

Solving Today's Management Challenges

David E. Rager, Northern Kentucky SD1

Ed Archuleta, El Paso Water Utilities

Greg Heitzman, Louisville Water Company

Jim Lochhead, Denver Water

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Testing Your Technology Skills

- During the session we will ask you a few questions
- You will be able to participate:
 - Via the Web on your Smart phone, laptop or touchpad
 - Texting via your cell Phone



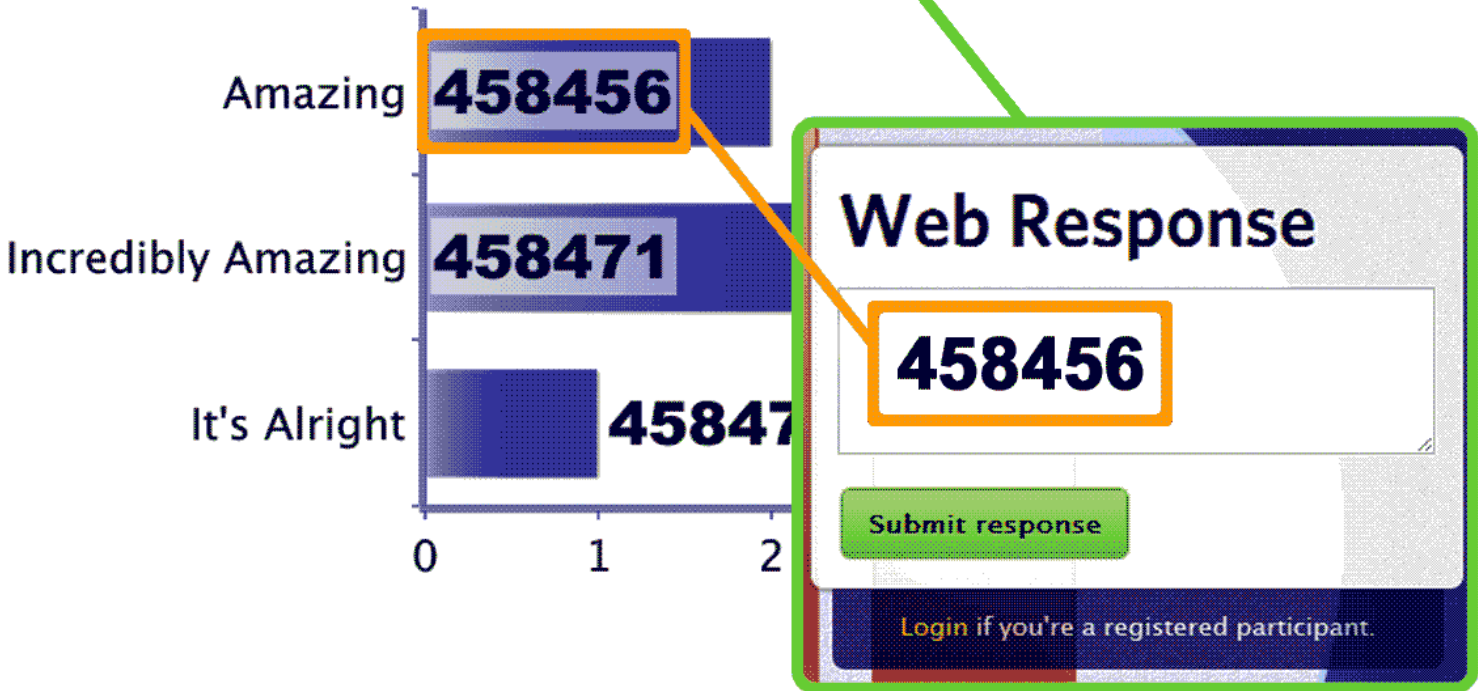
How To Vote via PollEv.com

How do you like my presentation so far?

EXAMPLE



Submit a **CODE** to <http://PollEv.com>



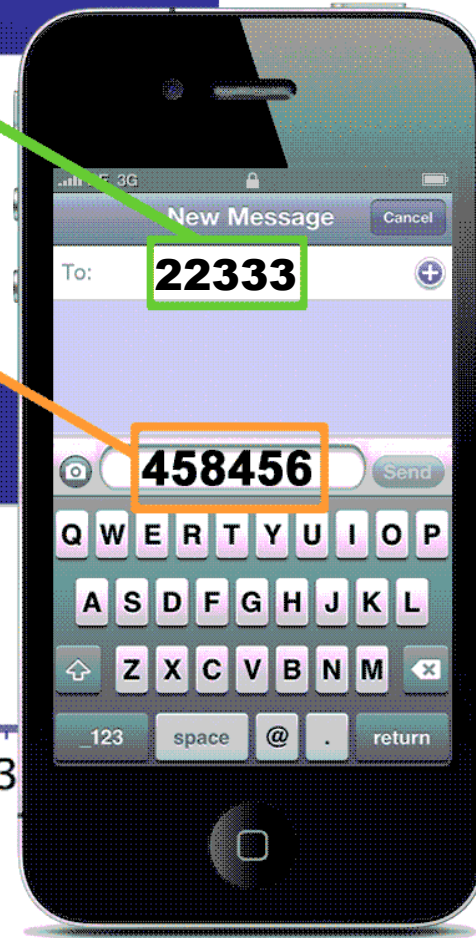
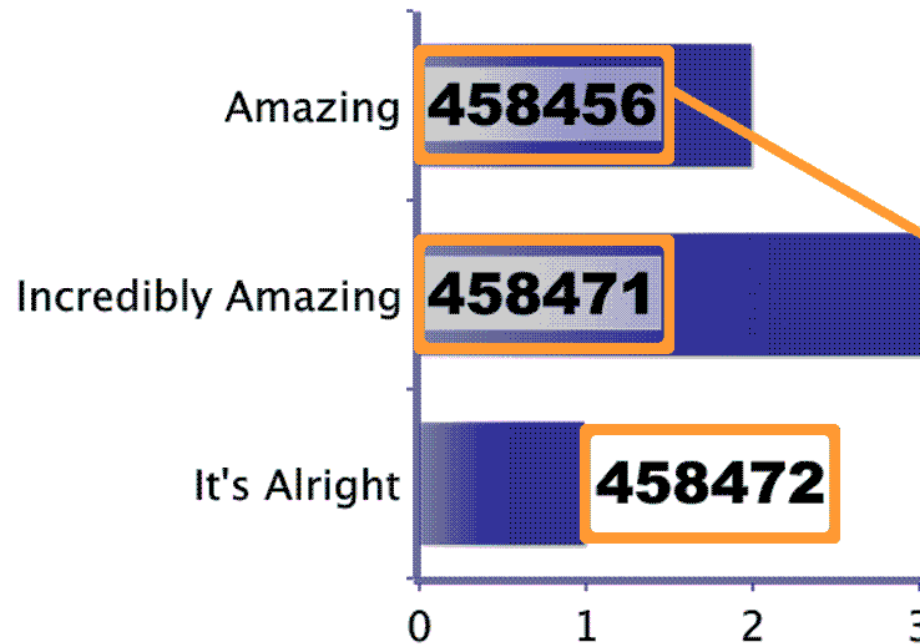
TIP Capitalization doesn't matter, but spaces and spelling do

How To Vote via Texting

EXAMPLE

How do you like my presentation so far?

Text a **CODE** to **22333**



TIPS

1. Standard texting rates only (worst case US \$0.20)
2. We have no access to your phone number
3. Capitalization doesn't matter, but spaces and spelling do

Solving Today's Management Challenges

- What challenges has the Great Recession created for you?
 - Is it harder to get rate increases?
 - Is it harder to balance revenues to expenses?
 - Are you seeing more political involvement in the governance of the utility?

Have We Found the New Normal?

