



# Braving the Financial Storm: Motivation and Opportunity



**Bob Bailey, President  
CH2M HILL Water Business Group**

***NACWA Winter Conference***

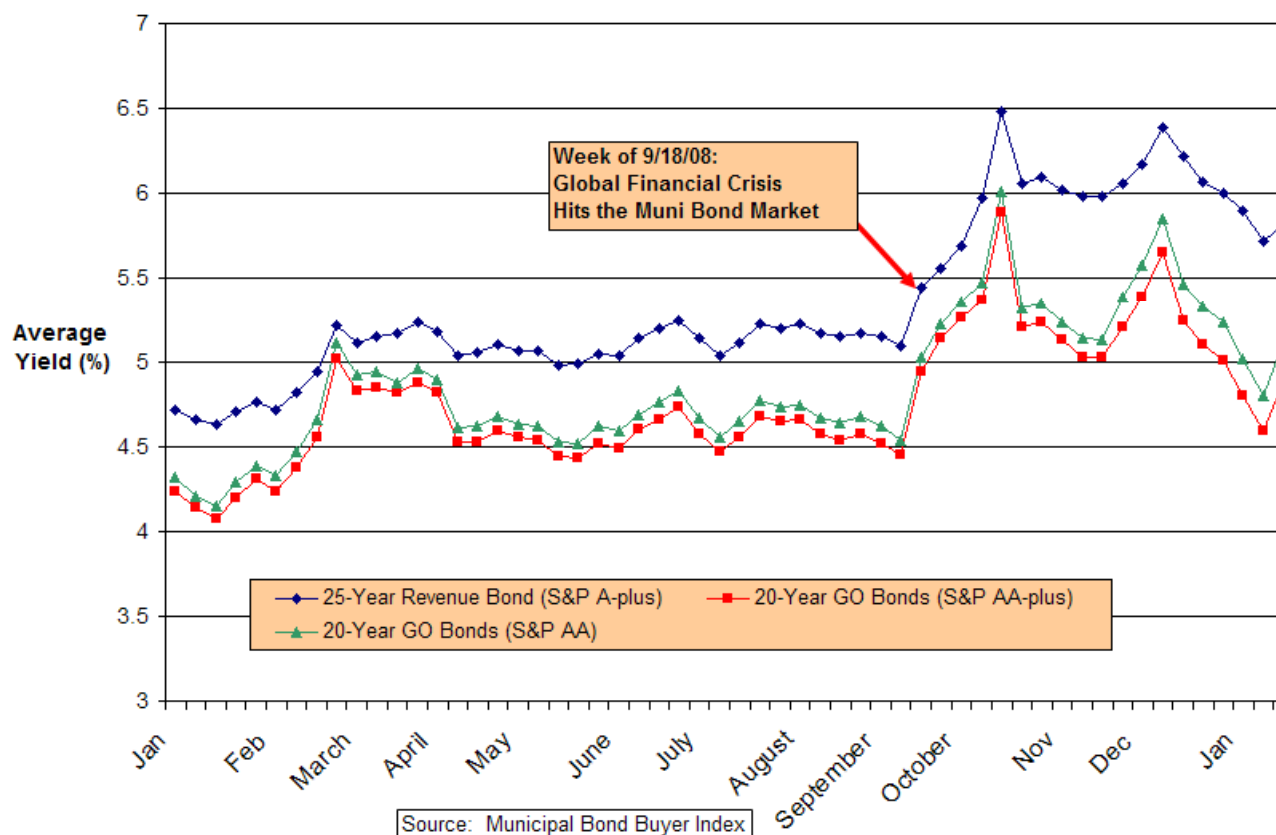
***Atlanta, February 4, 2009***

# Challenges of a perfect storm



# Bond market uncertainties create new challenges that affect all

Trends in Muni Bond Rates: 2008 & 2009  
Average Yields for Bonds Tracked by Municipal Bond Buyer



# The state of the economy inevitably affects the water/wastewater business

## The New York Times

Friday, December 5, 2008

### U.S. Loses 533,000 Jobs in November

By LOUIS UCHITELLE

With the economy deteriorating rapidly, the nation's employment fell in November, the 11th consecutive monthly decline, the government said, and the unemployment rate rose to 6.7 percent.

