Challenges and Opportunities in the New Financial Context

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Challenges of a perfect storm

Opportunities in this New Context

- Strategic Business & Financial Planning
- Outside Funding
- Rate/Fee Structure Refinements
- Stakeholder Buy-in for New Programs
- Enhanced CIP Prioritization

OPPORTUNITIES to CHANGE!

The Basic Financial Equation

(+) Revenue	⬆ Enhance Revenues
(-) O&M Expenses	⬇ Reduce O&M
(-) Debt Service	⬇ Restructure Debt
(-) CIP	⬇ Prioritize CIP
<u>(+/-) Other</u>	⟷ <u>Other Adjustments</u>
Negative?	Positive Cash Flow!
Break Even?	Small Rate Increases
Large Rate Increases	

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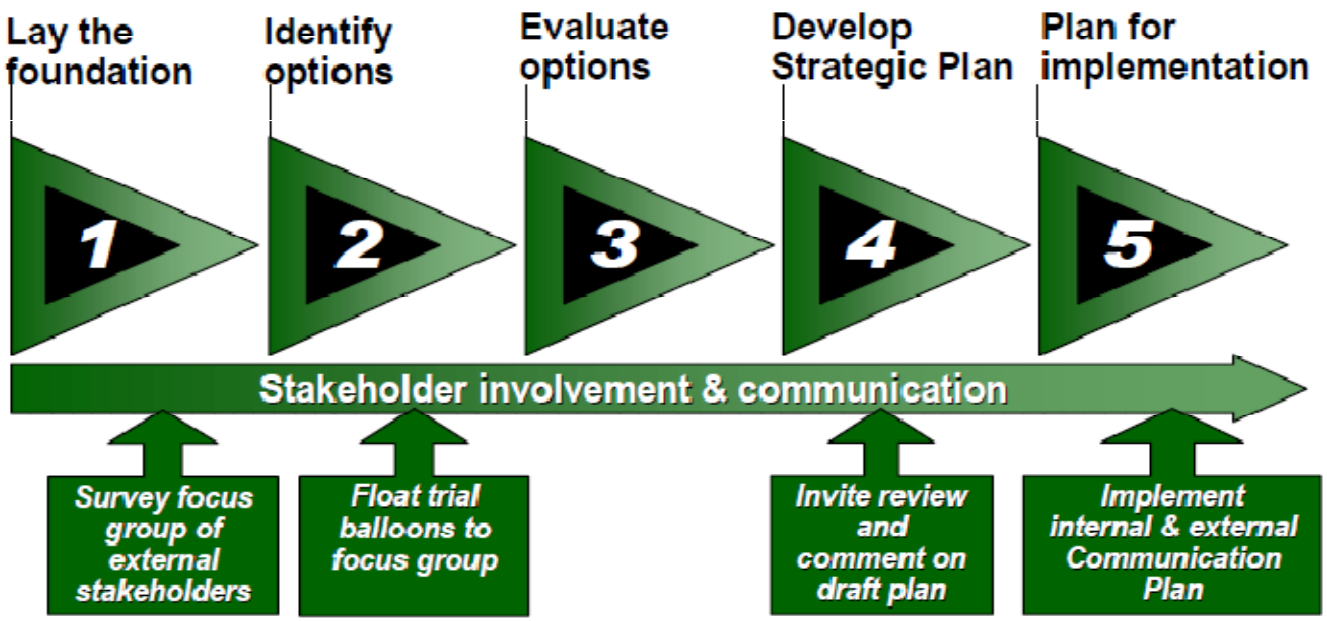
Strategic Business and Financial Planning

Its more complicated than that……..

Strategic business planning can identify new/expanded ventures and cost saving measures to improve the bottom line.



