

# Greater Cincinnati Water Works

Budget & Finance Committee

June 7, 2021

# Past rate increases

2017-2021: annual rate increases of 3.75%

- 2016 approved 5 years of regular/predictable increases
- Significantly lower than 6-7% increases (before 2016)

Funded:

- Operational requirements
- Capital improvement projects
- Newly established Lead Service Line Replacement Program
- Critical system upgrades (billing system/monthly billing, SCADA, etc.)

AAA bond rating resulted from stable/predictable revenue

Year	Rate
2008	6.0%
2009	5.9%
2010	3.0%
2011	0%
2012	8.5%
2013	7.25%
2014	5.5%
2015	4.0%
2016	5.0%
2017	3.75%
2018	3.75%
2019	3.75%
2020	3.75%
2021	3.75%

# Cost of Service / Rate Study

**Study to develop a 5-year financial forecast and plan**

**Black & Veatch conducted GCWW rate study for 2022-2026**

**Projects customers and consumption**

**Forecasts expenditures – operation & maintenance, capital**

**Determines revenue needs to meet O&M, capital, debt and financial performance criteria**

**Calculates rates to recover revenue required**

**Substantial challenges highlighted in study**

# Highlighted Challenges from Rate Study – current and future

1. Lead Program and Regulatory Changes
2. Operating and Capital Needs
3. Maintenance of Financial Targets
4. Customer Affordability

