



13 October 2015

HARFORD COUNTY, MARYLAND COMPREHENSIVE UTILITY REVENUE RATE STUDY PRESENTATION



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OVERVIEW

HARFORD UTILITIES

Our Mission and System

RATE STUDY DRIVERS & BEST PRACTICES

Rate Study Drivers
Rate Setting History

FINANCIAL SOLUTION

Existing Financial Profile
Proposed Financial Plan

RATE STRUCTURE & BILL IMPACT

Proposed Rate Structure
Monthly Residential Bill Impact

VALUE OF WATER....

Closing Thoughts



PART 1 – HARFORD UTILITIES

OUR MISSION
WHAT DO WE DO?



Our Mission in the Division of Water & Sewer



- Protect public health & environment
- Protect and sustain economic growth
- Manage & maintain infrastructure
- Support public safety
- Provide direct utility services to approximately 130,000 citizens



**We ensure the Health and Safety of
our Community**

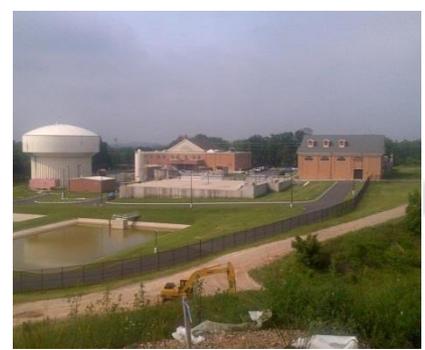
We Deliver Life Critical Services 365 Days of the Year and 24 Hours of the Day

Our services encompass all of the following functions

Draw Raw Water



ABINGDON: Treat Raw Water



Distribute Treated Water



Protect Source Water



SOD RUN: Treat Wastewater



Collect Wastewater



The Assets are Vast, Complex, and Aging

- Buried assets (pipes) and facilities are aging
 - 691 miles of **WATER** pipes
 - 788 miles of **SEWER** pipes
- 12 storage tanks
- 53 pumping stations
- Multiple treatment facilities

