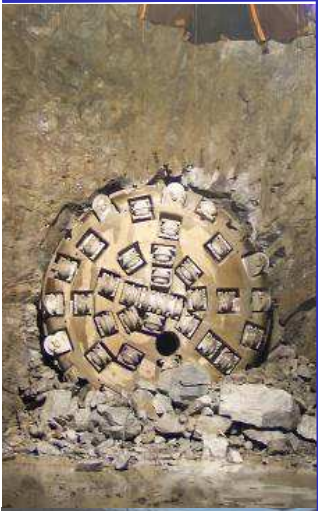


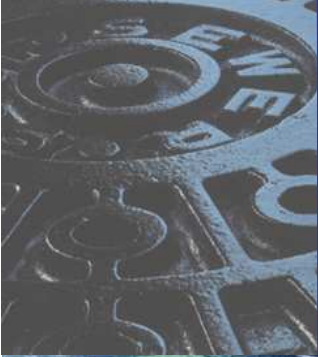


How Capable are You? The Role of Financial Capability and Affordability in Selecting Infrastructure Solutions

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## **Prioritization of Public Investments: Negotiation of program schedule and scope to recognize financial constraints**



**Eric Rothstein, CPA  
Principal  
Galardi Rothstein Group**



# Presentation Outline

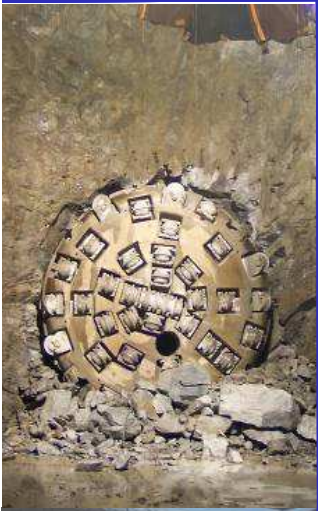
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- ◆ EPA Guidance
  - ◆ Financial Capability Assessment Procedures
  - ◆ FCA critiques
- ◆ NACWA Guiding Principles
- ◆ Applications of Guiding Principles
- ◆ Conclusions – Negotiation Implications



*EPA Guidance*

# EPA's Financial Capability Assessment is a two-part test



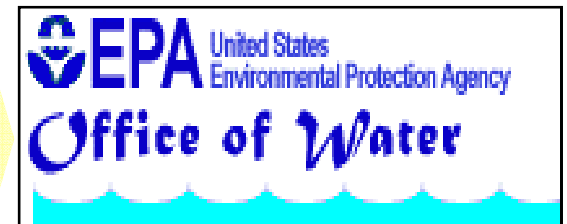
Permittee Financial Capability Indicators Score	Residential Indicator (Cost Per Household as a % of MHI)		
	Low (Below 1.0%)	Median (Between 1.0% and 2.0%)	High (Above 2.0%)
Weak (Below 1.5)	Medium Burden	High Burden	High Burden
Mid-Range (Between 1.5 and 2.5)	Low Burden	Medium Burden	High Burden
Strong (Above 2.5)	Low Burden	Low Burden	Medium Burden



EPA Guidance

# **Financial Capability Assessment limitations are important to consider in negotiations**

- ◆ **No evaluation of non Consent Decree requirements**
- ◆ **Limited relationship to financial planning and rate-setting that impact customers**
- ◆ **No consideration of alternative environmental resource investment options**
- ◆ **No evaluation of impacts on economically disadvantaged**