## Solutions must support:



Thriving Neighborhoods



Safety



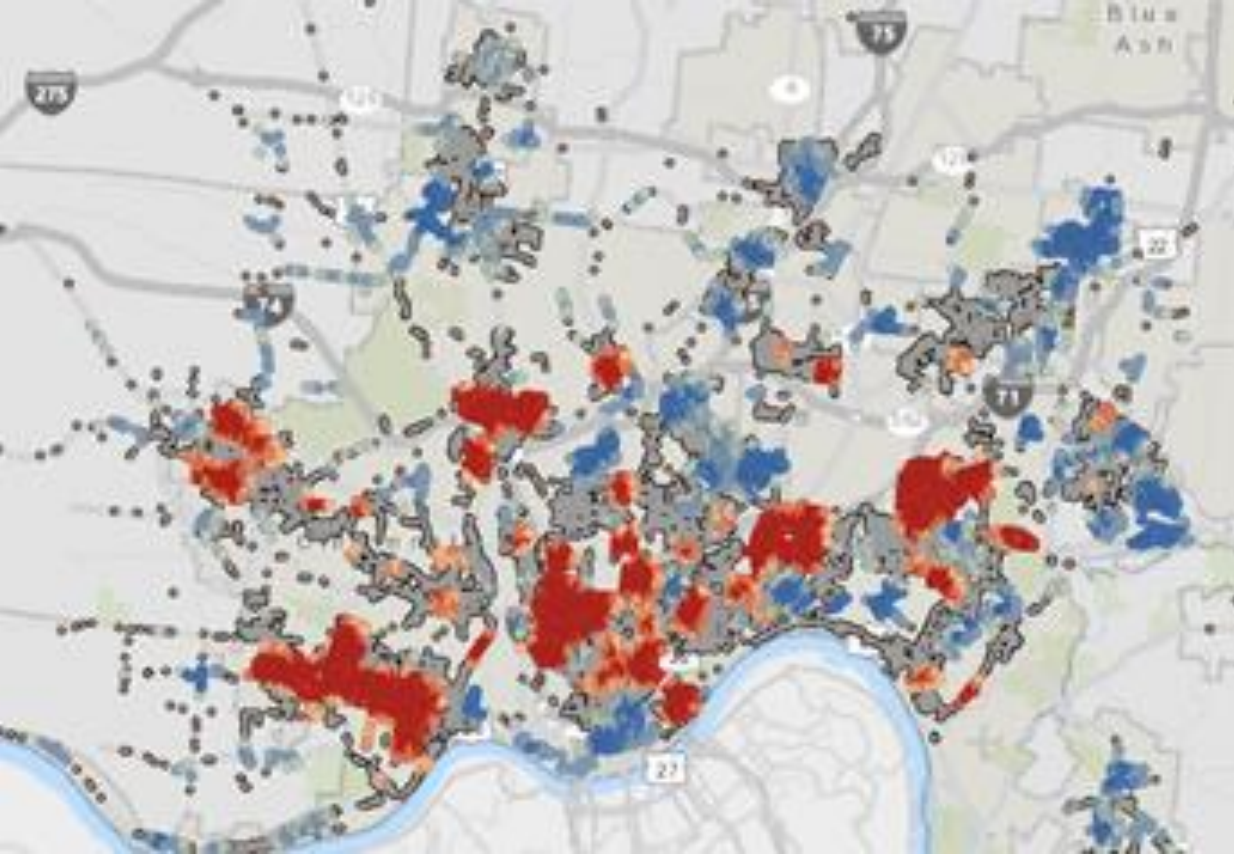
Growing Economic Opportunities



Excellent Service Delivery



Fiscal Sustainability



# Highlighted challenge #1: Lead Program and Regulatory Changes

## GCWW Lead Program (2016 to present)

First of its kind; USEPA “national model”

- Outreach, education, sampling, LSL replacement
- School/child-care free testing
- GCWW pays public side replacement costs
- GCWW contributes to cost of private replacement
  - 40% cost share (up to \$1,500)
  - 0% financing available for balance
- “HELP” for low-income owners
  - additional 30% assistance
  - Funded through donations, cell tower revenue
- Participation through
  - Watermain replacement project,
  - Property owner request, or
  - Leak in customer service line
- Lead exists inside and outside of City
- Meets/exceeds current Lead & Copper rule

# Highlighted challenge #1:

## Lead Program and Regulatory Changes

### GCWW Lead Program- looking ahead

Revised USEPA Lead & Copper Rule (2021) – more stringent:

- Stricter sampling will trigger GCWW into mandated 3% or greater replacement
- Additional treatment required will negatively impact entire service area
- Non-compliance will lead to court orders, consent decree, and/or fines

Need for change:

- Realization of lead impacts at extremely low lead levels
- Lead lines are the primary source of lead in water
- Very significant number of lead lines still in use

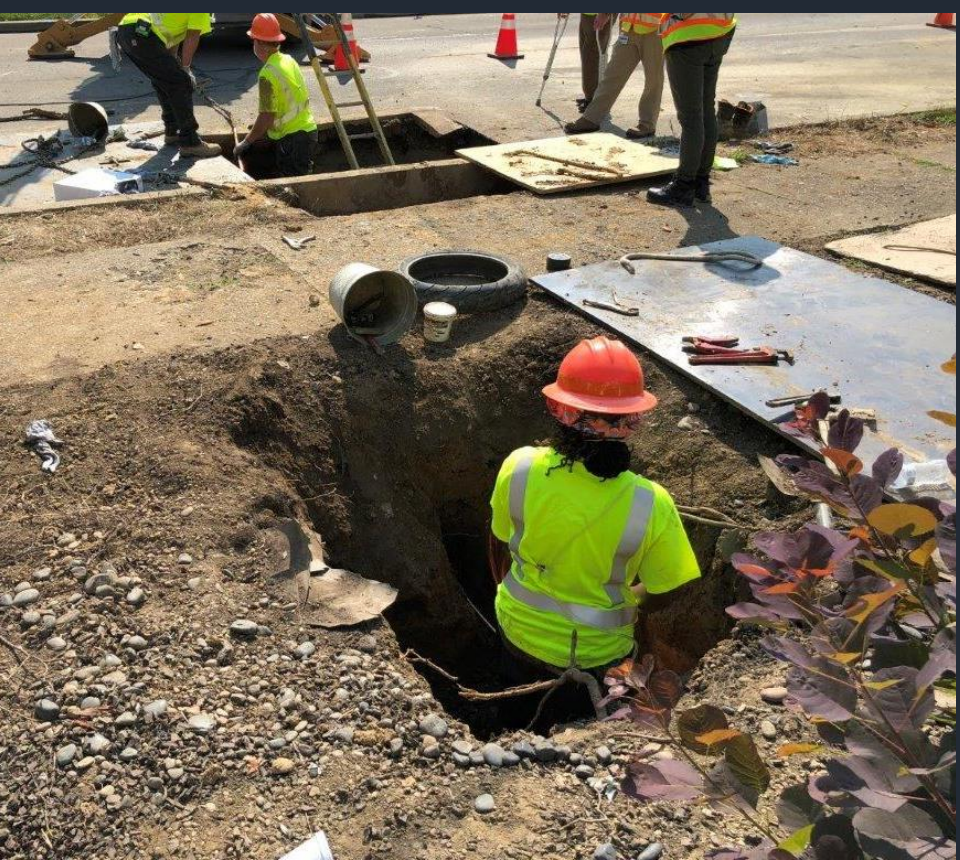
Local challenges still exist:

- Affordability
- Health risk present, particularly for infants, children, pregnant women
- Health and financial inequity in water service to customers with LSLs

Compliance requires a system wide solution



# Highlighted challenge #1: Lead Program and Regulatory Changes



## Proposed LSL replacement program change:

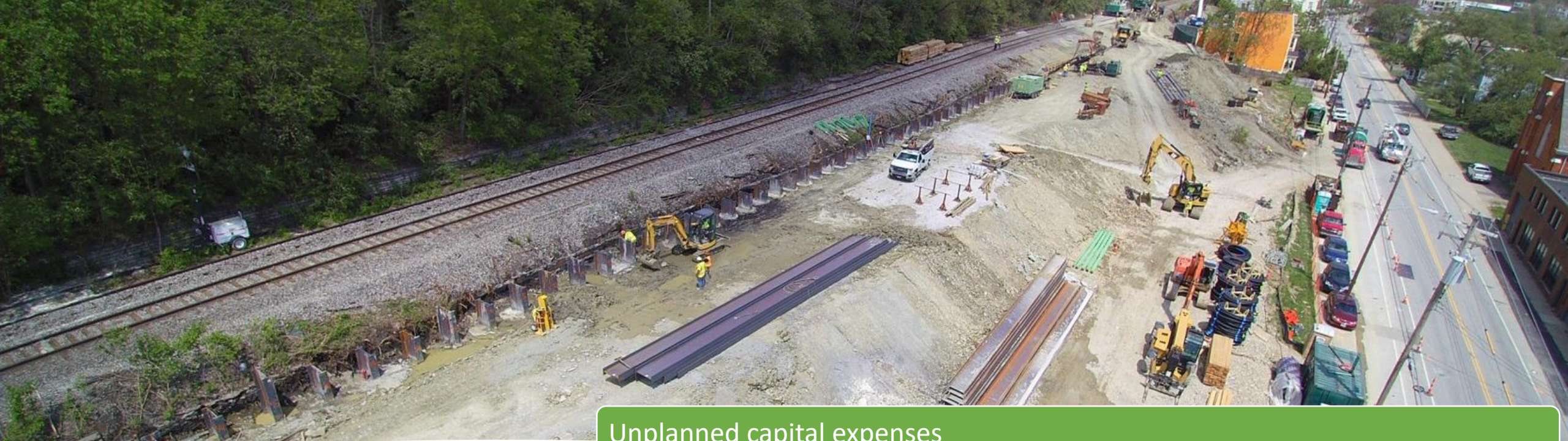
- Increase LSL replacement cost share from 40% to 100%

## Additional investment now will:

- Removes affordability barrier
- Advances health and financial equity among all customers
- Increases customer participation in program
- Increases replacement rate to meet new compliance levels
- Helps address system-wide regulatory compliance

*Note: Cleveland, Detroit, Ann Arbor, Indianapolis, Denver, Washington DC, Newark, Philadelphia, Pittsburgh fund 100% LSL replacement via rates*





## Highlighted challenge #2: Operating and Capital Expenses

### Unplanned capital expenses

- 2017-2018 ~ \$20M reallocated to fund 2 retaining walls on Riverside Drive
- Continued movement & risk to critical infrastructure within Riverside corridor

### Increasing labor and material costs

- Impact operating and capital costs

### Aging and antiquated infrastructure

- Past infrastructure design does not always meet modern standards
- Backlog of projects exists

### COVID impacts

- Operating expenses reduced
- Several important projects delayed (e.g., electrical reliability study)
- Not sustainable; presents increased risk