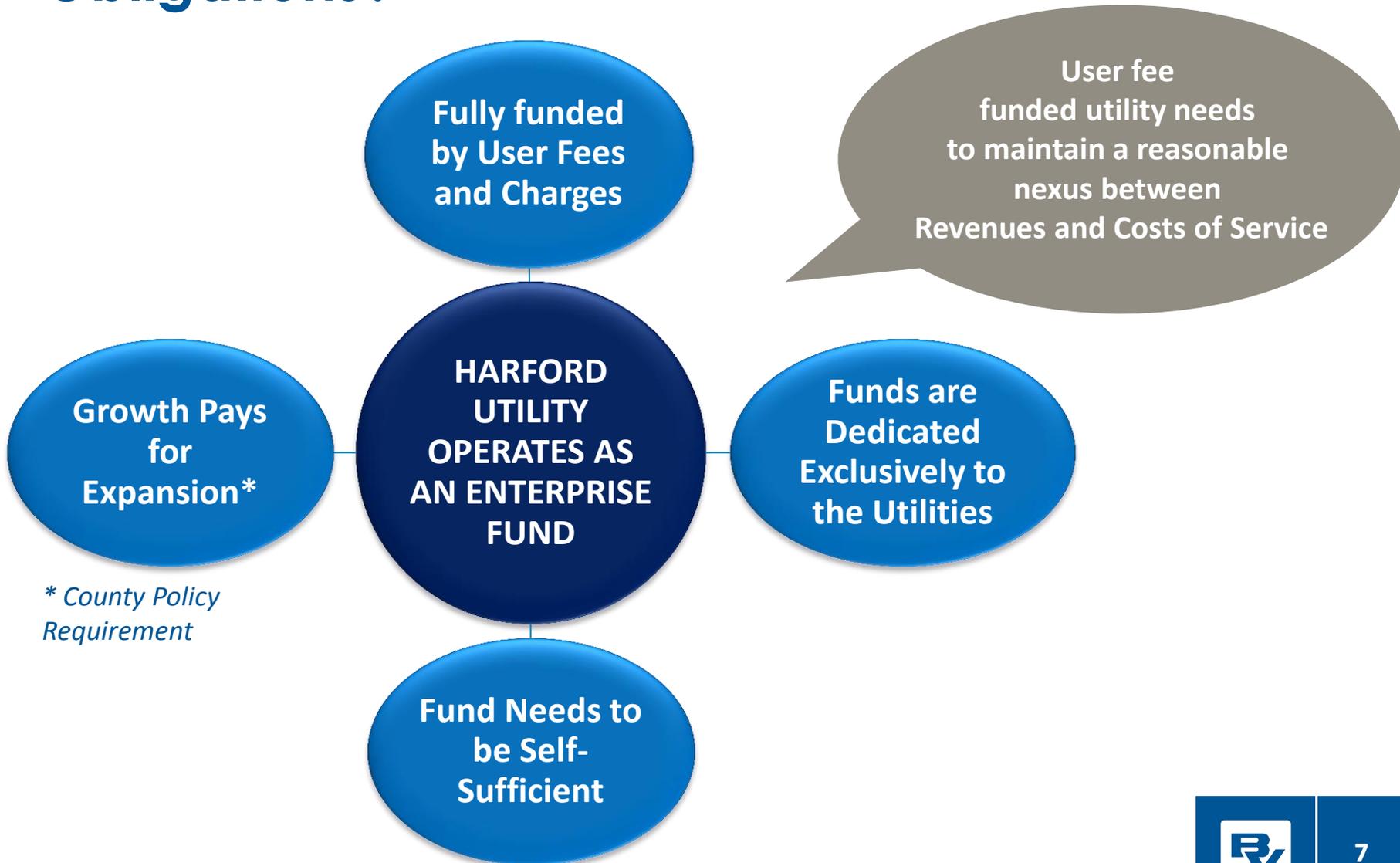
Many of our assets are well over 40 years and are continuing to age!

We also comply with stringent Federal and State Regulations

Our Management Approach



What Are the County's Enterprise Fund Obligations?



So, How Do We Fund All of Our Operations & Maintenance and Capital Needs?

Operating expenses are primarily funded through

- Retail and wholesale water and sewer charges and surcharges that our customers pay for the services they receive
- Miscellaneous fees for services customers request from the Division of Water & Sewer
- Other revenues such as lease revenues for hosting cellular antennas on tanks

Capital debt expenses are funded primarily through

- One time connection fees and that are assessed when new properties join the system
- Occasional federal/state grants for capital construction

PART 2 – RATE STUDY DRIVERS AND BEST PRACTICES

HISTORICAL CHANGES

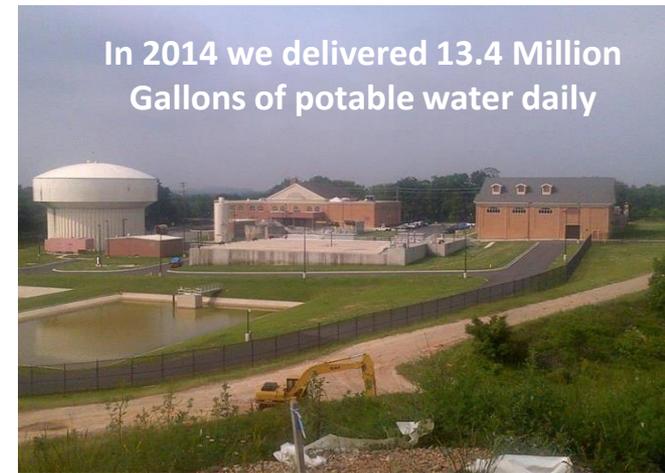
COUNTY'S RATE SETTING PRACTICE

INDUSTRY BEST PRACTICES

Our Water and Sewer Utility Operations Have Grown Substantially Since 1995

(1995: The Year The Last Rate Study Was Done)

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



Consequently, Revenue Increases Have Not Kept Pace With The Levels of Cost (Revenue Requirement) Increases

What are the Industry's Rate Setting Best Practices?