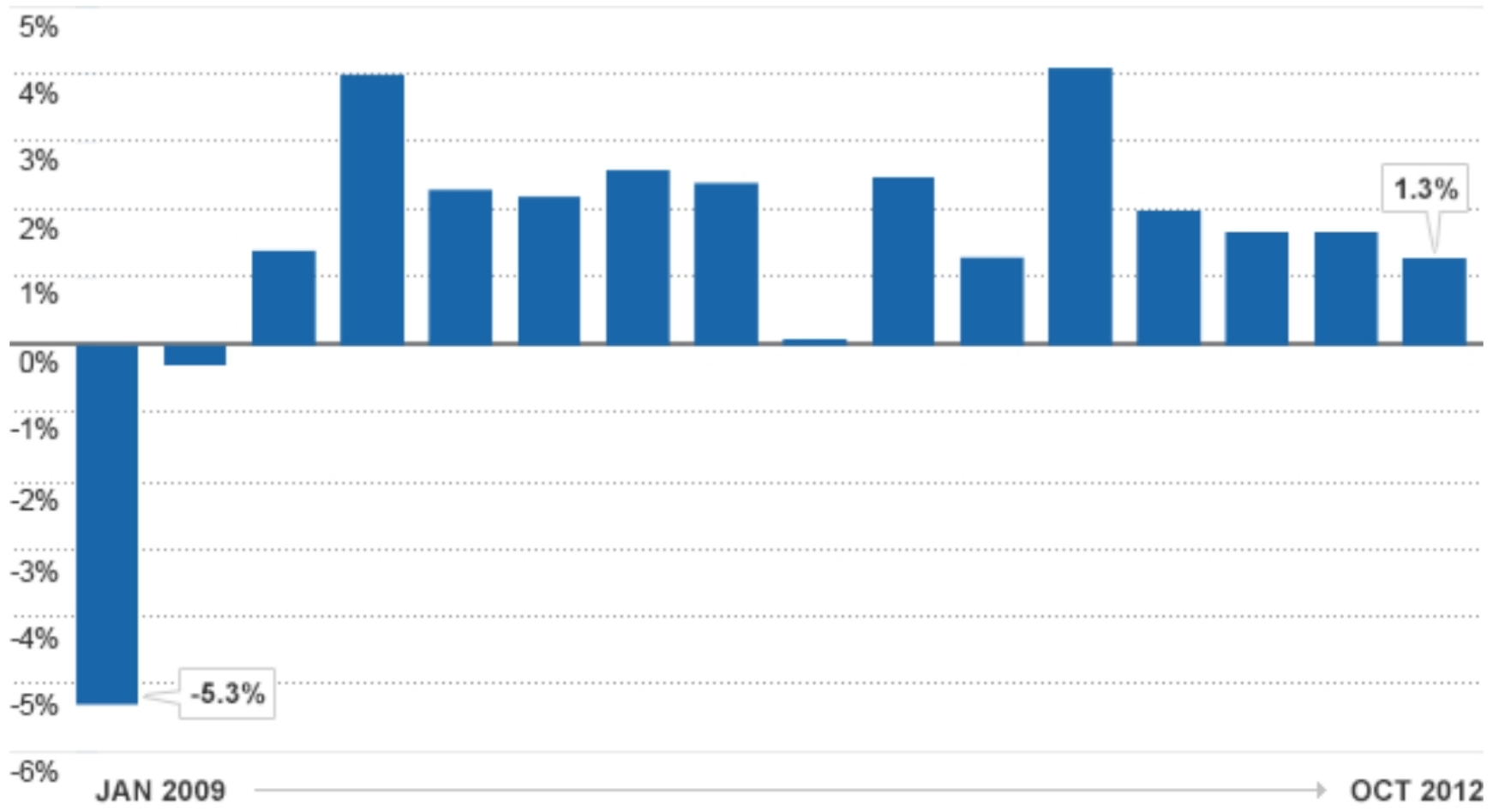
- Has the job of a utility CEO changed in the last four or five years.
- Panelist will discuss how it has changed for them
 - Operations
 - Human Resources
 - Financial Management
 - Political
- Will open it up for a group discussion



What have been the economic trends since 2008



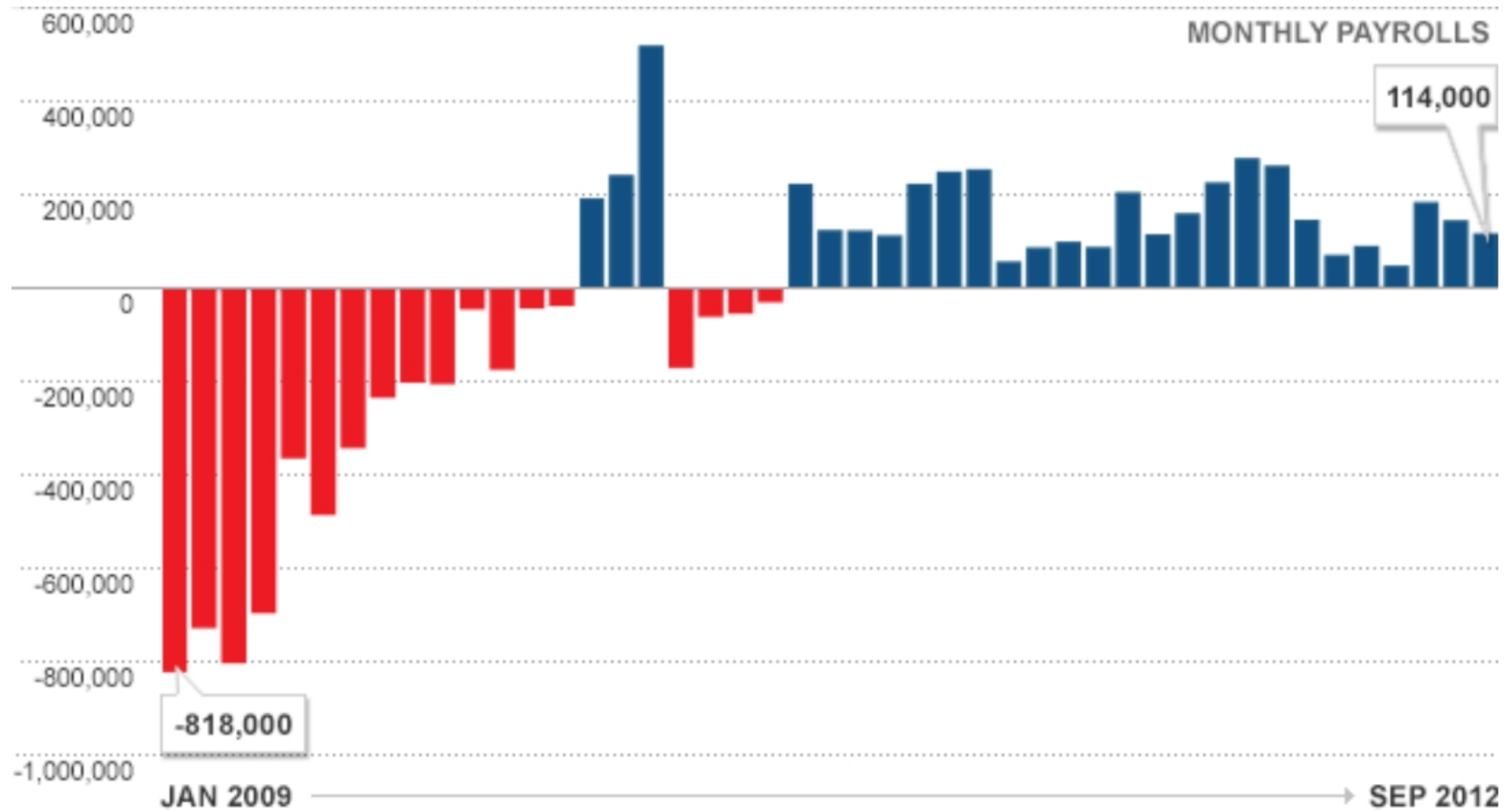
Economic growth



NOTE: GDP % (QUARTERLY CHANGE, SEASONALLY ADJUSTED AT ANNUAL RATES), SOURCE: BUREAU OF ECONOMIC ANALYSIS

During the first three months of 2009, the economy slumped at an annual rate of 5.3%. Since then **GDP** has been growing and slowly recovering, but the rebound has been a lackluster one compared to those following prior recessions.

Job growth

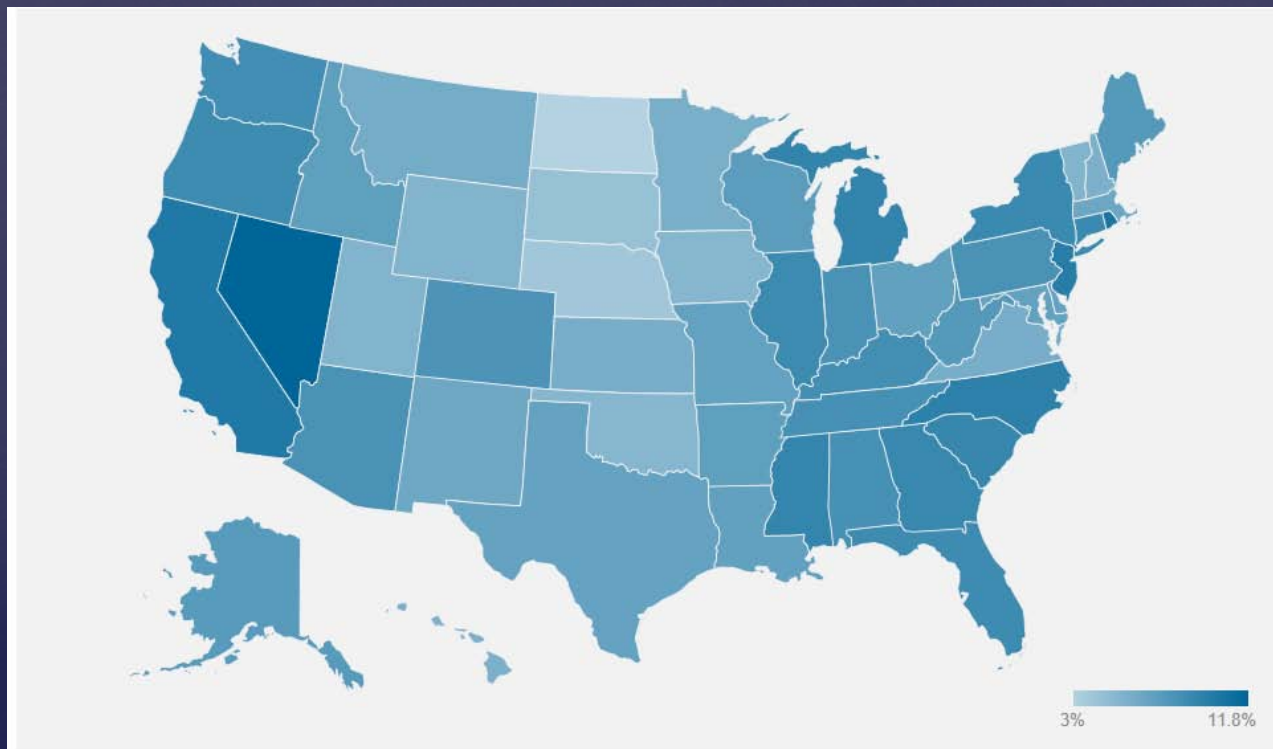


SOURCE: BUREAU OF LABOR STATISTICS

Job losses peaked in early 2009, and steadily declined throughout the year. The economy finally started creating jobs in the beginning of 2010, but then employers pulled back in the summer. A similar trend occurred in 2011, and then again in 2012, when strong momentum early in the year **stumbled** in the spring.

