MANAGING THE TENSION BETWEEN INFRASTRUCTURE AND RATES

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2018 CWA SPRING CONFERENCE

SACRAMENTO, CA

MAY 16 – 17, 2018

AGENDA

- Who is AWWA?
- Complicated and growing need to invest in water's infrastructure
- Growing concern about rates and affordability

Who is AWWA?

- We believe in the vision of a better world through better water.
- We believe our role is to provide solutions that help to effectively manage water, the world's most important resource.
- We believe this is best done in partnership with great water leaders who are driven and willing to volunteer their time for this vision.

AWWA Basic Facts

- Over 52,000 members.
- HQ in Denver, Advocacy office in DC, International office in Mumbai, India, and 43 local Sections throughout North America.
- Manuals of Practice, Standards, Publications, Conferences, Policy Statement, Educational Offerings, Benchmarking Tools, Compensation Surveys, etc.
- Essentially anything you need to know to be a modern-day water professional.

WHAT IS HOT AT AWWA?

Hot Issues

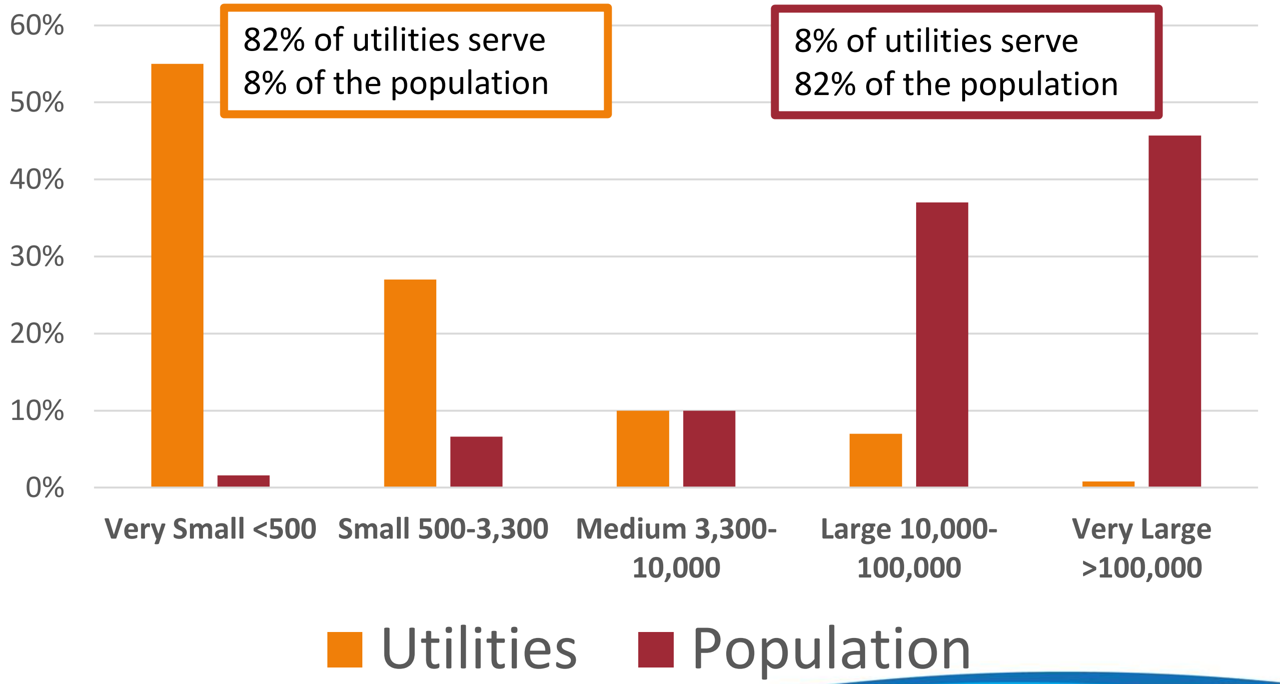
- Infrastructure Replacement
- Infrastructure Finance (WIFIA)
- Affordability
- Farm Bill—Source Water Protection
- Lead Service Lines (and the LCR)
- Understanding the day-to-day direction of DC