Financial standards that drive a “self-sustaining” utility

- Develop annually a 5 to 10 year **financial plan (forecast)**
- Establish rates to ensure **self-sufficiency** and **equitable cost recovery**



What was Harford's Rate Setting Practice?

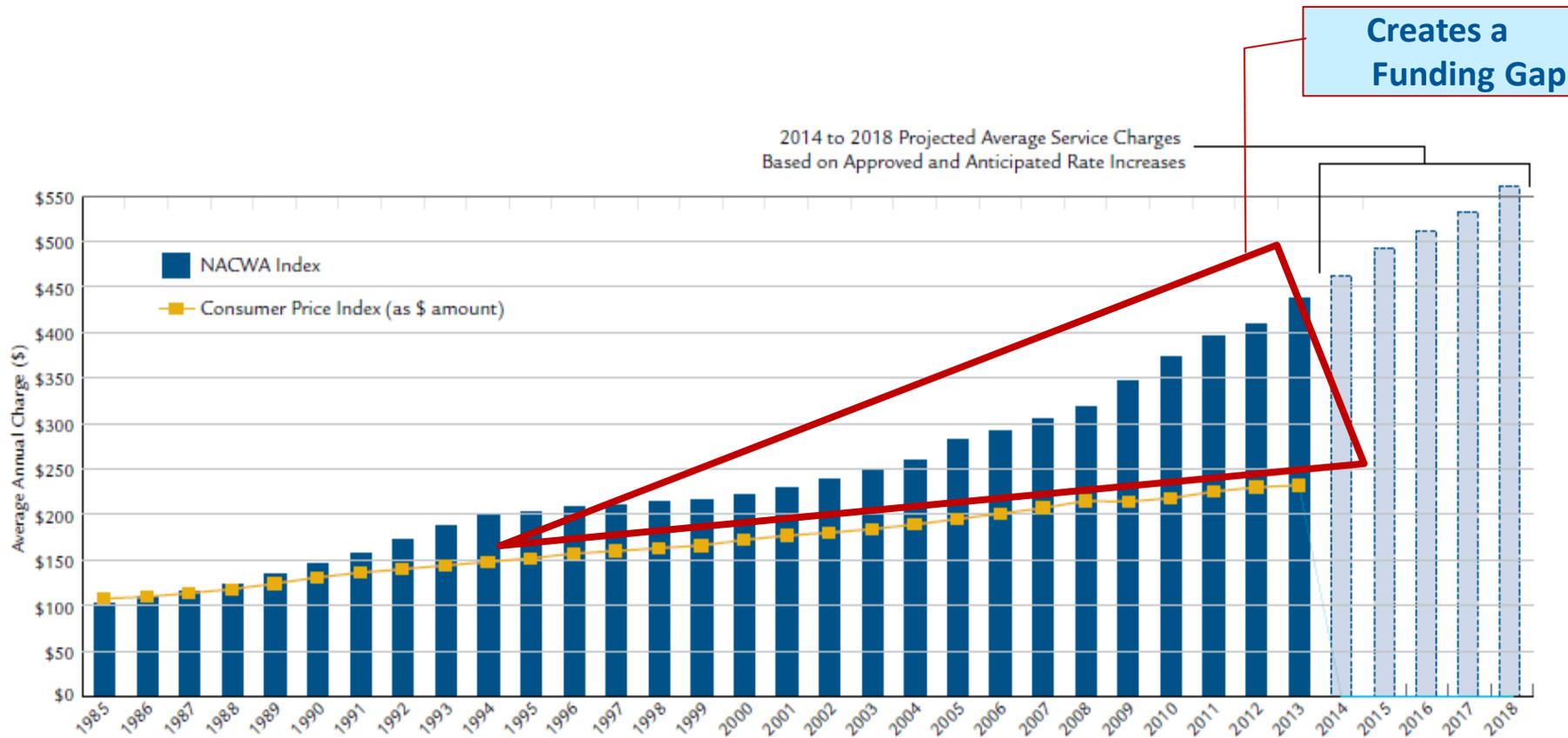
Rates increased annually based on “Overall CPI”

