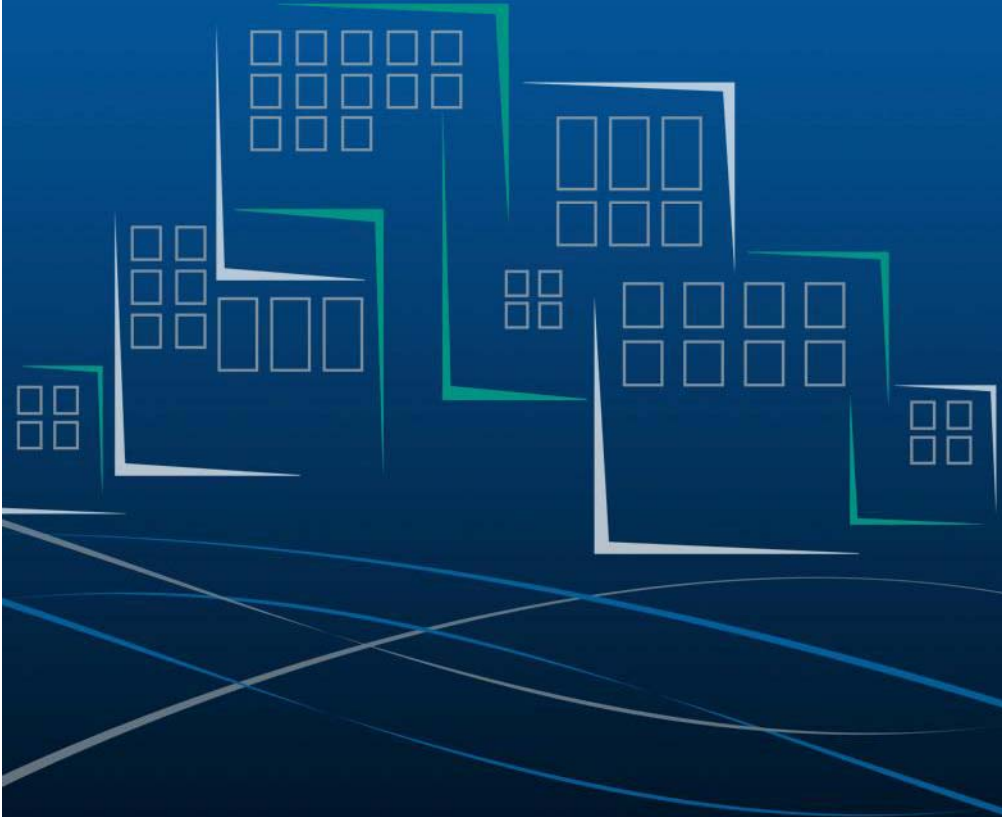




NACWA 2013 Summer Conference & 43rd Annual Meeting



Managing and Financing the Resilient Clean Water Utility

Cincinnati

July 17, 2013

“Clean Water Comes at a Price”

Scott Haskins
Senior Vice President
CH2M HILL

Key questions

- How great is this financial management challenge?
- What industry-wide research is being undertaken to address this issue?
- How are revenue side practices being addressed?
- How are utilities saving money and still meeting service obligations?

How great is this financial management challenge?

- Lower water use per customer represents a “New Normal” for water utilities
- (Increasingly) Limited Federal/State funding
- Affordability/Ability to pay
- Willingness to pay
- Aging infrastructure; increasing financial/capital investment needs
- Impacts of droughts, severe weather events
- Impact of regulations
- Stakeholder education/involvement
- Integrated planning.... Guidance still evolving

What industry-wide research is being undertaken to address this issue



“Defining a Resilient Business Model for Water Utilities.” Water Research Foundation (WRF) Project 4366

- Assesses financial performance of water/wastewater utilities in North America
- Evaluates practices and strategies impacting financial resiliency
- 29 utility participants
- 7300 utility data sets
- Darin Thomas summary at Utility Management Committee
- Report to be published in 2013- about 400 pages

How are revenue side practices being addressed?



Practice and strategy factoids

- Overall, Operating Revenues have increased between 2001 and 2012, but at higher rate before 2008
- Smaller and regular rate increases are associated with higher credit ratings
- Water demand and weather have become defining characteristic in revenue health; per capita use declining
- Rate structure helps define resiliency; base vs. volume based structures
- Credit agencies reflect and drive utility financial performance
- Alternative customer billing models forthcoming

How are revenue side practices being addressed?