And Of Course…

ACE18
ANNUAL CONFERENCE & EXPOSITION
JUNE 11-14

Mandalay Bay Convention Center, Las Vegas

Who Serves America's Drinking Water



Source: adapted from USEPA SIDWIS Data

State of the Water Industry Report
Top Three (or Four) Trends 2015 - 2018

Rank	2015	2016	2017	2018
1	Renewal & replacement of aging water and wastewater infrastructure	Renewal & replacement of aging water and wastewater infrastructure	Renewal & replacement of aging water and wastewater infrastructure	Renewal & replacement of aging water and wastewater infrastructure
2	Financing for capital improvements	Financing for capital improvements	Financing for capital improvements	Financing for capital improvements
3	Long-term water supply availability	Public understanding of the value of water systems and services	Long-term water supply availability	Public understanding of the value of water systems and services

Source: 2018 State of the Water Industry, draft report (unpublished) including source data set, American Water Works Association, Jan. 2018.

NEEDED INFRASTRUCTURE INVESTMENT

Buried infrastructure only

This study was a cornerstone document for the creation of WIFIA

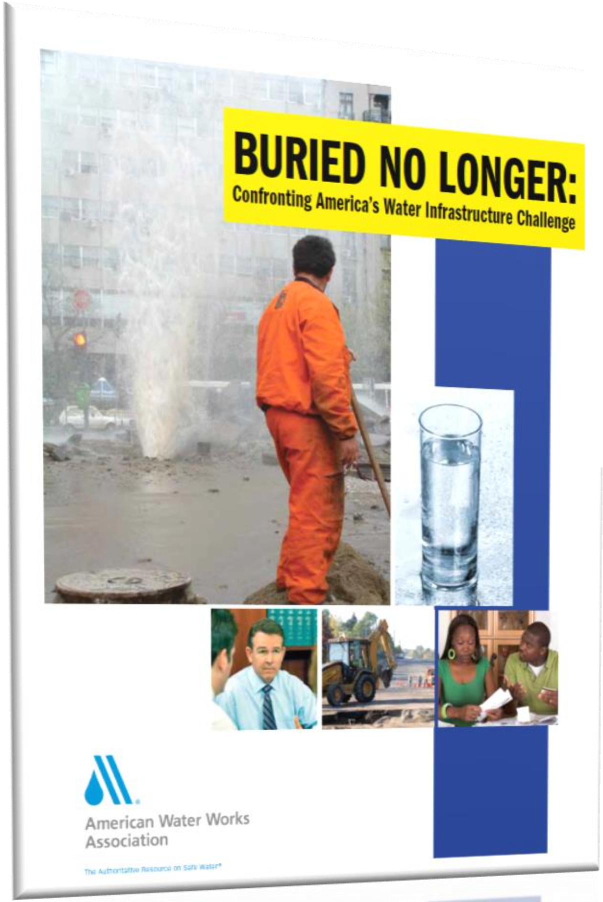
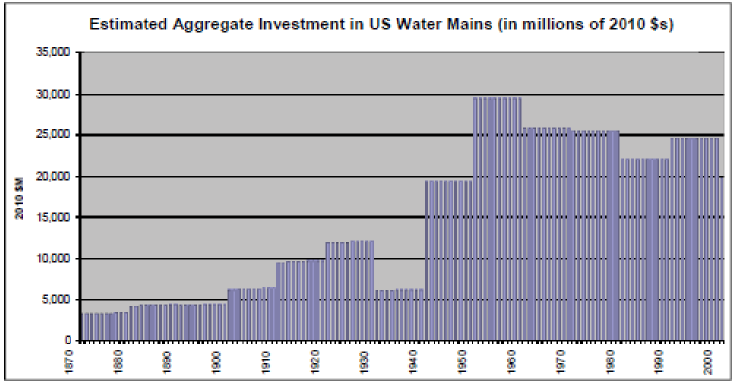


