21, 1949, P.L. 665, §1 *et seq.* (53 P.S. §13101 *et seq.*).

“Qualified Escrow Securities” means funds which are represented by (i) demand deposits, interest-bearing time accounts, savings deposits or certificates of deposit, but only to the extent such deposits or accounts are fully insured by the Federal Deposit Insurance Corporation or any successor United States governmental agency, or to the extent not insured, fully secured and collateralized by Government Obligations having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such deposits or accounts, (ii) if at the time permitted under the Act, obligations of any state or political subdivision thereof or any agency or instrumentality of such state or political subdivision for which cash, Government Obligations or a combination thereof have been irrevocably pledged to or deposited in a segregated escrow account for the payment when due of principal or redemption price of and interest on such obligations, and any such cash or Government Obligations pledged and deposited are payable as to principal or interest in such amounts and on such dates as may be necessary without reinvestment to provide for the payment when due of the principal or redemption price of and interest on such obligations, and such obligations are rated by any Rating Agency in the highest rating category assigned by such Rating Agency to obligations of the same type, or (iii) noncallable Government Obligations. In each case such funds (i) are subject to withdrawal, mature or are payable at the option of the holder at or prior to the dates needed for disbursement, provided such deposits or accounts, whether deposited by the City or by such depository, are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof, (ii) are irrevocably pledged for the payment of such obligations and (iii) are sufficient, together with the interest to the disbursement date payable with respect thereto, if also pledged, to meet such obligations in full.

“Qualified Swap or Swap Agreement” means, with respect to a Series of 1998 Ordinance Bonds or any portion thereof, any financial arrangement that (i) is entered into by the City with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (ii) provides that (a) the City shall pay to such entity an amount based on the interest accruing at a fixed rate on an amount equal to the principal amount of the Outstanding 1998 Ordinance Bonds of such Series or portion thereof, and that such entity shall pay to the City an amount based on the interest accruing on a principal amount initially equal to the same principal amount as such 1998 Ordinance Bonds, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the 1998 Ordinance Bonds) or that one shall pay to the other any net amount due under such arrangement or (b) the City shall pay to such entity an amount based on the interest accruing on the principal amount of the Outstanding 1998 Ordinance Bonds of such Series or portion thereof at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the City an amount based on interest accruing on a principal amount equal to the same principal amount of such 1998 Ordinance Bonds at a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the 1998 Ordinance Bonds) or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Fiscal Agent by the City as a Qualified Swap with respect to such 1998 Ordinance Bonds.

“Qualified Swap Provider” means, with respect to a Series of 1998 Ordinance Bonds, an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated (at the time the subject Qualified

Swap is entered into) at least as high as “Aa” by Moody’s and “AA” by S&P, or the equivalent thereof by any successor thereto.

“Rate Covenant” means the covenant described below under the subheading “**Covenants – Rate Covenant.**”

“Rating Agency” means Moody’s, S&P or Fitch, to the extent that any of such rating services have issued a credit rating on any of the Outstanding 1998 Ordinance Bonds or, upon discontinuance of any of such rating services, such other nationally recognized rating service or services if any such rating service has issued a credit rating on any of the Outstanding 1998 Ordinance Bonds.

“Rebate Amount” means the amount with respect to a Series of 1998 Ordinance Bonds, which is required to be paid to the United States of America, as of any computation date, in compliance with the restrictions imposed by the Code.

“S&P” means Standard & Poor’s Ratings Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of S&P are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations within a category.

“Senior 1998 Ordinance Bonds” (Senior Bonds) means 1998 Ordinance Bonds which shall be first in right of payment and as to which the coverage requirement under the Rate Covenant shall be 150%.

“Series,” when applied to 1998 Ordinance Bonds, means collectively all of the 1998 Ordinance Bonds of a given issue authorized by Supplemental Ordinance as described below under “Conditions to Issuing 1998 Ordinance Bonds – Additional Conditions” and may also mean, if appropriate, a subseries of any such issue if, for any reason, the City should determine to divide any such issue into one or more subseries of 1998 Ordinance Bonds.

“Sinking Fund” means the 1998 General Ordinance Gas Works Revenue Bond Sinking Fund established by the 1998 General Ordinance, as described below under “Sinking Fund.”

“Sinking Fund Depository” means the Fiscal Agent or any other bank, bank and trust company or trust company appointed as such by the City.

“Sinking Fund Reserve” means the Sinking Fund Reserve established by the 1998 General Ordinance, as described below under “Sinking Fund Reserve.”

“Sinking Fund Reserve Requirement” means, with respect to all 1998 Ordinance Bonds secured by the Sinking Fund Reserve, an amount equal to the greatest amount of Debt Service Requirements payable in any Fiscal Year (except that such Debt Service Requirements will be computed as if any Qualified Swap did not exist and the Debt Service Requirements attributable to any Variable Rate Bonds may be based upon the fixed rate of interest as set forth in the Supplemental Ordinance for such 1998 Ordinance Bonds), determined as of any particular date.

“Subordinate 1998 Ordinance Bonds” (Subordinate Bonds) means those 1998 Ordinance Bonds which shall be subordinate in right of payment to Senior 1998 Ordinance Bonds and as to which the coverage requirement under the Rate Covenant shall be 100%.

“Supplemental Ordinance” means an ordinance supplemental to the 1998 General Ordinance enacted pursuant to the Act and the 1998 General Ordinance by the Council of the City authorizing the issuance of a Series of 1998 Ordinance Bonds.

“Unrelated Expenses” means expenses unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto.

“Variable Rate 1998 Ordinance Bond” (Variable Rate Bond) means any 1998 Ordinance Bond, the rate of interest on which is subject to change prior to maturity and cannot be determined in advance of such change.

### **Purpose of 1998 Ordinance Bonds**

1998 Ordinance Bonds shall be issued for the purposes of (1) paying the cost of projects, as such term is defined in the Act, related to the Gas Works, (2) reimbursing any City fund from which such costs have been paid or advanced, (3) funding any such cost for which the City shall have outstanding bond anticipation notes or other obligations, (4) refunding any bonds of the City issued for the foregoing purposes under the Act, (5) refund any general obligation bonds of the City issued for the foregoing purposes, or (6) financing anything else relating to the Gas Works permitted under the Act.

The Act defines “projects” as any buildings, structures, facilities or improvements of a public nature, the related land, rights or leasehold estates in land, and the related furnishings, machinery, apparatus or equipment of a capital nature, which the City is authorized to own, construct, acquire, improve, lease as lessor or lessee, operate, maintain or support; any item of construction, acquisition or extraordinary maintenance or repair thereof, the City’s share of the cost of any of the foregoing or any combination thereof undertaken jointly with others; and any combination of the foregoing or any undivided portion of the cost of any of the foregoing as may be designated a “project” by the City for financing purposes and in respect of which the City may reasonably be expected to receive Gas Works Revenues.

### **Pledge of Revenues; Grant of Security Interest; Limitation on Recourse**

The City pledges, in the 1998 General Ordinance, for the security and payment of all 1998 Ordinance Bonds issued under the 1998 General Ordinance and grants a lien on and security interest in, all Gas Works Revenues, all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance, and in each case, the proceeds of the foregoing, except as limited for a Series of 1998 Ordinance Bonds in the Supplemental Ordinance authorizing the issuance of such Series of 1998 Ordinance Bonds; provided, however, that the pledge of the 1998 General Ordinance may also be for the benefit of the provider of a Credit Facility, Qualified Swap or Exchange Agreement, or any other person who undertakes to provide moneys for the account of the City for the payment of principal or redemption price of and interest on any Series of 1998 Ordinance Bonds on an equal and ratable basis with the related Series of 1998 Ordinance Bonds, to the extent provided by any Supplemental Ordinance.

Neither the 1998 Ordinance Bonds nor the City’s reimbursement or other contractual obligations with respect to any Credit Facility, Qualified Swap or Exchange Agreement shall constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness. No Bondholder or beneficiary of any of the foregoing agreements shall ever have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal and redemption price of or interest on the 1998 Ordinance Bonds or the making of any payments under the 1998 General Ordinance. The 1998 Ordinance Bonds and the obligations evidenced thereby and by the foregoing agreements shall not constitute a lien on any property of the City other than the Gas Works Revenues.

