



Financial Forces Impacting Small Utility Systems

2014 Indiana Section AWWA Annual Conference

Presented by:

Brian N. Neilson, PE, LEED® AP – GAI Consultants, Inc.

Tara L. Hollis, CPA, MBA – GAI Consultants, Inc.

Gerald C. Hartman, PE, BCEE, ASA – Hartman Consultants, LLC



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Overview

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- + Financial Sustainability
- + Financial Forces Impacting Utility Systems
- + Questions to Consider
- + Strategies to Use
- + Case Studies
 - City of Polk City, Florida - Optimization
 - Village of Oakwood, Illinois - Divestiture



Financial Sustainability:

What Does it Mean?

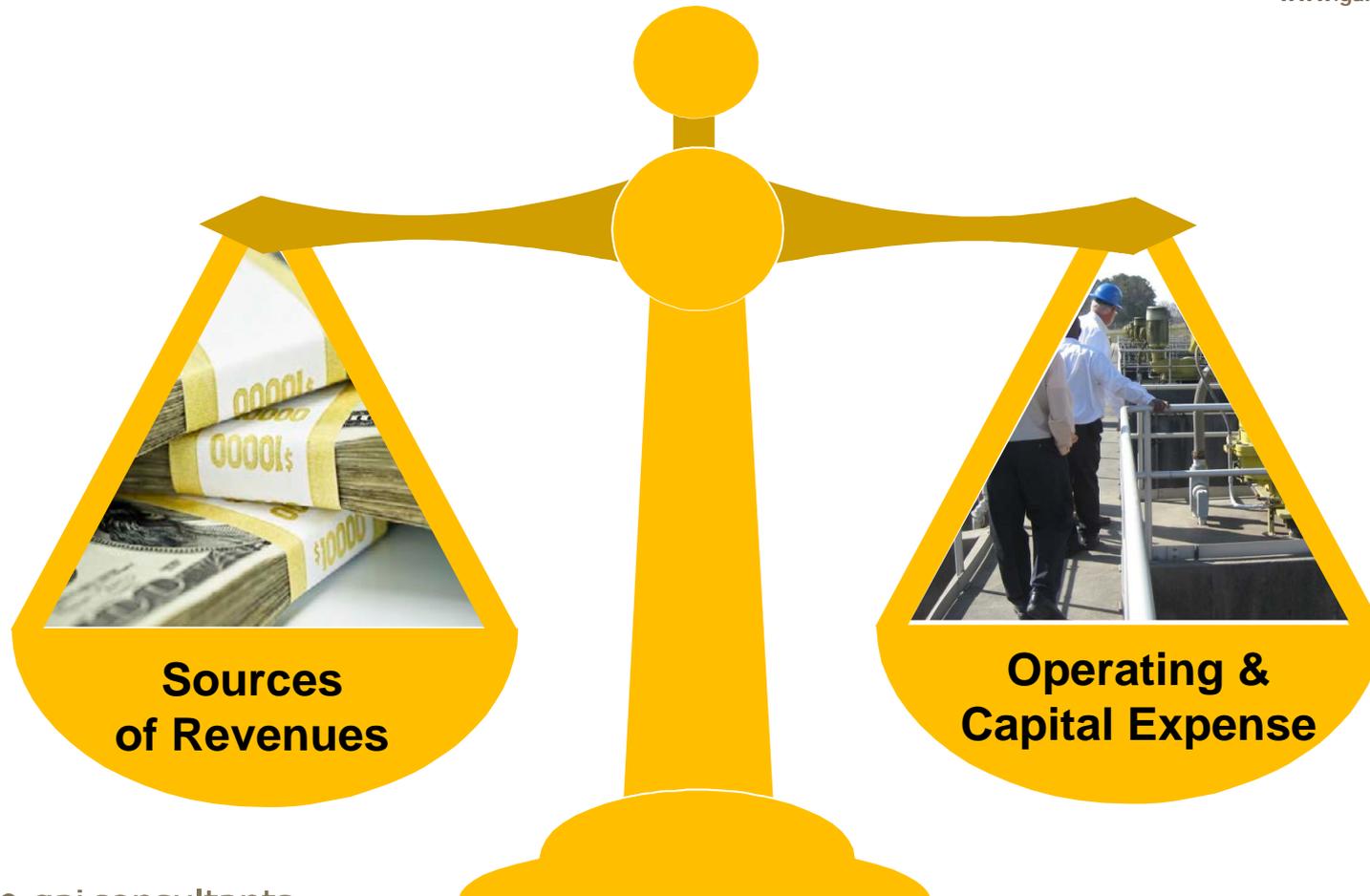
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- + The financial ability of the utility to meet the needs of the present without compromising the ability of future generations to meet their own utility financial needs.
- + There are no financial barriers to implementing resource options that are in the best interest of the customers.
- + The utility is financially sound and can effectively and efficiently meet its public service obligations.