- Not based on a comprehensive financial plan
- Did not reflect Harford utility's cost needs
- Rates Not adjusted for usage decline; slow growth

A CPI based increase has created a significant “Funding Deficit”

CPI = Consumer Price Index

National Survey Indicates Wastewater Charges Are Increasing At A Higher Than CPI Rate



Historical & Projected Average Single Family Residential Charge (1985 – 2018)

Source: NACWA 2015 Wastewater Survey



PART 3 – FINANCIAL SOLUTION

EXISTING OPERATING FUND FINANCIAL PROFILE

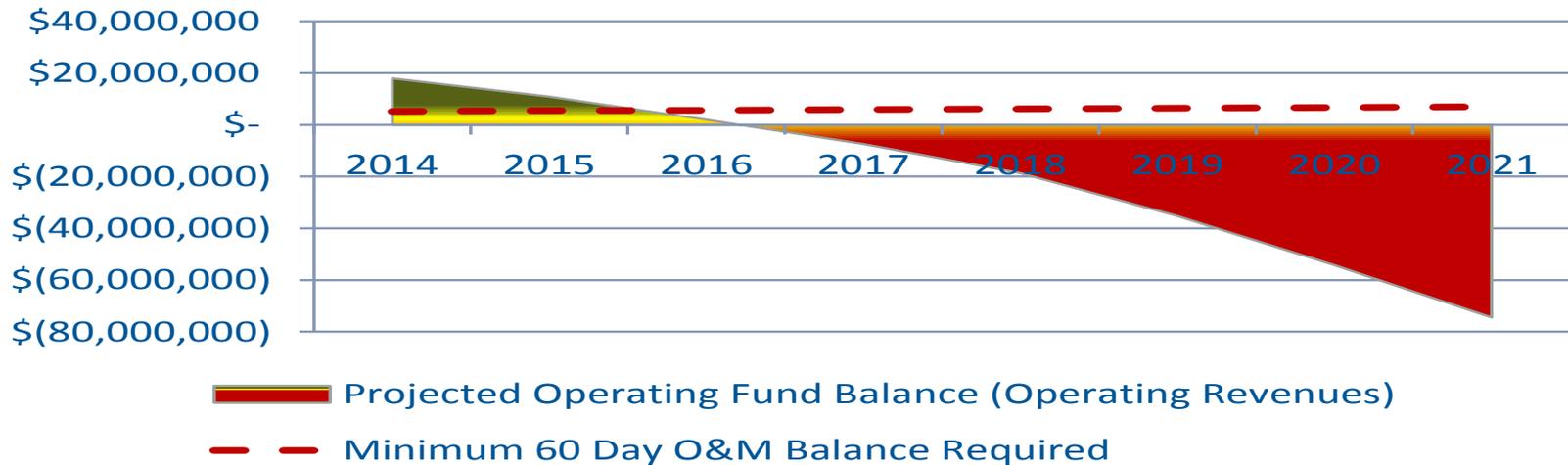
PROPOSED OPERATING FUND FINANCIAL PLAN

Operating Fund Deficit Will grow exponentially If Just a CPI Based 2% Annual Increase is Continued

The road for the Operating Fund ends in FY 2016 as it will be fully depleted!