Unemployment Trends Across the United States

Unemployment rate, state by state



The unemployment rates on this map are for September 2012 and were released October 19, 2012.

source: Bureau of Labor Statistics

To maintain no growth in the unemployment rate, the nation must add 125,000 jobs a month.

California must add 1.8 million jobs just to counter population growth since the beginning of the recession

Looking at Employment Differently

58⁷/₁₀

have a job

33⁶/₁₀*

don't have a job,
don't want one

5

want a job,
actively looking

2⁸/₁₀**

want a job, aren't
actively looking

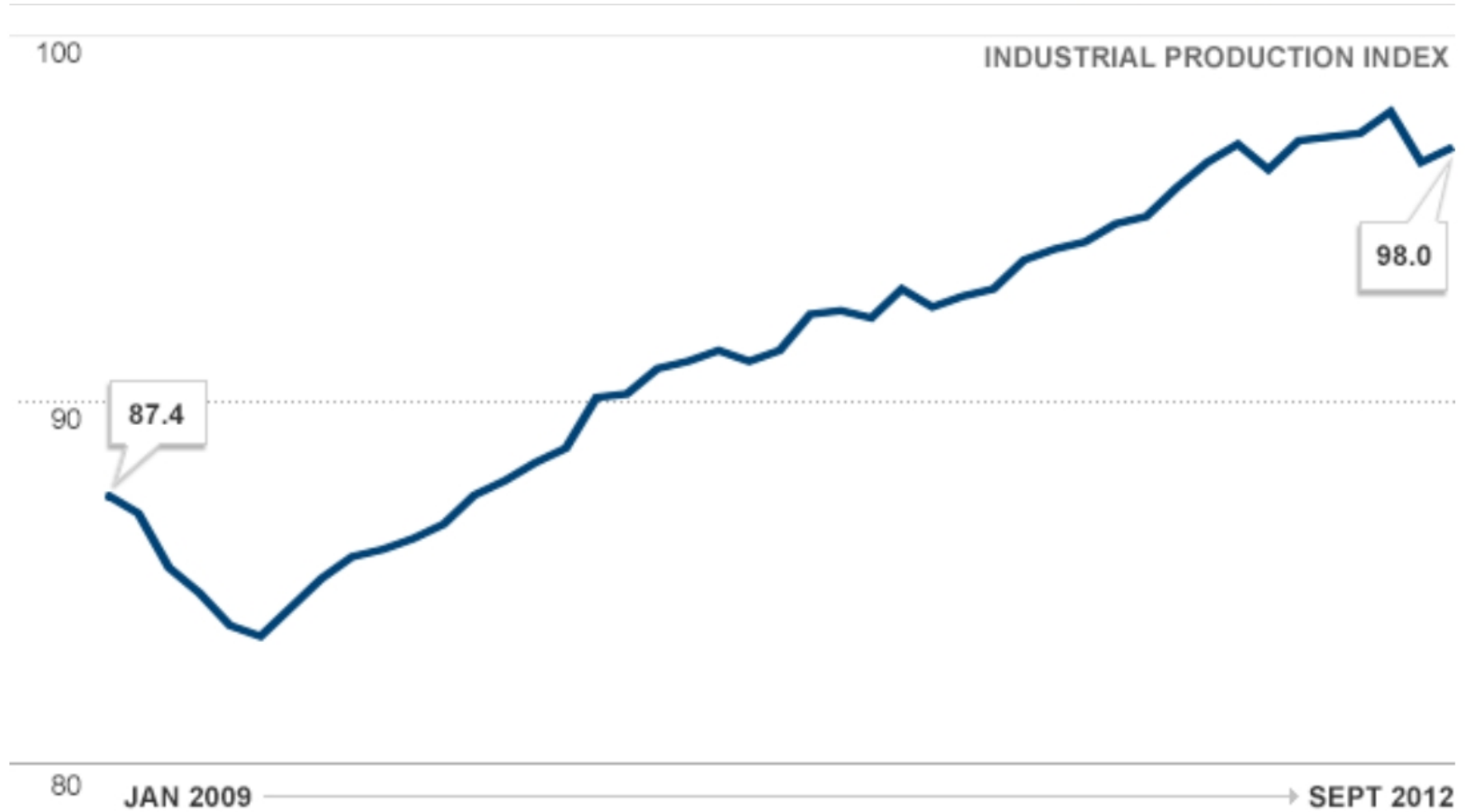


* includes retirees, students, stay-at-home parents

** "actively looking" indicates the person has searched for a job in the last four weeks.

SOURCE: BUREAU OF LABOR STATISTICS

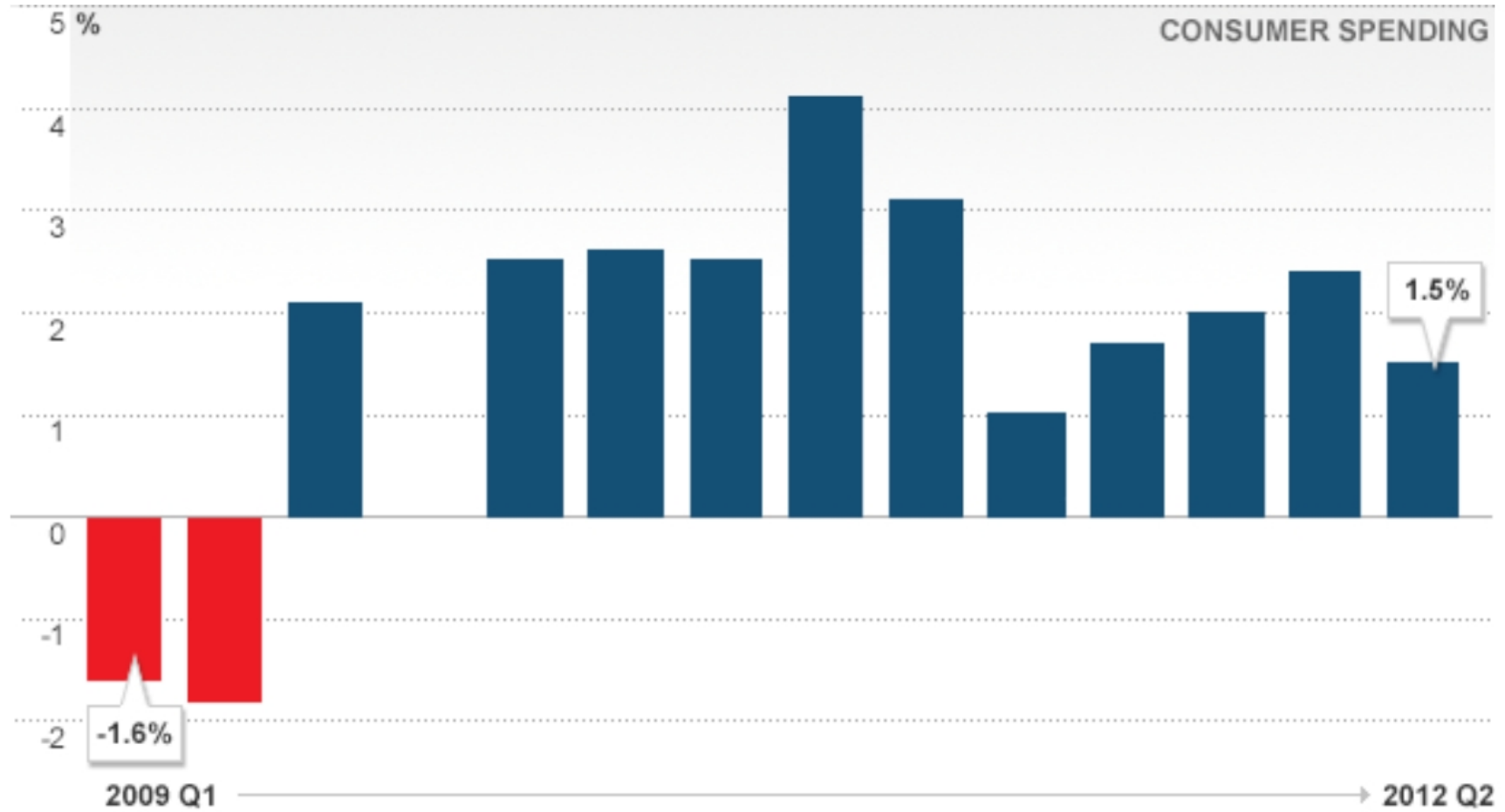
Manufacturing



SOURCE: FEDERAL RESERVE

Manufacturing slowed through much of 2009, bottoming out midway through the year. Since then, the sector has steadily rebounded, with industrial production hitting a nearly four-year high in April.