MORE Practice and strategy factoids

- Financial policies are important underpinnings for effective financial management
- Rate stabilization reserves can mitigate variations in rate increases
- Affordability issues and assistance programs
- Utilities serving a larger customer base tend to have lower rates and stronger financial performance metrics than their smaller counterparts.
- Utilities with a larger percentage of industrial or wholesale customers tend to have stronger financial metrics.
- Utilities reporting a reliance on a small number of very large customers are more at risk of sudden revenue drops due to the loss of one or two customers.

Other industry-wide research is being undertaken to address this issue



EPA's Environmental Finance Advisory Board- Price of Water Report

- Charge to evaluate how best to address declining revenues and increasing costs and financial requirements
- Acknowledges important continuing research on asset management, CIP development and prioritization, regional service provision, stakeholder communication
- Assembles revenue side research, financing alternatives, and major findings
- Recommendations to EPA on financial management practices. training, issues to address
- Report forthcoming in Fall

How are utilities saving money and still meeting service obligations?



Cost efficiency: Early wins to get buy-in from stakeholders (best value for taxpayer's dollar)



Risk management: Establish mitigation plans to more effectively manage risk and avoid surprises



Maintenance effectiveness: Enhanced reliability and reduced life-cycle costs



Service levels: Continually improve regulatory compliance, customer service expectations, and design standards



Sustainability: Holistic approach of green infrastructure opportunities, energy and consumables, and maximizing triple-bottom line benefits



Knowledge transfer: Shared knowledge through training and documentation of leading practices and procedures

Example solution elements- Overall 10 to 1 ROI

■ Efficiency (5-25%)

- Energy
- Labor
- Lean Processes
- Organizational Integration

■ Innovation

- New technology
- Supply Chain*
- Alternative Contracting*

■ Management Systems

- Asset management*
- Risk Management*
- Performance Management/
Accountability*
- EUM*

■ Capital Improvement Program

- Business case evaluation
- Prioritization

■ Human Capital

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Supply Chain - Successfully applied methods to both public and private sector saves \$B and 17% on average

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Together we can prevail.™



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Quality made certain. Satisfaction guaranteed.™



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Experience with PPP's and alternative delivery models allow tailoring approaches to local needs

- Consulting assistance
- Staff augmentation
- Performance-based contracting
 - DBO's, Concessions
 - ESCO contracts for energy optimization
 - Risk sharing, savings sharing
- Alliance contracting
- Equity Financing for community development

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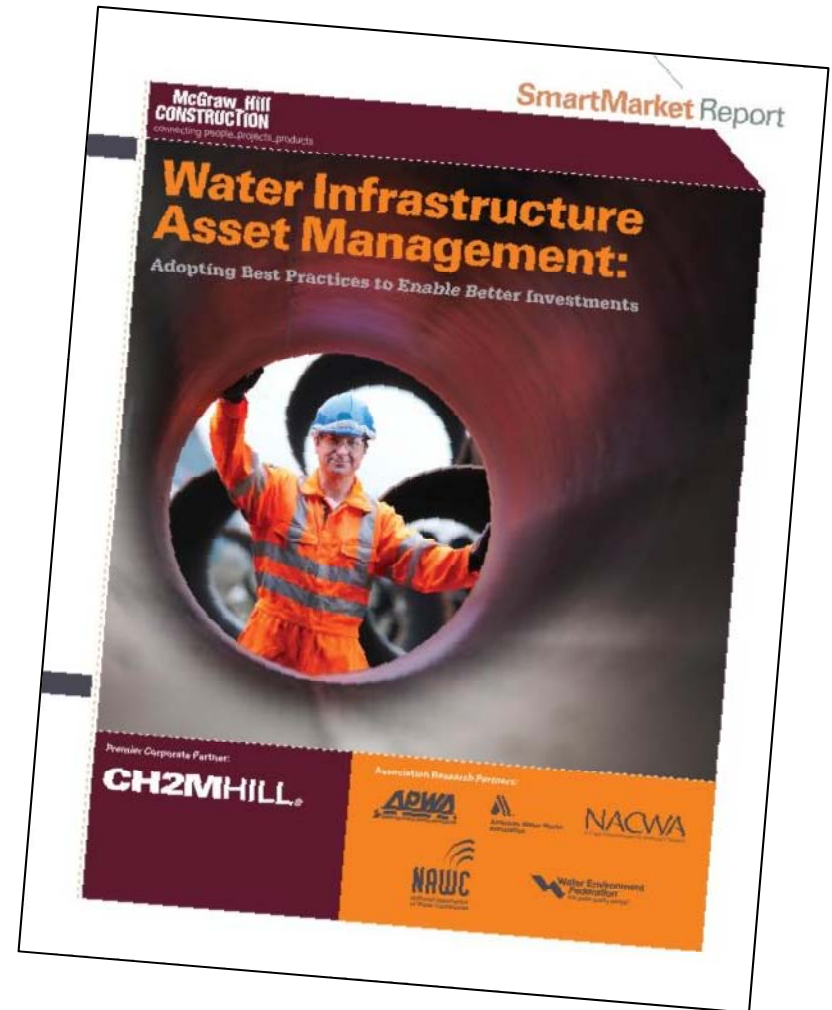
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Groundbreaking McGraw Hill Asset Management Study