Stakeholder Input in Strategic Planning Process

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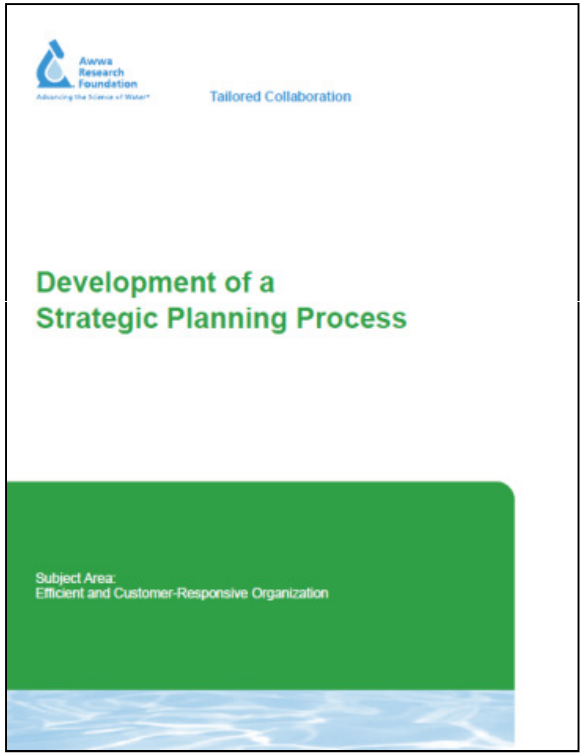
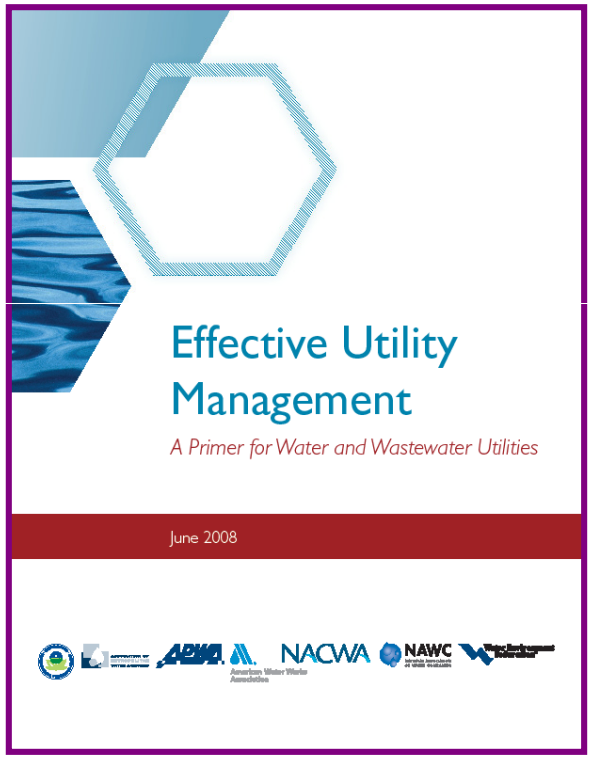
Reference Documents





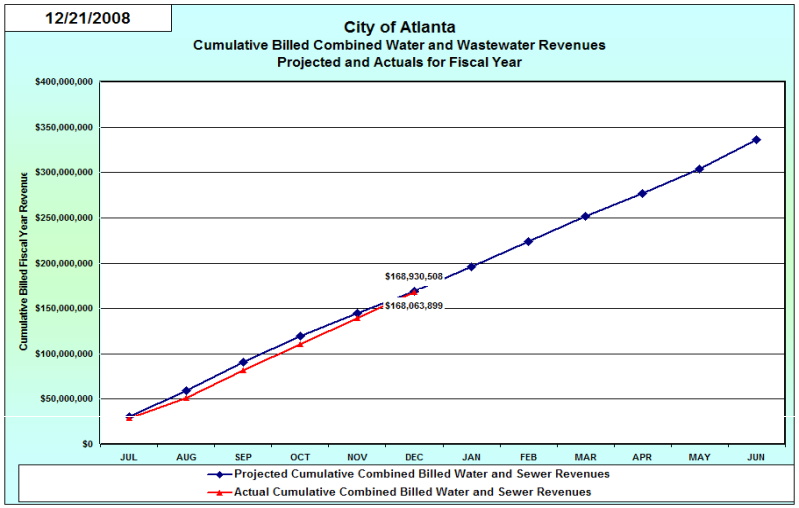
Strategic financial planning with more robust scenario analysis guides decision-making

	Scenario		
External Drivers:	Capital Fantastic	Deja Vu	Leaner & Greener
Growth & Development	More rapid growth as the economy recovers faster than initially expected	Growth continues at recent 'depressed' levels	Sales decline even faster as economy continues to erode
Degree of Regulation	Flexibility in enforcement, more focus on discretionary projects	Status quo level of enforcement	Stricter agency enforcement on mandates, no relief on schedule
Funding	Second wave of stimulus funding, bond banks and trust funds also approved	Traditional sources for funding	No grant funds available, problems accessing bond market
Prices	Prices down as contractors scramble for work in a generally down economy	Prices stay relatively stable	Major price increases in key materials and supplies, such as chemicals.
Elasticity and Consumption	Consumption remains high	Consistent with historical average	Conservation and rain!!

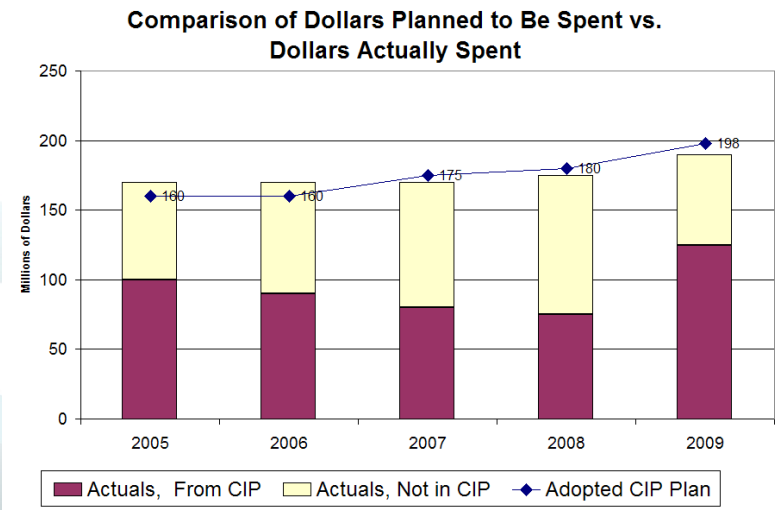
Multiple Outcomes Communicated to Stakeholders

Financial tracking is increasingly important to guide mid-period corrections and to spot trends.

