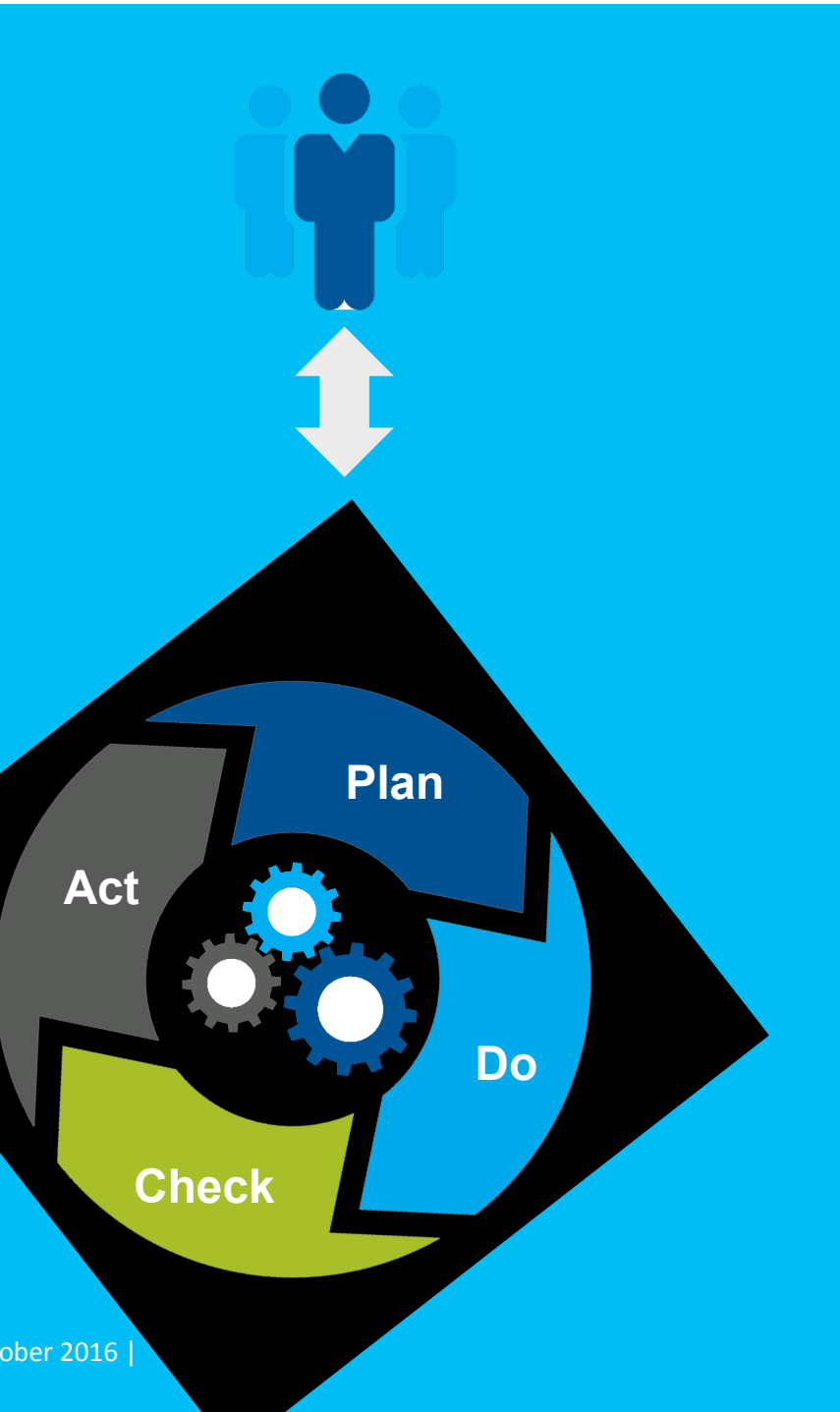


# Informational Financial Management and Rate Setting

Paradigm in Building Financial Resiliency and Customer Acceptance

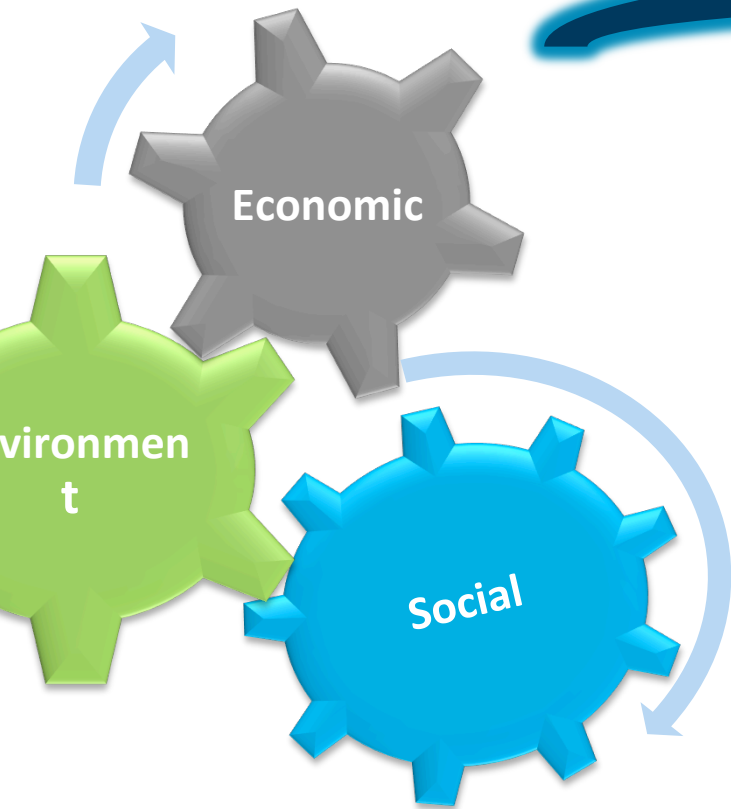