Financial Sustainability: *A Balancing Act*

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Financial Sustainability:

Why Is It Important?

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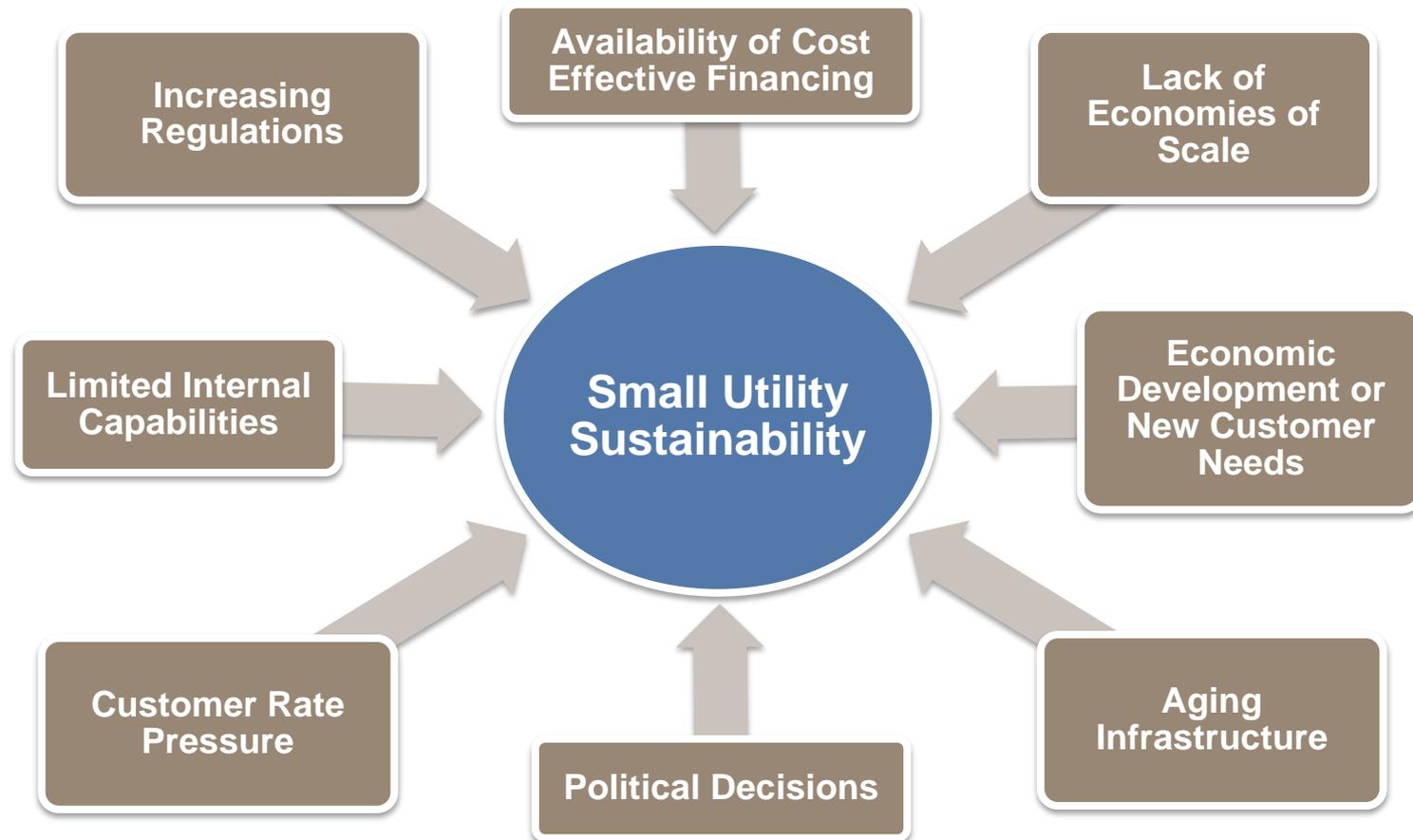
- + Only financially sustainable utilities can guarantee provision of services that will meet the current and future needs.
- + Lack of financial sustainability of utilities means operating with losses and permanent cash flow deficits leading to degradation of infrastructure and resulting in poor quality services.
- + Utilities that are financially sustainable have wider access to external funds including grants and loans.
- + Financially sustainable utilities are the most effective and efficient utilities providing their customers with services that meet their needs for the lowest possible cost.