- **Tracking revenues and expenses is more important than ever**
  - Monitor fund balances
  - Make adjustments to capital and operating expenses



- **Careful tracking of CIP expenditures makes sure there is alignment with plans**
  - Are total expenditures in line with plans?
  - Are the right projects being implemented?



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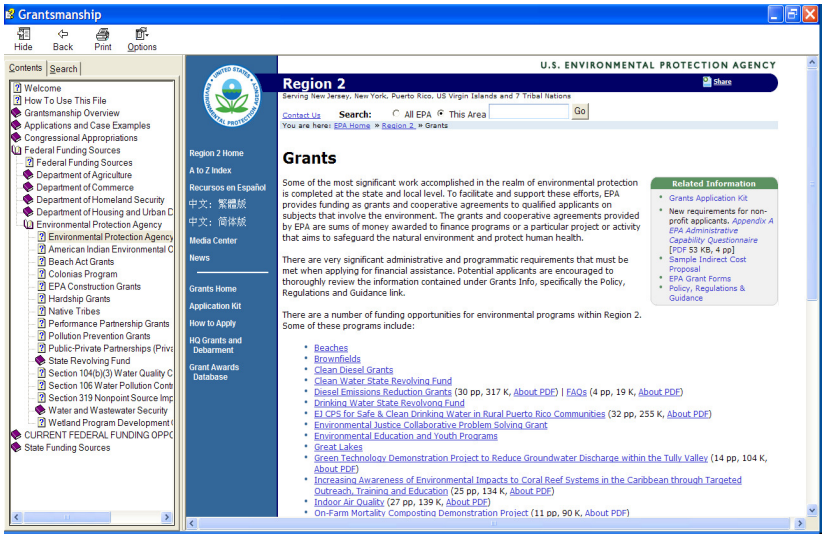
Outside Funding

Seeking outside funding can help to offset reductions in locally generated revenues.

ARRA funds

The "Jobs Bill"

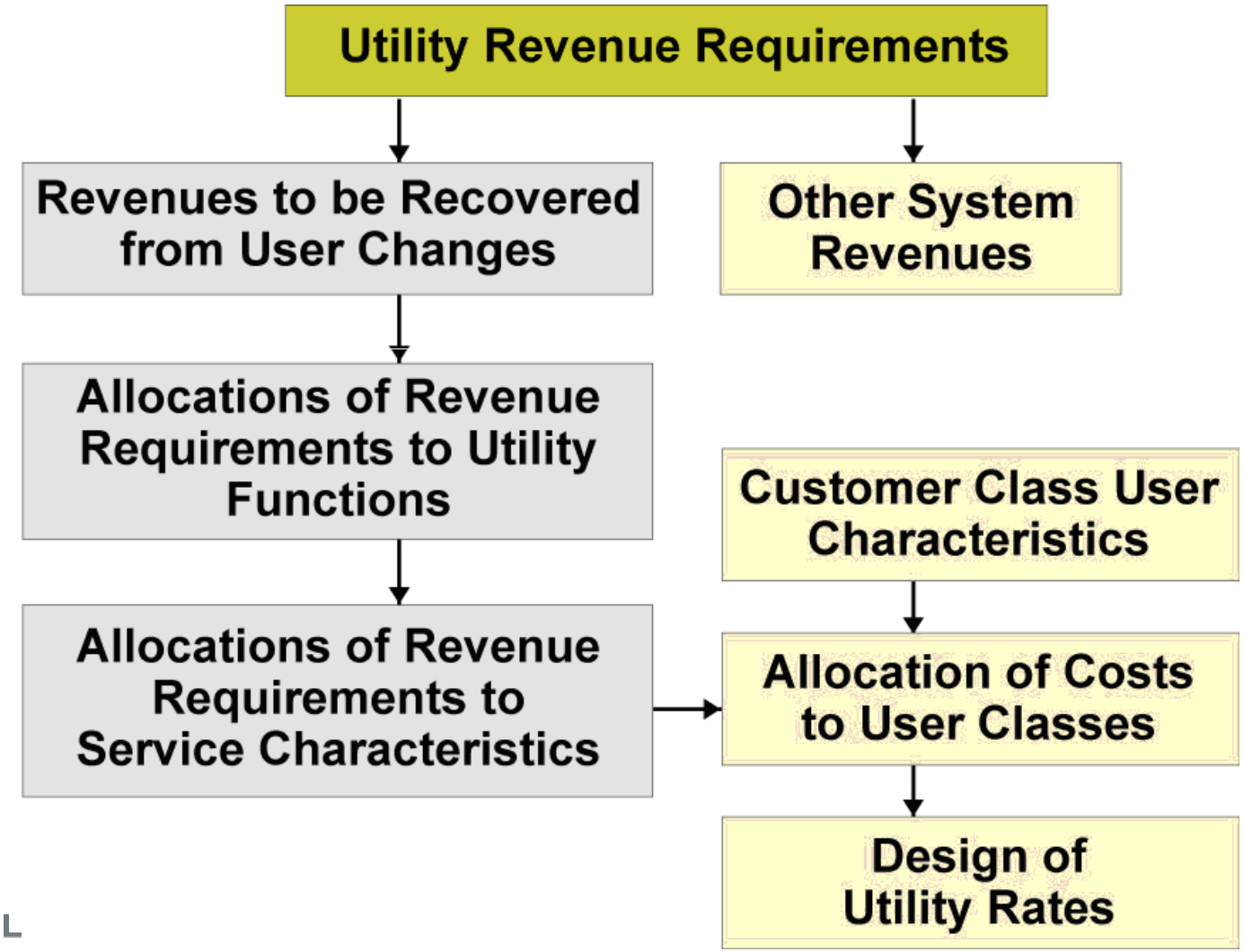
State funding programs



Special Appropriations

Rate and Fee Structure Refinements

Reviewing rate & fee programs may identify opportunities for improvements.