Figure 2: Historic Investment Profile for All US Water Systems, 1850-2000



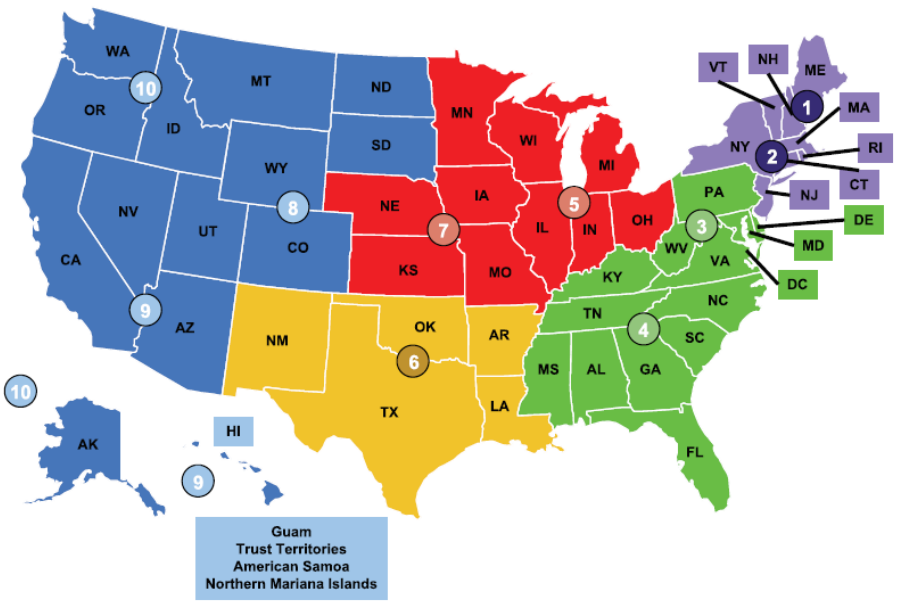
- $1 Trillion buried infrastructure investment needed over 25 years
- Water utilities only
- 50% to replace existing infrastructure the other 50% responding to demographic / location changes

6.1 Million (est.) Lead Service Lines

- 6.1 million LSL
- 15-22 million people
- 7% of the population
- $35 billion

Region	No. of LSL (Millions)
1 + 2	1.04 (17%)
3 + 4	1.01 (17%)
5 + 7	3.38 (55%)
6	0.44 (7%)
8, 9, 10	0.25 (4%)
Total	6.12 (100%)

FIGURE 1 USEPA regions color-coded by grouping for data analysis



USEPA—US Environmental Protection Agency

Regional groups used in this study: Regions 1 and 2; 3 and 4; 5 and 7; 6; and 8, 9, and 10. Puerto Rico (Region 10) is not included in this map.

Source: Cornwell, D.A., R.A. Brown and S.H. Via. 2016. National Survey of Lead Service Line Occurrence. Jour. AWWA. In press. April 2016. http://dx.doi.org/10.5942/jawwa.2016.108.0086

TOP CONCERNS

Ability to finance sustainable operations

Are customers willing to pay?

Willing and Able are different

Utility Financial Capacity [1]

25%

Of utilities feel they are not able or are only slightly able to cover costs

40%

Of utilities feel they are very able or are fully able to cover costs

Customer Perspective [2]

35%

Understand the need to raise rates and accept the increase

47%

Understand the need to raise rates BUT want the utility to cut costs

Source:1 2018 State of the Water Industry, draft report (unpublished) incl. source data set, American Water Works Association, Jan. 2018.
2: adapted from: 2017 Strategic Directions , Water Industry Report 2017, Black & Veatch Insights Group, Black and Veatch
https://pages.bv.com/SDR-Water-Industry-DL.html#_ga=2.177499744.436793245.1517087469-1013298169.1517087469

WATER RATES

Typical Residential Monthly Water/Wastewater Bills

	Water	Waste Water	Total
CA	$38.44	$44.66	$81.10
USA	$39.99	$46.98	$86.97

Source: 2016 Water and Wastewater Rate Survey published by AWWA and RFC

Policy Statement on Financing, Accounting and Rates

- The public is best served by self-sustaining utilities adequately financed with rates and charges based on sound finance principles.
- Rates and fees should pay for O&M, financing of capital costs, and reserves.
- Rates should be based on cost of service principles/methodology

AWWA Resources

- M1 Principles of Water Rates, Fees and Charges
- M34 Developing Rates for Small Systems
- Think outside the Bill: A Utility manager's Guide to Assisting Low-Income Water Customers
- AWWA.org and Journal AWWA

NOTE: an Affordability Policy Statement is being drafted for approval in Jan. 2019

