



National Association of Clean Water Agencies
2011 Winter Conference – Ft. Lauderdale, FL



Making Wet Weather Solutions Affordable:

*Never Let A Good Crisis Go To
Waste*

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Presentation Outline

◆ Economic Crisis and USEPA Guidance

- Guidance Limitations Highlighted
- Permittee Experience: Shifting Landscapes

◆ Enduring Realities

- Pricing Policy
- Capital Financing Requirements
- Affordability Imperative
- Financial Capability Limitations

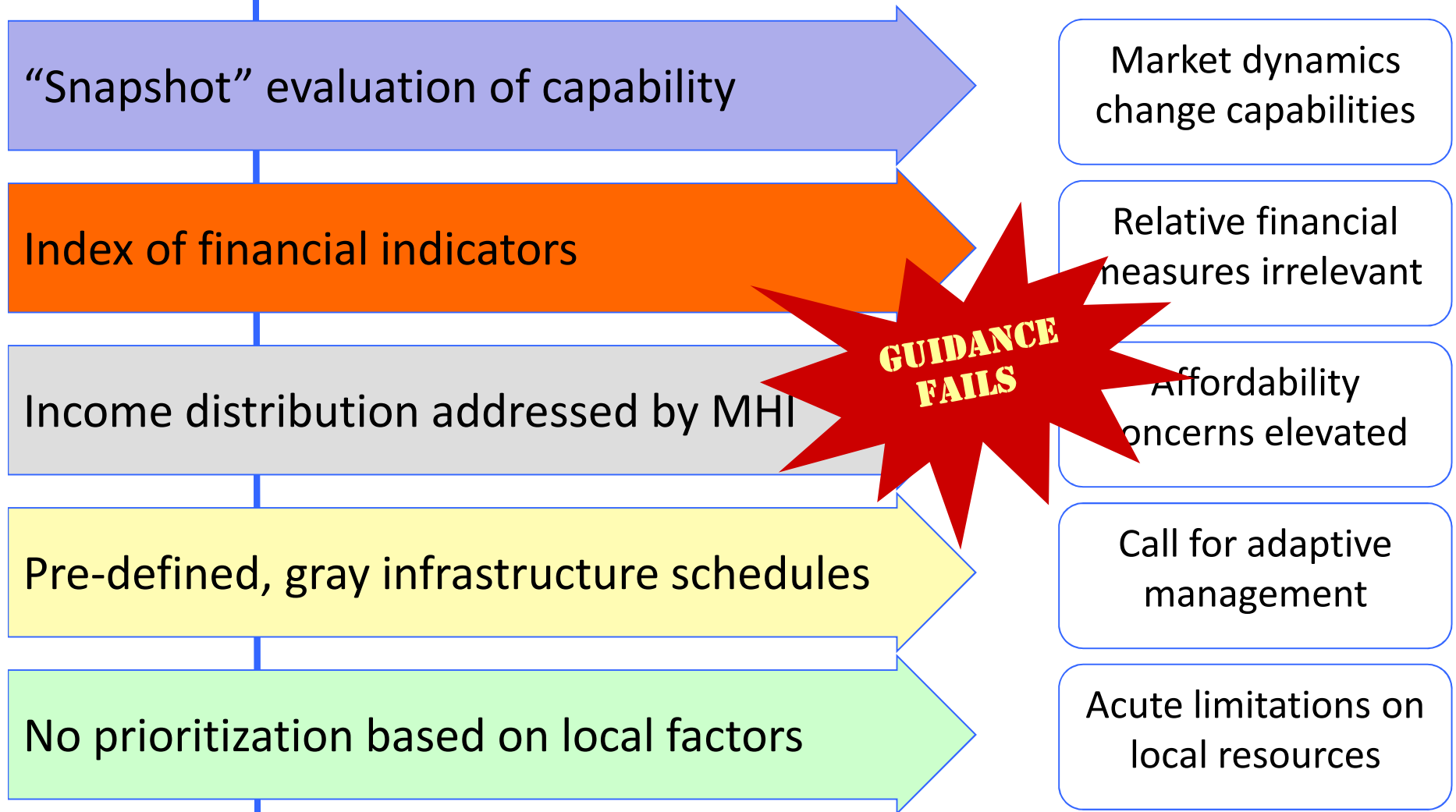
◆ Lessons of the Political Economy

- Permittee Strategies
- Advocacy Opportunities



Economic Crisis and USEPA Guidance

Guidance Limitations Highlighted





Economic Crisis and USEPA Guidance

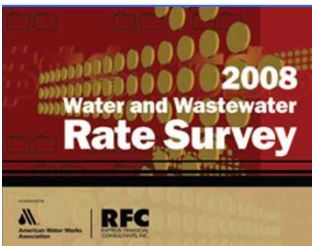
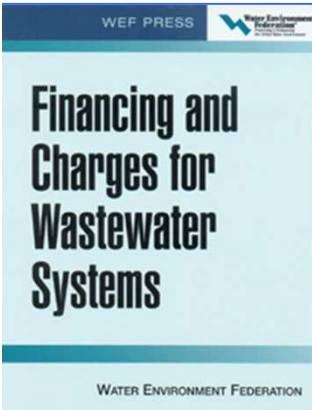
Permittee Experience: Shifting Landscapes

Issue	Pre- 2007 Permittee Experience	Recent Permittee Experience	Examples
High Burden Determination	No major metro permittee's burden acknowledged	Several communities designated as under "High Burden"	Atlanta, Honolulu
Anticipated Percent of MHI claim		Actual / projected MHI burdens approach 3%	Atlanta, Cincinnati, Honolulu
Schedule Limits	Fixed 20-year viewed as absolute maximum due to High Burden	25-year schedules and/or flexibility afforded	Kansas City, Cincinnati, Honolulu
Cash-flow Analysis	No framework for consideration of "additional info"	Utilities' strategic financial planning models used	Akron, Atlanta, Honolulu, St. Louis



Enduring Realities

Pricing Policy



- ◆ **Wastewater largely remains under-priced**
 - ◆ Relative to the value of the service provided
 - ◆ Relative to many other industrialized countries
 - ◆ Relative to the full cost of service delivery
 - ❖ Historical subsidy and prior inadequate asset mgmt
 - ❖ Selected impacts (externalities) not in cost structure
- ◆ **Economics 101: Pricing allocates resources**
 - ◆ Pricing should reflect scarcities and value to enable efficient, sustainable allocation of resources
 - ❖ Subsidies compromise sustainability



Enduring Realities

Capital Financing Requirements

- ◆ Capital markets will continue to require:
 - ◆ Debt service coverage
