

Financial Planning to Avoid Painful User Rate Hikes

Presented by:

Matthew Millis
Lewis Young Robertson & Burningham, Inc.

Goal: Avoid Reactive Rate Hikes

- Rate hikes can be stressful enough without being in a difficult situation or without time to plan
- Capital needs have the largest impact on rates and most large rate hikes reflect large capital needs
- Operational expense recovery is easy but capital replacement planning takes fortitude, foresight and frequently a paradigm shift for utility staff
- Avoid the temptation to defer capital projects to avoid raising rates

Financial Planning on Different Levels



Politics and
Perceptions



Financial
Modeling



Obtain Public's
Consent

Politics and Perceptions

- Lack of Visibility of Infrastructure
- Conflicting Leadership Priorities
- Undervaluing Water Service
- “Federal Govt. Will Bail Us Out”

= Lack of Financial Priority for Utilities

What Do These Issues Lead To?

- A community may have a great low rate but at what cost?
 - Putting off what can be planned for today will only result in a much higher cost tomorrow
 - **“Catch Up”** with existing infrastructure needs
 - **“Keep Up”** as growth continues and later as utilities begin to age and need replacement
- Don't fall into the depreciation pitfall
 - 100% funding of depreciation is not enough

Enter: The Financial Analyst

- There is “cold” financial analysis and “persuasive” financial analysis
- There are analysts that will calculate far beyond what is relevant and useful
- Unfortunately it seems that too little is done to truly communicate the financial position to all levels
- Need to tell a story with the numbers



Policy Target #1: Stable Rates

- Stable rates are not static rates
 - Impossible with construction and O&M inflation
- Stable rates are based on carefully forecasted expenses and regular uniform increases
 - Stable rates are rarely ever a result of a reaction to immediate crises
- Stable rates are a result of **proactive** planning rather than **reactive** quick fixes

Policy Target #2: Affordable Rate

- Definition: Depends Upon Who You Ask
 - Rate Payer – Free service may cost too much
- Rating Agency
 - Water Bills – 2% to 3% of median household income
 - Sewer Bills – 2% to 3% of median household income
- EPA
 - Water Bills – 2.5% of median household income
 - Sewer Bills – 2.5% of median household income

Policy Target #3: Sufficient Rates

- Revenue Sufficiency Considers:
 - Financial Ratings and Bond Covenants
 - Maximization of Your Utility's Revenues
 - Accumulation of Adequate Cash Reserves
 - Defining True Long-Term Capital Costs

Financial “Musts”

- Ratings and Bond Covenants
- Maximize Utility Revenues
- Ensure Impact Fees are Sufficient (?)
- Accumulate Adequate Reserves
- Realistic Long Term View of Capital Needs
- Optimal Balance of Funding

Develop the Right Financial Tools

- Capital Facilities Finance Plans
- Project Lifecycle Analysis
- Full Cost Rate Analyses
- Risk Exposure Analysis
- Replacement Timing Curves
- Impact Fee Analyses
- Strategic Long-Term Planning

CIP Prioritization

- Seek projects that mitigate the greatest risk and add to community's wealth by bringing the highest net benefit.
- Consider economic life and not just physical life (cheaper to replace than repair).
- Put evaluation in monetary terms to more easily compare alternatives including quality of life and environmental (apples to apples).

Financial Consultant's Role Beyond the Numbers

- Facilitate teambuilding to determine the analysis for individual communities
- Help maximize the benefits for each dollar invested in capital projects
- Present an overview of long term financial planning to your leaders and public
- Ensure sufficient and stable rates are set now as to not delay the needs for another council

Gain Public Consent: Develop a Sense of Ownership

- Informing the public of financial matters is key to getting them on your side
- Show users the equity and responsibility that they have for the utility
 - Car or house maintenance analogy
- Users need to understand the infrastructure and its deficiencies
- Help users to understand implications of not maintaining the system

Car Analogies

- Drive it like you own it (Regular Maintenance)
 - Costs of delivery
- Range of Consequences per Event (Tire Blowout, Wiper Fluid)
 - What financial risks are we mitigating

Gain Public Consent: Public Input to Financial Challenges

- Just like the family car, a utility needs constant investment
- Users need to understand the infrastructure, its deficiencies, and risks of not maintaining the system (i.e. failures, disaster,)
- Use a visible project or issue as a rally point

Gain Public Consent: Adding Wealth to Community

- Citizens need to understand that money spent is not sent off to a black hole with no benefit:
 - All projects scheduled have been carefully evaluated in terms of economics and engineering
 - Each will bring a positive return to the community in terms of both finances and enhanced service
 - Money spent is an investment that brings real and lasting benefits
- Hard not to support a positive, clear message

Lets Start Working Now

- Come full circle to visibility, leadership priorities, and value of water
- If we start “**catching up**” now then “**keeping up**” may be much smoother in future
- Tremendous rate hikes in the future can be offset through financial planning beyond just the math

Questions? Please Contact Us

Email

- Laura Lewis Principal laura@lewisyoung.com
- Scott Robertson Principal scott@lewisyoung.com
- Jason Burningham Principal jason@lewisyoung.com
- Marc Edminster Vice-President marc@lewisyoung.com
- Matt Millis Vice-President matt@lewisyoung.com

LYRB Telephone & Fax

- Offices 801-596-0700
- Toll Free 800-581-1100
- Fax 801-596-2800

LYRB Address

- 41 North Rio Grande, Ste. 101
- Salt Lake City, Utah 84101