Consumer spending



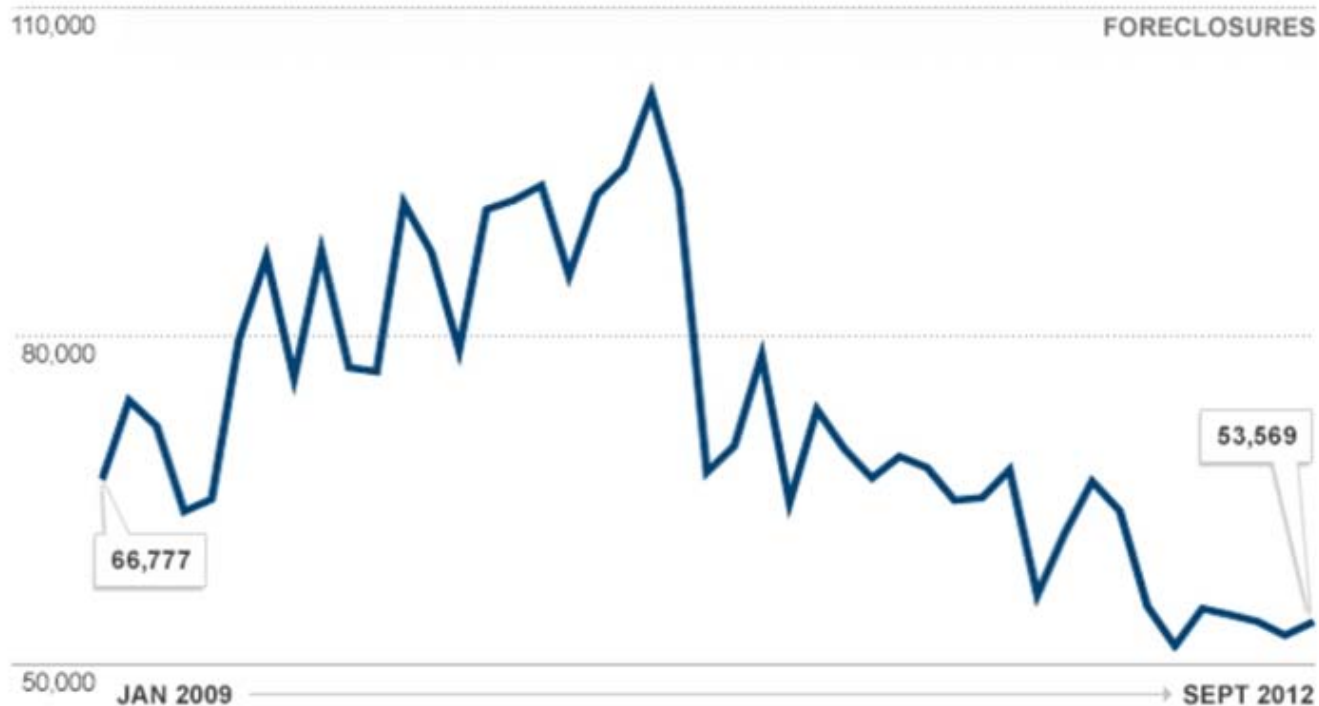
SOURCE: BUREAU OF ECONOMIC ANALYSIS

Amid slumping home prices and rising unemployment, consumers pulled back on their spending during the recession. Stimulus programs temporarily boosted auto sales and home purchases in 2009, but since then, spending has picked up only gradually. Consumers are focusing on paying down debt instead.

Housing Foreclosures Since 2009

Nearly half (23.5 million) of home mortgages are in trouble.

Foreclosures

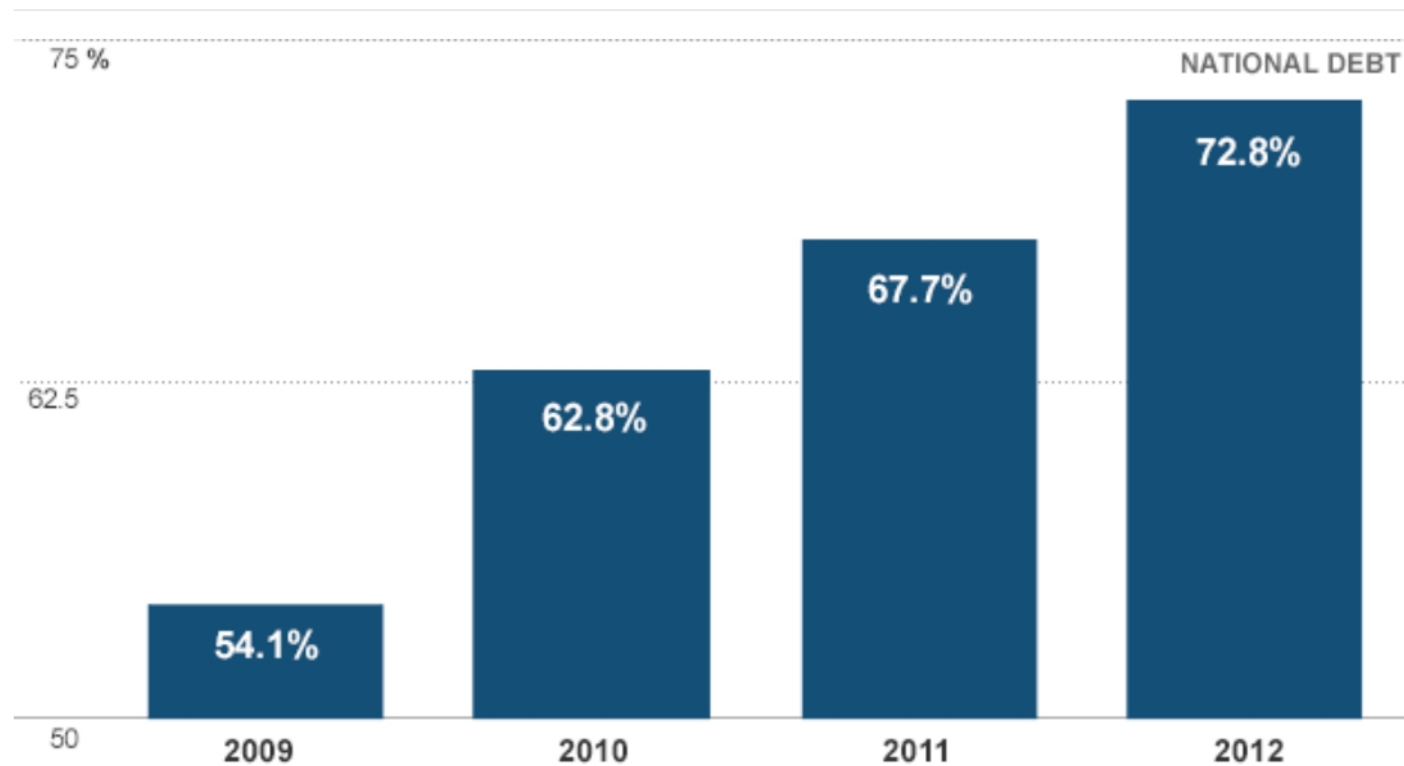


REAL ESTATE OWNED PROPERTIES; SOURCE: REALTYTRAC

More than 3 million Americans have lost their homes to **foreclosure** since early 2009, but bank repossessions have fallen in half since they peaked in September 2010.

The National Debt as a Percentage of Gross Domestic Product

National debt (% of GDP)



NOTE: AS A PERCENTAGE OF GDP; SOURCE: CONGRESSIONAL BUDGET OFFICE

The financial crisis of 2008 spurred a big chunk of spending increases and tax cuts to stem the pain of the downturn. That's a key reason why debt held by the public -- individual bondholders, big investors, and foreign governments -- has increased significantly since 2008. That jump will have to be paid off with interest.

State and Local Government Revenues are Shrinking

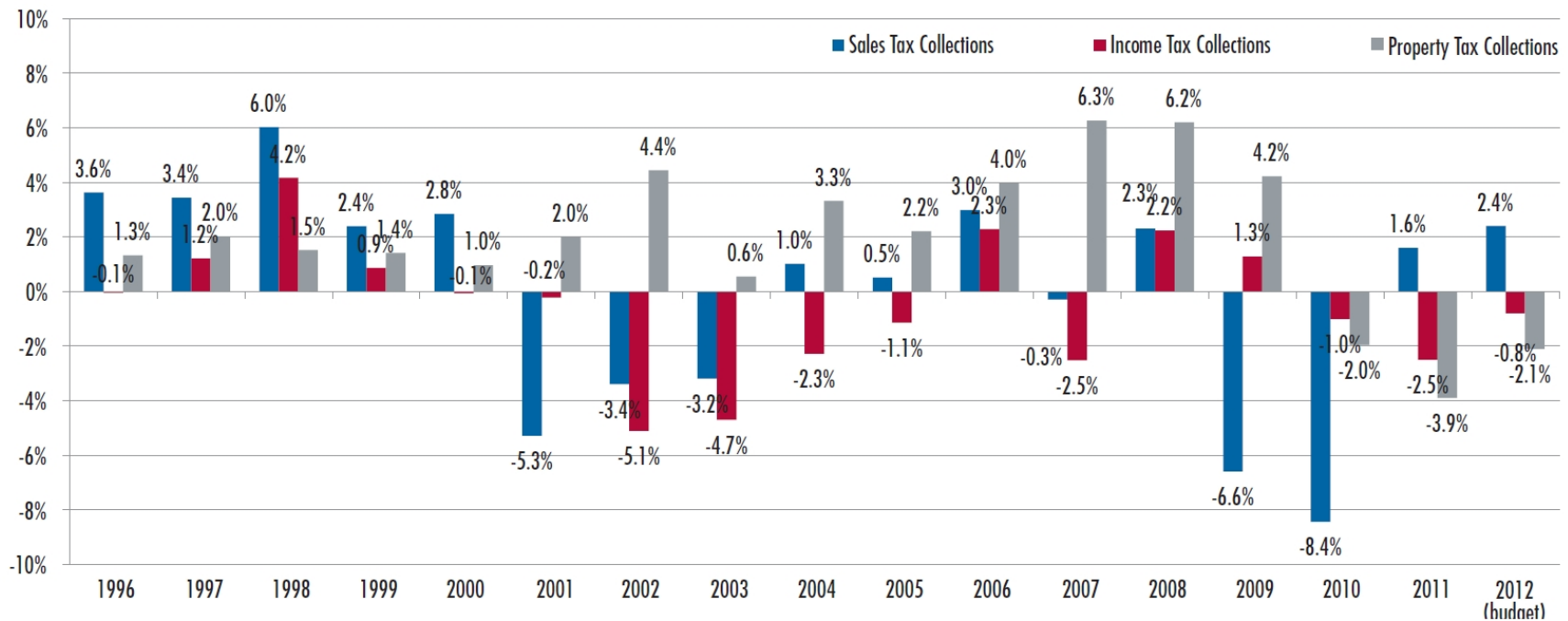


Figure 2: Year-to-Year Change in General Fund Tax Receipts (Constant Dollars)