The decline, the largest one-month loss since December 1974, was fresh evidence that the economic contraction accelerated in November, promising to make the current recession, already 12 months old, the longest since the Great Depression. The previous record was 16 months, in the severe recessions of the mid-1970s and early 1980s.

The alarming job decline suggests that consumers and businesses have pulled back sharply on spending, worsening credit crisis. That has put pressure on Congress to act quickly with a stimulus package that would substitute for the missing demand.

Over all, the losses since the recession began now total about 3.5 million in the last three months.

"We have gone from recession into something that looks more like a depression," said Mark Zandi, chief domestic economist at High Frequency Economics, accelerating job losses in recent months.

The losses in November far exceeded the 350,000 figure that some economists had predicted.

"Business shut down in November," said Mark Zandi, chief economist at High Frequency Economics.



## Clean Water Infrastructure Investment Urged As Part of House Economic Stimulus Package

The House Transportation and Infrastructure Committee today urged Congress to include in the economic stimulus package targeted infrastructure spending package to...

## THE BOND BUYER

THE DAILY NEWSPAPER OF PUBLIC FINANCE

### Crisis Upends Muni-Treasury Relationship

Tuesday, December 2, 2008

By Dan Seymour

It used to be that a good street was a good investment for municipal bonds. No longer.

A scorching-hot two months for municipal bonds. As investors seeking shelter have become increasingly cautious, yields have become unprecedentedly cheap.

For most of their history, municipal bonds reflected pristine credit quality. Depending on the maturity, yields were 100% of the yields on Treasury bonds.

John Derrick, who manages Treasury funds for U.S. Global Investors, says muni bonds to yield 80% of a 10-year Treasury.

On Wednesday, a 10-year Treasury note, the highest rated municipal bond, yielded 154.6% of the Treasury note.

That ratio remained at less than 100% through October 2008.

The disparity on longer-dated bonds was even greater. On Wednesday, a 30-year Treasury note yielded 154.6% of the Treasury note. In 2007, that ratio topped 100%.



## Revenue shortfall at water, sewer utility could spur rate hike

By Jimmy Nesbitt  
Friday, November 28, 2008

The Evansville Water and Sewer Utility has received around \$1.3 million less in revenue than the department projected for the first 10 months of the year.

Through Oct. 31, total water revenue is \$865,526 less than forecast, and sewer revenue is down \$475,145. The downward trend began in December 2007 and has continued through today, forcing the water and sewer utility to use its cash reserve fund to pay operational expenses. Revenue projections are based on a four-year average of actual revenues, Harry Lawson, water and sewer utility general manager, said Wednesday.

At the same time, operational expenses — chemicals used to treat the water, electricity and fuel — have increased significantly. Lawson estimated that operational expenses have increased \$2 million this year.

Exactly what's causing water and sewer revenues to dip remains somewhat a mystery. It's commonplace for industrial usage to decrease in a drought,

## Bloomberg.com

### U.S. Government Should Insure Municipal Bonds, Bloomberg Says

By Henry Goldman and Michael McDonald  
Dec. 2 (Bloomberg) -- The U.S. government should insure

job growth and help repair the damage, New York Mayor Michael Bloomberg said.

Governors Ed Rendell of Pennsylvania and Arnold Schwarzenegger of California has called upon the federal government to pass the proposal last month with President-elect Barack Obama's transition team. Governors of 48 states today to meet in Washington, D.C., aimed at jumpstarting the U.S. economy.

Markets aren't really open to that idea, Bloomberg said during a news conference. He said the federal government should encourage insurance companies that used to insure municipal bonds.

Higher yields on insured municipal bonds, guarantors of about 50 percent of the bonds, were stripped of their AAA credit ratings due to the subprime mortgage crisis.

In a Nov. 20 report, the insurance industry said the insurance companies serve top credit ratings because of their financial strength might destroy the industry.