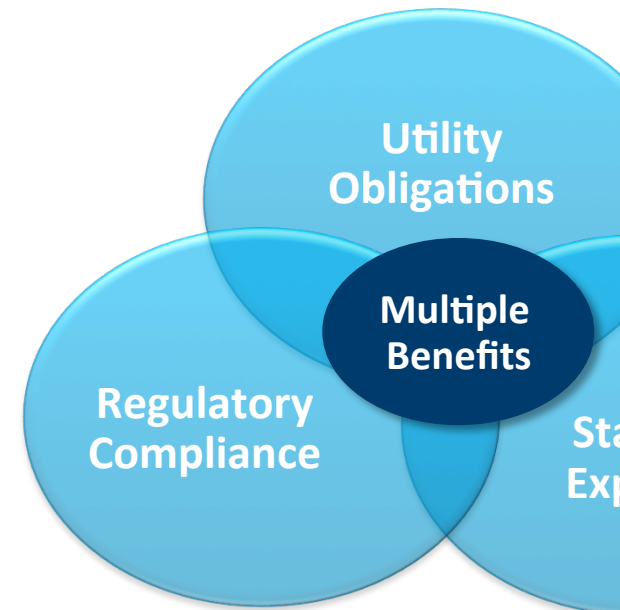
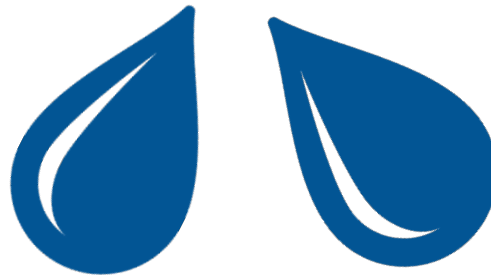
## Overview

- Resiliency Drivers
- The Transformational Paradigm
- Case Study
- Benefit Factors
- Success Enhancers