## EPA Guidance

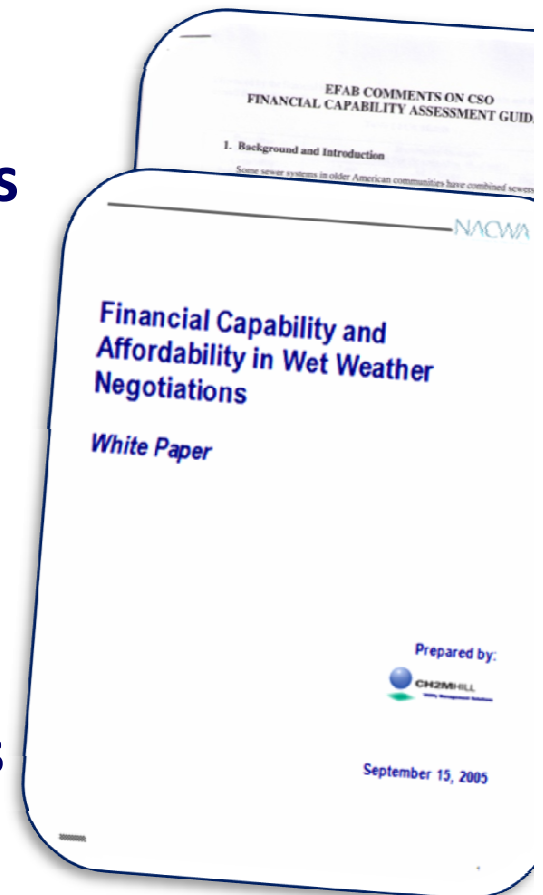
# Problems with EPA's guidance and enforcement practices have been highlighted

### ◆ NACWA & EFAB critiques highlight need to consider:

- ◆ Rates and utility financial plans
- ◆ Impacts on disadvantaged communities
- ◆ Holistic view of costs
- ◆ Refinement of financial indicators

### ◆ NACWA recognizes:

- ◆ Primacy of local factors
- ◆ Need to secure highest returns on environmental investments
  - ◆ Fiduciary responsibilities
  - ◆ Illegitimacy of 'ability to pay' paradigm





EPA Guidance

## Financial capability assessment requires fundamental change



- ◆ Current regulatory and environmental policies are of **questionable merit** given impacts that:
  - ◆ challenge communities' financial capabilities
  - ◆ lead to sub-optimal resource investments
  - ◆ may deprive services to economically disadvantaged
- ◆ An alternative approach to environmental investments is warranted
  - ◆ Limited adjustments to flawed, prescriptive methodology will defeat public policy objectives





# Financial capability is defined by local conditions

## ◆ Economic Capability

- ◆ First consideration must be the community's economic situation.
- ◆ Economic capability must be assessed in light of other investments and potential environmental benefit.
- ◆ Improvements should mitigate potential adverse impact of their cost on distressed populations.

## ◆ Program Scope and Timetable

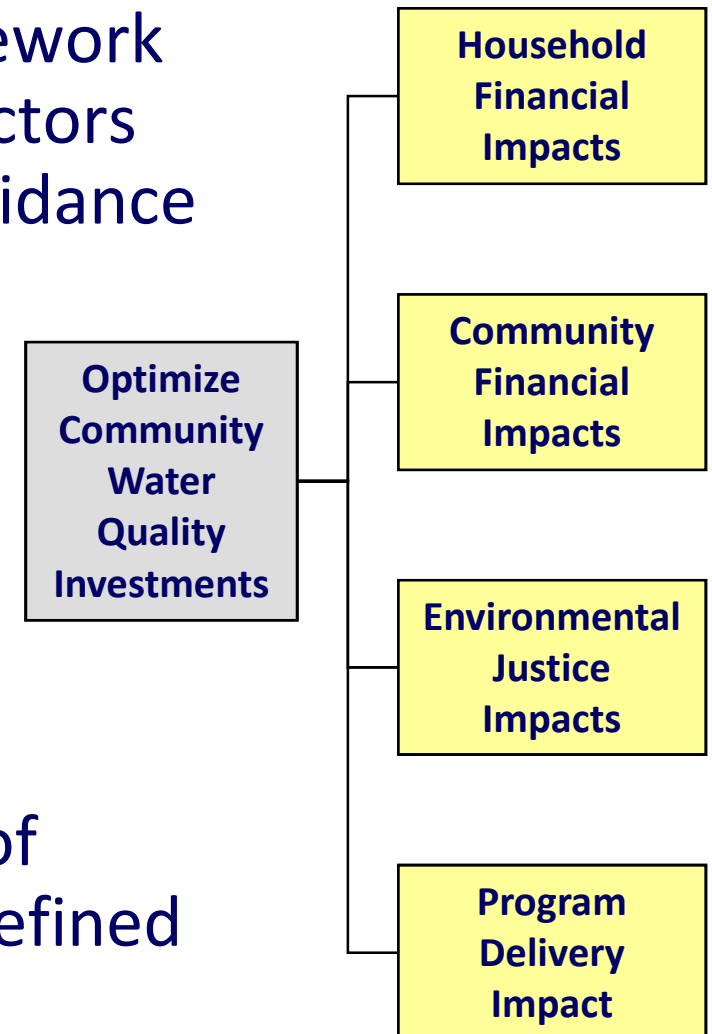
- ◆ Scope and implementation **schedule must be tailored** to community's unique financial condition.
- ◆ Considering financial capability in light of other investment demands and potential benefits ensures greatest water quality improvement at the earliest possible time.