- Survey conducted November 2012 in partnership with 5 leading industry associations
- 451 U.S. and Canadian Participants
- In-Depth Utility Interviews conducted with asset management executives
- Asset Management promotes:
 - Easier rate setting and stakeholder buy-in
 - Right-sizing investments
 - Better decision-making
 - Life cycle/TBL optimization
 - Staff training and development



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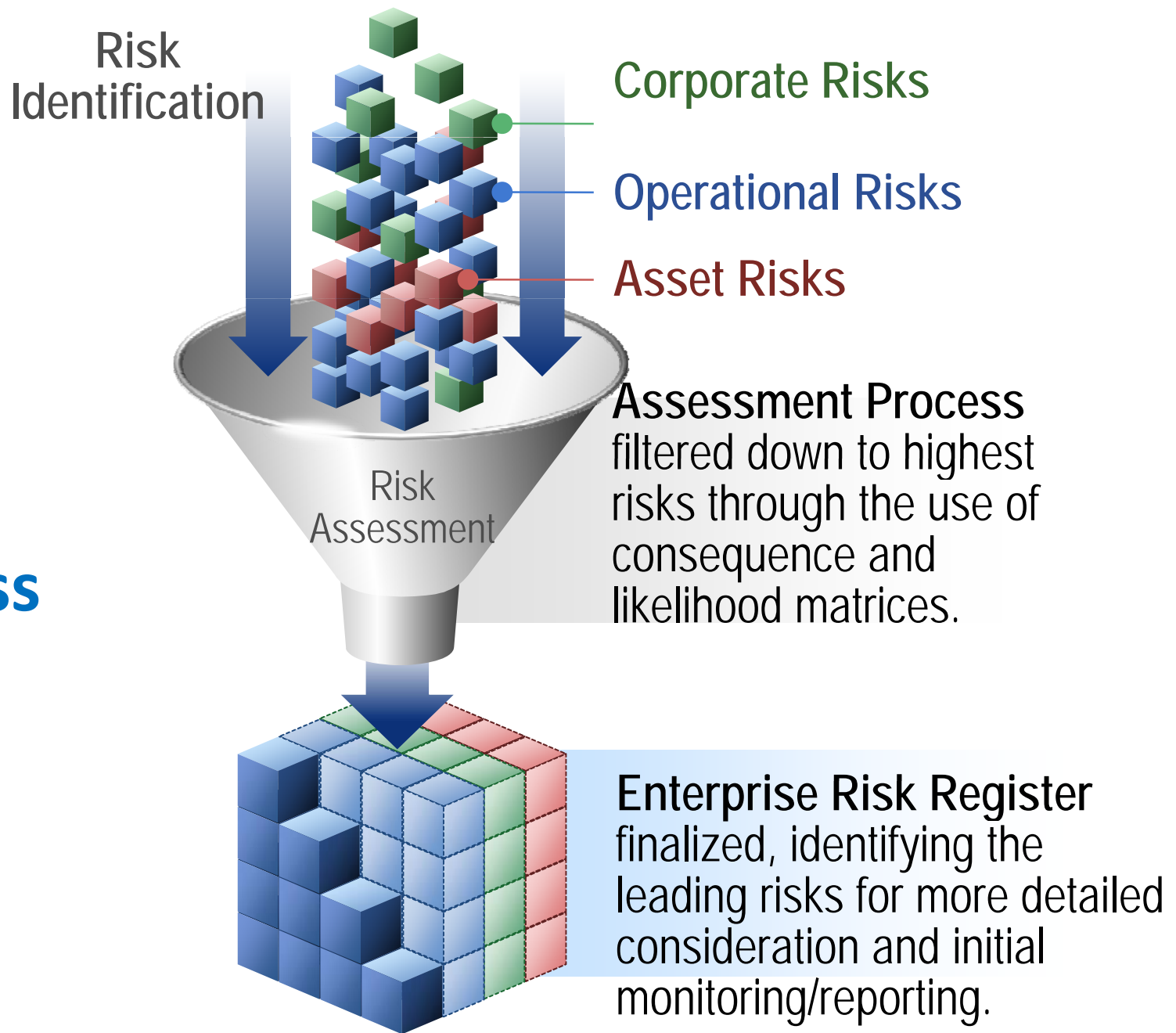
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Risk Process