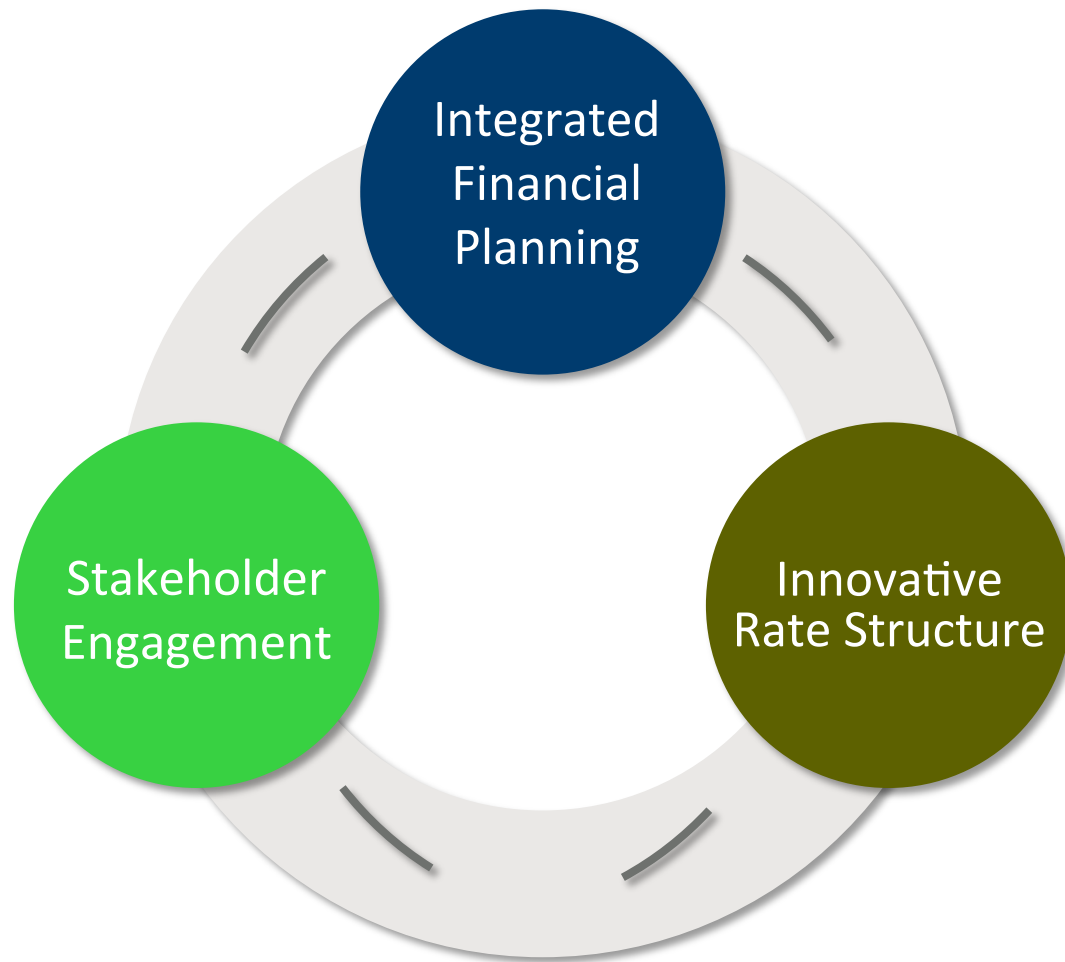
# Resiliency Drivers



Balancing constant change while positioning for the future requires  
**UTILITY RESILIENCE**

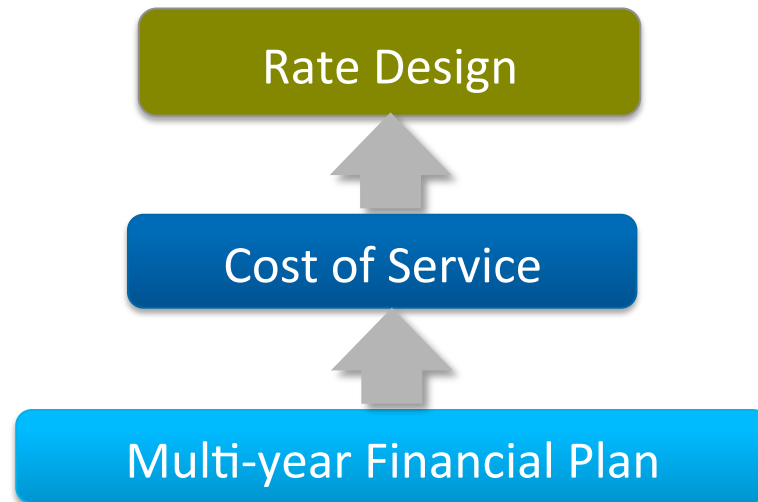


Informational  
m involves  
financial  
g; enhanced  
structure; and  
stakeholder  
ment