## *NACWA Guiding Principles*

# **Portfolio management** principles recognize local factors and priorities

- ◆ Provides analytical framework that addresses critical factors not addressed by EPA guidance
- ◆ May be tailored for local considerations
  - Weighting systems
  - Performance metrics / scales
- ◆ Facilitates prioritization of investments subject to defined financial constraints







*Applications of Guiding Principles*

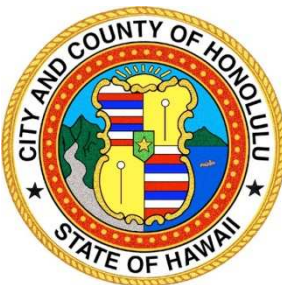
## **Permittees in ongoing discussions have asserted prioritization imperative**



**In Akron, FCA submittal indicating 'High Burden' has been submitted to support 30-year schedule**



**NEORSD's FCA submittal, indicating 'High Burden' to support a 30-year schedule, was complemented by schedule compression analysis**



**Honolulu has cited need for holistic perspective, and recognition of project delivery constraints**



### Applications of Guiding Principles

## **Past negotiated Consent Decrees have addressed limits on financial capabilities**

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- ◆ **Placement of a cap on (holistic) cost over a defined implementation period**
- ◆ **Definition of annual spending limitations such that rate increases may be mitigated**
- ◆ **Monitoring of agreed-upon program implementation metrics such that variances from projections provide relief**
  - ◆ **Construction cost trends**
- ◆ **Eligibility for, or direct provision of, schedule or program scope relief if monitored factors reach negotiated threshold values**



## Conclusions

# Permittees fiduciary responsibilities define negotiation implications

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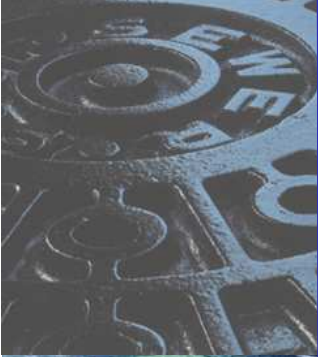
- ◆ Projected costs and compliance must be considered holistically and locally
  - ◆ Illegitimacy of prosecution of individual sections of CWA
  - ◆ Primacy of local considerations
- ◆ Limitations on measures to mitigate impacts on distressed populations
  - ◆ Rate structure options
- ◆ Program schedules and scopes must be malleable
  - ◆ Cost estimate updating
  - ◆ Evolving financial capabilities
  - ◆ *Availability of higher-return environmental investment options*



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## **Prioritization of Public Investments: Negotiation of program schedule and scope to recognize financial constraints**



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# Eric Rothstein, CPA

## Galardi Rothstein Group



- ◆ **Financial capability assessments**
  - ◆ NACWA White Paper and Guiding Principals
  - ◆ AOMWA, Akron, Atlanta, Honolulu, NEORSD
- ◆ **Strategic Financial Planning – Rate Making**
  - ◆ Chair, WEF Rate Manual Task Force
  - ◆ Chair, AWWA Rate Design Manual Task Force
  - ◆ Atlanta, Augusta (GA), Honolulu, San Francisco, Government of Egypt
- ◆ **Stakeholder Involvement / Structured Decisions**
  - ◆ Regionalization – Houston, Seminole County (FL)
  - ◆ Public Involvement – Winnipeg, Salem, OR