### **Parity and Priority of 1998 Ordinance Bonds**

All 1998 Ordinance Bonds issued pursuant to the 1998 General Ordinance shall be secured by the pledge of, and grant of a security interest in, the Gas Works Revenues, except as limited for a Series of 1998 Ordinance Bonds in the Supplemental Ordinance authorizing the issuance of such Series of 1998 Ordinance Bonds. Subordinate 1998 Ordinance Bonds shall be subordinate to Senior 1998 Ordinance Bonds in right of payment of principal, premium, if any, and interest. Senior 1998 Ordinance Bonds and Subordinate 1998 Ordinance Bonds

shall not have any preference, priority, or distinction as to lien or otherwise, except as otherwise provided in the 1998 General Ordinance or in a Supplemental Ordinance, over and other Senior 1998 Ordinance Bonds or Subordinate 1998 Ordinance Bonds, respectively.

### **Credit Enhancement; Exchange Agreements; Qualified Swaps**

As provided by Supplemental Ordinance and subject to the requirements of the 1998 General Ordinance, the City may provide for a Credit Facility, Exchange Agreement or Qualified Swap with respect to any Series of 1998 Ordinance Bonds or portion thereof.

### **Order of Application of Gas Works Revenues**

The 1998 General Ordinance provides that all Gas Works Revenues as and when collected in each Fiscal Year shall be applied in the following order, to the extent then payable:

*First*, to Net Operating Expenses then payable;

*Second*, to debt service on Senior 1998 Ordinance Bonds and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Senior 1998 Ordinance Bonds;

*Third*, to payments due to issuers of Credit Facilities related to Senior 1998 Ordinance Bonds;

*Fourth*, to debt service on Subordinate 1998 Ordinance Bonds and payments due in respect of obligations of the Gas Works on a parity with Subordinate 1998 Ordinance Bonds (including notes issued under the Note Ordinance, or any similar ordinance, and amounts payable to the provider of a Credit Facility in respect of such notes) and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Subordinate 1998 Ordinance Bonds;

*Fifth*, to payments due to issuers of Credit Facilities related to Subordinate 1998 Ordinance Bonds;

*Sixth*, to required payments of the Rebate Amount to the United States;

*Seventh*, to replenishment of any deficiency in the Sinking Fund Reserve;

*Eighth*, to payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works Revenues<sup>†</sup>;

*Ninth*, to debt service on other general obligation issued for the Gas Works<sup>†</sup>; and

*Tenth*, to City Charges and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements and fees and expenses due under Credit Facilities), except Unrelated Expenses.

The 1998 General Ordinance does not require the segregation of revenues upon collection.

### **Covenants**

#### *Rate Covenant*

The City covenants with the Holders of all 1998 Ordinance Bonds from time to time and at the time outstanding under the 1998 General Ordinance that, so long as any such 1998 Ordinance Bonds shall remain outstanding, the City will, at a minimum, impose, charge and collect in each Fiscal Year such gas rates and

---

<sup>†</sup> No general obligation bonds of the City described in items *Eighth* and *Ninth* above are currently outstanding.

charges as shall, together with all other Gas Works Revenues to be received in such Fiscal Year, equal not less than the greater of:

- A. The sum of:
- i. all Net Operating Expenses payable during such Fiscal Year;
  - ii. 150% of the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Senior 1998 Ordinance Bonds;
  - iii. the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Subordinate 1998 Ordinance Bonds and other obligations of the Gas Works on a parity with Subordinate 1998 Ordinance Bonds payable during such Fiscal Year;
  - iv. the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year;
  - v. the Rebate Amount required to be paid to the United States during such Fiscal Year;
- and
- vi. the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year;

OR

- B: The sum of:
- i. all Net Operating Expenses payable during such Fiscal Year;
  - ii. all Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding 1998 Ordinance Bonds and all amounts payable in respect of obligations of the Gas Works which are on a parity with any of the 1998 Ordinance Bonds and in respect of general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve<sup>†</sup>;
  - iii. the Rebate Amount required to be paid to the United States during such Fiscal Year;
- and
- iv. the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year.

For purposes of estimating Sinking Fund deposits with respect to Interim Debt and Variable Rate 1998 Ordinance Bonds, the City shall be entitled to assume that (1) Interim Debt will be amortized over a period of up to the maximum term permitted by the Act, but not in excess of the useful life of the assets to be financed, on an approximately level debt service basis and bear interest at the average interest rate on bonds of a similar maturity and credit rating (without any credit enhancement) as the 1998 Ordinance Bonds Outstanding under the 1998 General Ordinance and (2) Variable Rate 1998 Ordinance Bonds will bear interest at a rate equal to the average interest rate on such Variable Rate 1998 Ordinance Bonds during the period of twenty-four (24) consecutive calendar months immediately preceding the date of calculation or during such shorter period that such Variable Rate 1998 Ordinance Bonds have been Outstanding.

The Gas Commission is authorized and directed, without further authorization, to impose and charge and to collect, or cause to be collected, rents rates and charges which shall be sufficient in each Fiscal Year to comply with the Rate Covenant.<sup>†</sup>

#### *Additional Covenants*

The City covenants with the Holders of all 1998 Ordinance Bonds from time to time outstanding under the 1998 General Ordinance and at the time outstanding thereunder that: (1) it will pay or cause the Fiscal Agent

---

<sup>†</sup> No general obligation bonds described in item B.ii above are currently outstanding.

or any paying agent appointed by the City to pay from the Gas Works Revenues deposited in the Sinking Fund the principal of, and premium, if any, and interest on all 1998 Ordinance Bonds as the same shall become due and payable and as more particularly set forth in such 1998 Ordinance Bonds; (2) it will continuously maintain in good condition and continuously operate the Gas Works; and (3) it will not, in any Fiscal Year, pay from the Gas Works Revenues any City Charges or deposit from the Gas Works Revenues in the general sinking fund of the City any sinking fund charges in respect of general obligation bonds of the City unless, prior thereto or concurrently therewith, all sinking fund charges then payable in respect of Outstanding 1998 Ordinance Bonds shall have been deposited in the Sinking Fund, all amounts then payable in respect of obligations of the Gas Works which are on a parity with 1998 Ordinance Bonds shall have been paid, all amounts then payable to issuers of Credit Facilities and providers of Qualified Swaps and Exchange Agreements shall have been paid and all deposits then required to the Sinking Fund Reserve shall have been made.

### **Report Requirements**

The City covenants with the Holders of all 1998 Ordinance Bonds from time to time outstanding under the 1998 General Ordinance and at the time outstanding thereunder that the City shall file with the Fiscal Agent, not later than 120 days after the close of each Fiscal Year, a report of the operation of the Gas Works that sets forth, (1) in reasonable detail, financial data concerning the Gas Works for such Fiscal Year (including a balance sheet, statements of income, equity and changes in financial condition, and an analysis of funds available to cover debt service (in each case not inconsistent with the statements of income, expenses, and other accounts of the City audited by the City Comptroller) prepared by the Manager in accordance with generally recognized municipal accounting principles consistently applied; and (2) complies with the Rate Covenant; which report is accompanied by a certificate of the Manager that the Gas Works are in good operating condition and by a certificate of the Director of Finance that, as of the date of such report, the City has complied with all covenants and requirements of the 1998 General Ordinance and of the ordinances supplemental thereto to be performed by the City. The Fiscal Agent will keep on file a copy of each such report and its accompanying certificates for a period of ten (10) years, and will make each available to any Bondholder or his authorized representative for inspection and copying at all reasonable times.

### **General Obligation Bonds - Junior Lien Revenue Bonds**

The City reserves the right, and nothing in the 1998 General Ordinance shall be construed to impair such right, to finance improvements to the Gas Works by the issuance of its general obligation bonds or by the issuance, under ordinances other than the 1998 General Ordinance and Supplemental Ordinances, of Gas Works obligations for the payment of which Gas Works Revenues may be pledged subject and subordinate in each Fiscal Year to the prior payment from such revenues of all principal, premium, interest and sinking fund requirements payable during such Fiscal Year under the 1998 General Ordinance.