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Balance	17.96	10.88	1.97	(7.48)	(18.65)	(35.27)	(54.26)	(74.53)

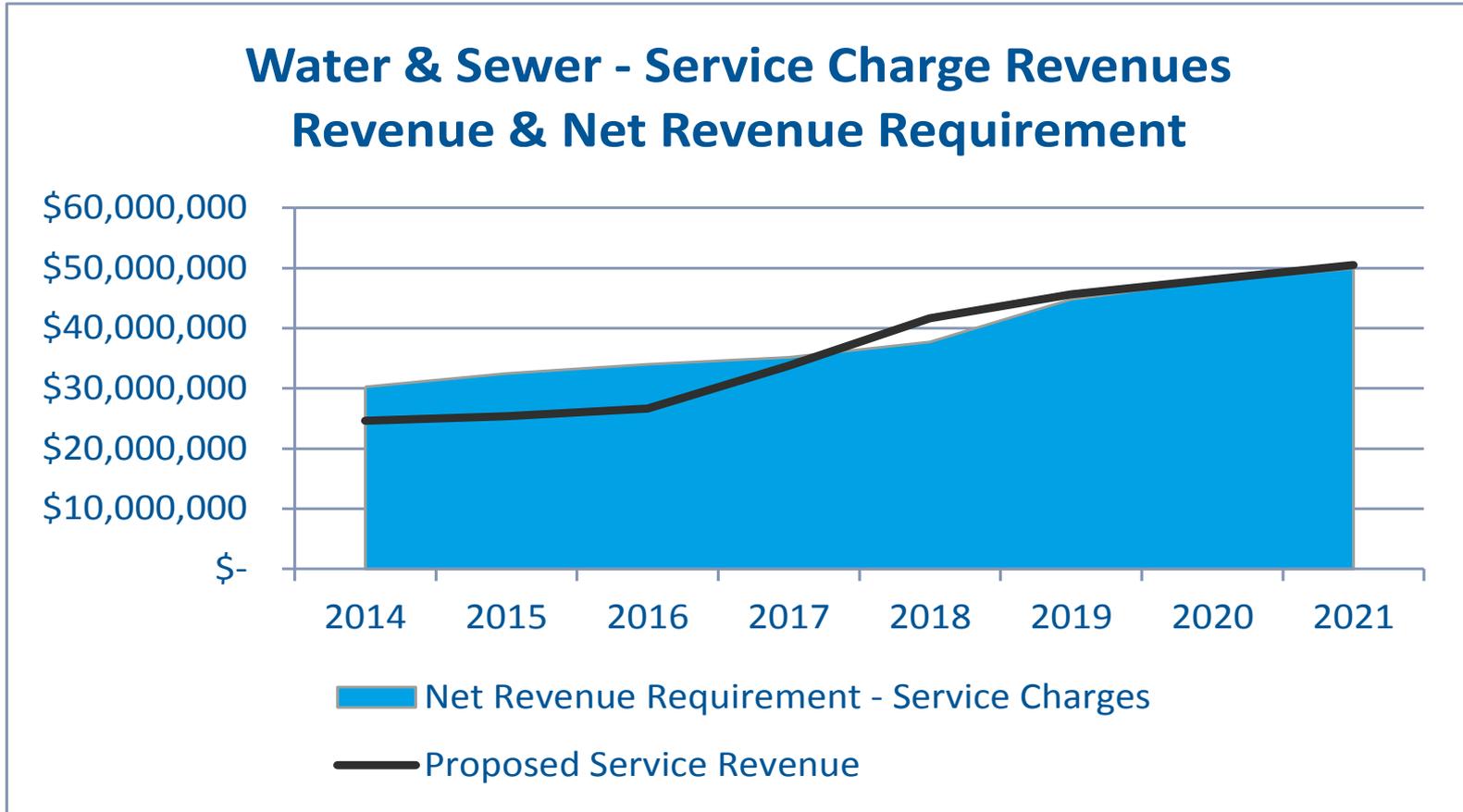
Water & Sewer - Operating Revenues Projected Operating Fund Balance