# Traditional vs the Transformational Objectives

Transition from a "sufficiency focused" to a "resiliency focused" approach



## Traditional Financial Planning Objectives



## Transformational Financial Planning Objectives

Provide Financial Sufficiency

Meet Financial Policies & Covenants

Customer Acceptance

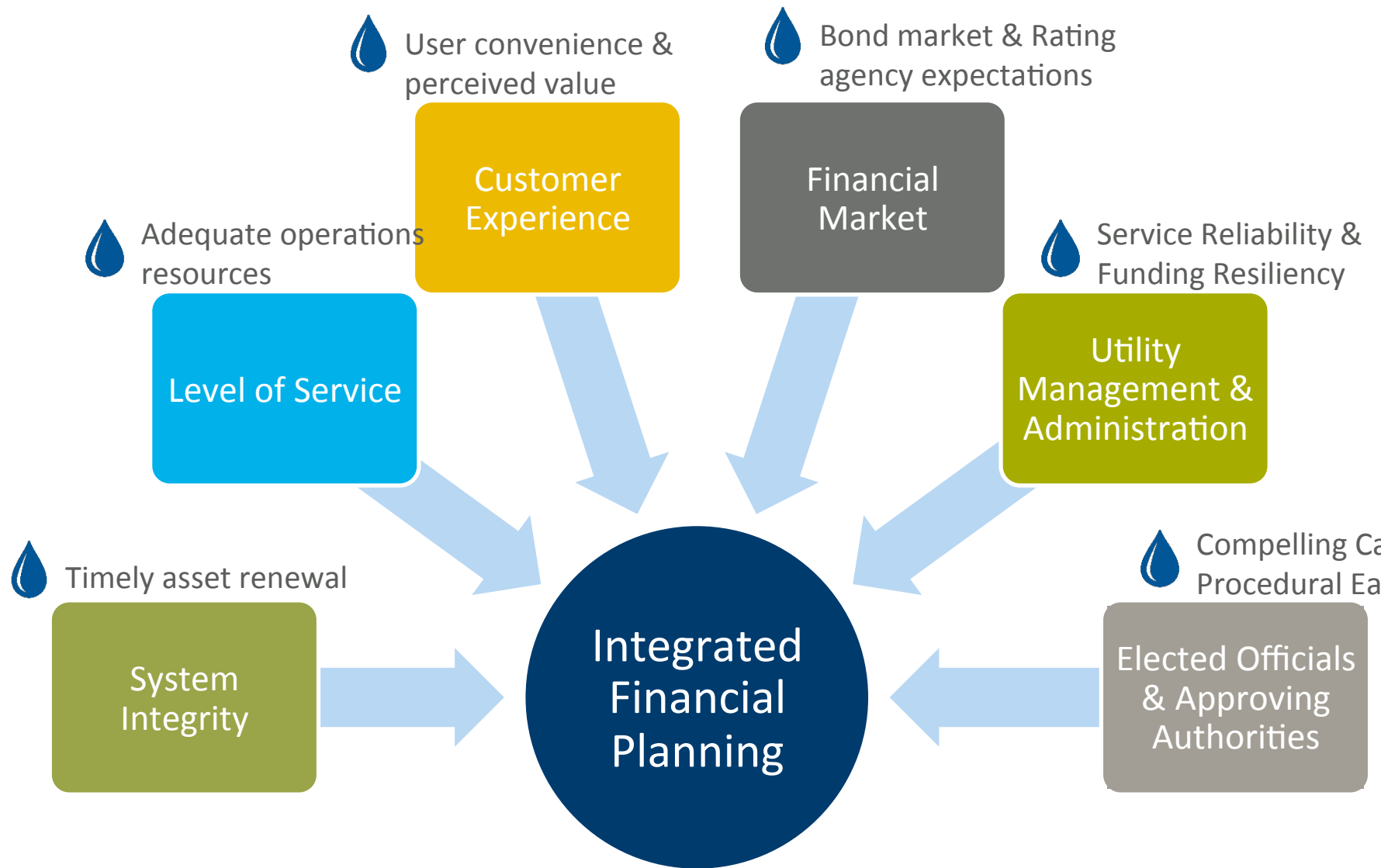
Build Financial Resiliency

Achieve Industry Best Practice Standards

Customer Experience

# Integrated Financial Planning

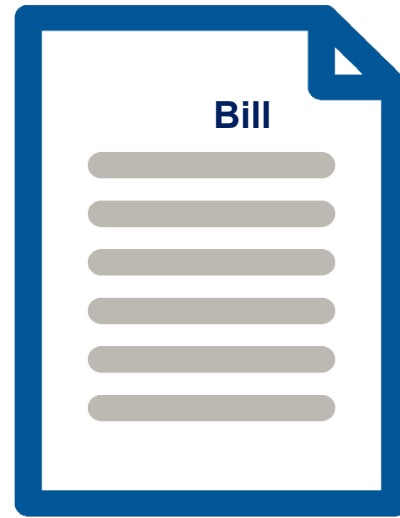
Integrated plan is a set of objectives designed to multi-benefit



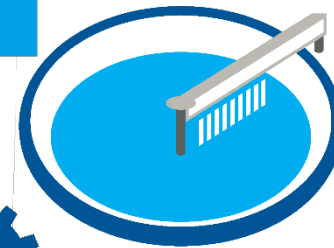
Effective Balancing of Competing Needs Builds a Resilient Financial Plan

# Alternative Multi-Component Rate Structure

The evolving utility industry requires innovation in how rate structure components are designed, applied and justified to align financial, operational and customer levels of service to revenue generation