### **Conditions to Issuing 1998 Ordinance Bonds**

#### *Financial Report of the Director of Finance*

The City covenants with the Holders of all 1998 Ordinance Bonds from time to time and at the time outstanding under the 1998 General Ordinance that, so long as any such 1998 Ordinance Bonds shall remain outstanding, the City will not issue any 1998 Ordinance Bonds unless the CFO Financial Report (as defined below) is filed with the City Council. The CFO Financial Report may be given in reliance on an engineering report of an Independent Engineer setting forth the qualifications of the Engineer and containing:

- (a) a statement that the Engineer has made an investigation of the physical properties included in the Gas Works and of the books and records of the Gas Works maintained by the City or by the Manager, as it deemed necessary; and
- (b) on the basis of such investigation containing:



(i) the same matters, statements and opinion as are required to be contained in the CFO Financial Report supported by appropriate schedules and summaries;

(ii) a statement that Gas Works rents, rates, and charges, on the basis of which the statements required by clause (i) are made, are currently and will be sufficient to comply with the Rate Covenant; and

(iii) a statement that, in the opinion of the Engineer, the Gas Works are in good operating condition or that adequate steps are being taken to make them so.

The “CFO Financial Report” means the financial report required by the Act to be signed by the Director of Finance and to contain (supported by appropriate schedules and summaries): (1) a brief description of the project or projects related to the Gas Works for which the 1998 Ordinance Bonds are to be issued; (2) a statement identifying the sources from which the Gas Works Revenues are to be derived; (3) a statement that, on the basis of actual, if appropriate, and estimated future annual financial operations of the Gas Works, the Gas Works will, in the opinion of the Director of Finance, yield Gas Works Revenues over the amortization period of the 1998 Ordinance Bonds sufficient to meet the payment or deposit requirements of (a) all expenses of operation, maintenance, repair and replacement of the Gas Works, (b) all reserve or special funds established under the 1998 General Ordinance, (c) the principal of and interest on all 1998 Ordinance Bonds, as the same shall become due and payable, for which Gas Works Revenues are pledged, (d) any State taxes assumed by the City to be paid on 1998 Ordinance Bonds, and (e) the surplus requirements contained in the Rate Covenant; and (4) a statement that the Gas Works Revenues upon which the statements set forth in clause (3) are based comply with the definition of “Project Revenues” contained in the Act.

#### *Additional Conditions*

Prior to the issuance of any Series of 1998 Ordinance Bonds, the Council of the City shall adopt a Supplemental Ordinance that (1) authorizes the issuance of such 1998 Ordinance Bonds; (2) specifies the aggregate principal amount or maximum aggregate principal amount of the Series to be issued; (3) states that such 1998 Ordinance Bonds are issued in respect of capital costs of a Gas Works project or projects of the City or to fund or refund bond anticipation or other obligations of the City issued in respect thereof or for the purpose of refunding debt issued for such purpose; (4) makes a finding based on the required CFO Financial Report described above that the Gas Works Revenues pledged under the 1998 General Ordinance will be sufficient to comply with the Rate Covenant and also to pay all costs, expenses and payments required to be paid therefrom and in the order and priority stated in the 1998 General Ordinance; and (5) contains the covenant that, so long as any such 1998 Ordinance Bonds shall remain unpaid, the City will make payments or cause payments to be made out of the Sinking Fund at such times and in such amounts as shall be sufficient for the payment of the interest thereon and principal thereof when due (as required by Article IX, Section 10 of the Constitution of the Commonwealth).

Prior to the issuance of any 1998 Ordinance Bonds, the Director of Finance shall file with the Fiscal Agent a transcript of the proceedings authorizing the issuance of such 1998 Ordinance Bonds, which shall include (1) a certified copy of the 1998 General Ordinance (unless previously so filed); (2) a certified copy of the Supplemental Ordinance described in the immediately preceding paragraph; (3) an executed or certified copy of the CFO Financial Report; (4) an executed copy of an opinion of the City Solicitor to the effect that, under the 1998 General Ordinance and the related Supplemental Ordinance, the holders or registered holders of the 1998 Ordinance Bonds to be issued will have no claim upon the taxing power or general revenues of the City nor any lien upon any of the property of the City other than Gas Works Revenues pledged therefor; and (5) an opinion of Bond Counsel to the effect that (a) the Series of 1998 Ordinance Bonds has been duly issued for a permitted purpose under the Act and under the 1998 General Ordinance, (b) all conditions precedent to the issuance of the Series of 1998 Ordinance Bonds pursuant to the Act and the 1998 General Ordinance have been satisfied, (c) the Series of 1998 Ordinance Bonds has been duly authorized, executed and delivered and constitutes the legal, valid and binding obligation of the City, and (d) if the interest on the Series of 1998 Ordinance Bonds is intended to be excluded from gross income for Federal income tax purposes, interest on the Series of 1998 Ordinance Bonds will be so excluded.

The Director of Finance is also required, under the Act, prior to the issuance of any 1998 Ordinance Bonds, to file with court of common pleas of Philadelphia County items (1), (2), (3) and (4) described in the immediately preceding paragraph.

### **Sinking Fund**

The 1998 General Ordinance establishes the Sinking Fund for the benefit and security of the Holders of all 1998 Ordinance Bonds. The Sinking Fund shall be held in the name of the City in an account or accounts separate and apart from all other accounts of the City and payments therefrom are made only as provided in the 1998 General Ordinance. The City covenants and the Director of Finance is directed to deposit in, and the 1998 General Ordinance appropriates to, the Sinking Fund from the Gas Works Revenues in each Fiscal Year such amounts as will, together with interest and profits earned and to be earned on investments held in the Sinking Fund, be sufficient to accumulate therein (exclusive of the amount in the Sinking Fund Reserve), on or before each interest and principal payment date of the 1998 Ordinance Bonds, the amounts required to pay the principal of and the interest on the 1998 Ordinance Bonds then becoming due and payable. Payments into the Sinking Fund shall be scheduled at such times and in such amounts in relation to the receipt of revenues and the operation and maintenance requirements of the Gas Works as the Director of Finance shall determine.

The Sinking Fund Depository shall, on direction of the Director of Finance, or if for any reason he should fail to give such direction, on the direction of the Fiscal Agent, liquidate investments, if necessary, and pay over from the Sinking Fund in cash to the Fiscal Agent not later than the due date thereof the full amount of the principal, interest on, and premium, if any, payable upon redemption of, 1998 Ordinance Bonds. Any excess moneys in the Sinking Fund, including any excess amount in the Sinking Fund Reserve, shall be transferred to the operating accounts of the Gas Works.

The Sinking Fund shall be a consolidated fund for the equal and proportionate benefit of the Holders of all 1998 Ordinance Bonds from time to time Outstanding and may be invested and reinvested on a consolidated basis. The principal of and interest on and profits (and losses if any) realized on investments in the Sinking Fund are allocated pro rata for the Series of 1998 Ordinance Bonds or the specific 1998 Ordinance Bonds in respect of which such investments were made without distinction or priority, but moneys (and the investments thereof) specifically deposited for the payment of any particular installment of principal, interest (including capitalized interest) or premium in respect of particular 1998 Ordinance Bonds shall be held and applied exclusively to the payment of such particular principal, interest or premium.

### **Sinking Fund Reserve**

The Sinking Fund Reserve is established as a separate account in the Sinking Fund and shall be held by the Sinking Fund Depository as part of the Sinking Fund, but for which a separate account shall be maintained. Unless otherwise provided in the applicable Supplemental Ordinance, the City shall, under direction of the Director of Finance, deposit in the Sinking Fund Reserve from the proceeds of sale of each Series of 1998 Ordinance Bonds issued under the 1998 General Ordinance and/or Gas Works Revenues an amount which, together with other amounts in the Sinking Fund Reserve, will cause the amount in the Sinking Fund Reserve to equal the Sinking Fund Reserve Requirement. The money and investments (valued at market) in the Sinking Fund Reserve and amounts which can be drawn under Credit Facilities held for the Sinking Fund Reserve shall be held and maintained in an amount equal to the Sinking Fund Reserve Requirement.