# The effects are felt industry-wide and world-wide

- Utilities
- Utility customers
- Regulatory agencies
- Contractors
- Equipment manufacturers
- Funding entities
- Consultants



# Employee ownership enables stability

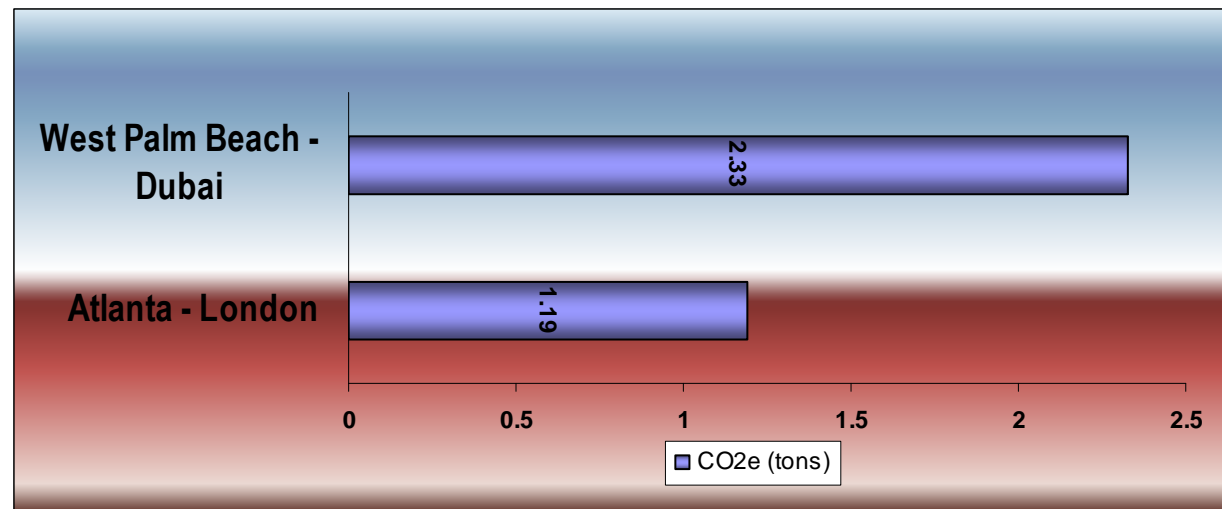


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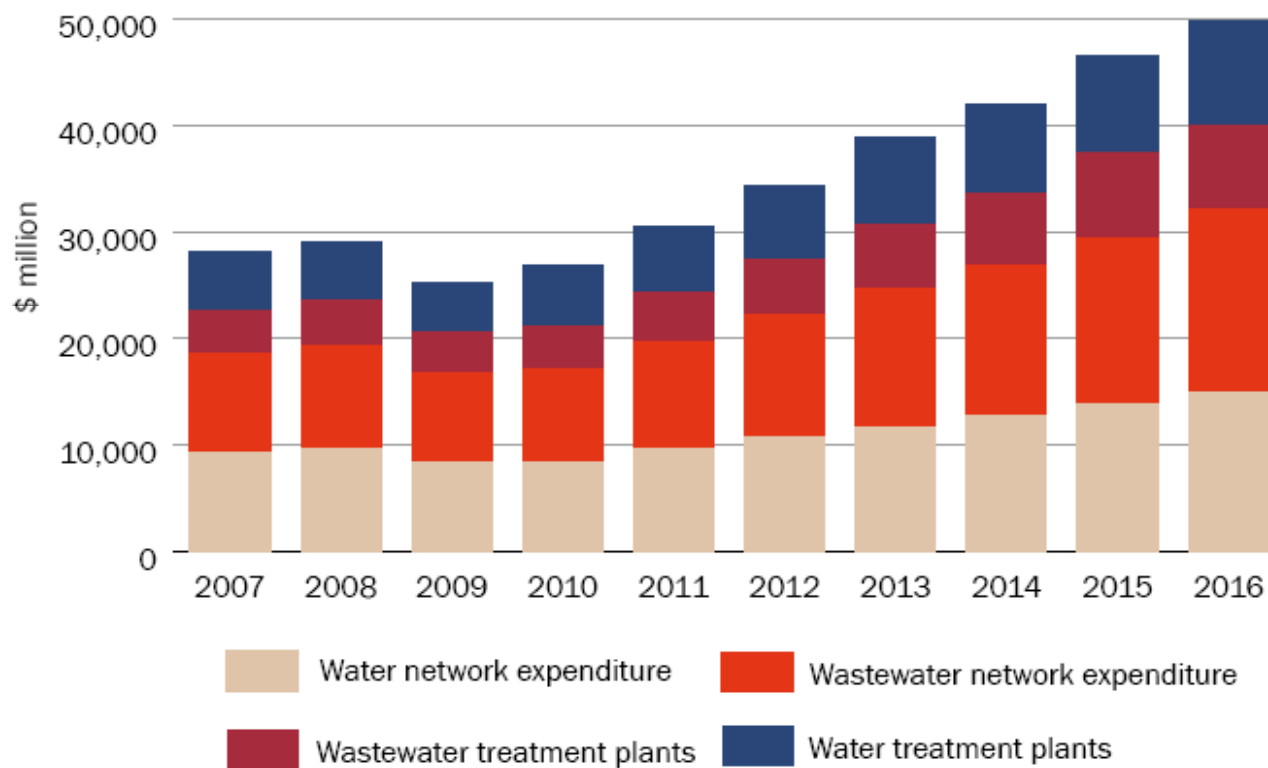
# We Share Your Pain!