Examples of modified strategies that might be uncovered include:

- Realignment of rates to reflect the true cost of service among existing customer classes
- Adjustment of impact fees and ancillary fees to reflect true costs
- Opportunities to create new fees that are more directly linked to the cost of providing service
- Investigate Transfers and Adjustments
- Enhance Revenues
  - Service Line Insurance
  - Meters and Billing System Analysis
  - Peak Power Electricity Generation

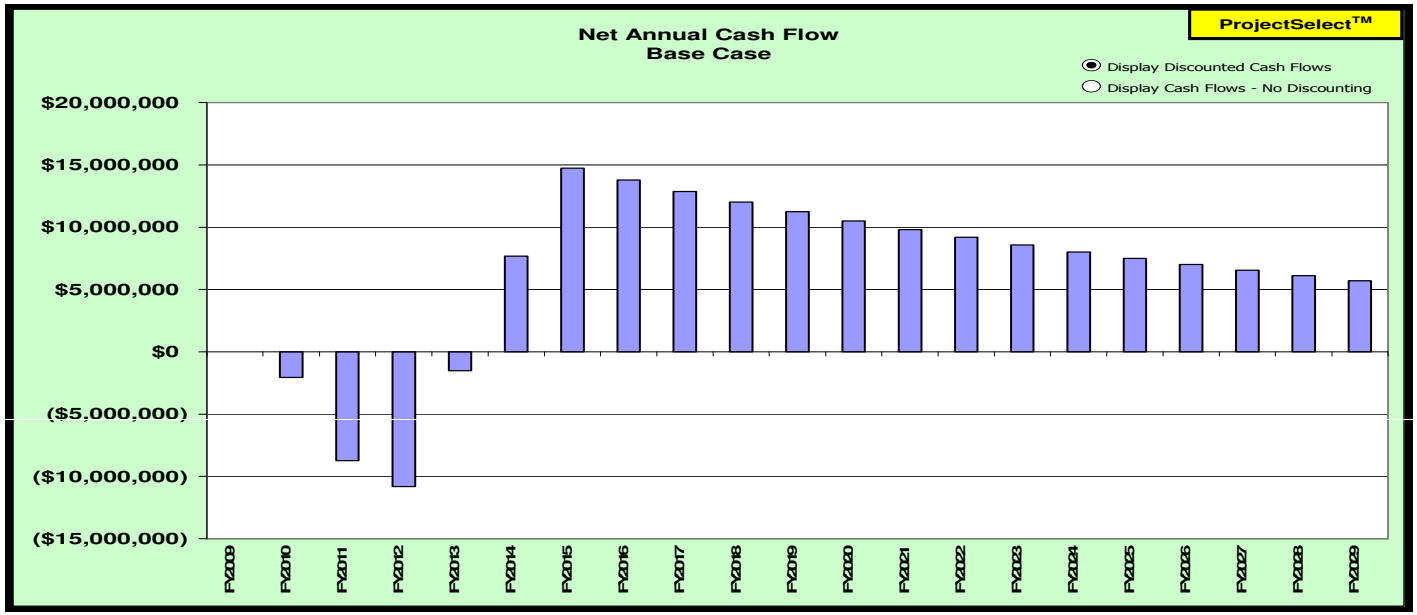
Strategic business planning can identify viable new activities that can improve financial position.

- Service line insurance
- Power generation
- Billing services
- Landscape services
- Property management
  - Parks
  - Ranching
  - Land Sales
- Educational services
- Professional services
  - GIS
  - Pipe repair

Core competencies
Legal / Organizational constraints
Potential financial returns

Stakeholder Buy-In for New Programs

More detailed analyses help to determine whether an option is really viable.



Alternative	Simple Payback (in Years)	Discounted Payback (in Years)	Total Implementation Cost	Benefit Cost Ratio
Base Case	5.75	6.05	$55,770,392	2.86
Alternative 2	5.61	5.92	$66,924,470	2.86
Alternative 3	3.48	3.61	$50,193,353	2.83
Alternative 4	2.26	2.32	$50,193,353	2.82