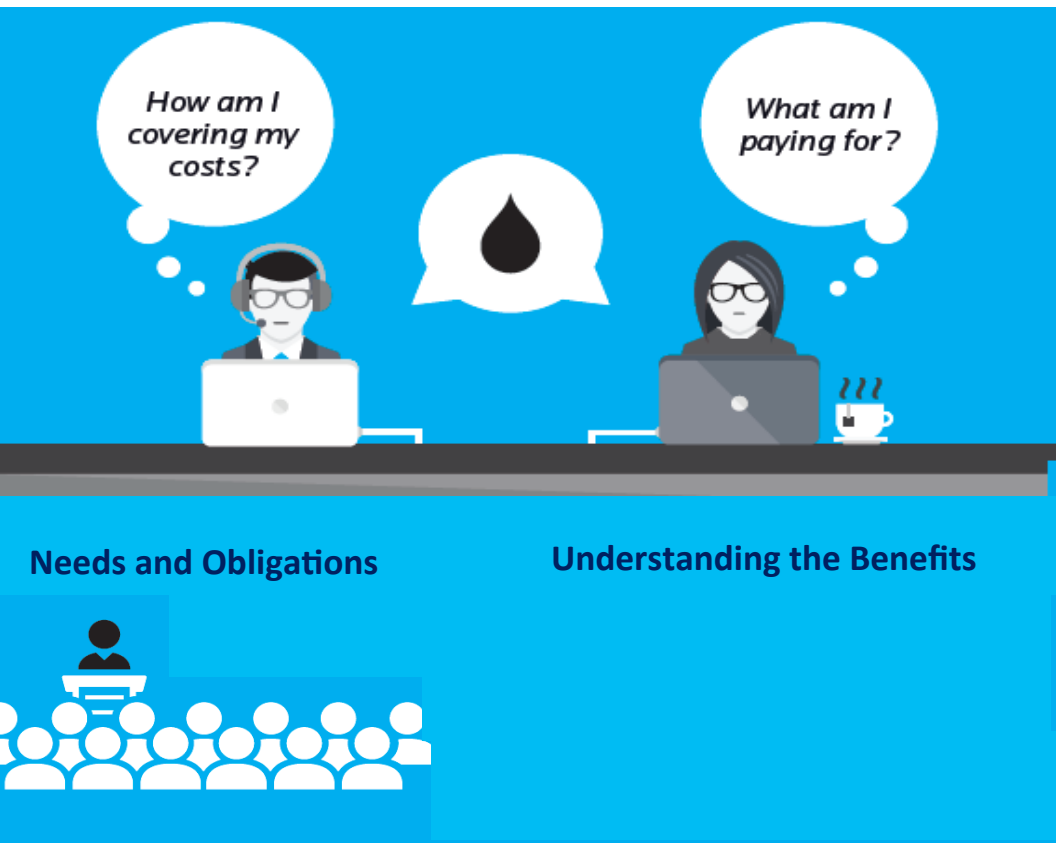
Traditional Water  
Sewer revenue  
generation relies  
heavily on water  
usage



Utility revenue  
requires more  
generative  
factors both  
of costs and  
demand

**Stakeholder Engagement:** Utility and rate payers view utility rate studies from very different perspectives

Challenges the “pricing alignment” between the true cost of providing services and the perceived value of water



Cost of Water vs. Value of Water Resources

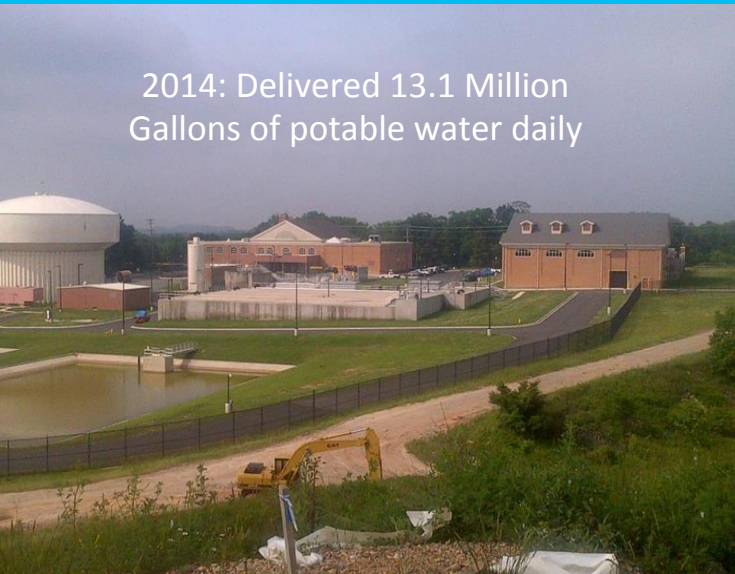


# ord County, Maryland



# Harford's Water and Sewer Utility Operations: At-a-Glance

2014: Delivered 13.1 Million Gallons of potable water daily



2014: Treated 13.2 Million Gallons of wastewater flow daily



Facts	Year 1995	Year 2015
Number of Customers	28,895	44,139
Water & Sewer Pipe Assets (Miles)	1,023	1,479
Service Requests from Customers	8,333	14,622
Daily Water Prod. (mgd)	8.3	13.1
Daily Wastewater Treated (mgd)	9.6	13.2
Total Water/Sewer Employees	146	170
Total Operating Budget (with Depreciation)	\$23.4 Million	\$48.7 Million