- Slower growth
- Reduction in overhead
- Salary freeze for senior management
- Accelerated innovation in communication techniques



# Projected capital expenditures

US water and wastewater capital expenditure forecast to 2016



# Pressure on rates continues to increase affordability concerns

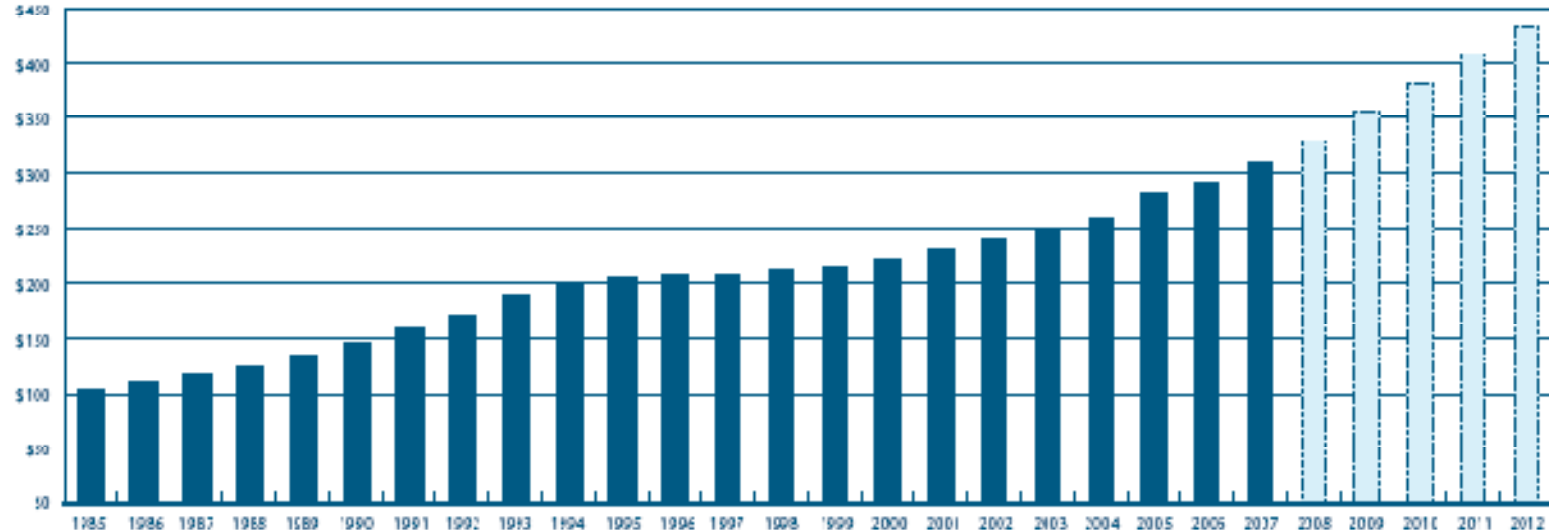
NACWA

A Clear Commitment to America's Waters

Average Annual Sewer Service Charge 1985-2007

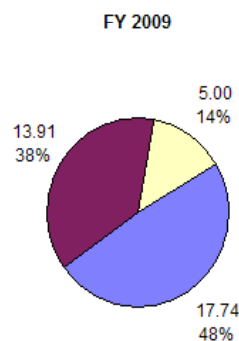
■ = Average Charge

□ = 2008 to 2012 Projected Average Service Charges  
Based on Approved and Anticipated Rate Increases