CPI = Consumer Price Index

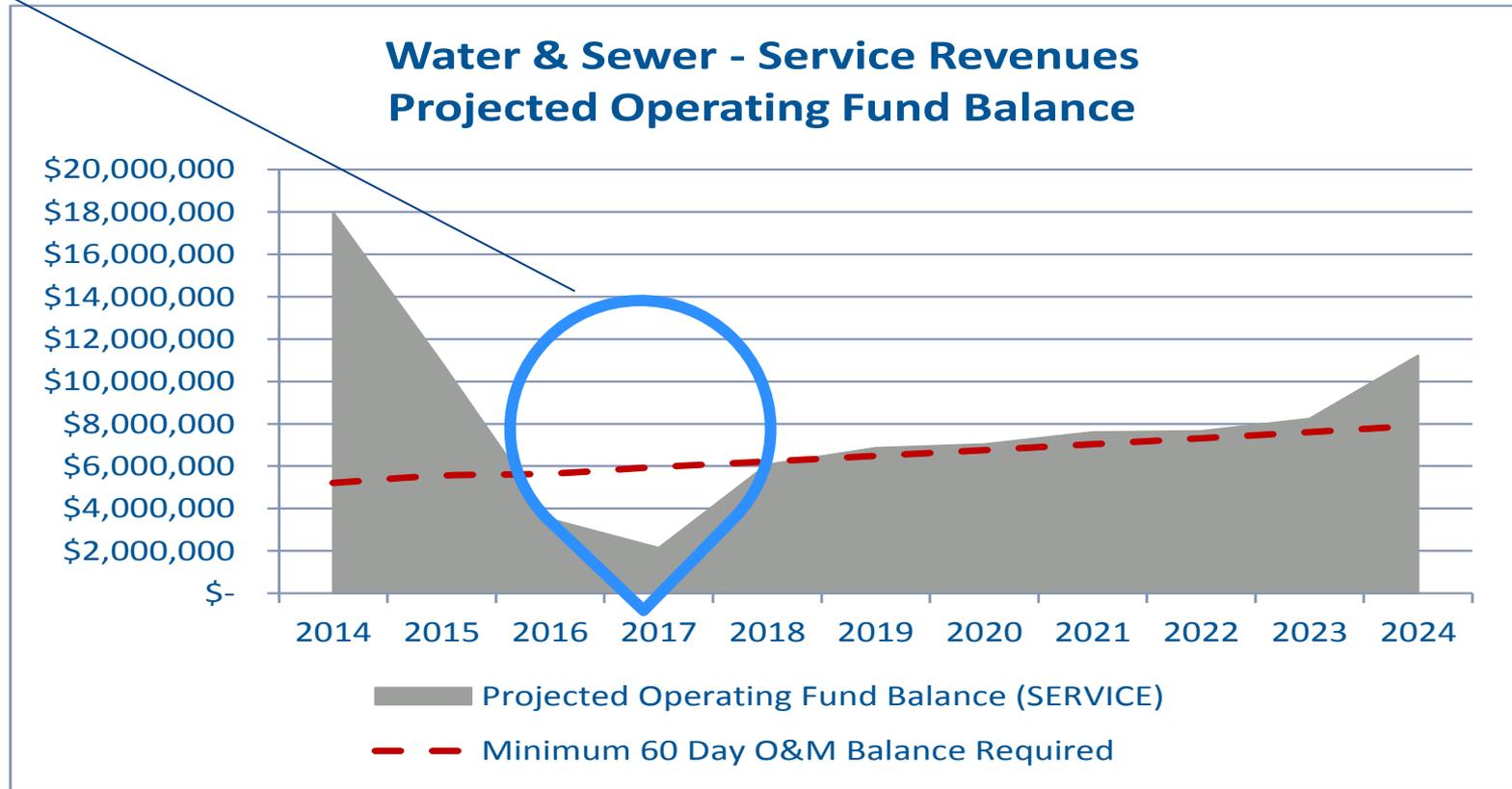


The Proposed Operating Fund Plan Aligns Service Charge Revenues With The Projected Revenue Requirements



The Proposed Operating Fund Plan Also Helps Achieve A Fund Balance Of 60 Days Of O&M Reserve By FY 2018

Plan proposes to drastically draw down the fund balance to mitigate the level of revenue adjustments that are necessary in FY 2016 and FY 2017