In lieu of a deposit to the Sinking Fund Reserve or in substitution for amounts in the Sinking Fund Reserve, the City may provide one or more letters of credit or other Credit Facilities in the same aggregate amount issued by a provider or providers whose credit facilities are such that bonds secured by such credit facilities are rated in one of the three highest rating categories by Moody's or S&P, provided that (1) in the case of a substitution for moneys in the Sinking Fund Reserve, an opinion of Bond Counsel is delivered to the Fiscal Agent that such substitution will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on the 1998 Ordinance Bonds the interest on which is intended to be so excluded, (2) each such Credit Facility permits the Fiscal Agent to make a draw thereon up to the principal amount thereof if the

Sinking Fund Reserve is needed to cover a shortfall in the Sinking Fund and other moneys in the Sinking Fund Reserve are insufficient, and (3) each such Credit Facility provides that a draw will be made thereon to replenish the Sinking Fund Reserve on the expiration thereof unless the City has otherwise made such deposit to the Sinking Fund Reserve or has obtained another Credit Facility meeting the above requirements.

If, at any time and for any reason, the moneys in the Sinking Fund, other than in the Sinking Fund Reserve, shall be insufficient to pay as and when due, the principal of, and premium, if any, and interest on, any 1998 Ordinance Bond or Bonds secured by the Sinking Fund Reserve, the Sinking Fund Depository is authorized and directed by the 1998 General Ordinance to withdraw from the Sinking Fund Reserve and to draw on Credit Facilities held for the Sinking Fund Reserve and pay over to the Fiscal Agent the amount of such deficiency. If by reason of such withdrawal (including draws on any Credit Facilities held to satisfy the Sinking Fund Reserve Requirement) or for any other reason there shall be a deficiency in the Sinking Fund Reserve, the City covenants in the 1998 General Ordinance to restore such deficiency (either by a deposit of funds or the reinstatement of the cash limits of Credit Facilities) within twelve months. The Sinking Fund Reserve shall be valued by the Sinking Fund Depository promptly after any withdrawal from the Sinking Fund Reserve or any other event indicating a possible deficiency in the Sinking Fund Reserve and on August 31 of each Fiscal Year.

### **Investment of Funds**

The moneys on deposit in the funds and accounts established under the 1998 General Ordinance, to the extent not currently required, shall be invested, and secured as required by the Act, all at the direction and under the management of the Director of Finance. All moneys deposited in any fund or account established under the 1998 General Ordinance or any Supplemental Ordinance may be invested by the Fiscal Agent, at the direction of the Director of Finance, in any investments then permitted by law, provided that any investments with respect to amounts on deposit in the funds and accounts established under the 1998 General Ordinance shall mature or shall be subject to redemption by the holder thereof upon demand at par no later than the date when such amounts are needed for the purposes of such funds or accounts. Investment earnings shall be included in Gas Works Revenues and, to the extent not required to be retained in the fund or account to which such earnings related, shall be transferred to the operating accounts of the Gas Works.

### **Defaults and Remedies**

#### *Defaults and Statutory Remedies*

If the City shall fail or neglect to pay or to cause to be paid the principal of, redemption premium, if any, or the interest on any 1998 Ordinance Bond, whether at stated maturity or upon call for prior redemption, or if the City, after written notice to it, shall fail or neglect to make any payment owed by it to the provider of a Credit Facility, a Qualified Swap or an Exchange Agreement provided with respect to the 1998 Ordinance Bonds and such provider gives the Fiscal Agent written notice of such failure or neglect, or if the City shall fail to comply with any provision of the 1998 Ordinance Bonds or with any covenant of the City contained in the 1998 General Ordinance, then, under and subject to the terms and conditions stated in the Act, the Holder or Holders of any 1998 Ordinance Bond or 1998 Ordinance Bonds shall be entitled to all of the rights and remedies provided in the Act, which are as follows:

(1) if the City fails or neglects to pay or cause to be paid the principal of or the interest on any 1998 Ordinance Bonds as the same shall become due, whether at the stated maturity or upon call for prior redemption, the right to recover the amount due in an action in assumpsit in the court of common pleas of Philadelphia County;

(2) if the City defaults in the payment of the principal or of the interest on any Series of 1998 Ordinance Bonds after the same shall become due, whether at the stated maturity or upon call for prior redemption, and such default continues for 30 days, or if the City fails to comply with any provision of the 1998 Ordinance Bonds or the 1998 General Ordinance, the right, at the request of the Holders of 25% in aggregate

principal amount of the 1998 Ordinance Bonds of such Series then outstanding, to appoint a trustee (who may be the Sinking Fund Depository) to represent the Holders of all such 1998 Ordinance Bonds; and

(3) the right to instruct an appointed trustee, upon the written request of the Holders of 25% in principal amount of such 1998 Ordinance Bonds then outstanding and after furnishing indemnity satisfactory to such trustee, to take one or more of the following actions:

(a) by mandamus or other suit, action or proceeding at law or in equity enforce all rights of the Holders of the 1998 Ordinance Bonds, including the right to require the City to impose and collect rents, rates, tolls and charges for the use of the Gas Works, or to require the City to carry out any other agreements with the Holders of such 1998 Ordinance Bonds;

(b) bring suit on the 1998 Ordinance Bonds without the necessity for producing the bonds, and with the same effect as a suit by any Holder of the 1998 Ordinance Bonds;

(c) bring suit in equity to require the City to account as if it were a trustee of an express trust for the Holders of such 1998 Ordinance Bonds, for any Gas Works Revenues received and/or to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of any 1998 Ordinance Bonds; and

(d) after 30 days prior written notice to the City, declare the unpaid principal of all 1998 Ordinance Bonds to be immediately due and payable, together with interest thereon at the rates stated in the 1998 Ordinance Bonds until final payment, and, if all defaults shall be made good, to annul such declaration and its consequences.

Notwithstanding the foregoing and in accordance with the 1998 General Ordinance, the remedy described in paragraph 3(d) above may be exercised only upon the failure of the City to pay, when due, principal and redemption price of (including principal due as a result of a scheduled mandatory redemption) and interest on a Series of 1998 Ordinance Bonds. Upon the occurrence of an event of default described above, the Fiscal Agent shall, within thirty (30) days, give written notice thereof by first class mail to all Bondholders.

If and when a trustee takes any of the actions described in paragraph (3) above, individual Bondholders will be precluded from taking similar action, regardless of whether such action was previously or subsequently initiated. The court, in cases of extreme hardship, may provide for the payment of sums levied in five or less annual installments with interest at a rate sufficient to cover the interest accruing on the 1998 Ordinance Bonds. In any suit, action or proceeding by or on behalf of Holders of 1998 Ordinance Bonds, the fees and expenses of a trustee, including operating costs of the Gas Works and reasonable counsel fees, shall constitute taxable costs, and all such costs and disbursements allowed by the court shall be deemed additional principal due on the 1998 Ordinance Bonds and shall be paid in full from any recovery prior to any distribution to the Holders of the 1998 Ordinance Bonds.

*Remedies Not Exclusive; Effect of Delay on Exercise of Remedies*

No remedy in the 1998 General Ordinance or in the Act conferred upon or reserved to the trustee, if one be appointed, or to the Holder of any 1998 Ordinance Bonds is intended to be exclusive (except as specifically provided in the Act, as described above under "Defaults and Statutory Remedies") of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given under the 1998 General Ordinance or now or existing at law or in equity or by statute. No delay or omission of the trustee, if one be appointed, or of any Holder of any 1998 Ordinance Bond to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default, or an acquiescence therein; and every power and remedy given by the 1998 General Ordinance, by the Act or otherwise may be exercised from time to time as often as may be deemed expedient.

*Remedies to be Enforced Only Against Pledged Revenues*

Any decree or judgment for the payment of money against the City by reason of default under the 1998 General Ordinance shall be enforceable only against the Gas Works Revenues, amounts in the Sinking Fund

Reserve and other amounts which may be specifically pledged therefor and investments thereof, and no decree or judgment against the City upon any action brought under the 1998 General Ordinance shall order, or be construed to permit the occupation, attachment, seizure or sale upon execution of any other property of the City.