State and Local Governments trying to Adjust Expenses to Match Revenues

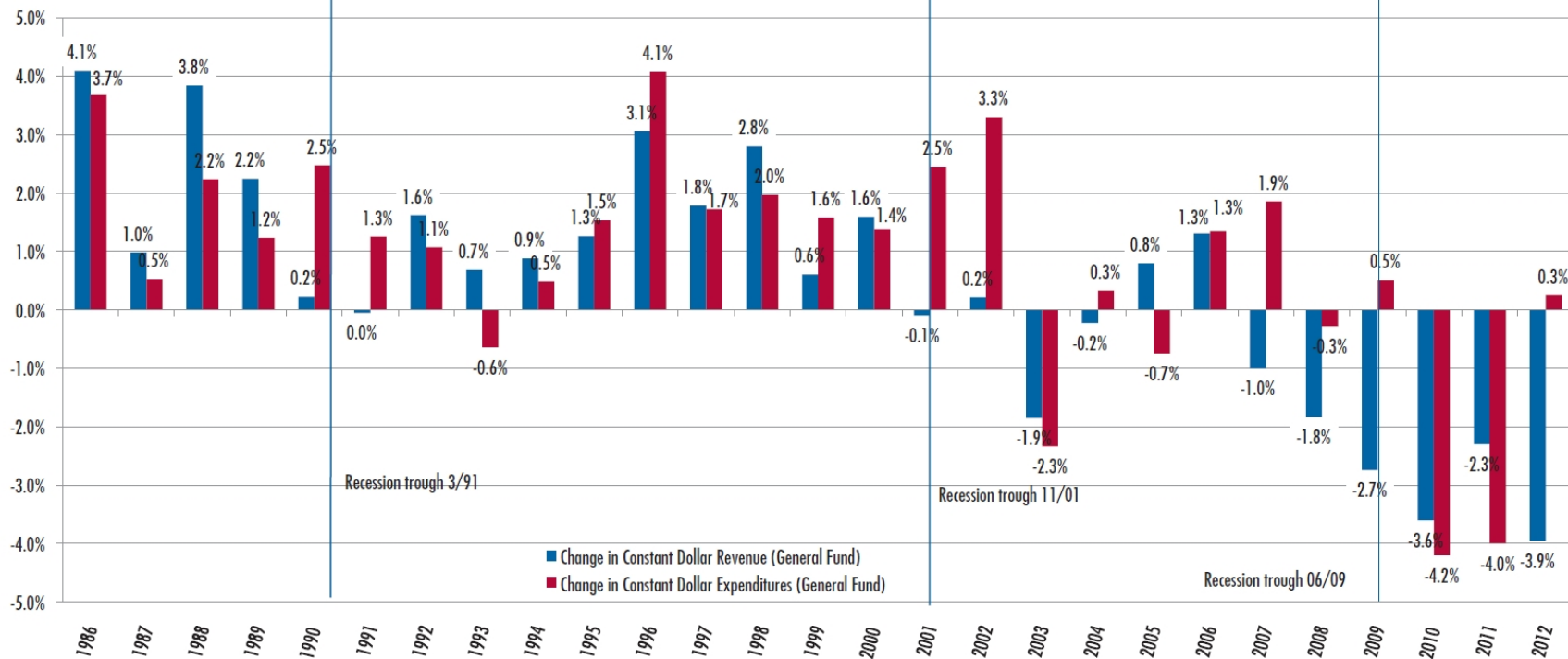


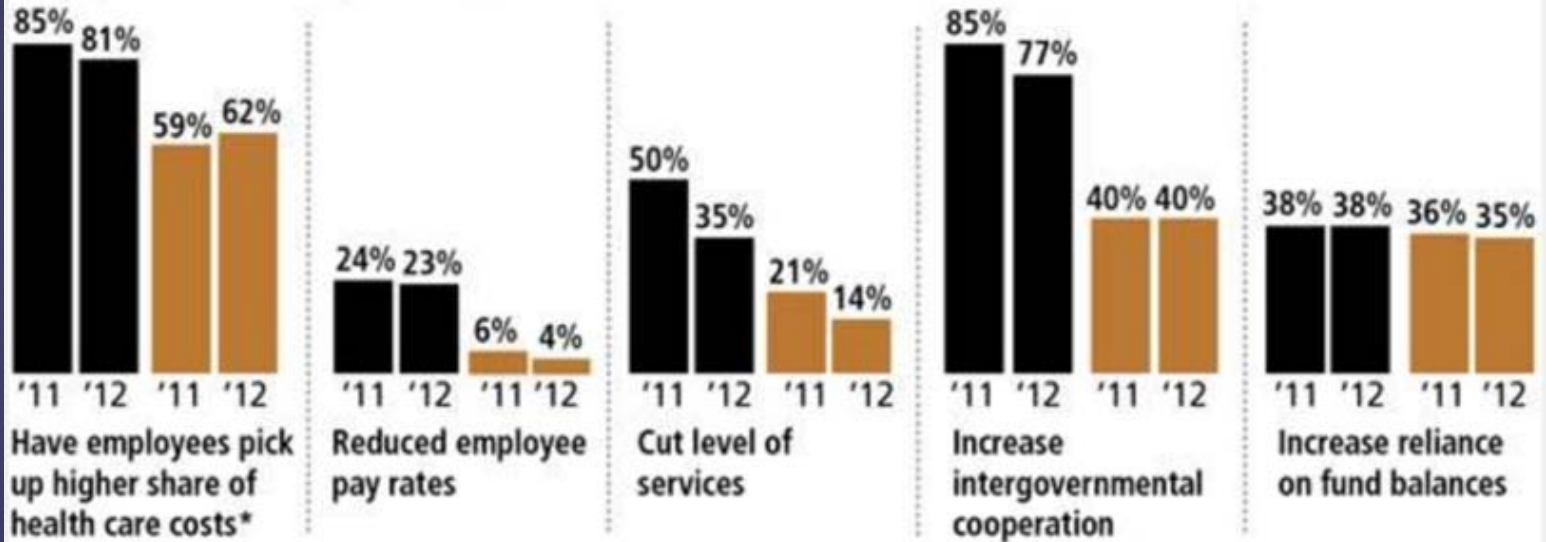
Figure 1: Year-to-Year Change in General Fund Revenues and Expenditures (Constant Dollars)

MORE PAIN TO COME

Despite the improved outlook, many local government leaders say they plan further cost-cutting measures.

Local governments with populations over 30,000

All local governments



*Includes only local governments that provide fringe benefits

The overall survey has a margin of error of +/- 1.4 percentage points. The data for governments with populations of more than 30,000 has a margin of error of +/- 4.5 percentage points.

DAVID PIERCE/DETROIT FREE PRESS

Strategies planned by Cities in Michigan

Utility Challenges

- Political interests moving from environmental concerns to jobs, costs to businesses, costs to households.
 - If it doesn't improve bottom line, not important
 - Balancing utility revenue growth vs. operating costs
- Political fatigue from seemingly continuous rate hikes.
- Political Influence creating uncertainty

Customer view: “This isn’t the quality of life I was expecting”

- My income has been flat or declining.
- There is a tremendous amount of uncertainty in my life and I don’t see a clear end in site.
- My trust in others is diminishing.



Regulatory Outlook

☞ Drinking Water

- ☞ Political influence creating uncertainty
- ☞ U.S Congress has no appetite for more regulations
- ☞ Faced with uncertainty, utilities will do nothing

☞ Wastewater

- ☞ Regulatory issues being driven by consent decrees
- ☞ Political fatigue from continuous high rate increases
- ☞ Private package plants on industrial sites risk revenue hits



There is a significant difference in attitude between the Water and Wastewater Industry