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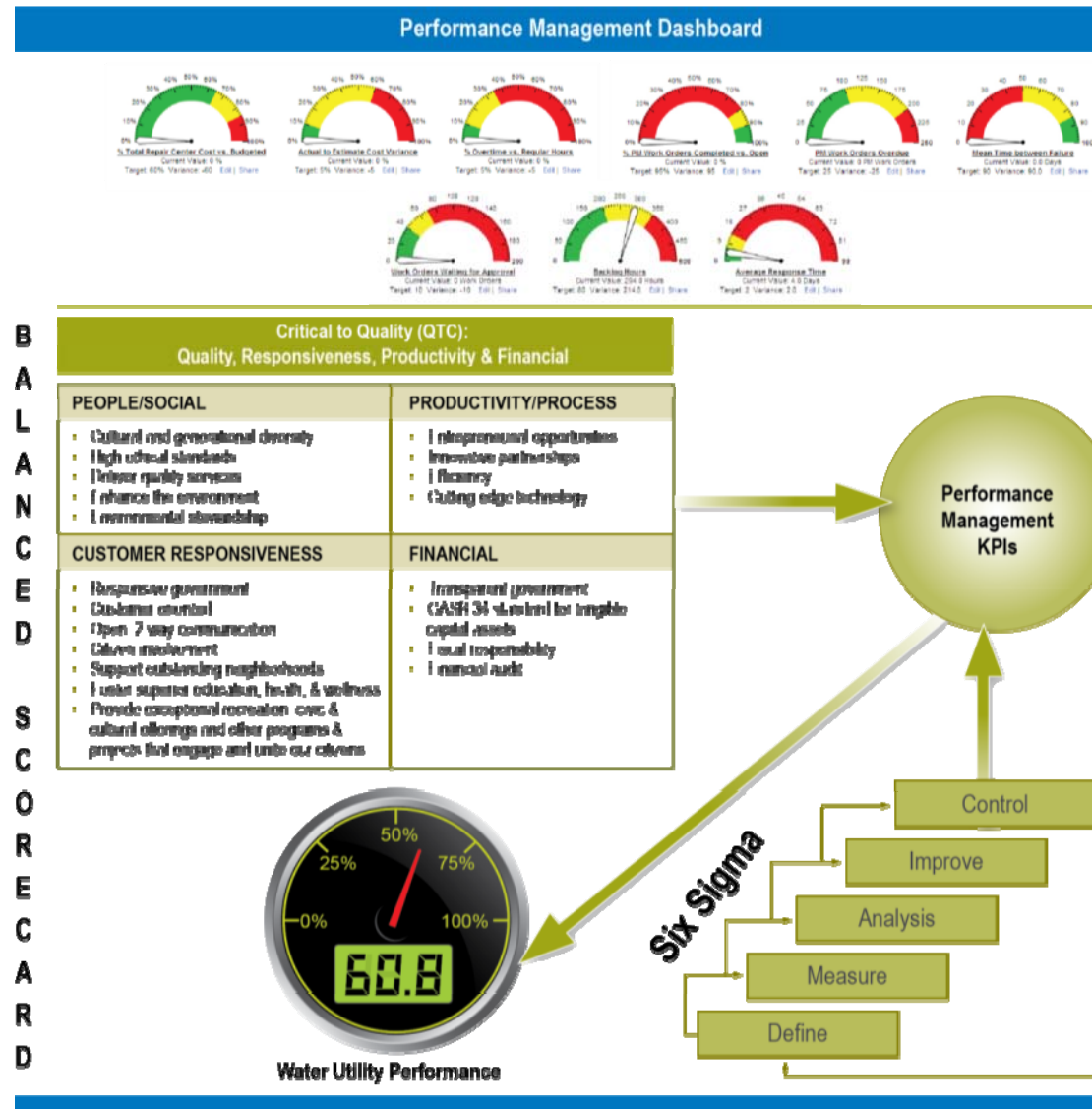
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Performance Management- Tools and processes enable effective benefits tracking



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Effective Utility Management

Framework being used for:

- Strategic planning
- Benchmarking
- Practice development
- Measurement and monitoring
- EPA Guidance



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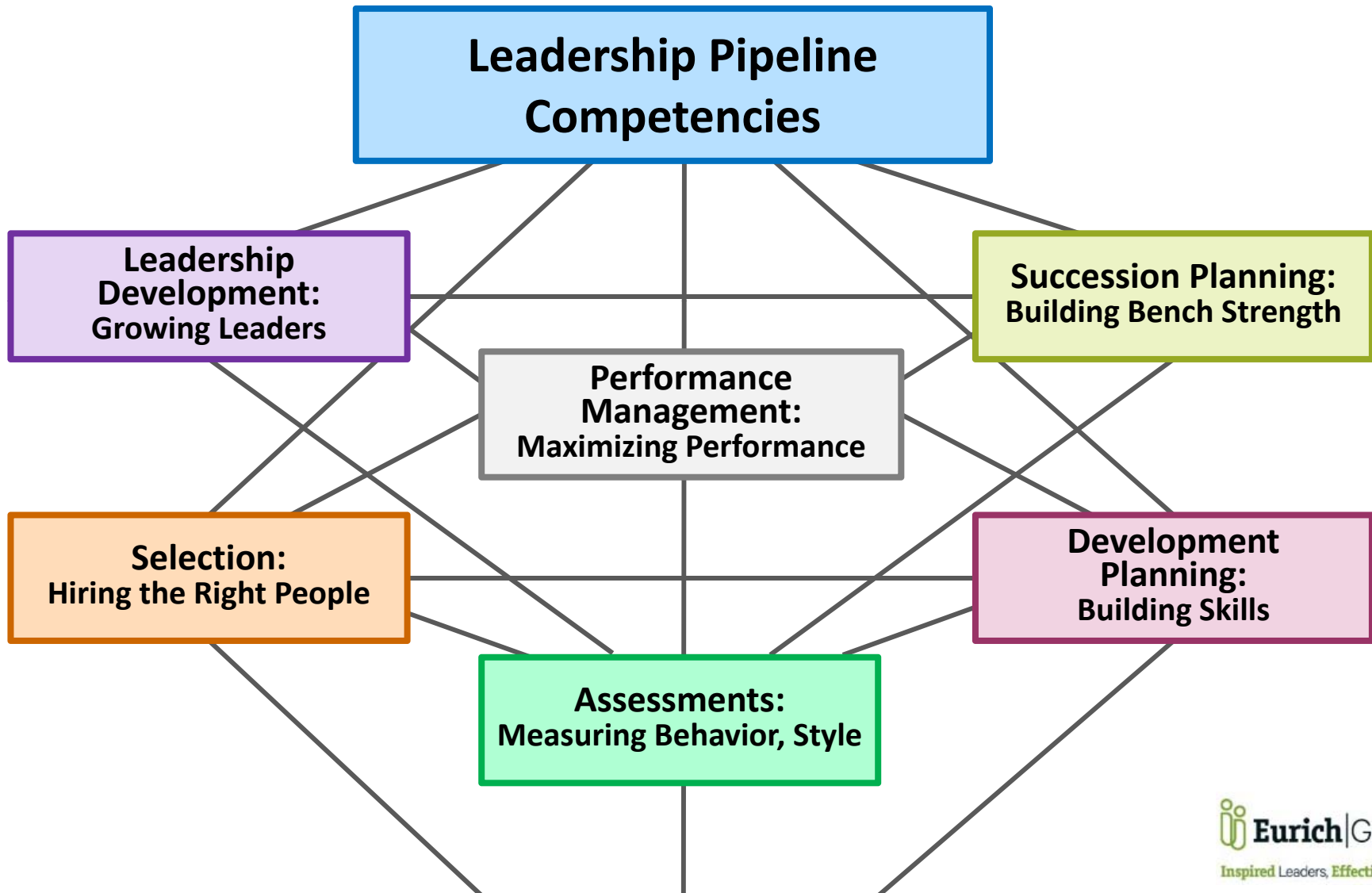
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Leadership/Staff Development



Relevant experience in saving costs



**San Diego Public
Utilities Department**

***Capital and
Operations
Optimization***

**\$42M Savings
Anticipated**



**Columbus
Department of
Public Utilities**

***Performance
Improvement
Program***

\$55M Saved



**Cincinnati
Metropolitan
Sewer District**

***Maintenance
improvement
Program***

**\$5M Savings
Annually**

CH2MHILL®

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Questions?