### **Fiscal Agent**

Such state or federally chartered bank, bank and trust company or trust company as may from time to time be appointed by the City in accordance with law, shall act as Fiscal Agent in respect of all 1998 Ordinance Bonds or in respect of any particular Series of 1998 Ordinance Bonds. The Fiscal Agent also acts as Sinking Fund Depository of the Sinking Fund and as paying agent and registrar of the 1998 Ordinance Bonds in respect of which it is Fiscal Agent, unless others are appointed in such capacity by the City. The Fiscal Agent is the representative of the Holders of the 1998 Ordinance Bonds for the purpose of executing and filing financing statements to perfect the security interest granted in the 1998 General Ordinance under the Pennsylvania Uniform Commercial Code. Nothing in the 1998 General Ordinance shall be construed to prevent the City from engaging other or additional Sinking Fund Depositories, paying agents or registrars of the 1998 Ordinance Bonds or any Series thereof.<sup>†</sup>

### **Permitted Securitization of Gas Works Revenues**

Notwithstanding the requirements of the Rate Covenant described under “Covenants – Rate Covenant” above and the pledge described above under “Pledge of Revenues; Grant of Security Interest; Limitation on Recourse,” the City may, at such time as there are no bonds outstanding under the 1975 General Ordinance, pursuant to a Supplemental Ordinance, securitize and sell that portion of the Gas Works rents, rates and charges which relate to assets which are designated as non-performing by the Gas Commission<sup>††</sup> and as to which the Gas Commission<sup>††</sup> has designated specific rents, rates or charges (such rents, rates and charges are excluded from the definition of Gas Works Revenues); provided that prior to any such securitization and sale the City delivers to the Fiscal Agent (1) an Engineer’s report including a statement that, for the three year period following such securitization and sale, the Gas Works rents, rates and charges (excluding those securitized and sold) are currently and will be sufficient to comply with the Rate Covenant applied as if the percentage in subsection A.iii under the heading “Covenants – Rate Covenant” were 175% rather than 150% and (2) an opinion of Bond Counsel that such securitization and sale will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on any Outstanding 1998 Ordinance Bonds the interest on which is intended to be so excluded. Proceeds received from any such securitization and sale shall be excluded from Gas Works Revenues in all calculations relating to the Rate Covenant and, notwithstanding any provision of the 1998 General Ordinance to the contrary, may be used to redeem or refund obligations issued to finance the related assets designated as non-performing.

### **Amendments and Modifications**

In addition to the adoption of Supplemental Ordinances supplementing or amending the 1998 General Ordinance in connection with the issuance of successive Series of 1998 Ordinance Bonds, the 1998 General Ordinance and any Supplemental Ordinance may be further supplemented, modified or amended: (a) to cure any ambiguity, formal defect or omission therein; (b) to make such provisions in regard to matters or questions arising thereunder which shall not be inconsistent with the provisions thereof and which shall not adversely affect the interests of Bondholders; (c) to grant to or confer upon Bondholders or a trustee, if any, for the benefit of Bondholders any additional rights, remedies, powers, authority or security that may be lawfully granted or conferred; (d) to incorporate modifications requested by any Rating Agency to obtain or maintain a credit rating on any Series of 1998 Ordinance Bonds; (e) to comply with any mandatory provision of state or federal law or

---

<sup>†</sup> Under the terms of the Fiscal Agent Agreement, made as of January 1, 1993, by and between the City and the predecessor to the current Fiscal Agent, as amended and supplemented, the Fiscal Agent is the secured party with the right to enforce the City pledge of Gas Work Revenues on behalf of the holders of 1998 Ordinance Bonds, the issuers of any Credit Facilities and the providers of any Qualified Swaps and Exchange Agreements.

<sup>††</sup> The PUC now has jurisdiction to make the designations described under this subheading.

with any permissive provision of such law or regulation which does not substantially impair the security or right to payment of the 1998 Ordinance Bonds, but no amendment or modification shall be made with respect to any Outstanding 1998 Ordinance Bonds to alter the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or to alter the redemption provisions thereof without the written consent of the Holders of all affected Outstanding 1998 Ordinance Bonds; and (f) except as aforesaid, in such other respect as may be authorized in writing by the Holders of a majority in principal amount (using Accreted Value in the case of Capital Appreciation 1998 Ordinance Bonds) of the 1998 Ordinance Bonds Outstanding and affected. The written authorization of Bondholders of any supplement to or modification or amendment of the 1998 General Ordinance or any Supplemental Ordinance need not approve the particular form of any proposed supplement, modification or amendment but only the substance thereof.

### **Deposit of Funds for Payment of 1998 Ordinance Bonds**

When interest on, and principal or redemption price (as the case may be) of, all 1998 Ordinance Bonds issued under the 1998 General Ordinance, and all amounts owed under any Credit Facility, Qualified Swap and Exchange Agreement entered into under the 1998 General Ordinance (other than termination payments), have been paid, or there shall have been deposited with the Fiscal Agent an amount, evidenced by moneys or Qualified Escrow Securities the principal of and interest on which, when due, will provide sufficient moneys to fully pay the 1998 Ordinance Bonds at the maturity date or date fixed for redemption thereof, and all amounts owed under any Credit Facility, Qualified Swap and Exchange Agreement entered into under the 1998 General Ordinance (other than termination payments), the pledge and grant of security interest in the Gas Works Revenues made under the 1998 General Ordinance shall cease and terminate, and the Fiscal Agent and any other depository of funds and accounts established under the 1998 General Ordinance shall turn over to the City or to such person, body or authority as may be entitled to receive the same all balances remaining in any funds and accounts established thereunder.

If the City deposits with the Fiscal Agent moneys or Qualified Escrow Securities sufficient to pay the principal or redemption price of any particular 1998 Ordinance Bond or 1998 Ordinance Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, interest on such 1998 Ordinance Bond or 1998 Ordinance Bonds shall cease to accrue on the due date and all liability of the City with respect to such 1998 Ordinance Bond or 1998 Ordinance Bonds shall likewise cease, except as provided in the following paragraph. From and after such deposit, such 1998 Ordinance Bond or 1998 Ordinance Bonds shall be deemed not to be Outstanding under the 1998 General Ordinance and the Holder or Holders thereof shall have recourse solely and exclusively to the funds so deposited for any claims of whatsoever nature with respect to such 1998 Ordinance Bond or 1998 Ordinance Bonds, and the Fiscal Agent shall hold such funds in trust for the Holder or Holders of such 1998 Ordinance Bond or 1998 Ordinance Bonds.

Moneys deposited with the Fiscal Agent pursuant to the preceding paragraphs which remain unclaimed two (2) years after the date payment thereof becomes due shall, upon written request of the City, if the City is not at the time to the knowledge of the Fiscal Agent (the Fiscal Agent having no responsibility to independently investigate) in default with respect to any covenant in the 1998 General Ordinance or the 1998 Ordinance Bonds, be paid to the City, and the Holders of the 1998 Ordinance Bond for which the deposit was made shall thereafter be limited to a claim against the City; provided, however, that before making any such payment to the City, the Fiscal Agent shall, at the expense of the City, publish in a newspaper of general circulation published in the City, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of publication of such notice, the balance of such moneys then unclaimed will be paid to the City.

### **Ordinances are Contracts with Bondholders**

The 1998 General Ordinance and Supplemental Ordinances adopted pursuant thereto are contracts with the Holders of all 1998 Ordinance Bonds from time to time Outstanding under the 1998 General Ordinance and are enforceable in accordance with the provisions of the 1998 General Ordinance and the laws of the Commonwealth of Pennsylvania.

### **Parties Interested in the 1998 General Ordinance**

Nothing in the 1998 General Ordinance expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Holders of 1998 Ordinance Bonds, the Fiscal Agent, and each provider of a Credit Facility, Qualified Swap or Exchange Agreement, any right, remedy or claim under or by reason of the 1998 General Ordinance or any covenants, condition or stipulation therefor; and all the covenants, stipulations, promises and agreements in the 1998 General Ordinance by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Fiscal Agent, the Holders of 1998 Ordinance Bonds and each provider of a Credit Facility, Qualified Swap or Exchange Agreement.