Water Consumption is declining

Residential consumption has declined over past 20 years

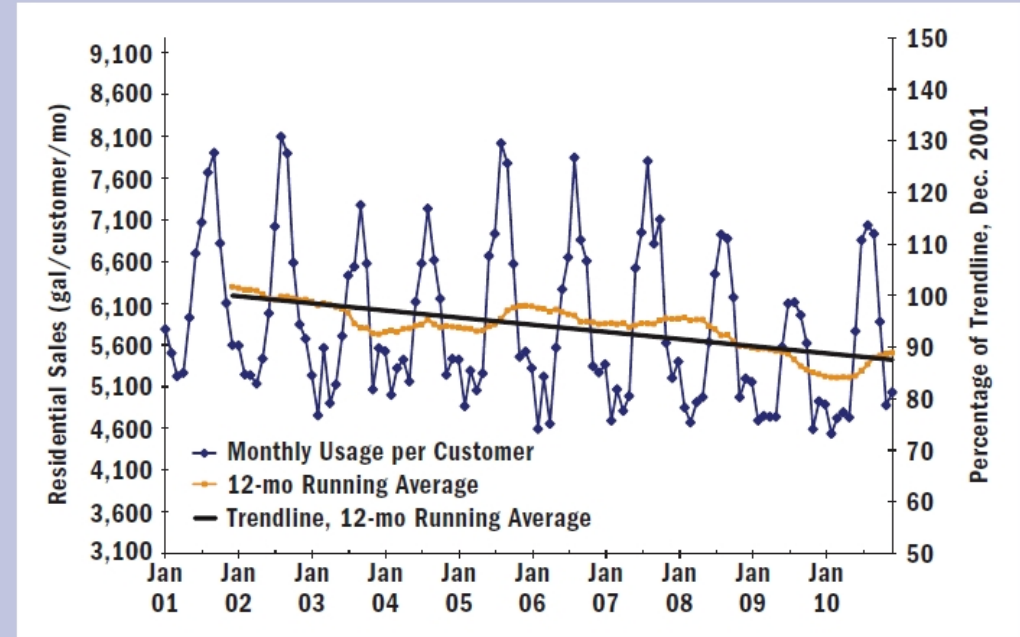
Decline accelerated in the last decade

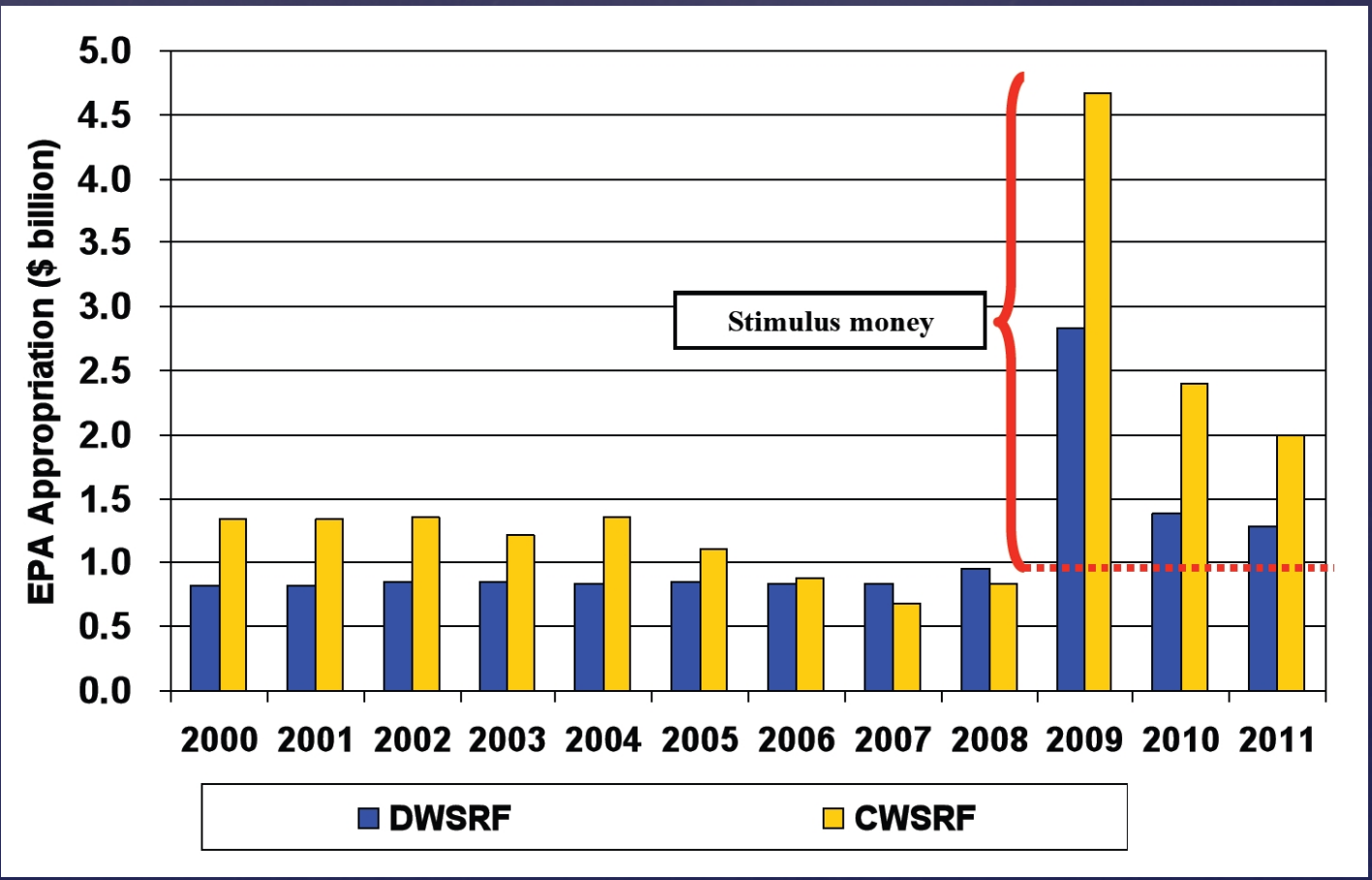
Consistent across geographic and demographic variables

A home built in 2011 uses 35% less water than a home built in 1994, all other factors being equal.

Price elasticity is estimated between $-.05$ to -0.05 (% change from 1% change in price).

Residential water use declined between 2001 and 2010 among state subsidiaries of a large utility services company.

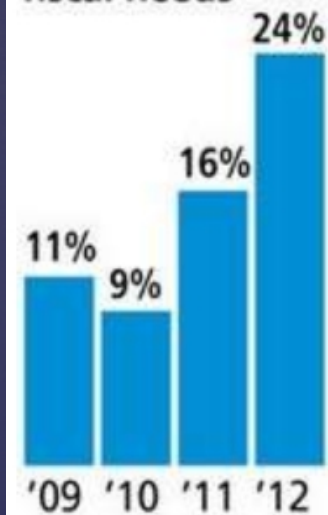




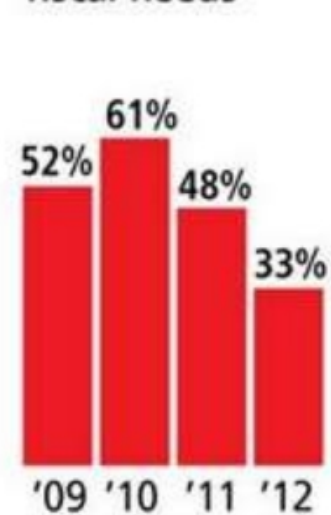
MEET RESIDENTS' FISCAL NEEDS

Still hurting, local leaders feel more able to meet residents' fiscal needs than at any time since the survey began in 2009.

Feeling more able to meet fiscal needs

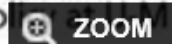


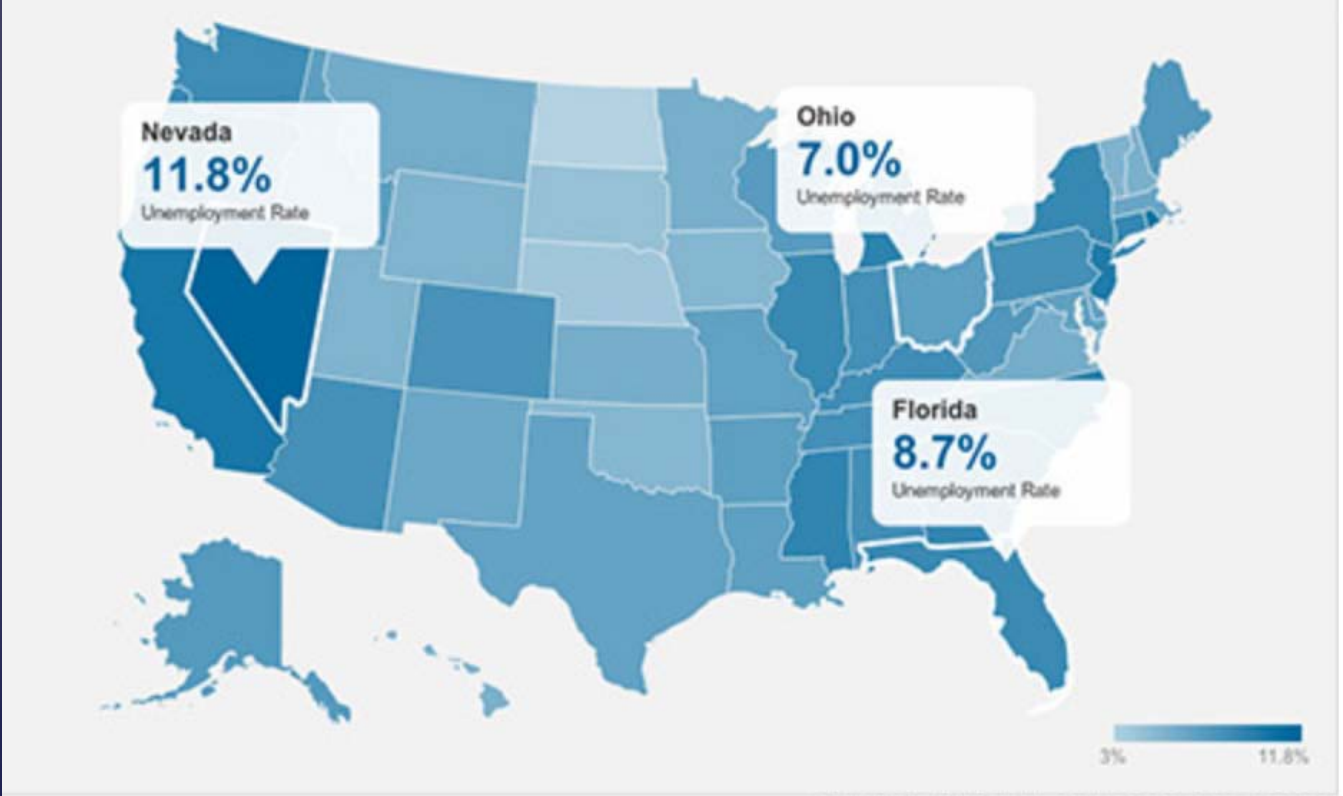
Feeling less able to meet fiscal needs



Note: Numbers for those who answered "neither" or "don't know" are not included.