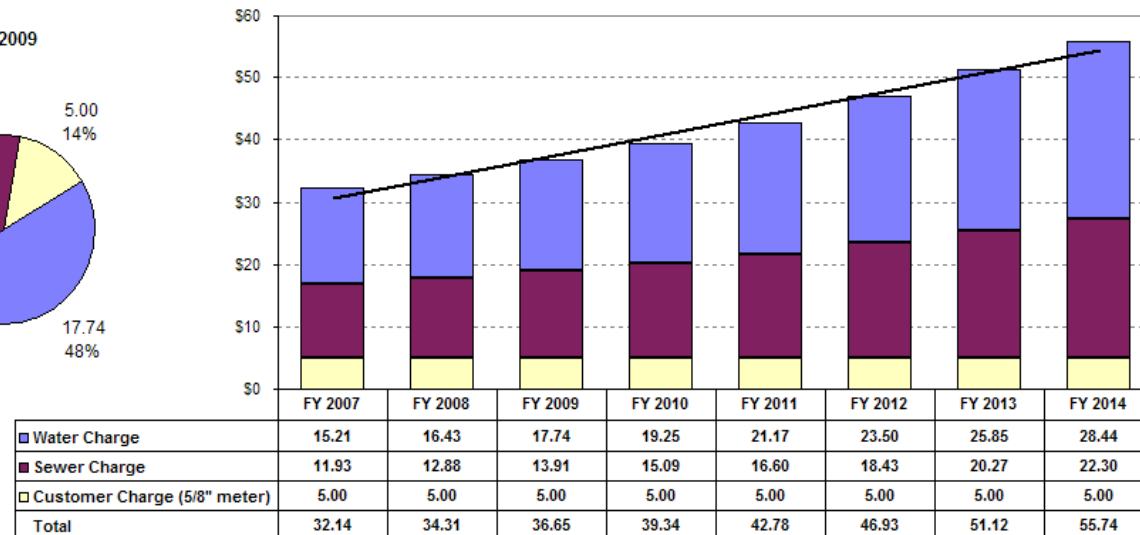


# Careful planning sets the stage to manage financial uncertainty and risk

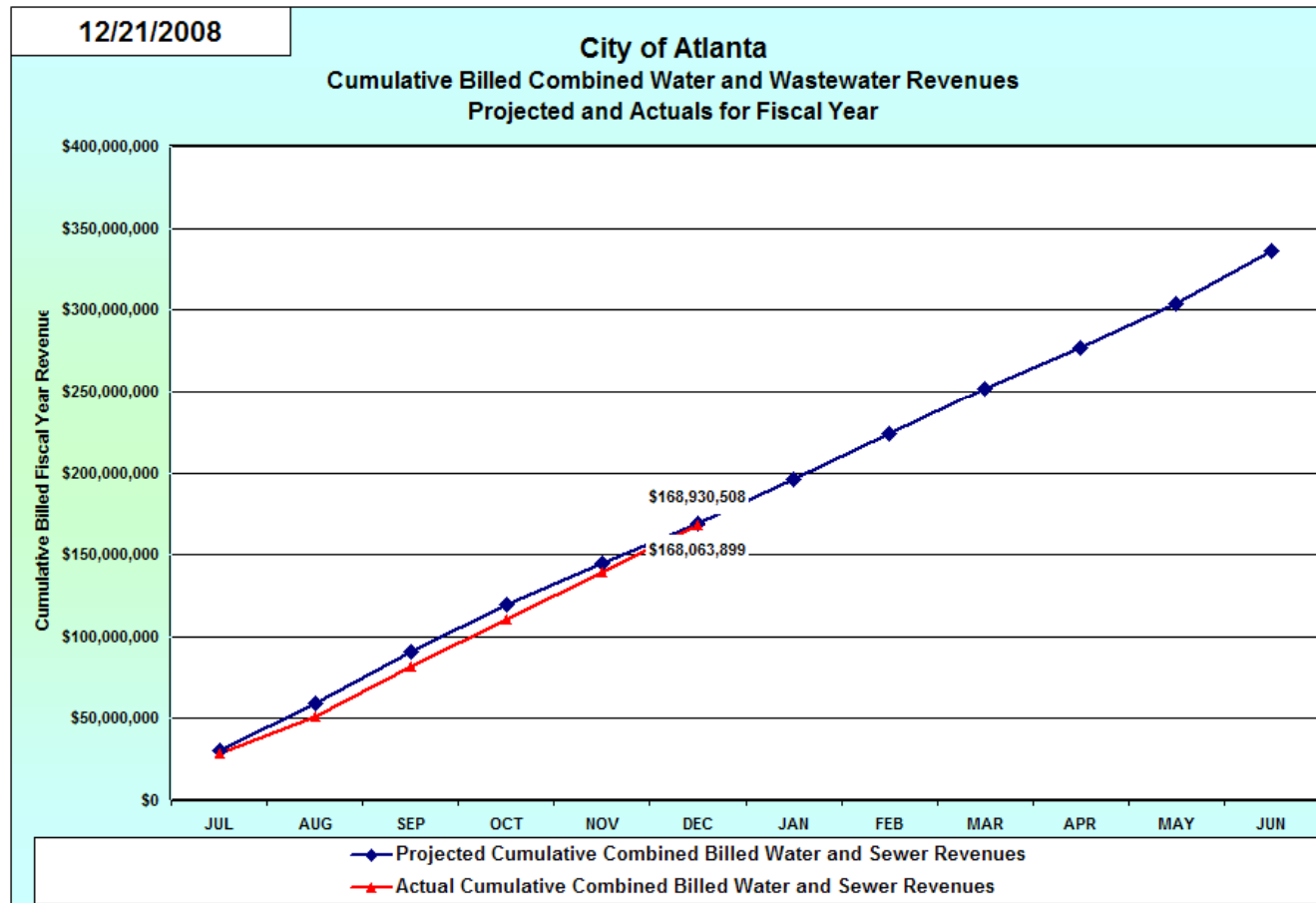
- Financial strategy development
- Robust cost of service and rate models
- Identification of alternate funding sources
- Revenue enhancement



