

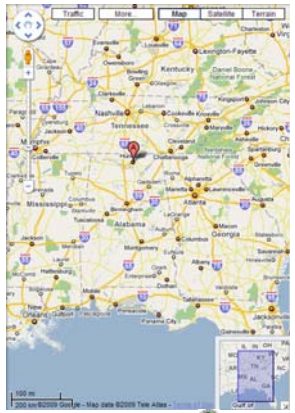
Planning and Paying for Growth in a Slow Economy

Huntsville Utilities
Jay Stowe, Chief Operating Officer

Huntsville Utilities, Huntsville, AL 7/26/2010 1

Who Are We?


- ▶ Huntsville Utilities
- ▶ Municipal utility owned by the City of Huntsville, AL
- ▶ 163,000 electric, 84,000 water, 47,000 gas customers



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Who Are We?


- ▶ Nearly 600 Employees
- ▶ Headed by 2 Boards
 - Waterworks and Gas Board
 - Electric Utility Board
- ▶ President/CEO
 - VP of Admin/CFO
 - COO
 - Electric, Water and Gas – Operations and Engineering
 - Public Relations
 - MIS



Idea for Presentation

- ▶ Normally Technical
- ▶ Today - Philosophical

YOU Know more about YOUR system than anyone else




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Google Search (July 21)

Water Rates

- ▶ [Council raises rates on water – Corpus Christi](#)
- ▶ [Lodi Council mulls rate hike](#)
- ▶ [Foster City Shows how to reduce bills](#)
- ▶ [Public Hearing on proposed rates in Hawaii](#)
- ▶ [Yucca Valley's Hi-Desert water District Doubled rates must be protested](#)
- ▶ [Waterbury rates Increased](#)
- ▶ And on and on and on...




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Google Search (July 26)

Water Rates

- ▶ [Decatur Illinois 45% Increase in Water Rates](#)
- ▶ [33% Increase in Indianapolis Water](#)
- ▶ [Sarasota considering Tier Rates](#)
- ▶ [Ego Driven Rate Hikes in Manchester NH for New Building](#)
- ▶ And on and on and on...



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AWWA

**Financial Management: Cost of Service
Rate Making**

September 29 – October 1, 2010

Denver, CO


THREE DAYS vs. 30 Minutes



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**AWWA, Financial Management,
Learning Objectives**

- ▶ Evaluate financial policies and rate impacts
- ▶ **Develop defensible policies that are fair, equitable, and objective**
- ▶ Recover the full cost of service with your rate and still promote community objectives and get the rate your utility needs to be successful
- ▶ Avoid rate shock by using proven techniques for capital budgeting and analysis
- ▶ Establish cost-of-service rates by applying fundamental methodologies
- ▶ **Set fair revenue requirements**
- ▶ Classify and allocate costs equitably



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**You know more...You are
Responsible and Must have:**

- ▶ Honesty
- ▶ Integrity
- ▶ Clear Communication

- ▶ **Develop defensible policies that are fair, equitable, and objective**
- ▶ **Set fair revenue requirements**




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Warning and Disclaimer

- › I am an Engineer – Not a Finance Person
- › What does this mean?

I overcomplicate design projects and over simplify finance...




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No Tricks

- › Revenue
- › Expenditure


**And you have to balance
And you have prepare for emergency
And you can't over charge
And you can't under charge**



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Easy


- › Just Analyze your Capital Needs
- › Determine your System Operating Needs
- › Meet AWWA Standards
- › Prepare for new EPA regulations
- › Continue to remain in compliance with current regulations
- › Plan for growth
- › Replace old outdated and aging infrastructure
- › And do it for FREE or nearly FREE



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Revenue


- ▶ Interest and Other Miscellaneous Revenue
- ▶ Fees
- ▶ Water Charges



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Fees


- ▶ Construction Fees - Paid by Developers/Contractors to add to your system - i.e. new subdivisions
- ▶ System Development Fees - paid to gain access to the system, if you are growing can help future capital needs
- ▶ Tap Fees/Connection Fees



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Other Revenue

- ▶ Interest and Other Miscellaneous Revenue
- ▶ Normally relatively low - other than occasional "Funds from Borrowing"



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Rate Revenue

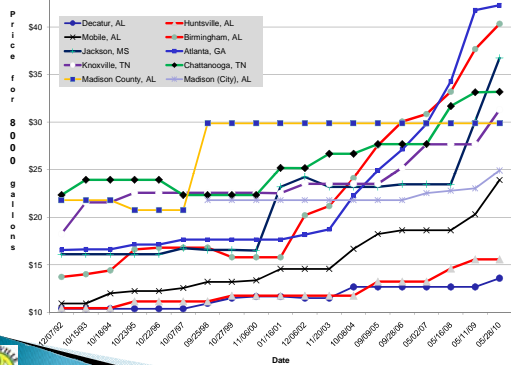
- ▶ This is where the most time is spent
- ▶ Need to be fair and equitable
- ▶ Need to understand your area
- ▶ Need to have a consistent message
- ▶ Need to consider all needs – capital and operating



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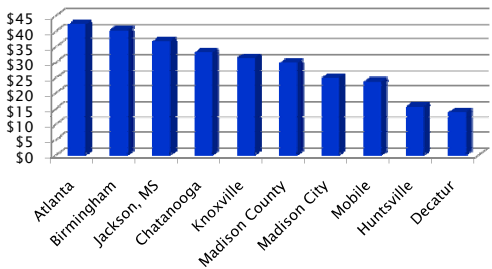
Residential Water Rates Comparisons



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Rate Comparisons,
8000 Gallons per Month




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Expenditures


- ▶ Operating
- ▶ Capital
- ▶ Other



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Expenditures


- ▶ Other
 - Charges to general fund
 - Taxes
 - Debt repayment
 - Etc.



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Expenditures


- ▶ Capital
 - Consider all you can
 - Vehicles, Equipment
 - Plants
 - Pipe
 - Regulations that will cause change
 - Growth
 - New Business



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Expenditures


- ▶ Operating
 - Salaries
 - Benefits
 - OT
 - Equipment
 - Sampling
 - Inventory
 - Etc.



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Planning and Paying for Capital


- ▶ Planning
 - Realistic
 - Replacement
 - Growth
- ▶ Paying
 - Outside Sources
 - Rates
 - Fees
 - Borrowing



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Communication


- ▶ Understand your service is a life necessity
- ▶ Don't avoid public discussion
- ▶ Share all information
- ▶ Be open and honest
- ▶ Ask for increases when necessary, but don't over ask
- ▶ You have to build trust
- ▶ Meet with governing Board to explain
- ▶ Share information with public
- ▶ Be clear about your reasons for increases
- ▶ Work with the Media



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Summary

- ▶ More complex than a short session allows
- ▶ Stay Honest and Share Information
- ▶ You know more about your system
- ▶ Communicate, Communicate, Communciate



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QUESTIONS?



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