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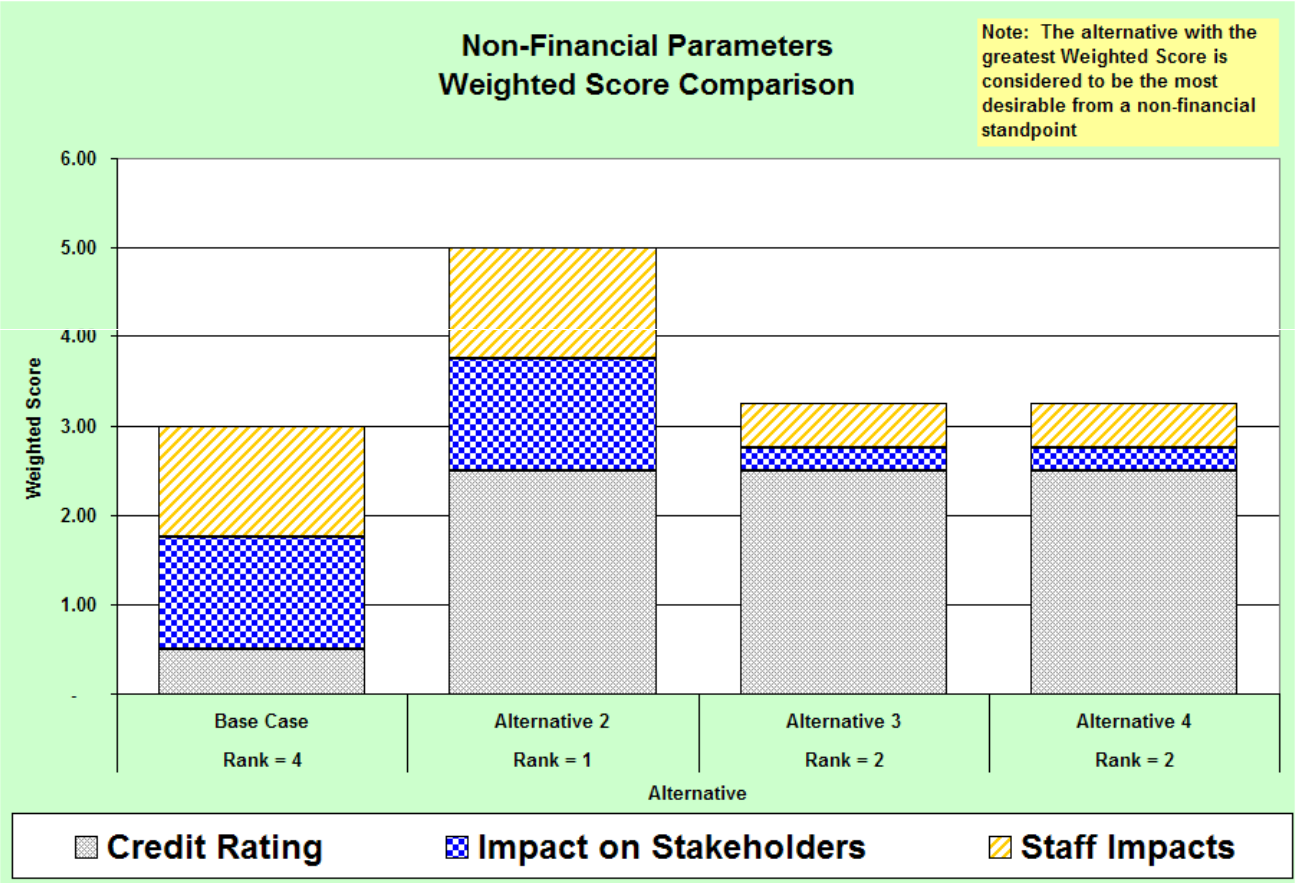

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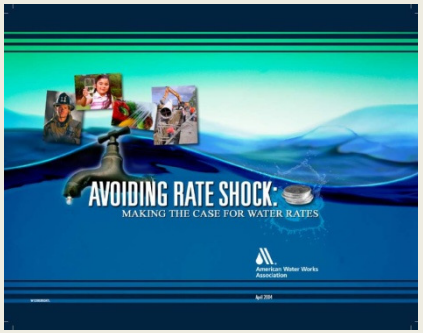
Securing stakeholder buy-in for the financial program will require increased engagement.



Customer Advisory Board

Customer surveys

CIP

Operating budget

Compliance plans

Facilities plans

1. Determine annual revenue requirements

2a. ID rate/ fee options to consider

2b. ID affected stakeholders

3. Determine rate impacts

4.Accept-able?

Yes

No

Customer Advisory Board (if required)

Public hearing (if required)

PUC filing (if required)

5. Develop rate increase campaign

6. Implement campaign

7. Governing bodies adopt rates

8. Communicate adopted rates to customers

Key:

Inputs

Actions

Typical Timeline (months)

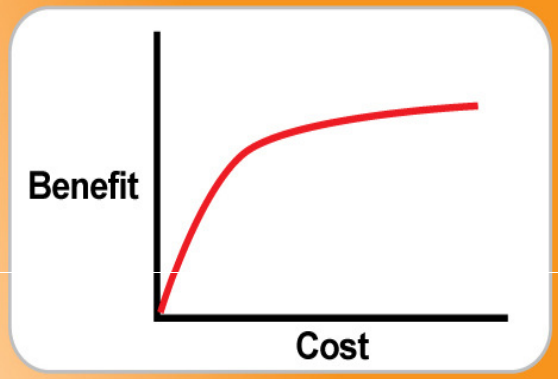
1 | 2 | 3 | 4 | 5 | 6 to 8 | 9 to 12

CIP Prioritization

Enhanced CIP prioritization provides an objective basis for determining projects to defer or advance.