 - ◆ Risk management measures
- ◆ Private sector participation constrained by:
 - ◆ Private activity bond limitations
 - ◆ Alternative project delivery laws
 - ◆ **Return requirements**





Enduring Realities

Affordability Imperative



- ◆ **Social responsibility**
 - ◆ Prospective rate increases
 - ◆ Environmental justice concerns
 - ◆ Evolving utility role / other utilities' experiences
- ◆ **Business aspects**
 - ◆ Delinquencies
 - ◆ Limited revenue impacts
- ◆ **Consent Decree negotiations**
 - ◆ Expressed High Burden concerns



Enduring Realities

Financial Capability Limitations

- ◆ Permittees serve communities with real funding limitations
- ◆ Real household income declined over last 2 decades
- ◆ Other community priorities face similar funding gaps
- ◆ Emerging regulations / deferred reinvestments must be funded from same resource-limited pool





Lessons of the Political Economy **Permittee Strategies**

- **Recognize position on financial capability is **fundamental****
 - **Perform financial capability assessments**
 - Per guidance and using cash-flow analysis
- **Determine acceptable rate increases / MHI claim based on local circumstances**
- **Define priorities for water quality investment based on holistic evaluation of project performance**
- **Negotiate for flexible program schedules based on cash-flow forecast**
 - **“Zero-sum protocol” to address future regulations**



Lessons of the Political Economy Advocacy Opportunities

- Enhance or replace financial capability assessment methodology
 - **Cash-flow analysis**
- Structure Consent Decrees to enable adaptive watershed & financial mgmt
- Restructure water market in conjunction with sustainable pricing
 - **Tax policy: private activity**
 - **Water Infrastructure Bank**
 - **SRF funding**
- Facilitate low-income affordability program



Towards Sensible Investment in Ohio's
Water Quality:

The Need for a Fiscally Responsible State Framework



Association of Ohio Metropolitan Wastewater Agencies
June 2008



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USEPA Guidance Financial Capability Assessments (FCAs)

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