Financial Sustainability:

Financial Forces Impacting Small Utilities

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Financial Forces – Questions to Consider:

Financial and Capital Related

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- + Does the utility have the proper reserves?
 - 3 months operations
 - Renewal and Replacement
 - Rate Stabilization Fund
 - Debt Service Reserve Fund

- + Can the utility consolidate its debt?
 - Is it possible to refinance for savings?
 - Can the utility secure better terms and conditions and eliminate conflicts?
 - Does the utility have a line of credit?
 - Can the utility have interfund loans?



Financial Forces – Questions to Consider:

Financial and Capital Related

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- + Does the utility have the capital for its system needs?
- + Has the utility researched the various utility grant and funding sources, as applicable?
- + What is the return to the owner (city, Investor Owned Utility, etc.) from the utility?
 - Allocated overheads
 - Payment in Lieu of Taxes (PILOT)
 - Transfers to the General Fund for services
 - Etc.
- + Is the utility competitive with cash investment returns?



Financial Forces – Questions to Consider:

System, Operational, and Market Related

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- + What are the condition of the facilities? Are they in need of renewal and replacement?
- + Does the system meet existing and promulgated regulations?
- + Does the utility have cooperative agreements with neighboring utilities?
- + What utilities are nearby? Are there any not-for-profits or governmentally-owned or authorities?
- + Should the utility buy wholesale/bulk services from another entity?
- + Is there an advantage to create a separate not-for-profit entity?



Financial Forces – Questions to Consider:

Management and Customer Related

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- + Is the utility using the full resources of the AWWA, WEF, Rural Water Association, State Operators Association, USEPA, etc.?
- + Is there access to support, including Utility Management Consultants, Engineers, Contract Operators (private and governmental), etc.?
- + Is communication sufficient between decision makers and management?
- + Has automatic annual rate indexing (i.e. 3.0% per year or so) been put in place to offset the declining value of the dollar and inflation?
- + Are the rates, fees, and charges adequate?
- + Are existing policies, procedures, standards, developer/customer agreements, etc. up-to-date and do they support a healthy utility?



Financial Sustainability:

Strategies to Consider

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- + Optimization
- + Ownership with Contracted Operators
- + Divestiture
- + Other Non-Traditional Approaches



Optimizations:

“Let’s Make It Better”

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Revenue Enhancements

- Customer accommodation
- Master metering to individual metering
- Billing per equivalent residential connections (ERCs) or units versus meter size
- Miscellaneous Charges
- Mandatory connections

Expense Reduction

- “Piggyback” purchasing
- Contracting services
- Employee idea cost savings programs
- Leak and loss reduction
- Electric/other aggregation negotiations

Increasing your Sandbox

- Wholesale agreements
- In-house outsourcing
- Contract operations for others
- Service area agreements or expansion



Ownership with Contracted Operations:

“We Don’t Have the Resources”

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+ Advantages

- Operations – day-to-day operations handled by the contract operator, improved emergency preparedness, contracted compliance liability
- Economies of scale – cost savings; access to technology and best practices; bulk contracts in place for equipment, chemical, etc.; ability to share equipment as needed
- Personnel resources – seasoned management, optimized labor, additional employees during emergency situations

+ Disadvantages:

- Loss of direct involvement and control – “Personal Touch”
- Time involved in the process to select and integrate contract operator



Divestiture:

“We Have Better Uses for Our Equity”

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- + Sale of the System
 - Sale of a Portion of the System
 - Sale of the Treatment facilities while maintaining ownership of the Transmission/Distribution and/or Collection/Transmission systems
 - Sale of the Entire System
- + Typical Purchasers
 - Investor Owned Utility
 - Dependent Not-for-Profit (including municipalities)
 - Independent Not-for-Profit



Other Non-Traditional Approaches:

“We Have Growth, Utilities Can’t be our Focus Right Now”

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- + Leases
- + Public-Private Partnerships
- + Consolidation into an Authority or Cooperative
- + OOT (own, operate, transfer)
- + DBOOT (design, build, own, operate and transfer)



Case Study: Optimization

City of Polk City, Florida



Case Study: Optimization

City of Polk City, Florida

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- + 3 Water Treatment Plants – 2,000,000 gpd
- + 2 Wastewater Treatment Plants – 515,000 gpd
- + 2,000 water customers
- + 1,000 wastewater customers
- + 1,500 City residents
- + 6,000 water population served
- + 3,000 wastewater population served
- + Emergency water interconnect – City of Auburndale