Prioritization Model

1. Identify criteria to evaluate projects
2. Define Benefits
3. Score projects based on benefit value
4. Estimate resource requirements



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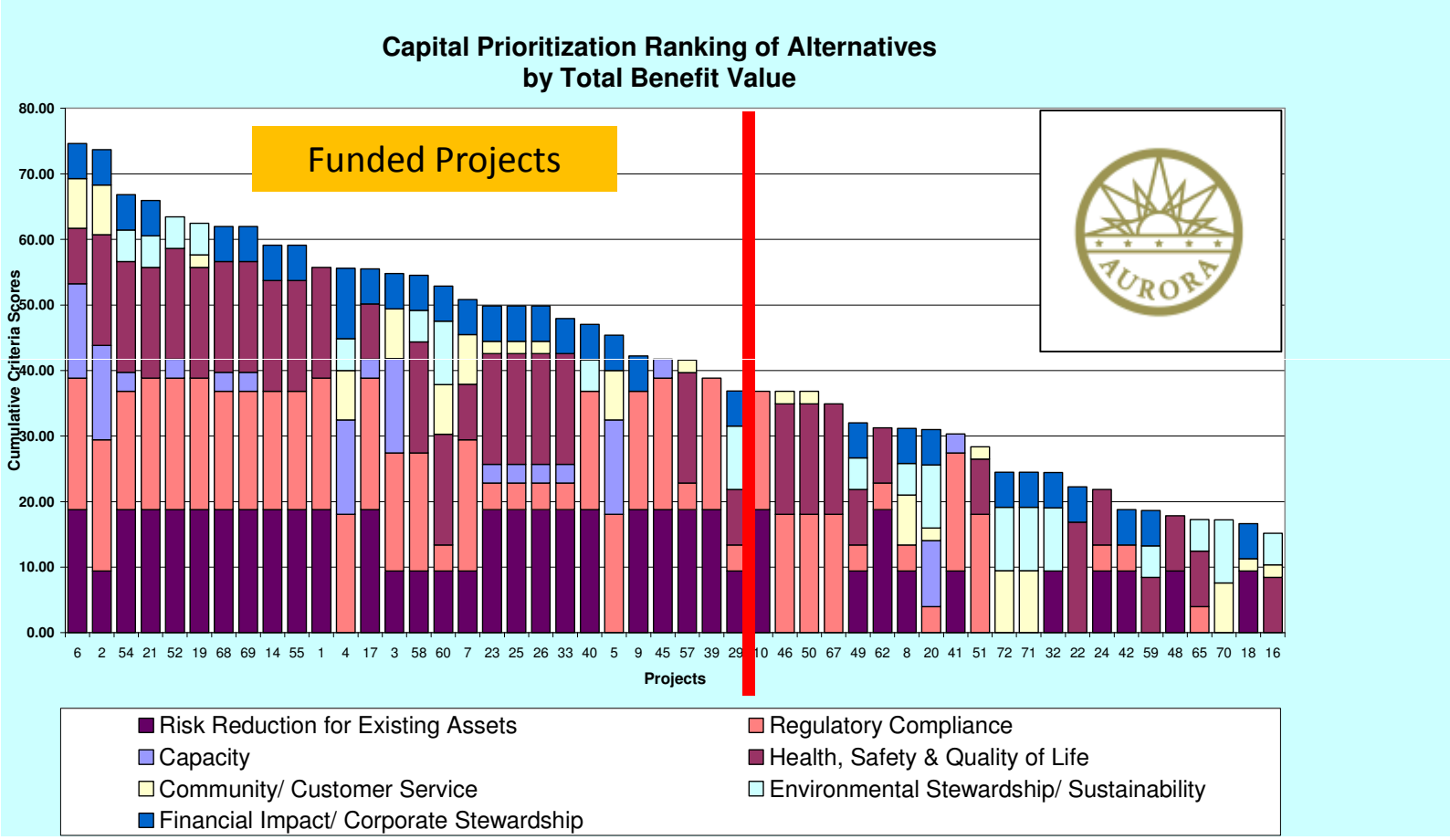
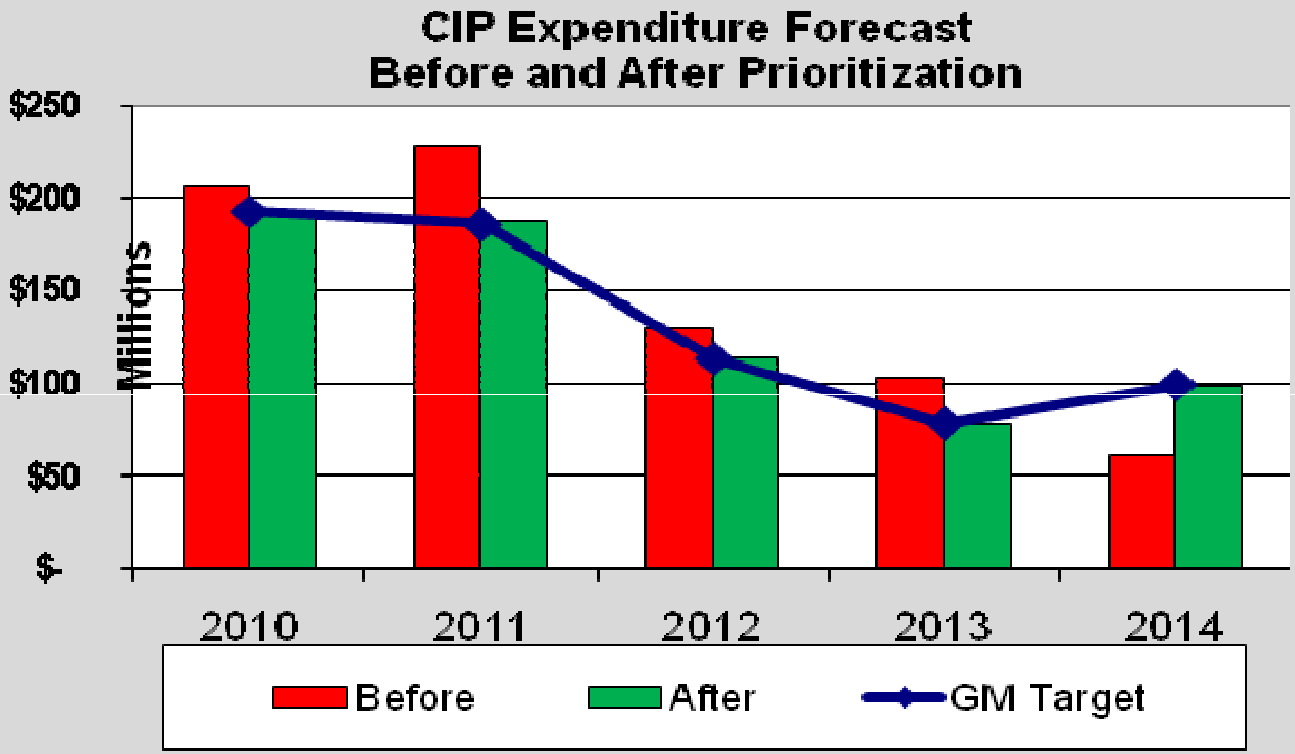
Outputs include explicit definition of the value added toward key goals by candidate projects.



