

**Illinois Association of Wastewater Agencies
September 30, 2010**

**Rock River Water Reclamation District
Strategic Financial Planning
for Rate Changes**

**Consultant: Eric Rothstein,
Galardi Rothstein Group**





Presentation Outline

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- ◆ RRWRD Financial History, Challenges & Context
 - ◆ Strategic Financial Planning Project
 - ◆ Board Messages /Recommendations



RRWRD Financial Management

💧 **Historical practices**

- User fee development
 - “Quantity / Quality” cost allocation
- Plant Equity Fee development
 - 1992 revenue analysis study
- Annual budget / cash management
- Limited capital financing / debt issues

💧 **Future challenges**

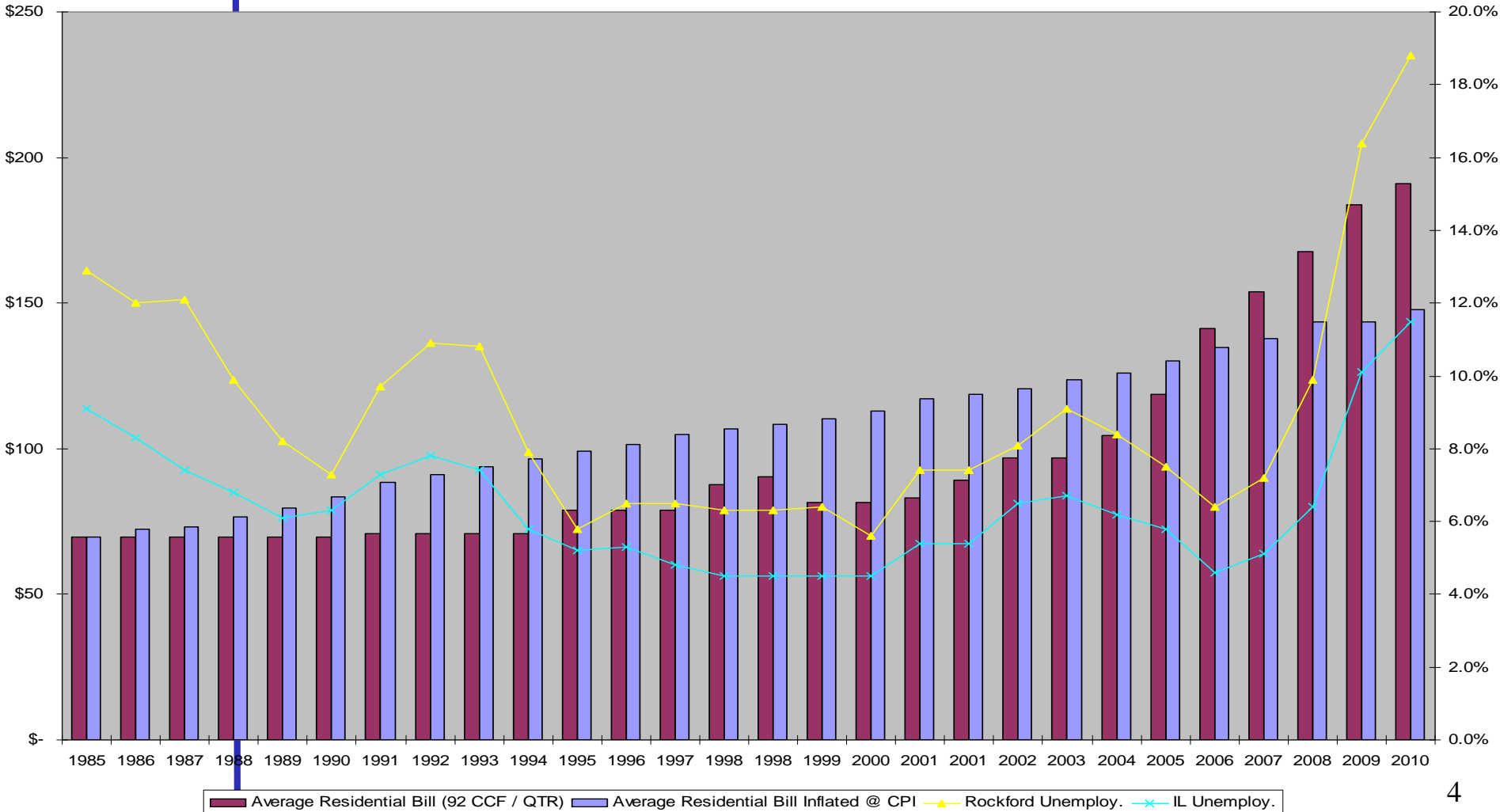
- Financing future CIP / reliance on debt
- Multi-year rate increase requirements
- Equitable distribution of costs