Source: The Center for Local, State, and Urban Policy, Gerald R. Ford School of Public Po



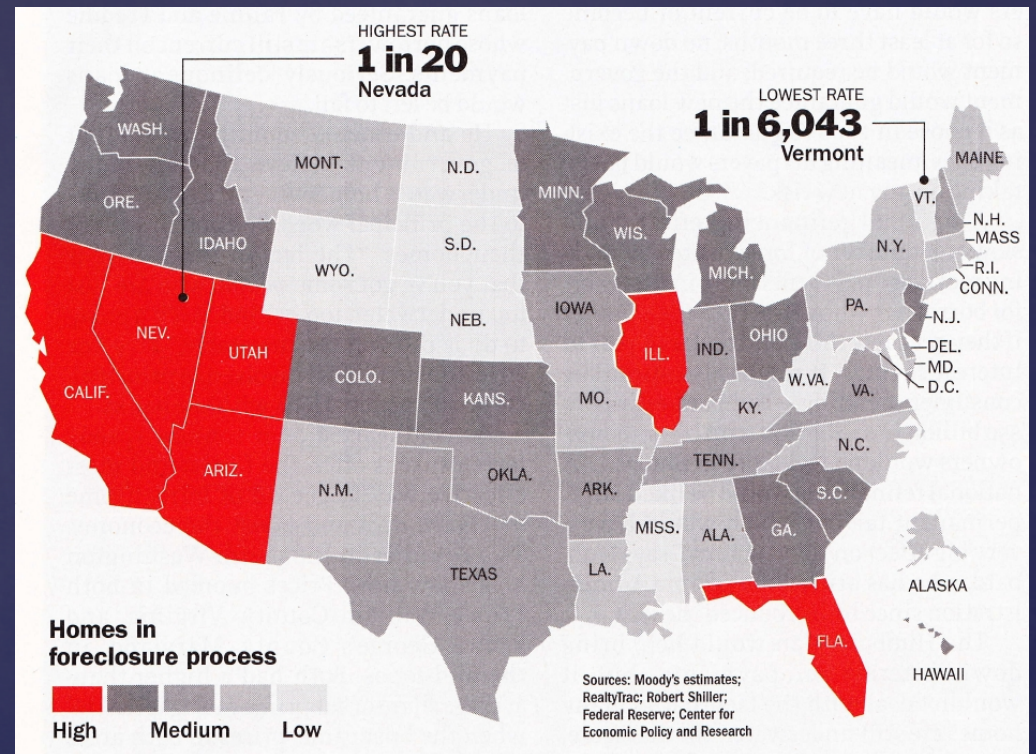


SOURCE: BUREAU OF LABOR STATISTICS

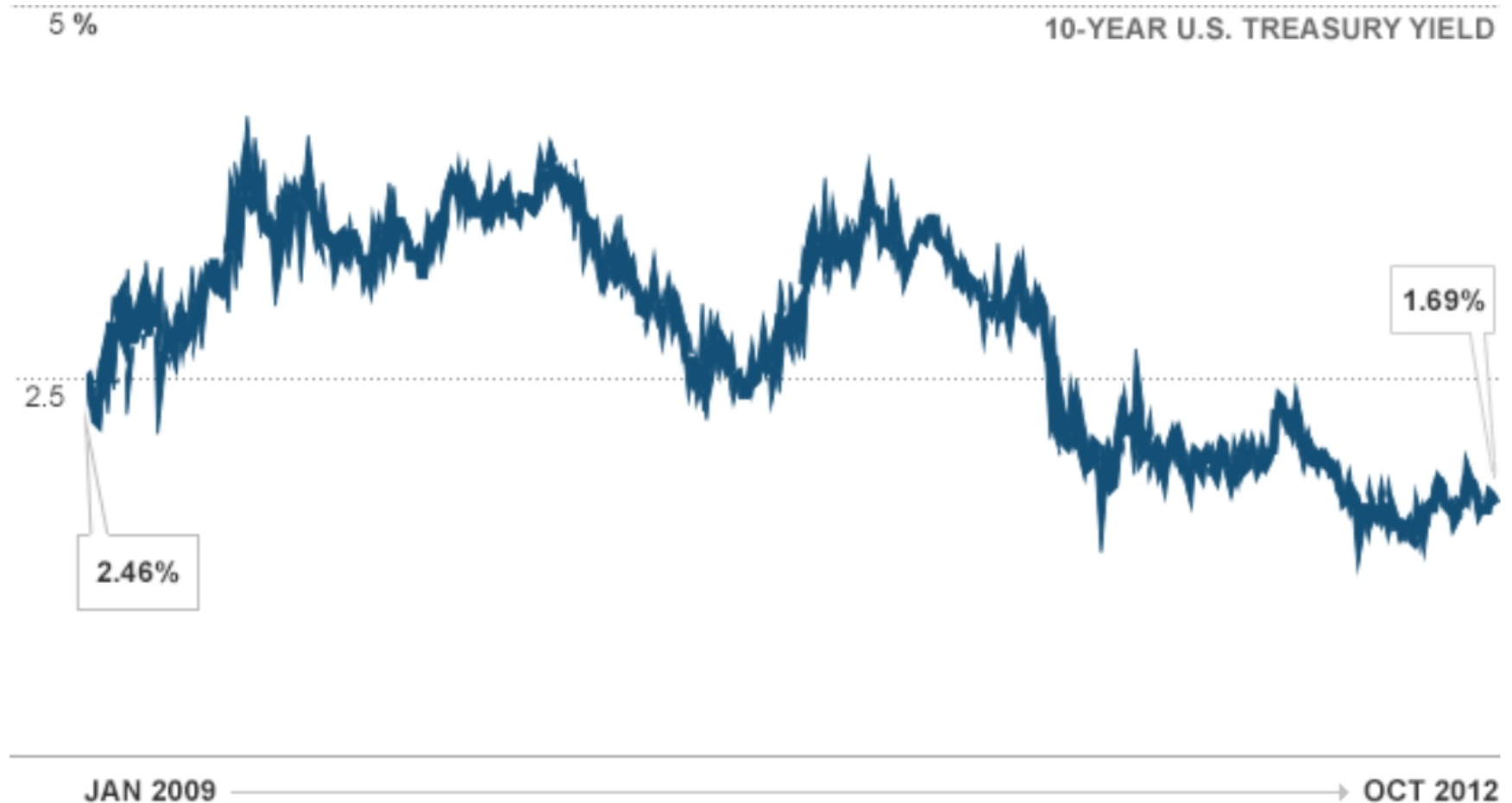
Housing Market Across the United States

& Nearly Half of Home Mortgages are in trouble

- ⌘ 5.2 million foreclosed
- ⌘ 3.7 million seriously delinquent
- ⌘ 14.6 million under water
- ⌘ 28 million in good shape