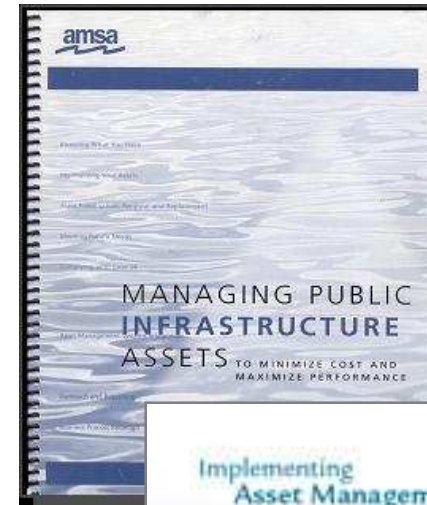
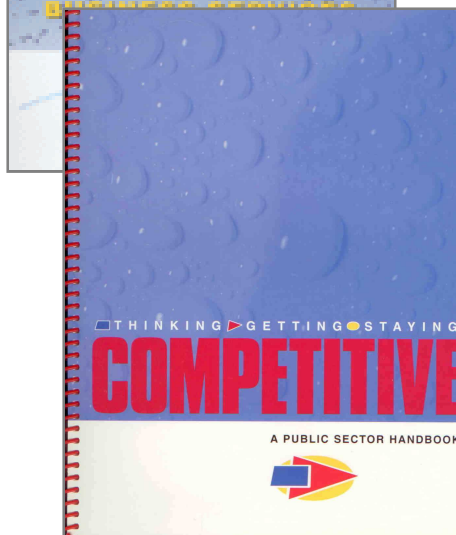
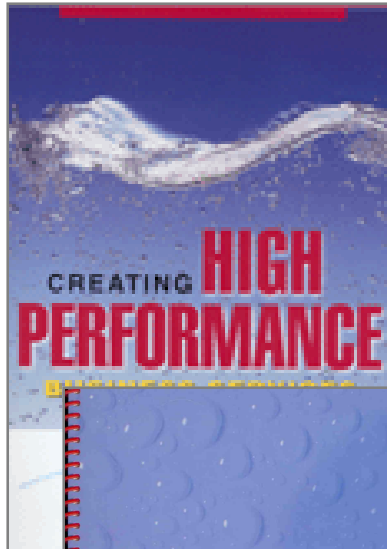
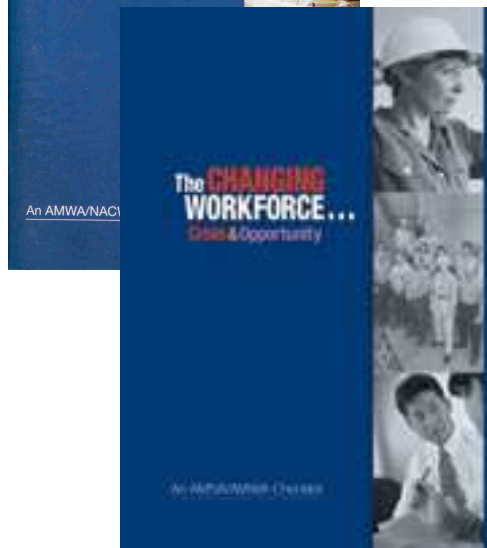
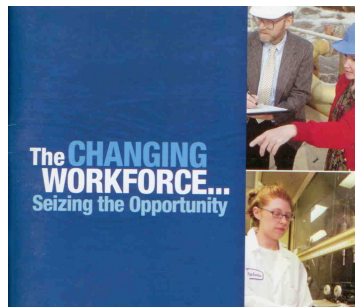
Typical Monthly Bill (4,500 Kgal.)