60 Days of Annual O&M is the minimum reserve target for this financial plan
Maintaining at least 120 Days of Annual O&M is the industry best practice

PART 4 – RATE STRUCTURE & BILL IMPACT

PROPOSED RATE STRUCTURE
MONTHLY RESIDENTIAL BILL IMPACT
PEER UTILITY BILL COMPARISON

Our Review Of The SERVICE CHARGE Rate Structure Indicates That Adjustments Are Needed

Service Charge: FY 2016 through FY 2020

- Gradually adjust the Base Charge by Meter Size and the volume charge per 1,000 gallons consumed to reach the cost of service levels by FY 2020

Asset Reinvestment Charge: Beginning FY 2018

- Implement a new Asset Reinvestment Charge (ARC) based on Meter Size capacity
 - Aging infrastructure requires timely and consistent levels of asset rehabilitation and renewal, to maintain service integrity & reliability
 - Implementing the ARC in FY 2018 mitigates bill impact in FY 2016 & FY 2017

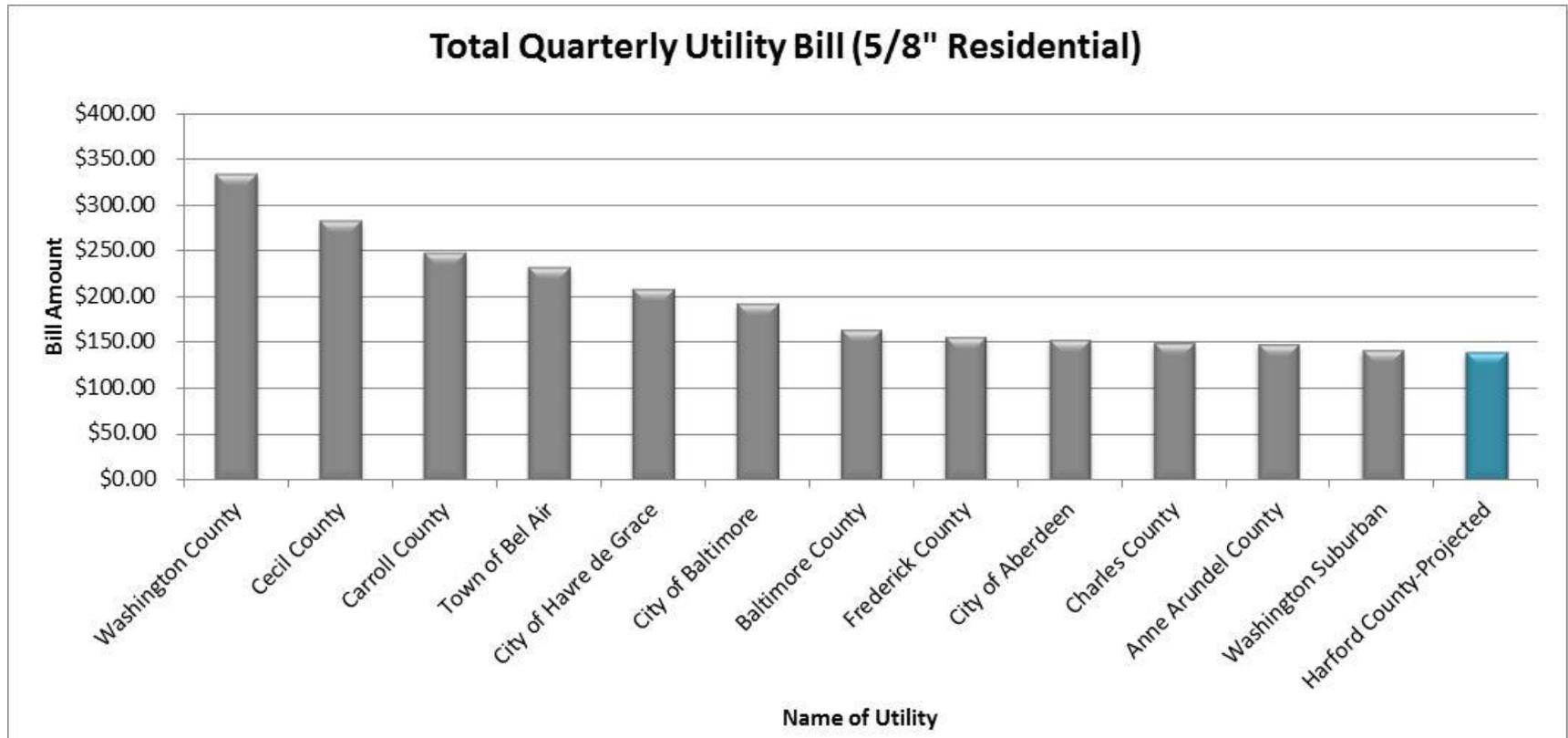
What Is The Expected Impact On An Average Residential Monthly Bill In FY 2016 (effective Jan 1, 2016)