### **Closure of the 1975 General Ordinance**

After the adoption of the 1998 General Ordinance, the City shall not issue any bonds under the 1975 General Ordinance except to refund bonds issued under the 1975 General Ordinance or to replace bonds issued thereunder which have been mutilated, destroyed, lost or stolen as provided therein or in substitution for bonds issued thereunder upon transfer or exchange as provided therein.

### **Severability**

In case any one or more of the provisions contained in the 1998 General Ordinance or in any 1998 Ordinance Bond issued pursuant to the 1998 General Ordinance shall for any reason to be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions in the 1998 General Ordinance or said 1998 Ordinance Bonds, and the 1998 General Ordinance or said 1998 Ordinance Bonds shall be construed and enforced as if such invalid, illegal or unenforceable provisions had never been contained therein.

[THIS PAGE INTENTIONALLY LEFT BLANK]



**APPENDIX F**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

[THIS PAGE INTENTIONALLY LEFT BLANK]

## **CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement (this “Agreement”) dated September 18, 2024 is by and between THE CITY OF PHILADELPHIA, PENNSYLVANIA (the “City”) and DIGITAL ASSURANCE CERTIFICATION, L.L.C., as dissemination agent (the “Dissemination Agent”) in connection with the issuance and sale by the City of \$424,250,000 aggregate principal amount of its Gas Works Revenue Bonds, Seventeenth Series (1998 General Ordinance) consisting of \$314,960,000 Gas Works Revenue Bonds, Seventeenth Series A (the “Series A Bonds”) and \$109,290,000 Gas Works Revenue Refunding Bonds, Seventeenth Series B (the “Series B Bonds” and together with the Series A Bonds, the “Bonds”). The Bonds are being issued pursuant to the Act, the General Ordinance and the Bond Authorization. Capitalized terms used in this Agreement shall have the respective meanings specified above or in Article IV hereof.

In consideration of the mutual covenants, promises and agreements contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

### **ARTICLE I** **The Undertaking**

**Section 1.1. Purpose.** This Agreement is authorized to be executed and delivered by the City pursuant to the General Ordinance and Section 11 of the Bond Authorization solely in order to assist the Underwriters in complying with subsection (b)(5) of the Rule.

**Section 1.2. Annual Financial Information.**

(a) Commencing with the PGW Fiscal Year ending August 31, 2024, the Disclosure Representative shall deliver the Annual Financial Information to the Dissemination Agent for filing by the Dissemination Agent (on behalf of the City) with EMMA (as defined herein) no later than April 26, 2025, and no later than each succeeding April 26th for each preceding fiscal year thereafter (the “Annual Filing Date”). The Dissemination Agent shall promptly upon receipt thereof file the Annual Financial Information with EMMA.

(b) The Dissemination Agent shall provide, in a timely manner, notice of any failure of the City to provide the Annual Financial Information by the date specified in subsection (a) hereof.

**Section 1.3. Audited Financial Statements.** If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the Disclosure Representative shall provide Audited Financial Statements, when and if available, to the Dissemination Agent. The Dissemination Agent shall promptly upon receipt thereof file such Audited Financial Statements with EMMA.

**Section 1.4. Notice Events.**

(a) If a Notice Event occurs, the Disclosure Representative shall provide through the Dissemination Agent, in a timely manner not in excess of ten (10) business days after the

occurrence of such Notice Event, notice of such Notice Event to the MSRB internet website (currently [www.emma.msrb.org](http://www.emma.msrb.org)).

(b) Any notice of a defeasance of the Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) Each Notice Event notice relating to the Bonds shall include the CUSIP numbers of the Bonds to which such Notice Event notice relates or, if the Notice Event notice relates to all bonds issues of the City including the Bonds, such Notice Event notice need only include the CUSIP number of the City.

(d) The Dissemination Agent shall promptly advise the City whenever, in the course of performing its duties as Dissemination Agent under this Agreement, the Dissemination Agent has actual notice of an occurrence which, if material, would require the City to provide notice of a Notice Event hereunder; provided, however, that the failure of the Dissemination Agent so to advise the City shall not constitute a breach by the Dissemination Agent of any of its duties and responsibilities under this Agreement.

**Section 1.5. Additional Information.** Nothing in this Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Notice Event hereunder, in addition to that which is required by this Agreement. If the City chooses to do so, the City shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Notice Event hereunder.

**Section 1.6. Additional Disclosure Obligations.** The City acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933, as amended, and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, as amended, may apply to the City and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the City under such laws.

## **ARTICLE II** **Operating Rules**

**Section 2.1. Reference to Other Filed Documents.** It shall be sufficient for purposes of Section 1.2 hereof if the City provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB internet website (currently [www.emma.msrb.org](http://www.emma.msrb.org)) or (ii) filed with the SEC. The provisions of this Section shall not apply to notices of Notice Events pursuant to Section 1.4 hereof.

**Section 2.2. Submission of Information.** Annual Financial Information may be set forth or provided in one document or a set of documents, and at one time or in part from time to time.

**Section 2.3. Dissemination Agent.** The City has designated the Dissemination Agent as its agent to act on its behalf in providing or filing notices, documents and information as required of the City under this Agreement. The City may revoke or modify such designation. Upon any revocation of such designation, the City shall comply with its obligation to provide or file notices, documents and information as required under this Agreement or may designate another agent to act on its behalf.

**Section 2.4. Transmission of Notices, Documents and Information.**

(a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access system ("EMMA"), which is currently accessible at the following web address: [emma.msrb.org](http://emma.msrb.org).

(b) All notices, documents and information provided on EMMA shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

**Section 2.5. Fiscal Year.**

(a) The Disclosure Representative shall file promptly a notification on EMMA, through the Dissemination Agent, of any change in the City Fiscal Year or the PGW Fiscal Year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

**ARTICLE III**

**Effective Date, Termination, Amendment and Enforcement**

**Section 3.1. Effective Date; Termination.**

(a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The City's and the Dissemination Agent's obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds.

**Section 3.2. Amendment.**

(a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the City shall have delivered to the Dissemination Agent an opinion of Counsel,

addressed to the City and the Dissemination Agent, to the same effect as set forth in clause (2) above, (4) either (i) the City shall have delivered to the Dissemination Agent an opinion of Counsel or a determination by an entity, in each case unaffiliated with the City (such as bond counsel or the Dissemination Agent), addressed to the City and the Dissemination Agent, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the General Ordinance with consent of holders of Bonds pursuant to the General Ordinance as in effect at the time of the amendment, and (5) the Disclosure Representative shall have delivered a copy of the amendment, accompanied by copies of such opinion(s), to the Dissemination Agent. The items provided in clause (5) shall be promptly filed by the Dissemination Agent on EMMA and sent to each Registered Owner.

(b) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the City shall have delivered to the Dissemination Agent an opinion of Counsel, addressed to the City and the Dissemination Agent, to the effect that performance by the City and the Dissemination Agent under this Agreement as so amended will not result in a violation of the Rule and (3) the Disclosure Representative shall have delivered a copy of the amendment, accompanied by a copy of such opinion, to the Dissemination Agent. Such amendment shall be filed promptly by the Dissemination Agent on EMMA and sent to each Registered Owner.

(c) This Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) the City shall have delivered to the Dissemination Agent an opinion of Counsel, addressed to the City and the Dissemination Agent, to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of Staff of the SEC, and (2) the Disclosure Representative shall have delivered a copy of the amendment, accompanied by a copy of such opinion, to the Dissemination Agent. Such amendment shall be filed promptly by the Dissemination Agent on EMMA and sent to each Registered Owner.

(d) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(e) If an amendment is made pursuant to this Section 3.2 hereof to the accounting principles to be followed by the City in preparing the financial statements of the City or PGW in preparing the financial statements of PGW, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

**Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement.**

(a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and in subsection (b) of this Section.

(b) The obligations of the City to comply with the provisions of this Agreement shall be enforceable by any holder of Outstanding Bonds. The holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the City's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the City or the Dissemination Agent to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the General Ordinance, and the rights and remedies provided by the General Ordinance upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the Commonwealth, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the Commonwealth; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

**ARTICLE IV**  
**Definitions**

**Section 4.1. Definitions.** The following terms used in this Agreement shall have the following respective meanings:

(1) "Act" means The First Class City Revenue Bond Act, approved October 18, 1972 (Act No. 234, 53 P.S. §§15901 to 15924), as amended.