## Informed Intervention Was Necessary to Avoid a Funding Deficit

### Key Drivers for a Transformational Plan & Rate Restructure

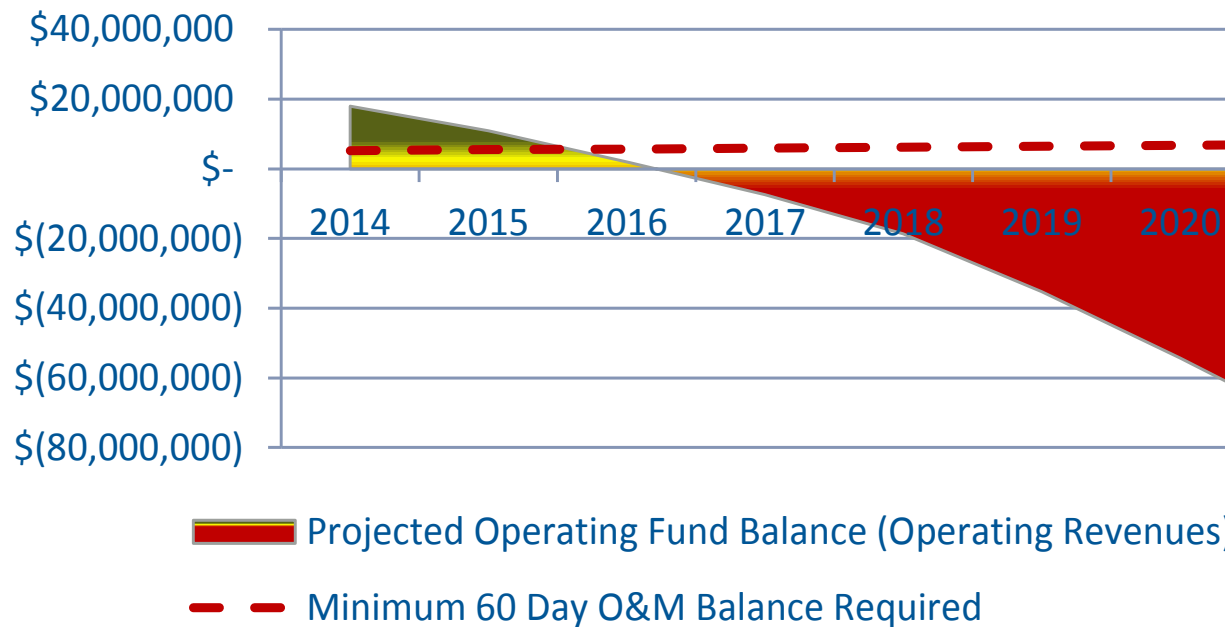
• Growth and usage decline impacting  
revenue adequacy

• Increased annual rate increase since 1996  
annual revenue generation not aligned  
with utility's annual costs

• Significant risk of funding deficit with  
potential impacts to level of service

• Risk of service misalignment

### Water & Sewer - Operating Revenue Projected Operating Fund Balance



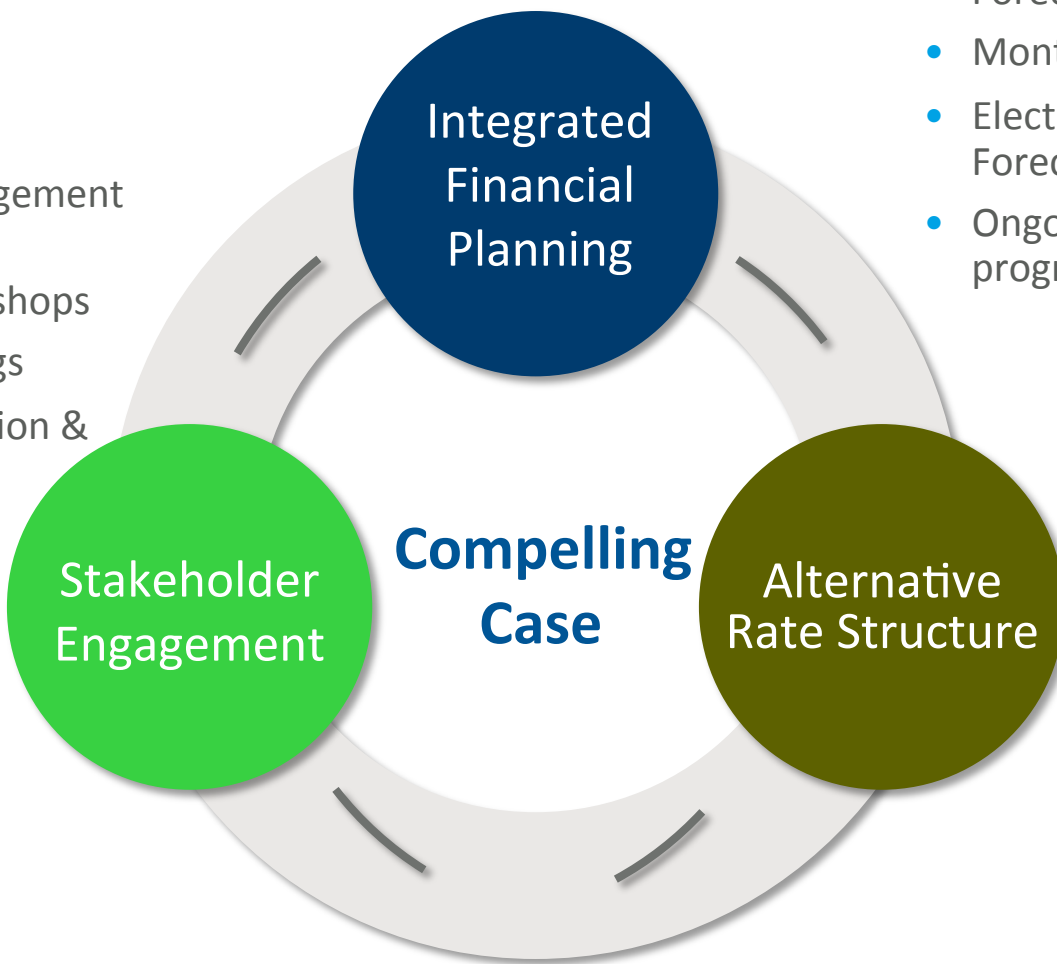
# Harford Built a Compelling Case for Action