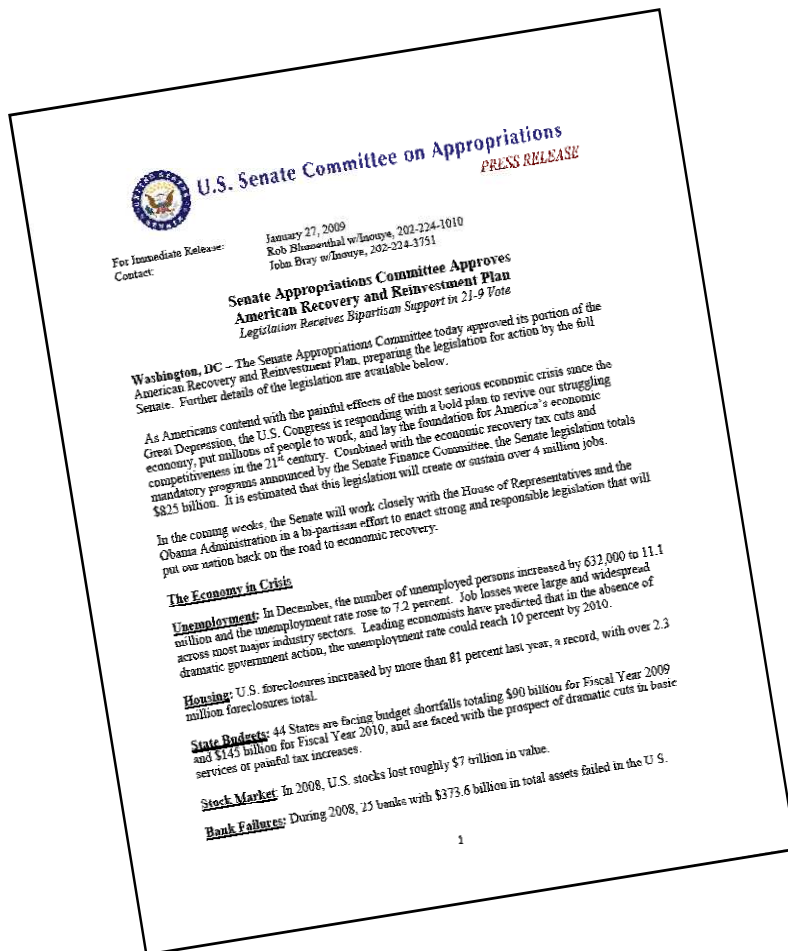
# Enhanced financial tracking eliminates surprises