One client found that they could achieve financial goals & broader consensus.



- Prioritized 150 projects worth $1.3 B in ten-year CIP
- Moved $150 M of low-rated projects out of near-term 4-years to stay within rate increases and bonding limits set by General Manager and financial team
- Supported credit rating

Case Studies

The Inland Empire Utilities Agency identified three opportunities to improve its bottom line:

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

- Selling recycled water to regional businesses offsets 20% of wastewater O&M costs currently, and up to 60% by 2015
- By using more renewable energy IEUA currently generates 45% of its own electricity, with plans to be completely off the traditional power grid by 2020
- Selling composted soil amendment products results in a net cost of $35/ton vs $60/ton for conventional solids handling

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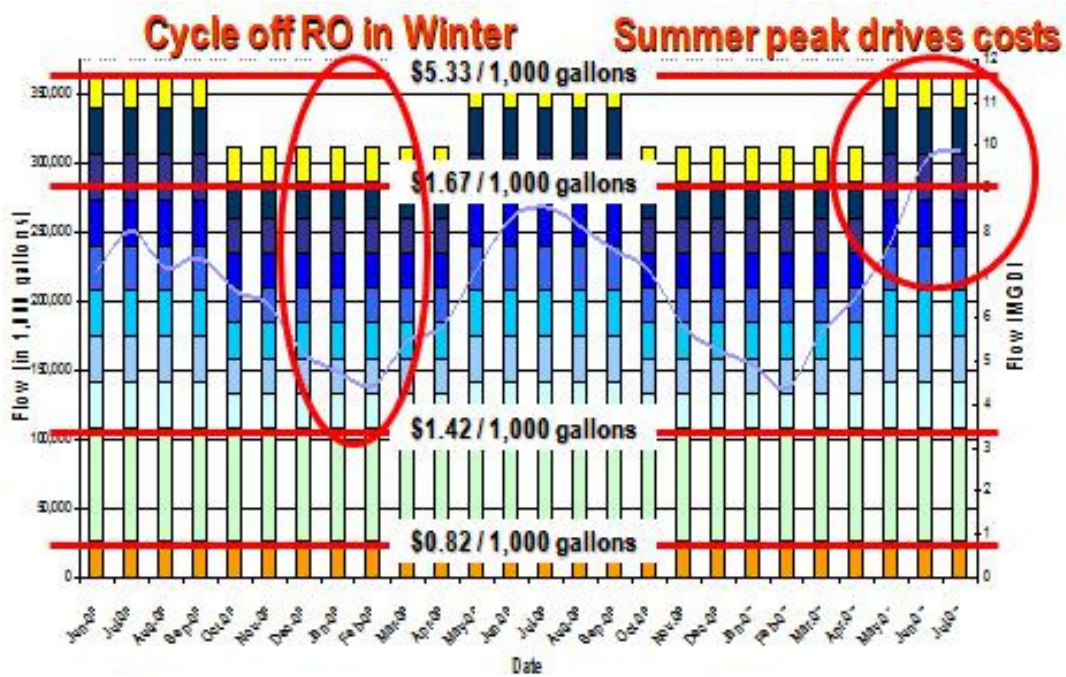
Effect on Revenues

Revenues down by $11,000,000 over the 5-year year study period, when compared with previous forecast.