ational

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ss Needs  
older Needs

ober 2016 |

- County Management Workshops
- Council Workshops
- Public Hearings
- Media Education & Utility Tour



- Asset Renewal Forecast
- Additional Labor Resources Forecast
- Monthly Billing Transition Forecast
- Electronic Payment Merchant Forecast
- Ongoing operations & capital program forecast

- Service Charge
- Volume Charge
- Asset Reinvestment Charge
- System Development Charge
- Other Special Surcharge

## Develop a Reliable Asset Renewal Forecast Financial Plan

Using remaining life based replacement model  
estimates renewal and replacements  
(R&R) needs  
Annual Forecast R&R input into financial  
model

## Asset Renewal Forecasting Analysis

**Asset Data**  
Size/Capacity  
Installation Date



**Remaining Life**  
Adjusted for  
Condition



**Replacement Cost**  
Cost Estimate for  
Asset Class



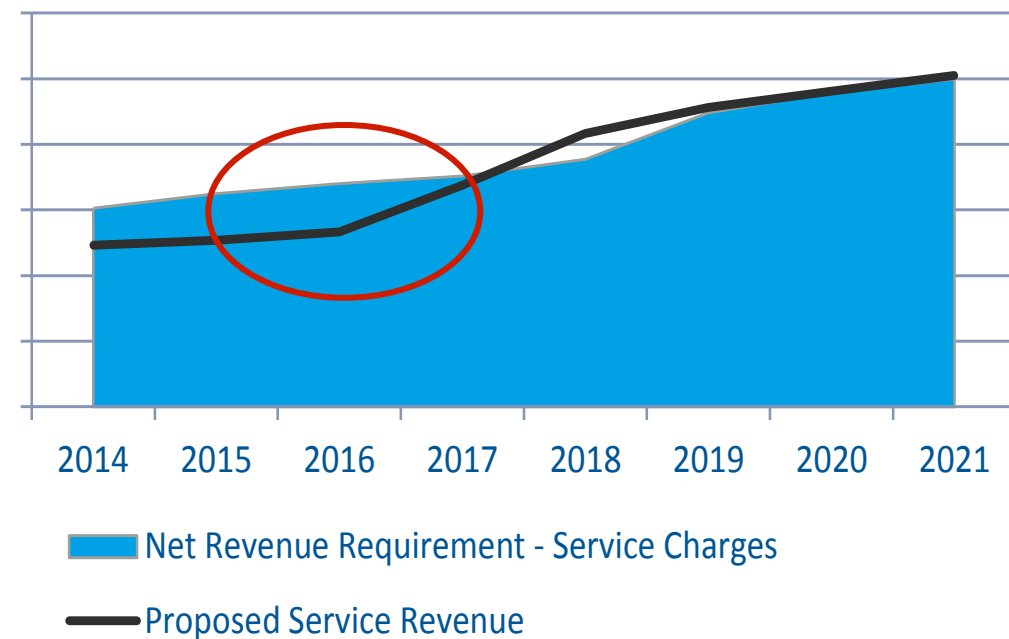
**R&R Forecast**  
Annual Replacement  
Schedule

### R&R CIP 10-Year Forecast

Water Distribution	\$
Water Treatment	\$
Wastewater Collection	\$
Wastewater Treatment	\$
<b>Total</b>	<b>\$</b>