(2) "Annual Financial Information" means, collectively:

(i) The Annual Comprehensive Financial Report of the Philadelphia Gas Works ("PGW's ACFR") for the most recently ended PGW Fiscal Year, which contains the Audited Financial Statements, and if PGW's ACFR is not otherwise prepared, the Audited Financial Statements;

(ii) the City's Annual Comprehensive Financial Report (the "City's ACFR") for the most recently ended City Fiscal Year;

(iii) financial information or operating data with respect to PGW and the City, substantially similar to the type set forth in (A) Tables 1 through 14 of the Official Statement (except Table 3 and excluding any portions of tables not reflective of a full fiscal year) and the Table entitled “Philadelphia Gas Works Budgeted Statement of Income”; and (B) Tables 1 through 52 in Appendix C attached to the Official Statement (except Tables 19, 36, 37 and 48); and

(iv) the information regarding amendments to this Agreement required pursuant to Sections 3.2(d) and (e) of this Agreement.

Annual Financial Information shall include Audited Financial Statements; provided however if Audited Financial Statements are not available by the Annual Filing Date, then the City shall cause Unaudited Financial Statements to be included in the Annual Financial Information, and subsequently file Audited Financial Statements as soon as they become available.

Annual Financial Information shall be delivered at least annually pursuant to Section 1.2 (a) hereof. In connection with Section 4.1(2), it is the City’s intention to satisfy all or a portion of the obligations set forth therein by submitting to EMMA (x) PGW’s ACFR, (y) the City’s ACFR, and (z) to the extent not otherwise updated in either PGW’s ACFR or the City’s ACFR, (1) an official statement or comparable offering document, or an appendix thereto, that includes annual updates to the Tables specified in clause 4.1(2)(iii) herein or (2) if the City does not have such an official statement, offering document or appendix prepared, then annual updates to the Tables specified in clause 4.1(2)(iii) herein. If at any time the City deletes, for purposes of a then-current offering document or appendix thereto, certain financial information or operating data from such then-current offering document or appendix that is included in one of the Tables specified in clause 4.1(2)(iii) above, such deleted information will be submitted separately from the updated offering document or appendix.

The descriptions contained in this Section 4.1(2) of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(3) “Audited Financial Statements” means the annual financial statements, if any, of PGW, audited by KPMG LLP, or such other auditor as shall then be required or permitted by Commonwealth law. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Section 3.2 (e) hereof, the City may from time to time, if required by federal or Commonwealth legal requirements, modify the accounting principles to be followed in preparing the financial statements of the City or PGW. The notice of any such modification required by Section 3.2 (e) hereof shall include a reference to the specific federal or Commonwealth law a regulation describing such accounting principles, or other description thereof.



(4) “Bond Authorization” means the Bond Authorization for the Bonds adopted by the Bond Committee of the City (consisting of the Mayor, the City Solicitor and the City Controller and acting by a majority thereof) on September 12, 2024.

(5) “City Fiscal Year” means the fiscal year of the City, currently beginning on July 1 and ending on June 30, as may be changed as contemplated under Section 2.5 hereof.

(6) “Commonwealth” means the Commonwealth of Pennsylvania.

(7) “Counsel” means any nationally recognized bond counsel or counsel expert in federal securities laws.

(8) “Disclosure Representative” means the Director of Finance of the City, the City Treasurer or such other official or employee of the City as the Director of Finance or the City Treasurer shall designate in writing to the Dissemination Agent.

(9) “Financial Obligation” means “financial obligation” as such term is defined in the Rule.

(10) “Fiscal Agent” means U.S. Bank Trust Company National Association, as fiscal agent and registrar for the Bonds.

(11) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(12) “General Ordinance” means the City’s General Gas Works Revenue Bond Ordinance of 1998, as amended and supplemented, including as supplemented by the Thirteenth Supplemental Ordinance adopted by the City Council on March 26, 2015 and signed by the Mayor on March 26, 2015, the Fourteenth Supplemental Ordinance adopted by the City Council on June 15, 2017 and signed by the Mayor on June 21, 2017, the Fifteenth Supplemental Ordinance adopted by the City Council on June 25, 2020 and signed by the Mayor on June 26, 2020, and the Sixteenth Supplemental Ordinance adopted by the City Council on June 13, 2024 and signed by the Mayor on June 26, 2024.

(13) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended, or any successor thereto or to the functions of the MSRB contemplated by this Agreement.

(14) “Notice Event” means any of the following events with respect to the Bonds, whether relating to the City or otherwise:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;

- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) modifications to rights of Bondholders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the City (this event is considered to occur when any of the following occur” the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City);
- (xiii) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) appointment of a successor or additional paying agent, or the change of name of a paying agent, if material;
- (xv) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and

(xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

(15) “Official Statement” means the Official Statement dated September 12, 2024, of the City relating to the Bonds.

(16) “PGW” means the Philadelphia Gas Works of the City of Philadelphia.

(17) “PGW Fiscal Year” means the fiscal year of PGW, currently beginning on September 1 and ending on August 31, as may be changed as contemplated under Section 2.5 hereof.

(18) “Registered Owner” or “Registered Owners” means the person or persons in whose name a Bond is registered on the books of the City maintained by the Fiscal Agent in accordance with the General Ordinance and the Bonds. For so long as the Bonds shall be registered in the name of the Securities Depository or its nominee, the term “Registered Owner” or “Registered Owners” also means and includes, for the purposes of this Agreement, the owners of book-entry credits in the Bonds evidencing an interest in the Bonds; provided, however, that the Dissemination Agent shall have no obligation to provide notice hereunder to owners of book-entry credits in the Bonds except those who have filed their names and addresses with the Dissemination Agent for the purposes of receiving notices or giving direction under this Agreement.

(19) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as amended, as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(20) “SEC” means the United States Securities and Exchange Commission.

(21) “Securities Depository” shall mean The Depository Trust Company, New York, New York, or its nominee, Cede & Co., or successor thereto appointed pursuant to the General Ordinance.

(22) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

(23) “Underwriters” means the financial institutions named on the cover of the Official Statement.

## **ARTICLE V** **Miscellaneous**

**Section 5.1. Duties, Immunities and Liabilities of the Dissemination Agent.** The Dissemination Agent shall have only such duties under the Agreement as are specifically set forth in this Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers,

directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct in the performance of its duties hereunder. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

**Section 5.2. Counterparts.** This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[SIGNATURE PAGE TO FOLLOW]

**IN WITNESS WHEREOF, THE CITY OF PHILADELPHIA, PENNSYLVANIA,** has caused this Continuing Disclosure Agreement to be executed by the Director of Finance and **DIGITAL ASSURANCE CERTIFICATION, L.L.C.**, as Dissemination Agent, has caused this Disclosure Agreement to be executed by one of its authorized officers, all as of the day and year first above written.

**CITY OF PHILADELPHIA,  
PENNSYLVANIA**

By: \_\_\_\_\_  
Name: Rob Dubow  
Title: Director of Finance

**DIGITAL ASSURANCE  
CERTIFICATION, L.L.C, as  
Dissemination Agent**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX G

### BOOK-ENTRY ONLY SYSTEM

The information set forth herein concerning The Depository Trust Company, New York, New York (“DTC”) and the book-entry system described below has been extracted from materials provided by DTC for such purpose, is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the City, PGW or the Underwriters. The websites referenced below are included for reference only and the information contained therein is not incorporated by reference in this Official Statement.

DTC, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds of each maturity and Series, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity and series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant of such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, payments of principal, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the City or the Fiscal Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of redemption proceeds, principal, premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and the City takes no responsibility for the accuracy thereof.

*THE CITY, PGW AND THE FISCAL AGENT CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OR INTEREST ON THE BONDS, (2) CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN THE BONDS, OR (3) NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DIRECT PARTICIPANTS ARE ON FILE WITH DTC.*

NEITHER THE CITY, PGW NOR THE FISCAL AGENT SHALL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE FISCAL



AGENT AS BEING A BONDHOLDER WITH RESPECT TO (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR INTEREST ON THE BONDS; (4) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE APPLICABLE GENERAL ORDINANCE TO BE GIVEN TO BONDHOLDERS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE BONDS.