# Use the Entire Toolbox



# New legislation may facilitate new options



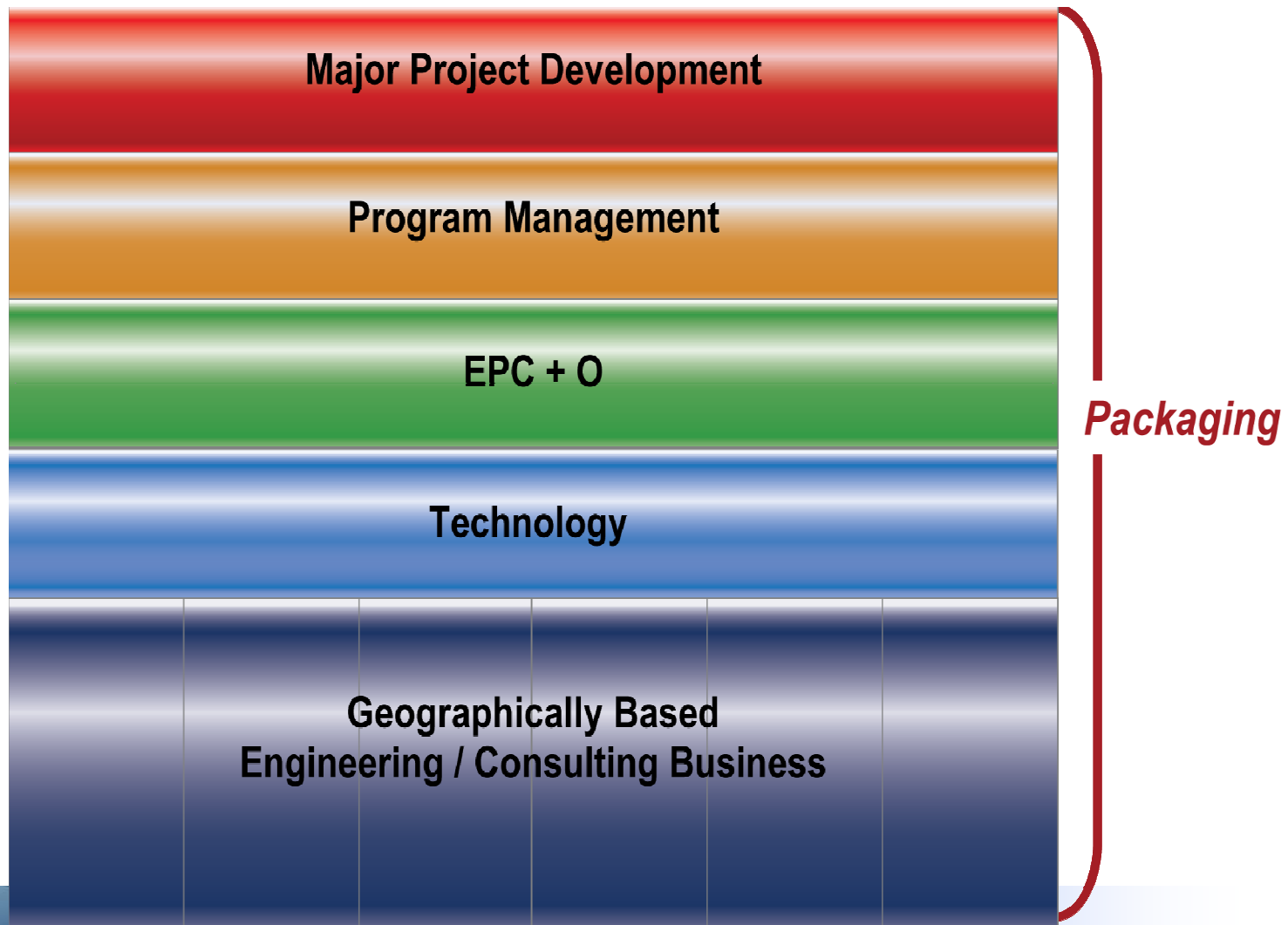
- Economic Stimulus Bill
- Other forms of legislative relief
  - Federal guarantees for municipal borrowers without access to private bond insurance
  - Opportunities for greater use of private activity bonds or other forms of private investment in the wastewater and water industries

# Thank you

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Questions ?  
Comments?

# CH2M HILL portfolio diversity is our best offense and defense in this economy



# Beyond creative capital financing, utilities are using a variety of solutions to address the challenge

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- Asset management and enhanced CIP prioritization to guide investment decisions
- Operational and organizational improvement to help reduce operating budgets
- Alternative project delivery to achieve time and cost savings
- More proactive political and public outreach

# Some positive news

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- Significant bond deals have gone through with decent interest rates since the September 2008 financial meltdown:
  - Seattle Public Utilities, \$205 M
  - New York City, two bond issues greater than \$500 M
  - State of Virginia, \$215 M Pooled Bond Program
- S&P and other rating agencies are increasing many utility ratings, reflecting the continued relative stability of the utility sector