Building Support for Rate Increases

Eric Rothstein
Galardi Rothstein Group
Presentation Outline

1. Water & Wastewater Rate Trends / Examples
2. Arguments Against Rate Increases
3. Building the Foundation for Rate Increases
4. Gaining Rate Increase Acceptance
5. Future Outlook and Opportunities
Water and Wastewater Rate Trends

Rates have increased at 2x inflation

- Represents larger share of household incomes
- Projected to continue for foreseeable future

NACWA 2010 Financial Survey
Rate increase drivers

- Significant withdrawal / restructuring of federal funding support
- General / construction cost escalation
- Aging infrastructure – renewal and reinvestment
- Increasingly stringent regulatory requirements
- Historic under pricing of services
Major rate increase examples

- Consent Decree communities
  - Atlanta
  - Honolulu
  - NEORSD

- Proactive utilities
  - Rock River WRD
  - Green Bay MSD
Arguments against rate increases

The top 5 reasons why not …

1. Economic downturn
   – Unaffordable impacts on customers
2. Economic development needs
3. Utility inefficiency
   – “Do more with less”
4. Not an emergency – can defer
5. Other priorities
Arguments against rate increases

Responses to why not ...

- **Unaffordable**
  - Vast majority of utilities are well below “high burden” threshold

- **Economic development**
  - Financially healthy utilities promote economic development

- **Utility inefficiency**
  - Cost management has been a major emphasis for 10+ years

- **Not an emergency**
  - Deferral of needed investments lead to higher costs / penalties

- **Other priorities**
  - Protection of public health and environment are top priorities
Building the Foundation for Rate Increases

Good reasons aren’t good enough

• Quality customer service
• Public relations, information and involvement
• Utility efficiency assessment / initiatives
• Financial planning
• Governing board / elected official / regulatory relations
Building the Foundation for Rate Increases

Customer / Public relations

• Customer service
  – Willingness to pay declines with poor service
  – Objective evaluation of performance (metrics)
    • Query / complaint response (cause, time, resolution)
  – Billing practices
  – Survey / monitor customer satisfaction

• Public relations
  – Services provided (customer, environmental)
  – Regulatory framework
  – Asset renewal and rehabilitation imperatives
Financial management

• Operational efficiency
  – Identify / implement cost savings measures and report outcomes
  – Adopt long-term perspective

• Capital project delivery
  – Evaluation of options / priorities
  – Alternative delivery methods

• Financial planning
  – Multi-year planning horizon
  – Financial policies
    • Fund balances, debt coverage
Building the Foundation for Rate Increases

Governance

• Affirm policies and responsibilities with governing boards /elected officials
  – Before proposing rate increases
  – Address corporate responsibilities (system integrity, environmental stewardship)

• Understand that access to water and sanitation services is a human right
  – U.N. Declaration of Human Rights

• Advocate for a tenable regulatory framework
  – Holistic perspective required – limits on community financial capabilities

‘Sewer Mayor’ Shirley Franklin
Gaining Rate Increase Acceptance

Packaging rate increase proposals

• Outline financial plan
• Articulate what customers get for more money
  – State the need – highlight system issues
  – Demonstrate cost consciousness
  – Don’t compare to mobile phone or TV service
• Provide service assurance for those who truly cannot afford bills
  – Affordability programs
• Listen and respond to customers
Gaining Rate Increase Acceptance

“Service Assurance” programs

• Bill assistance programs
  ➢ Bill discounts
  ➢ Write-offs
  ➢ Crisis vouchers

• Rate structure options
  ➢ Lifeline rates

• Water efficiency options
  ➢ Education
  ➢ Leak detection / repair

• Other measures
  ➢ Financial counseling
  ➢ Disconnection moratoria
“While a variety of external factors influence this analysis, including regulatory issues, growth trends, customer concentration and operational capacity, S&P generally looks for rate stability, rate transparency, and long-term planning as relevant factors that are under some control of utility management. Rate-setting procedures that address these issues should help to achieve higher debt ratings, holding other factors constant.”

—James Wiemken, Director
Standard & Poor’s Credit Market Services
Future outlook and opportunities

It is only going to get worse …

• Funding needs are projected to increase at well above rates of income growth for foreseeable future
• Regulatory requirements aren’t going to get any easier
• Infrastructure isn’t going to get any younger
• Political environment isn’t going to get more receptive to increasing rates
Building Support for Rate Increases

Eric Rothstein
Galardi Rothstein Group
740 S. Federal St. #1101, Chicago, IL 60605
PH: 512.422.3244 / E-mail: erothste@grg-ltd.com