# Council Approval of Five Rate Increases as Harford on its Path to Resilience

## Water & Sewer - Service Charge Revenues Revenue & Net Revenue Requirement



## Introduced a New Asset Reinvestment Charge

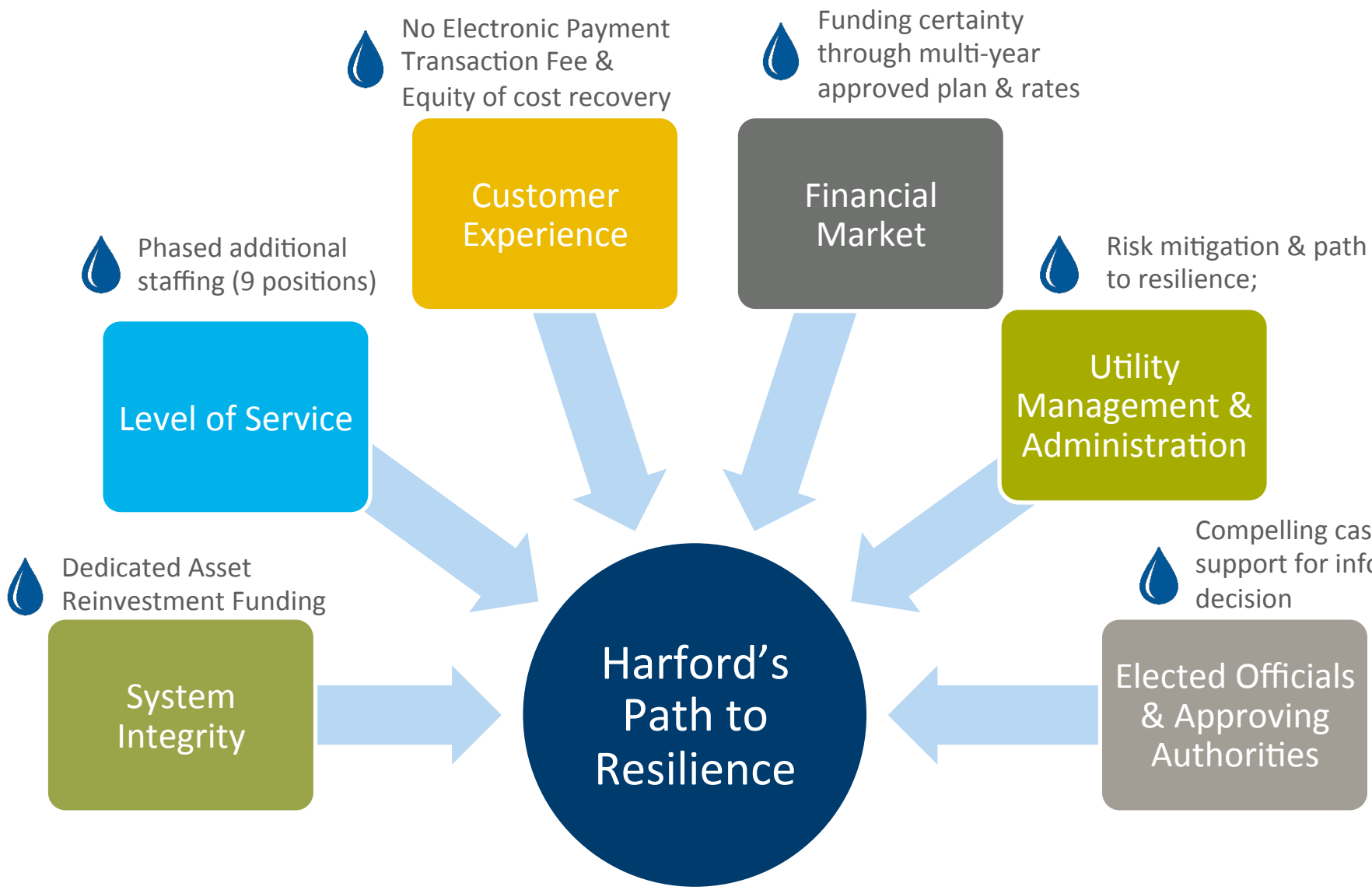
- Dedicated to Water and Sewer Asset Renewal and Replacement

Description	FY 2018	FY 2019	FY 2020
<b>Asset Reinvestment Charge</b>			
5/8" Meter Size	\$ 3.89	\$ 3.89	\$ 3.89
3/4" Meter Size	5.84	5.84	5.84
1" Meter Size	9.73	9.73	9.73
1 1/4" Meter Size	14.78	14.78	14.78
1 1/2" Meter Size	19.45	19.45	19.45
2" Meter Size	31.12	31.12	31.12
3" Meter Size	62.24	62.24	62.24
4" Meter Size	97.25	97.25	97.25
6" Meter Size	194.50	194.50	194.50
8" Meter Size	311.20	311.20	311.20
10" Meter Size	447.35	447.35	447.35
12" Meter Size	486.25	486.25	486.25

# Factors

Improved  
informational  
builds a path to  
resilience

Alternative Rate  
structure with new  
components  
ensures equity &  
resilience



## Enhancers ...

Informational approach  
Innovation,  
Education, and  
Development.



### **Diligent Process & Collaboration**

Consistent collaboration to educate, engage, and embrace ideas



### **Leadership Commitment**

Engage in and support transformational thinking



### **Team Commitment**

Enhance coordination, communication, and customer experience

Building a **world** of difference.®

# Together

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Mobile: 302-660-9465