Fiscal Year	Projected Reduction in Sales Revenue	Projected Reduction in Net Impact Fee Revenue	Total
2008-09	(486,000)	(532,000)	(1,018,000)
2009-10	(958,000)	(944,000)	(1,902,000)
2010-11	(1,189,000)	(832,000)	(2,021,000)
2011-12	(1,454,000)	(1,484,000)	(2,938,000)
2013-13	(1,795,000)	(1,384,000)	(3,179,000)
Total	**(5,882,000)**	**(5,176,000)**	**(11,000,000)**

The City of Goodyear, Arizona focused on both revenue and expenses

Utilizing a series of strategic planning workshops with the City and Utility staff, the team identified options and developed a plan.

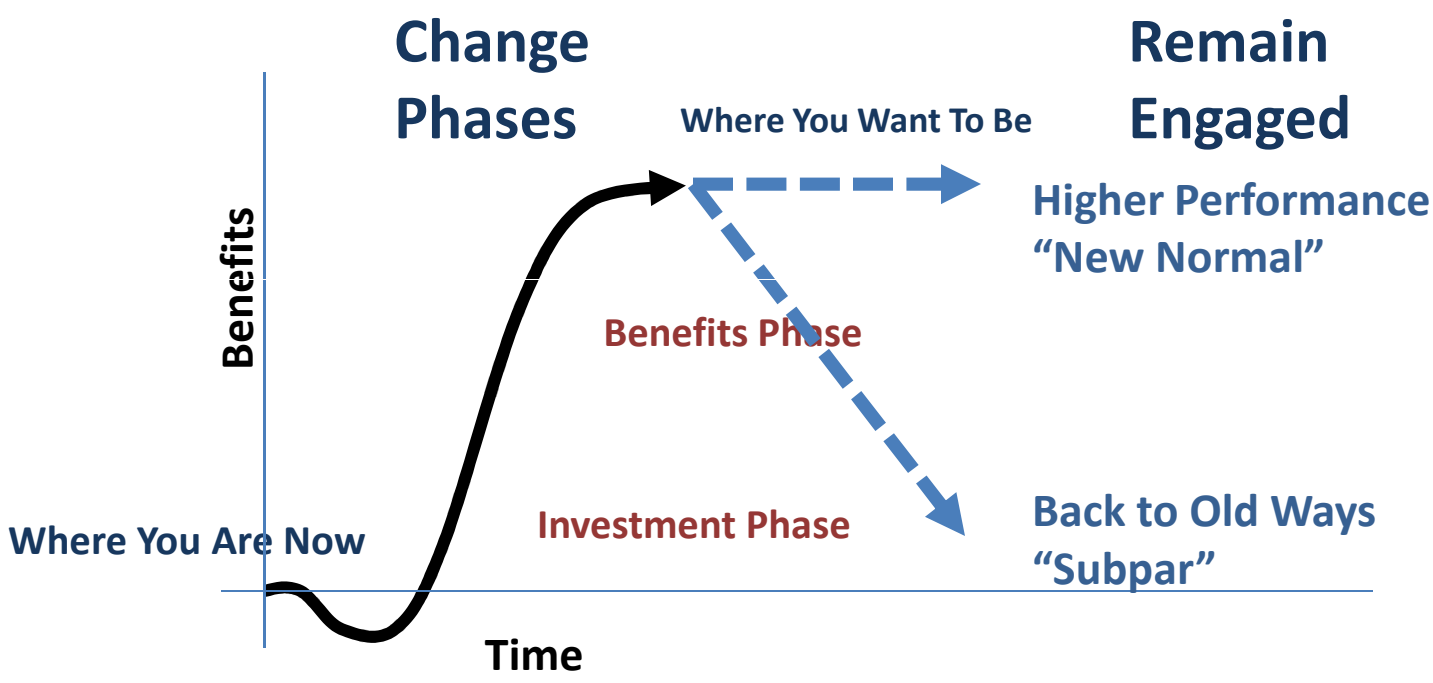


Effect on Expenses

The City will reduce expenses by $10,000,000 over the 5-year year study period.

Fiscal Year	Refinance Existing G.0. Debt	Phase Capital and R&R Program	Reduce Revenue Bond Expenses	Reduce O&M	Total
2008-09	-	-	(648,000)	693,500	45,500
2009-10	(1,067,000)	-	(242,000)	-	(1,309,000)
2010-11	(1,067,000)	(345,000)	(319,000)	(1,112,000)	(2,843,000)
2011-12	(1,067,000)	(691,000)	-	(1,117,000)	(2,875,000)
2013-13	(1,067,000)	(691,000)	-	(1,249,000)	(3,007,000)
Total	**(4,268,000)**	**(1,727,000)**	**(1,209,000)**	**(2,784,500)**	**(10,000,000)**

Change Management means remaining engaged



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Thank you!

Questions?

Comments?

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