ADDRESSING THE FINANCE GAP

WIFIA is the first loan program for water and wastewater since the SRF loan program (mid 1980s)

It is administered by the US EPA

Eligibility

- Local, state, tribal, and federal government entities
- Partnerships and joint ventures
- Corporations and trusts
- Clean Water and Drinking Water State Revolving Fund (SRF) programs

Terms

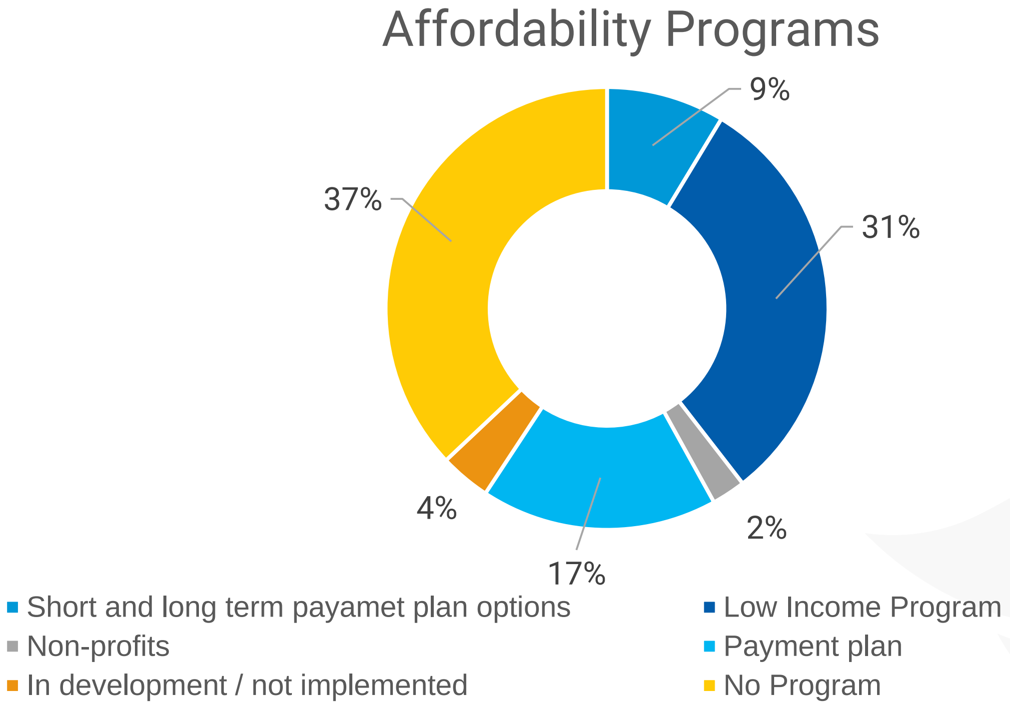
- $20 mill. is minimum loan for a large community
- $5 mill. is minimum loan for a small community
- 49% is max portion eligible for funding
- Interest rate tied to US Treasury rate

AFFORDABILITY

An issue of growing significance

60% of large and very large utilities have low income assistance programs

63% of all utilities provide some form of bill assistance



THANK YOU

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Free Resources on Affordability of Water

1. www.awwa.org Affordability Resource Community
2. Journal AWWA, "Improving the Narrative on Affordability and the Measurements We Need to Take Us There," Mumm and Ciaccia, May 2017
3. Journal AWWA, "Affordability Mega-steps," Open Channel, LaFrance, June 2017
4. Journal AWWA, "Model Water Utility Affordability Programs," Blake et al. Aug. 2017
5. Journal AWWA, "The Color of Drinking Water: Class, Race, Ethnicity, and Safe Drinking Water Act Compliance," Switzer and Teodoro, Sept 2017
6. Journal AWWA, "Addressing Affordability as a Necessary Element of Full-Cost Pricing," Mehan, October 2017
7. "Navigating Legal Pathways to Rate-Funded Customer Assistance Programs: A Guide for Water and Wastewater Utilities," Authored by UNC Environmental Finance Center, Funded by American Water Works Association, AMWA, NACWA, NAWC, WRF, WE&RF, and WEF, 2017 (available at www.efc.sog.unc.edu)
8. Journal AWWA, "Measuring Household Affordability for Water and Sewer Utilities," Teodoro Jan 2018