Case Study: Optimization

City of Polk City, Florida

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Mid 2010

- Defaulted on debt
- Had 4 different debt instruments
- Losing \$300,000 per year
- Litigation against the City
- Faced with regulatory non-compliance
- **Hired GAI Consultants, Inc.**

2011

- Hired contract operator - \$150,000 savings per year
- Consolidated Debt into 1 long-term bond issue
- Settled litigation with the County
- Corrected metering and billing - \$80,000 additional revenue per year (12/2011)
- No rate increase

2012

- Secured CDBG grant for \$800,000 of infrastructure needs
- Expanded service area from 6 square miles to 31 square miles to abut new University of South Florida Campus
- Regulatory compliance
- Bonds paid for \$1,370,000 of optimization projects
- No rate increase

2013

- Construction completed resulting in unified, single system
- One WTP placed on standby
- One WWTP closed (one with regulatory non-compliance)
- 8 small optimization tweaks completed
- No rate increase (projection: next 5 years without an increase)
- Strong utility performance



Case Study: Divestiture

Village of Oakwood, Illinois



Case Study: Divestiture

Village of Oakwood, Illinois

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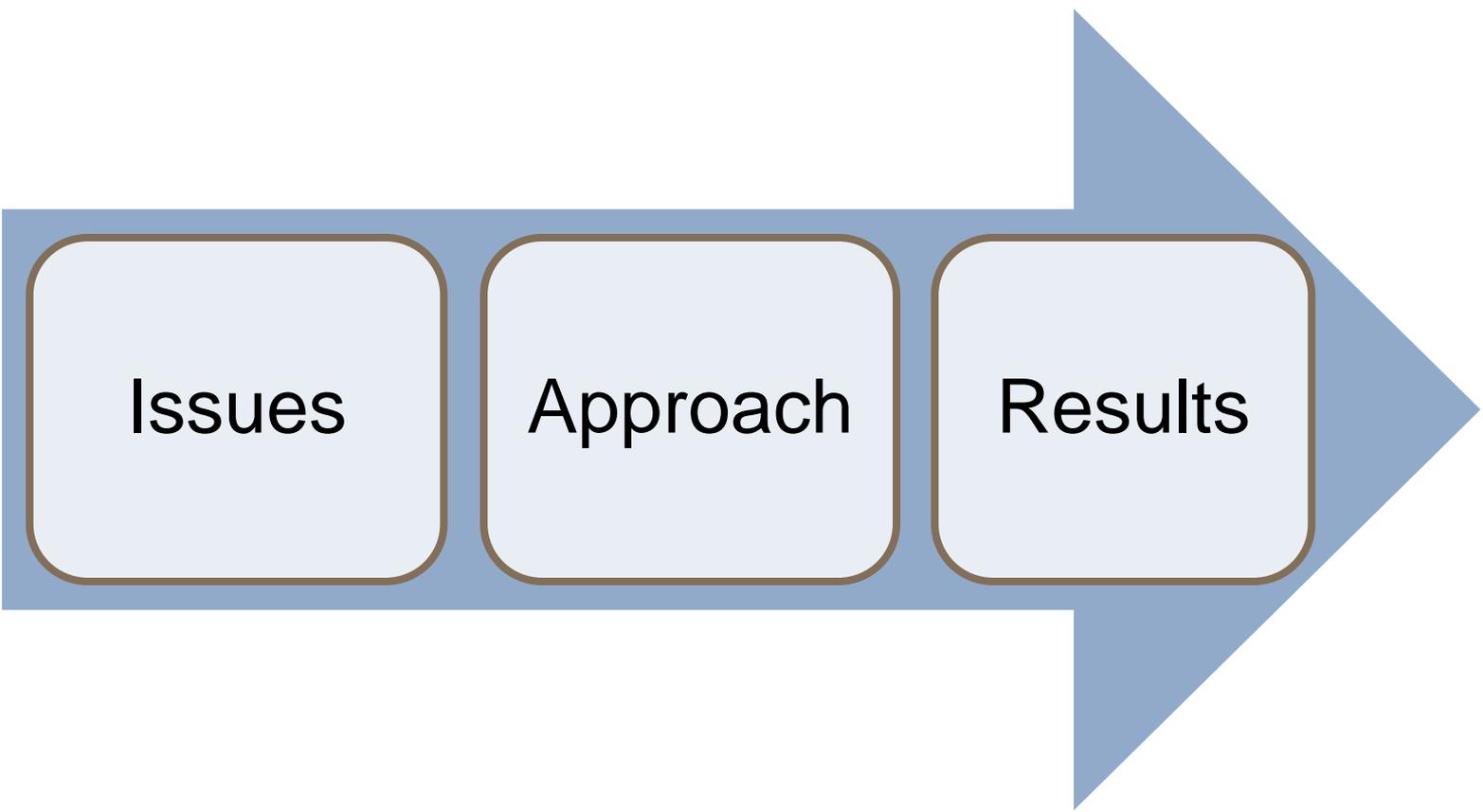
- + 1 Water Treatment Plant – 500,000 gpd
- + 1 Wastewater Treatment Plant – 220,000 gpd
- + 800 water customers
- + 700 wastewater customers
- + 1,500 Village residents
- + 1,800 water population served
- + 1,500 wastewater population served
- + No interconnects, No other utility system adjacent to the service area