The City may determine to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be prepared and delivered as described in the applicable Supplemental Ordinance.

So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the Holders, holders, owners, or registered owners of such Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

In the event that the Book-Entry Only System is discontinued and the Beneficial Owners become registered owners of the Bonds, the following provisions applicable to registered owners would apply: (i) Bonds may be exchanged for an equal aggregate principal amount of Bonds of the same maturity and Series in other authorized denominations, upon surrender thereof at the designated corporate trust office of the Fiscal Agent; (ii) the transfer of any Bonds may be registered on the books maintained by the Fiscal Agent for such purpose only upon the surrender thereof to the Fiscal Agent together with a duly executed assignment in form satisfactory to the City and the Fiscal Agent; and (iii) for every exchange or registration of transfer of Bonds, the Fiscal Agent may impose a charge sufficient to reimburse it for any tax, fee or governmental charge required to be paid with respect to such exchange or registration of transfer of the Bonds.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX H**

**PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL**

[THIS PAGE INTENTIONALLY LEFT BLANK]

September 18, 2024

Re: \$424,250,000, aggregate principal amount, City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Seventeenth Series (1998 General Ordinance) consisting of \$314,960,000, aggregate principal amount, Gas Works Revenue Bonds, Seventeenth Series A and \$109,290,000, aggregate principal amount, Gas Works Revenue Refunding Bonds, Seventeenth Series B

To the Purchasers of the Within-Described Bonds:

We have acted as Co-Bond Counsel to the City of Philadelphia, Pennsylvania (“City”) in connection with the authorization and issuance by the City of its Gas Works Revenue Bonds, Seventeenth Series (1998 General Ordinance) consisting of \$314,960,000, aggregate principal amount, Gas Works Revenue Bonds, Seventeenth Series A (the “Series A Bonds”) and \$109,290,000, aggregate principal amount Gas Works Revenue Refunding Bonds, Seventeenth Series B (“Series B Bonds” and, together with the Series A Bonds, the “Bonds”).

The Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania (“Commonwealth”); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 (“Act”); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended and supplemented prior to March 26, 2015 (the “Original Ordinance”), and by the Thirteenth Supplemental Ordinance to the 1998 General Ordinance (Bill No. 150159), enacted by the County of the City (“City Council”) on March 26, 2015 and approved by the Mayor of the City (“Mayor”) on March 26, 2015 (the “Thirteenth Supplemental Ordinance”), the Fourteenth Supplemental Ordinance to the 1998 General Ordinance (Bill No. 170432), enacted by the City Council on June 15, 2017 and approved by the Mayor on June 21, 2017 (the “Fourteenth Supplemental Ordinance”), the Fifteenth Supplemental Ordinance to the 1998 General Ordinance (Bill No. 200296-A), enacted by City Council on June 25, 2020 and approved by the Mayor on June 26, 2020 (the “Fifteenth Supplemental Ordinance”) and the Sixteenth Supplemental Ordinance to the 1998 General Ordinance (Bill No. 240373), enacted by City Council on June 13, 2024 and approved by the Mayor on June 26, 2024 (the “Sixteenth Supplemental Ordinance” and together with the Original Ordinance, the Thirteenth Supplemental Ordinance, the Fourteenth Supplemental Ordinance and the Fifteenth Supplemental Ordinance, the “1998 General Ordinance”); and (iv) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, and acting by at least a majority thereof, dated September 12, 2024 (“Bond Authorization”). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance.

The Series A Bonds are being issued by the City to provide funds to (i) finance a portion of Philadelphia Gas Works’ ongoing Capital Improvement Program, (ii) pay the costs of redeeming certain of the City’s outstanding Gas Works Revenue Capital Project Commercial Paper Notes, and (iii) pay the costs of issuing the Series A Bonds. The Series B Bonds are being issued by the City to provide funds to (i) refund the City’s Gas Works Revenue Refunding Bonds, Thirteenth Series maturing on August 1 in the years 2026 through 2034, inclusive, and (ii) Gas Works Variable Rate Demand Revenue Bonds, Fifth Series A-2 maturing September 1, 2034 currently Outstanding under the 1998 General Ordinance, and (iii) pay the costs of issuing the Series B Bonds.

The Bonds, together with all Senior Bonds presently Outstanding under the 1998 General Ordinance and any parity obligations hereafter issued under the 1998 General Ordinance (collectively, the “Senior Bonds”), are equally and ratably payable solely from and secured solely by a lien on and security interest in

all Gas Works Revenues, all accounts, contract rights and general intangibles representing Gas Works Revenues, and the Sinking Fund, including the Sinking Fund Reserve established under the 1998 General Ordinance.

As Co-Bond Counsel, we have examined: (i) the relevant provisions of the Constitution of the Commonwealth; (ii) the Act; (iii) the Original Ordinance; (iv) the Thirteenth Supplemental Ordinance; (v) the Fourteenth Supplemental Ordinance; (vi) the Fifteenth Supplemental Ordinance; (vii) the Sixteenth Supplemental Ordinance; (viii) the Bond Authorization; and (ix) certain statements, certifications, affidavits and other documents and matters of law as we have deemed necessary to enable us to render the opinion set forth below, including, without limitation, a certificate of officials of the City and of the Gas Works having responsibility for issuing the Bonds (“Tax Compliance Certificate”), intended to satisfy certain provisions of the Internal Revenue Code of 1986, as amended (“Code”), and applicable Treasury Regulations, and the other documents and instruments listed on the Index of Closing Documents relating to the Bonds dated the date hereof. We have also examined the fully executed and authenticated Bonds.

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all of the documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

Except with respect to Paragraph 5 below, our opinion is given only with respect to the internal laws of the Commonwealth of Pennsylvania (“Commonwealth” or “Pennsylvania”) as enacted and construed on the date hereof.

Based upon and subject to the foregoing and subject to the qualifications hereinafter set forth, we are of the opinion that:

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the Original Ordinance, the Thirteenth Supplemental Ordinance, the Fourteenth Supplemental Ordinance, the Fifteenth Supplemental Ordinance, the Sixteenth Supplemental Ordinance and the Bonds and to issue the Bonds for the purposes set forth in the Thirteenth Supplemental Ordinance, the Fourteenth Supplemental Ordinance, the Fifteenth Supplemental Ordinance and the Sixteenth Supplemental Ordinance.
2. The City has duly and properly authorized the issuance of the Bonds.
3. The Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors’ rights.
4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax; however, any profits, gains or income derived from the sale, exchange or other disposition of the Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, interest on the Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, assuming continuing compliance by the City with the requirements of the Code.

In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Bonds and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such covenants could result in the interest on the Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Bonds.

We call to your attention the fact that the Bonds are special obligations of the City payable solely from and secured solely by the Gas Works Revenues and amounts in the Sinking Fund, including the Sinking Fund Reserve, established pursuant to the 1998 General Ordinance. The Bonds are not general obligations of the City and do not pledge the full faith, credit or taxing power of the City or create any debt or charge against the general revenues of the City or create a lien or charge against any property of the City other than Gas Works Revenues.

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or Official Statement prepared in respect of the Bonds and make no representation that we have independently verified the contents thereof.

Very truly yours,

[THIS PAGE INTENTIONALLY LEFT BLANK]



**APPENDIX I**  
**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

[THIS PAGE INTENTIONALLY LEFT BLANK]



**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY INC. ("AG"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AG, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AG shall have received Notice of Nonpayment, AG will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AG, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AG. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AG is incomplete, it shall be deemed not to have been received by AG for purposes of the preceding sentence and AG shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AG shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AG hereunder. Payment by AG to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AG under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AG shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AG which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Form 500 (8/24)

AG may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AG pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AG and shall not be deemed received until received by both and (b) all payments required to be made by AG under this Policy may be made directly by AG or by the Insurer's Fiscal Agent on behalf of AG. The Insurer's Fiscal Agent is the agent of AG only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AG to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AG agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AG to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AG, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY INC.

By \_\_\_\_\_  
Authorized Officer

1633 Broadway, New York, N.Y. 10019  
Form 500 (8/24)

(212) 974-0100