Financial History, Challenges & Context

RRWRD Rate & Fee History

ROCK RIVER WATER RECLAMATION DISTRICT
Average Residential Bill, Average Residential Bill Inflated @ CPI, & Unemployment






Financial History, Challenges & Context

National Utility Finance Trends

- ◆ Increasing costs / decreasing Fed/State support
 - Aging systems, regulations, capacity needs
- ◆ Rates and charges:
 - 2x rate of inflation over last decade which is expected to continue
 - Cost-of-service based rate setting
- ◆ Development / miscellaneous fees
 - Equitable distribution of costs
 - Revenue / financial stability





Financial History, Challenges & Context

Local Considerations



- Economic challenges resound
 - Declining / evolving industrial base
 - Unemployment rates
 - Economic development concerns
- RRWRD's history of high quality performance a community asset
 - Permit compliance
 - Reliable, cost-effective services
- Future regulations & system renewal will impose major costs
 - Phosphorous limits



Strategic Financial Planning Project

- ◆ Financial policies
- ◆ Cash-flow forecasting
- ◆ Plant equity fee analysis
- ◆ Pending components:
 - Cost-of-service analysis
 - Affordability program evaluation
 - Miscellaneous fee review

Strategic Financial Planning Model Structure

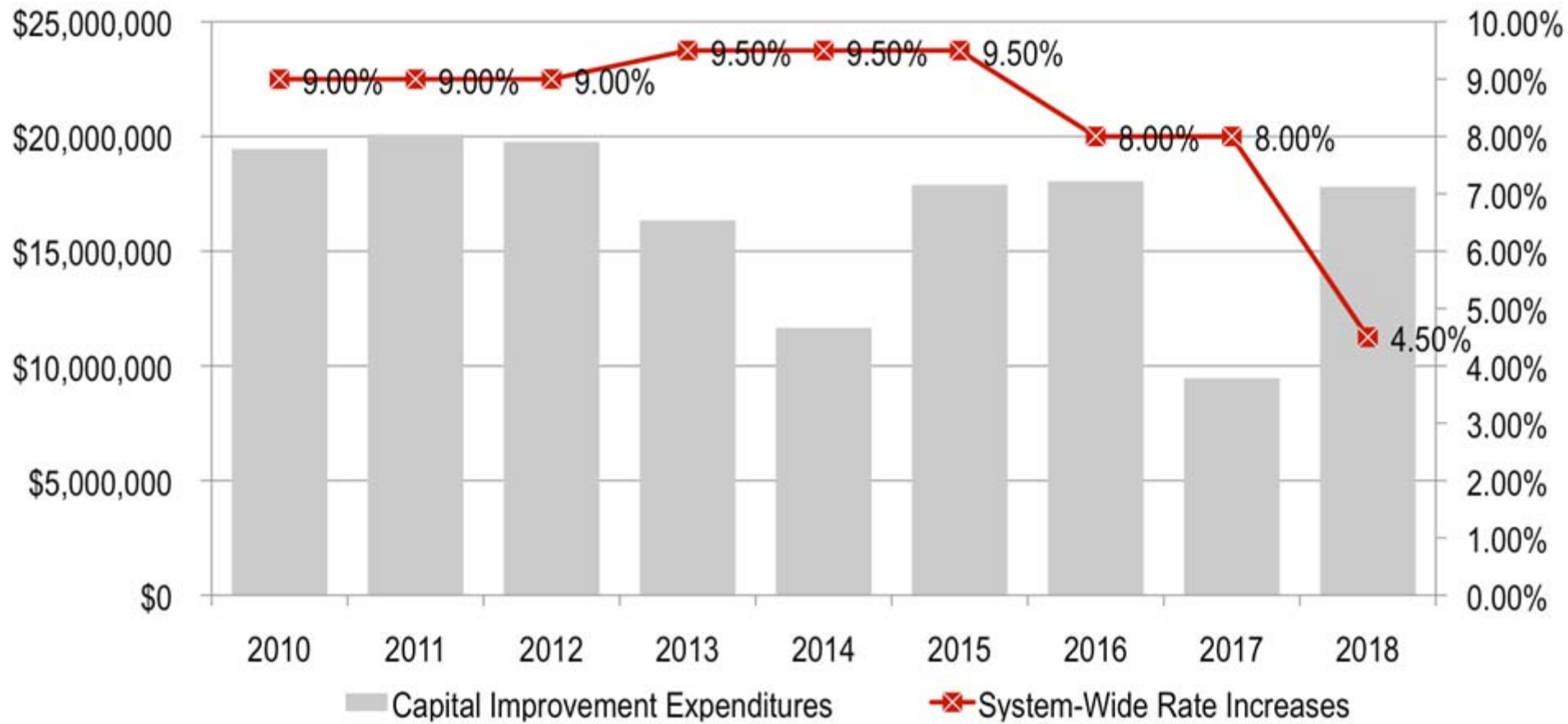
- ◆ 10-year cash flow analysis
- ◆ Revenues
 - Existing rates (including growth)
 - System-wide rate increases
- ◆ O&M expenses
 - Budget vs. actual reporting
 - O&M forecast via escalation factors
- ◆ Capital financing
 - Existing and future debt obligations
 - Cash financing of capital
- ◆ Financial policies / metrics