Case Study: Divestiture

Village of Oakwood, Illinois

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Issues

Approach

Results



Case Study: Divestiture

Village of Oakwood, Illinois

Issues

Approach

Results

- 2012** + Surface Water WTP samples above HAA Limits

- 2013** + Engineer's Cost Report
- + Notice of Non-Compliance HAAs
- + \$3.0 million for regulatory compliance – 100% rate increase
- + Village General Fund subsidizing utility operations (losing money)
- + Staff doing both public works and utilities (not enough people)
- + Aqua Illinois in Danville offers to buy the system – 100% rate increase
- + Village President investigates what other communities have done and talks to Craig Eckert, PhD, past Village President of Philo



Case Study: Divestiture

Village of Oakwood, Illinois

Issues

Approach

Results

Jun 2013	<ul style="list-style-type: none"> + Hires GAI Consultants, Inc. + Situation Assessment and Plan of Action + Develop plan of compliance + Sign CCA with State + GAI appraisal of utility system + Advertisement for bids + Bidder information packages + Contact qualified bidders + Public Hearing
Jul 2013	<ul style="list-style-type: none"> + Bids received + Interviews + Selection Team recommendations
Aug 2013	<ul style="list-style-type: none"> + Notification and Negotiations

Sep 2013	+ Signed agreement
Oct 2013	+ ICC filing
Nov 2013	+ ICC testimony filed
Dec 2013- Jan 2014	+ ICC questions
Feb 2014	+ Anticipated Approval
Mar 2014	+ Anticipated Closing



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Case Study: Divestiture

Village of Oakwood, Illinois

Issues

Approach

Results

- + From June 2013 through March 2014 Oakwood's capital position will change by \$5 million
- + Compliance with HAAs
- + Rates stay "frozen" until 2016 and then merged into Statewide rates – approximately 50% rate increase (half of expected rate increase & 3 years later)
- + Oakwood has the capitalization to accomplish public works and quality of life decisions with a strong financial basis
- + Economic development is enhanced and assured to the north side of the Interstate



Case Study Summary:

Overview

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- + Polk City – 3 years
- + Oakwood – 3 months
- + Results from Others – 3 months to 3+ years



Case Study Summary: Polk City

Operational and Financial Optimizations

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Operational Optimizations

- + Privatize Plant Operations and Maintenance, Customer Service and Billing
- + Interconnect water system with neighboring entities – Emergency service, potential sale of excess capacity
- + Closure of 2nd wastewater plant, convert to reclaimed water distribution center
- + CIP to increase efficiency – replace leaky pipes, reconfigure pump stations

Financial Optimizations

- + Water Availability Charge/Sewer Availability Charge
- + Refinance portion of existing debt
- + Additional Base Charges for actual usage
- + Capital Recovery Charge based on actual usage
- + Additional Miscellaneous Charges (Grease Trap, RV Dump, Industrial Waste Strength)



Case Study Summary: Oakwood

Divestiture

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- + Increased capital position
- + Minimized customer impact (lowest rate adjustments)
- + Ability to focus on other Village services
- + Enhanced economic development



Questions?

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Contact Us

+ Brian N. Neilson, PE, LEED® AP
GAI Consultants, Inc.

6420 Castleway West Drive
Indianapolis, IN 46250-1914
317.570.6800 ext. 4506

b.neilson@gaiconsultants.com

+ Tara L. Hollis, CPA, MBA
GAI Consultants, Inc.

618 E. South Street, Suite 700
Orlando, FL 32801
407.423.8398 ext. 3110

t.hollis@gaiconsultants.com

+ Gerald C. Hartman, PE, BCEE, ASA
Hartman Consultants, LLC

407.341.0970

gerry@hartmanconsultant.com





End of Presentation



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