#	Description	Quarterly WATER	Quarterly SEWER	Quarterly TOTAL
1	EXISTING Residential (5/8")	\$46.04	\$57.62	\$103.66
2	PROPOSED Residential (5/8")	\$59.84	\$81.94	\$141.78
3	Increase in Quarterly Charges	\$13.80	\$24.32	\$38.12

#	Description	Monthly WATER	Monthly SEWER	Monthly TOTAL
1	Increase in Monthly Charges	\$4.60	\$8.11	\$12.71

- Includes the Purchased Water; BNR; and ENR Charges

Harford's Proposed Total Quarterly Bill Is Still Lower Than Many Other Neighboring Peer Utilities



National Comparison:

• ANNUAL WATER BILL

- National average: \$220
(Source: AWWA 2012 Financial Survey)
- Harford County: \$239

• ANNUAL SEWER BILL

- National average: \$435
(Source: NACWA 2015 Financial Survey)
- Harford County: \$328



PART 5 – VALUE OF WATER

BENEFITS OF THE RECOMMENDED PLAN

Harford's Water & Sewer Monthly Bill Is Significantly Lower Than A Discretionary Cable Bill (FY 2016)



Proposed Monthly Water & Sewer Bill: \$47.26



Monthly Gas & Electric Bill: \$144.00



Monthly Cable TV Bill: \$110.00

Harford Division of Water & Sewer strives to provide life critical services balancing customer impact and utility's system integrity and financial resiliency

In Summary, The Proposed Plan Paves The Way For

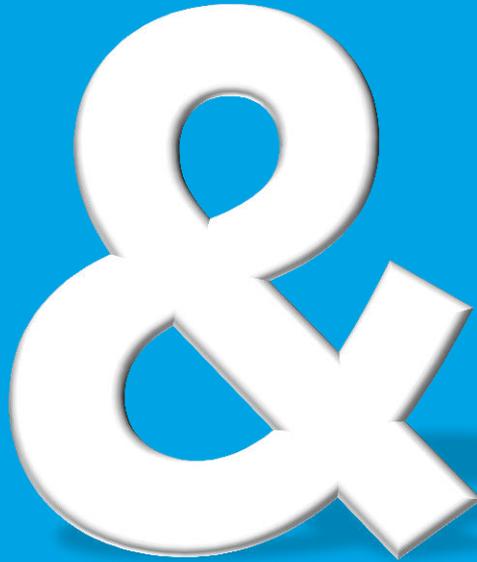
Reliable Service: Funds 100% of the annual O&M expenditures beginning FY 2016

Infrastructure Integrity: Funds 100% of the annual capital needs beginning FY 2016

Operational Emergencies: Funds the minimum required 60 days of annual O&M reserves beginning FY 2018

Economic Development: Provides adequate capital funds for system expansion to accommodate customer growth during study period

Establish a balanced financial path
to fulfill mission critical services
to the County's constituents



Building a **world** of difference.®

Together



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