SFP: Cash-Flow Forecasting Baseline Scenario

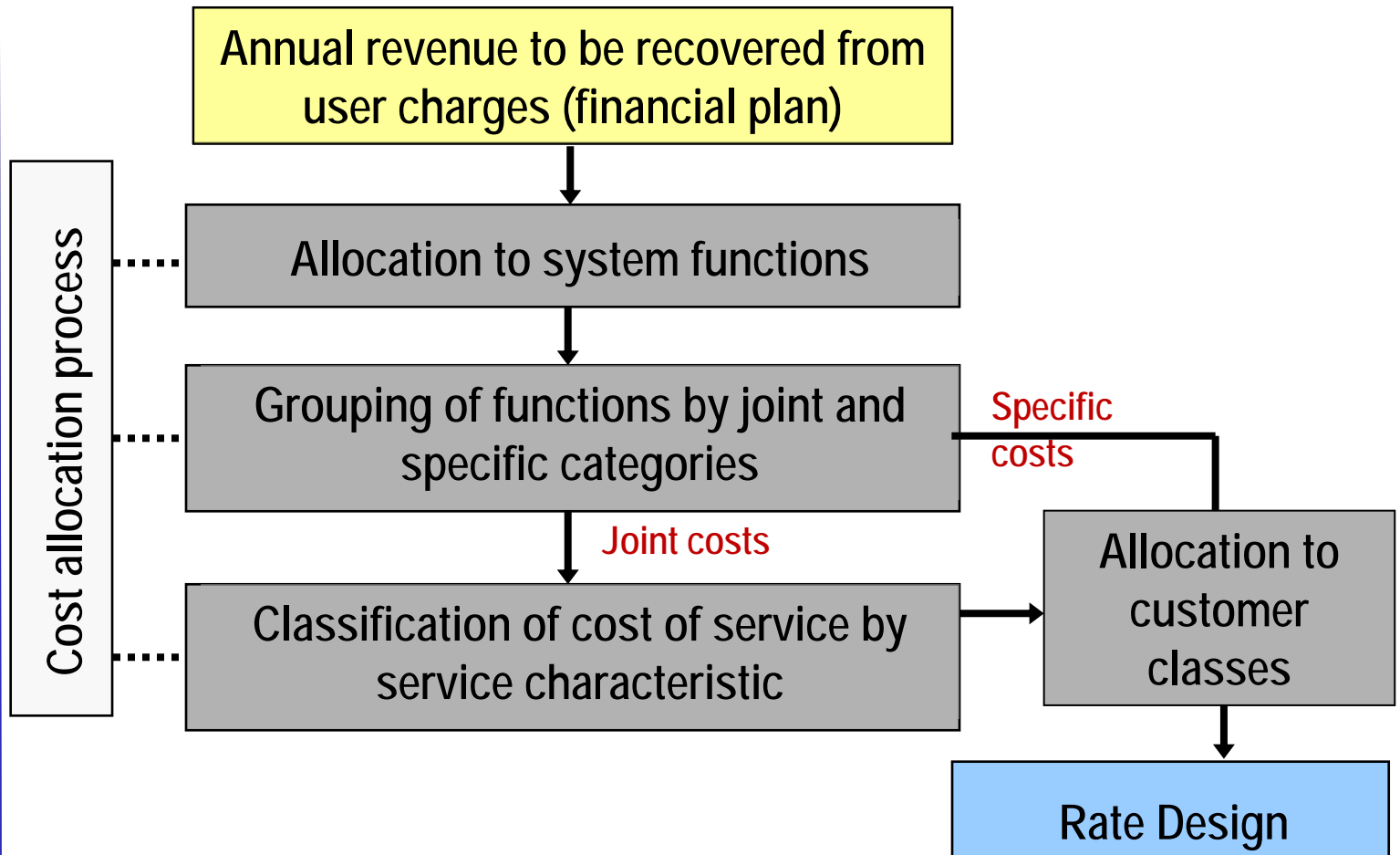
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Preliminary Strategic Financial Plan
CIP Expenditures and System-Wide Service Rate Increases
FY 2010-2018



SFP: Pending Components

Cost of Service Analysis





SFP: Pending Components

Affordability / Financial Capability

- ◆ Affordability vs. financial capability
- ◆ RRWRD affordability issues:
 - Economic challenges
 - Options for low-income assistance
- ◆ Financial capability
 - Relevant for communities facing enforcement actions
 - SFP modeling offers alternative to flawed EPA guidance



“The poor are getting poorer, but with the rich getting richer it all averages out in the long run.”



SFP: Board & Stakeholder Engagement

Communications strategy tailored to achieve understanding / acceptance

◆ **RRWRD Board of Trustees**

- ◆ Extensive work-sessions / meetings
 - ◆ Financial policies
 - ◆ Plant equity fee analysis
 - ◆ Strategic financial plan
 - ◆ Rate increases / COSA issues



◆ **Stakeholder engagement**

- ◆ Example: Plant Equity Fees:
 - ◆ Key community leaders
 - ◆ Public meeting



Board Messages / Recommendations

- ◆ RRWRD's prospective capital requirements require evaluation of multi-yr impacts / options
- ◆ Baseline scenario initiates development of adequate revenue base
 - Limits rate increases to <10% via staged debt terms
 - Reflects proactive schedule adjustments
- ◆ Inadequate revenue-base development would necessitate severe CIP reductions
 - **Endanger CWA violations, Consent Decrees**
- ◆ Rate increase deferrals tend to impose higher rate increase requirements in subsequent years
- ◆ All scenarios are preliminary – revisions to be based on:
 - Board direction
 - O&M and CIP budget reviews (& re-reviews)