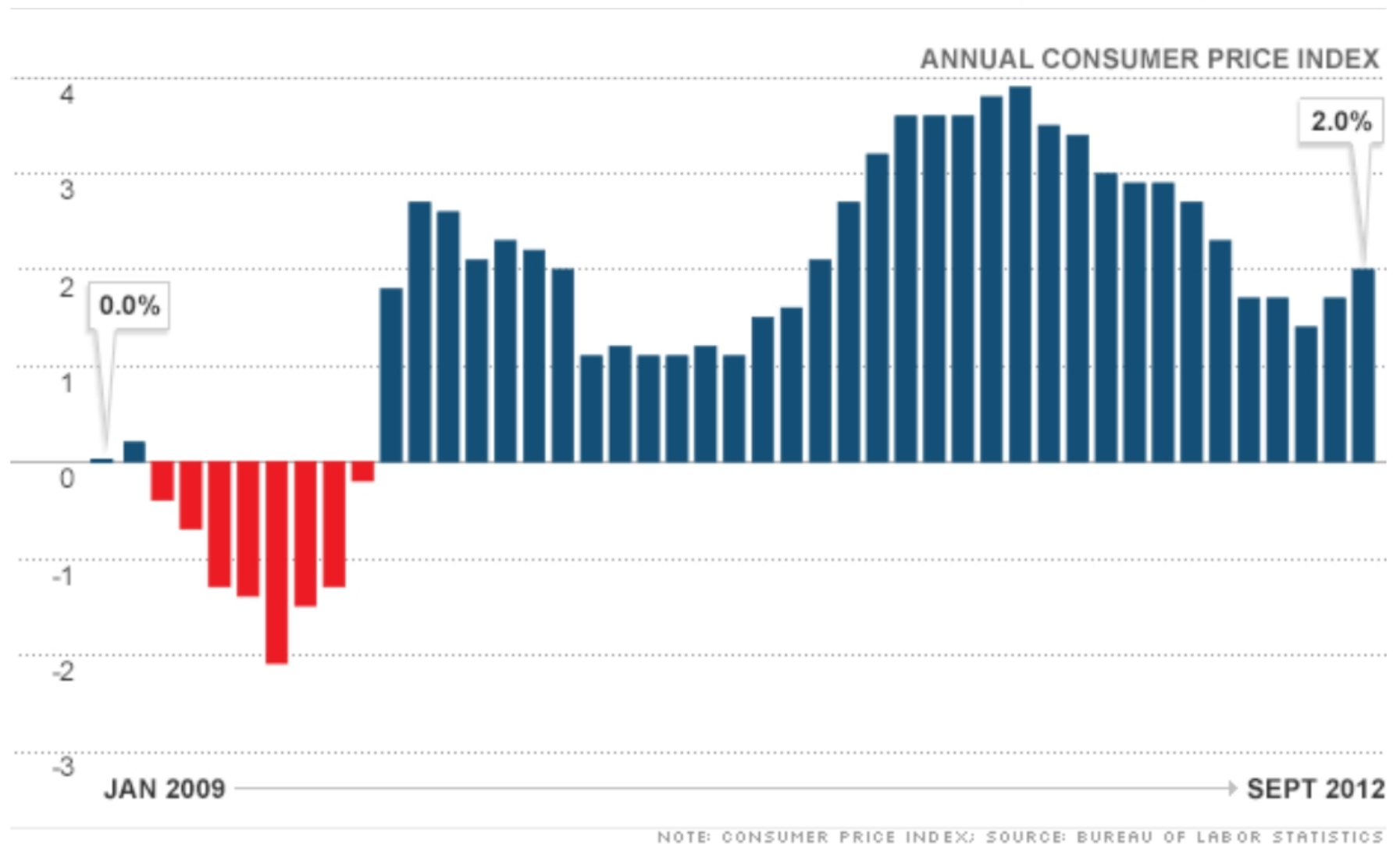
Interest rates



NOTE: MARKET YIELD ON 10-YEAR U.S. TREASURY; SOURCE: FEDERAL RESERVE

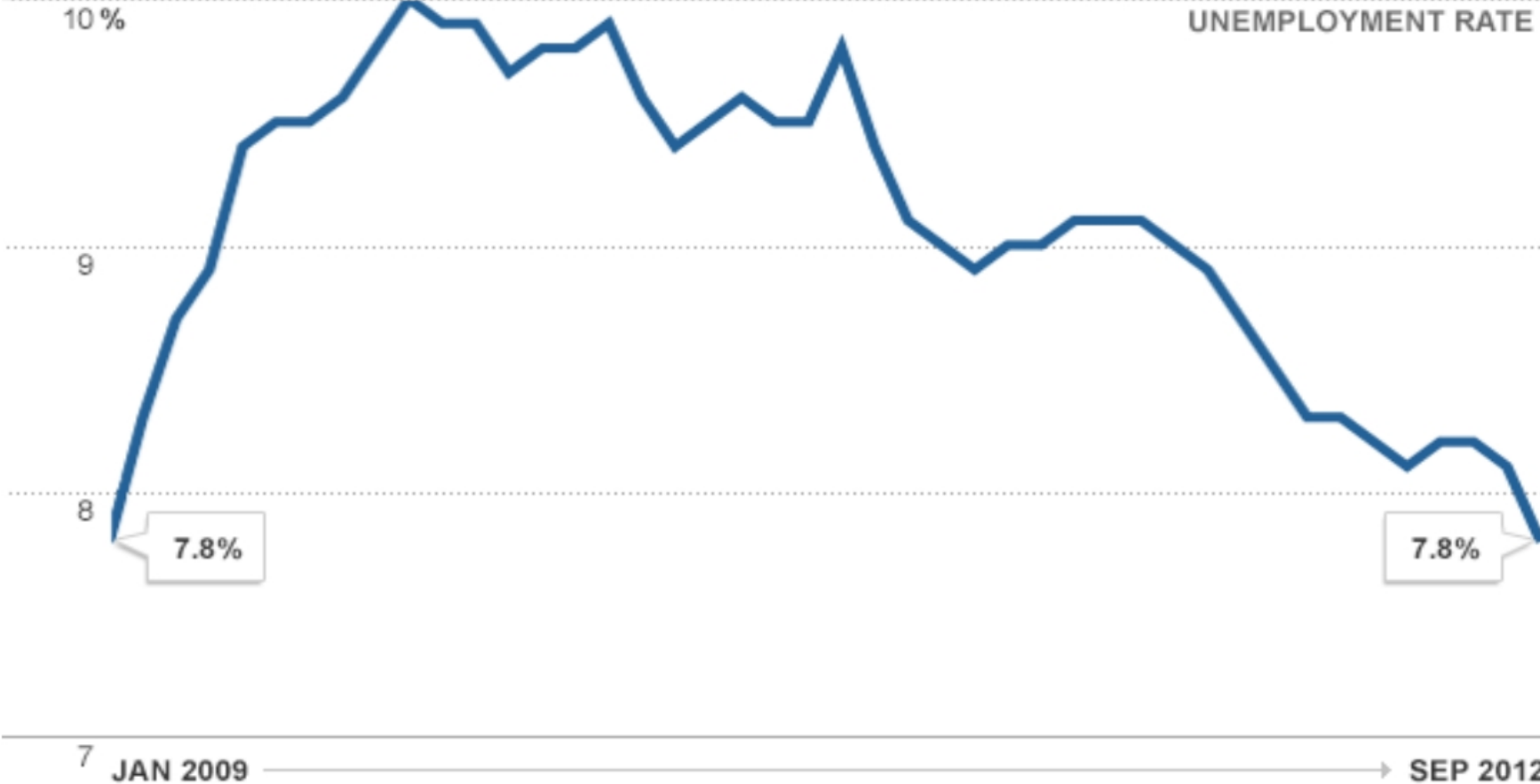
Already-low interest rates rose steadily in 2009 as the economy slowly began to recover, with the yield on the benchmark 10-year note hitting 4.01% in the spring of 2010. But since then, **extreme fear** has settled in, causing investors to flee for the safety of government-backed U.S. Treasuries, sending **10-year yields** tumbling.

Inflation



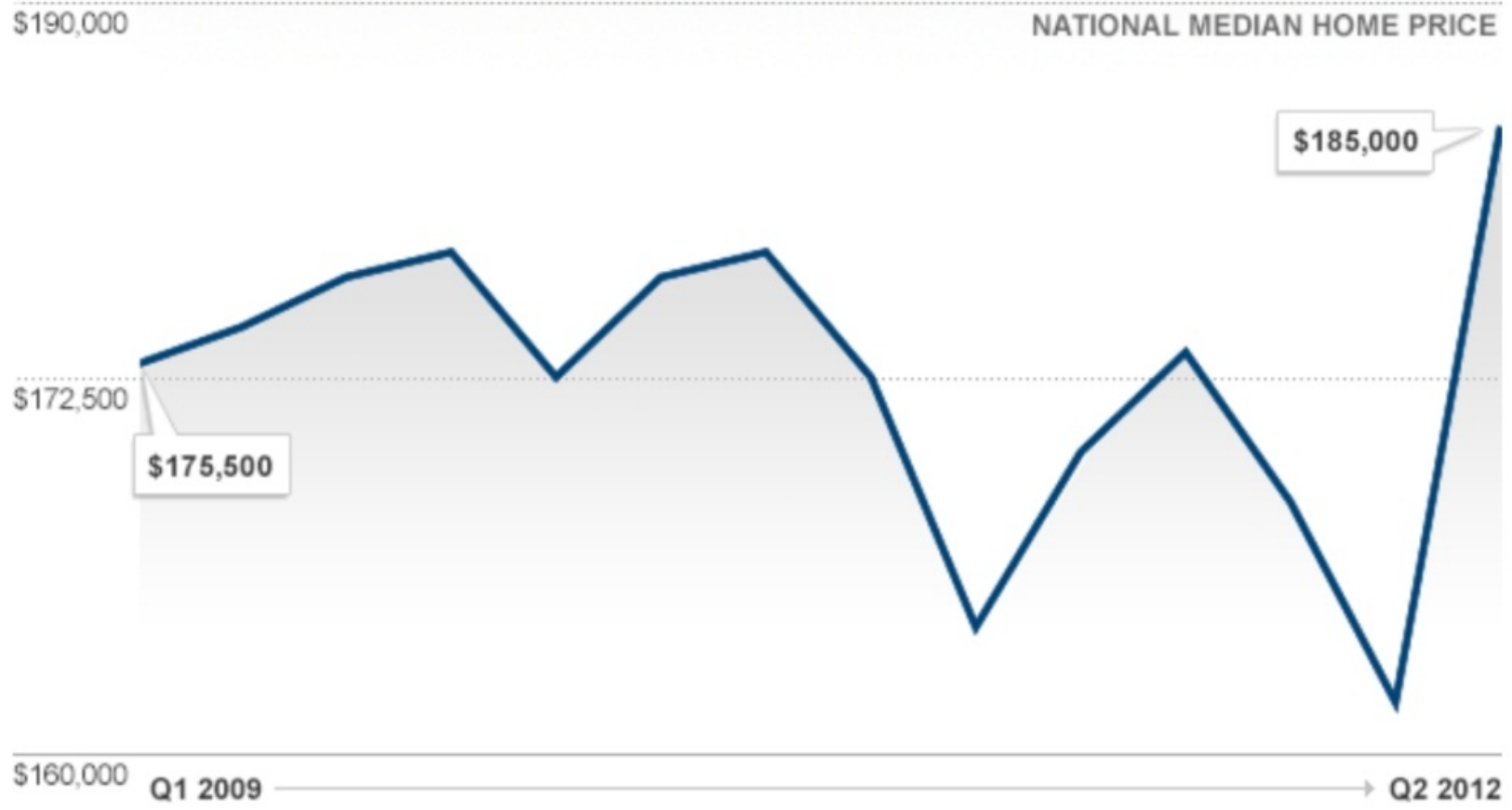
Gas and food prices have had a few temporary growth spurts in the past few years, but overall, inflation has remained relatively low, held back by falling home prices and stagnant wages.

Unemployment



SOURCE: BUREAU OF LABOR STATISTICS

Home prices



The Challenges for Utilities

- Residential water consumption has been declining for 20 years and has accelerated in past 10 years.
- Commercial/Industrial consumption is being driven downward by wastewater rates