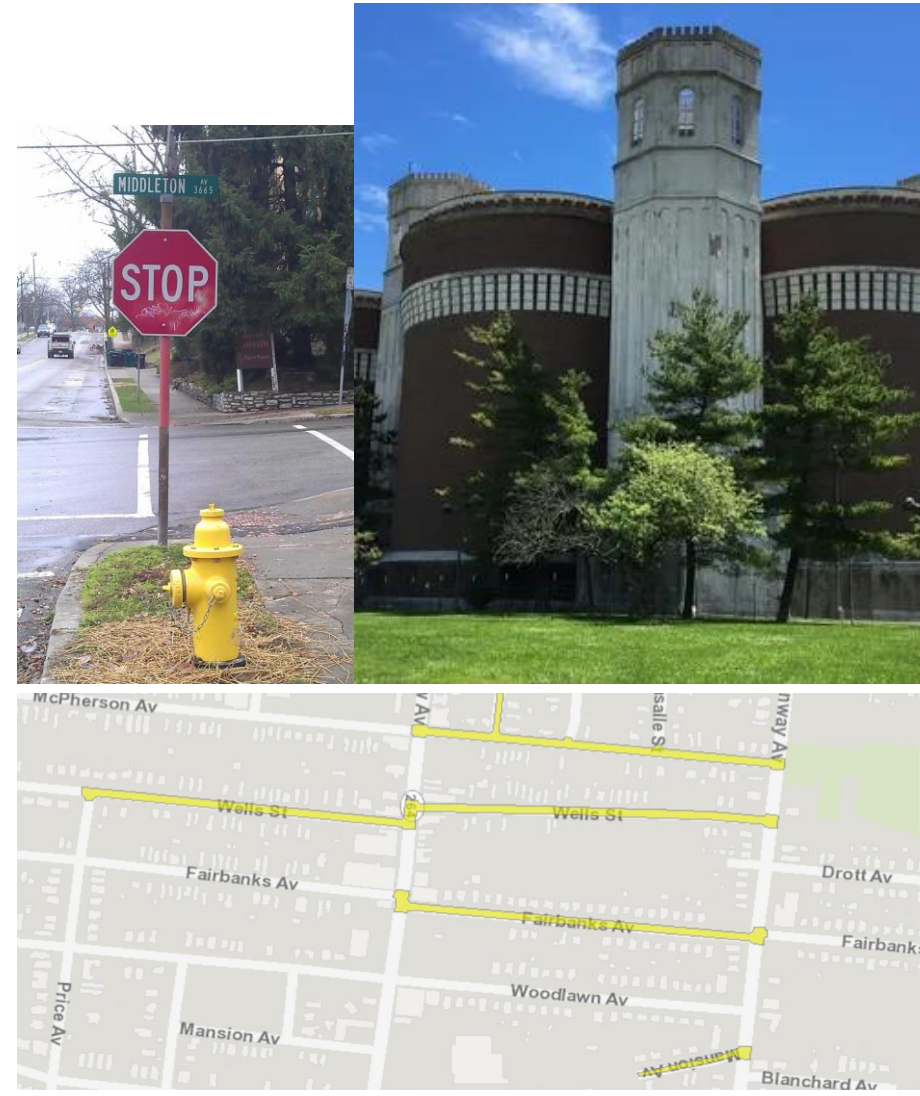
# Highlighted challenge #2: Operating and Capital Expenses

## Address capital and project backlog

- Capital funding increase from \$67M to \$75M
- Address aging and outdated systems
- Expand water main replacement projects
- Build on partnership with CFD for system flow info
- Establish robust fire hydrant program (contracted areas)
- Fund a long-term plan to protect critical infrastructure on Riverside Drive
- Increase system resiliency funding
  - Electrical Reliability Study, Backup generator
  - Physical and Cyber Security Upgrades

## Outcomes:

- reduced risk of failure, reduced long term O&M costs, more prepared for extreme weather events



# Highlighted challenge #3: Maintenance of Financial Targets

## Financial Targets in Jeopardy

- Could lose AAA bond rating without additional revenue
- Higher costs to finance needed capital improvements
- Loss of bond refinancing and money savings opportunities

# Highlighted challenge #4: Customer Affordability

Exacerbated by COVID-19 pandemic

Over 37,000 accounts now delinquent (13% increase)

Past due amount increased by \$11M (87% increase)

Shutoff moratorium still in effect

An urgent need to provide customer assistance solutions:

- Emergency Rental Relief Program funding deployed by City
  - Partnership with Community Action Agency
  - Available to eligible renters to address bill delinquencies
- New payment plan portal is in the works
  - Other utilities having success with mobile flexible payment portals
  - Assist customers struggling with large water/sewer debt
  - Solution will offer flexible payment plans with multiple mobile payment options, including e-check, credit/debit card, cash apps
  - Customers sign up and can avoid shutoff

Other Customer Service Enhancements

- Smart metering solutions being investigated
- Customer can control usage, monitor bill
- Customer alerted of potential leaks and avoid high bills

Other assistance programs are being evaluated



# Recommendations:

## Black & Veatch Cost of Service Study Findings

- Rate increase of 3.75% for FY2022 & 5.55% for FY23 through FY26

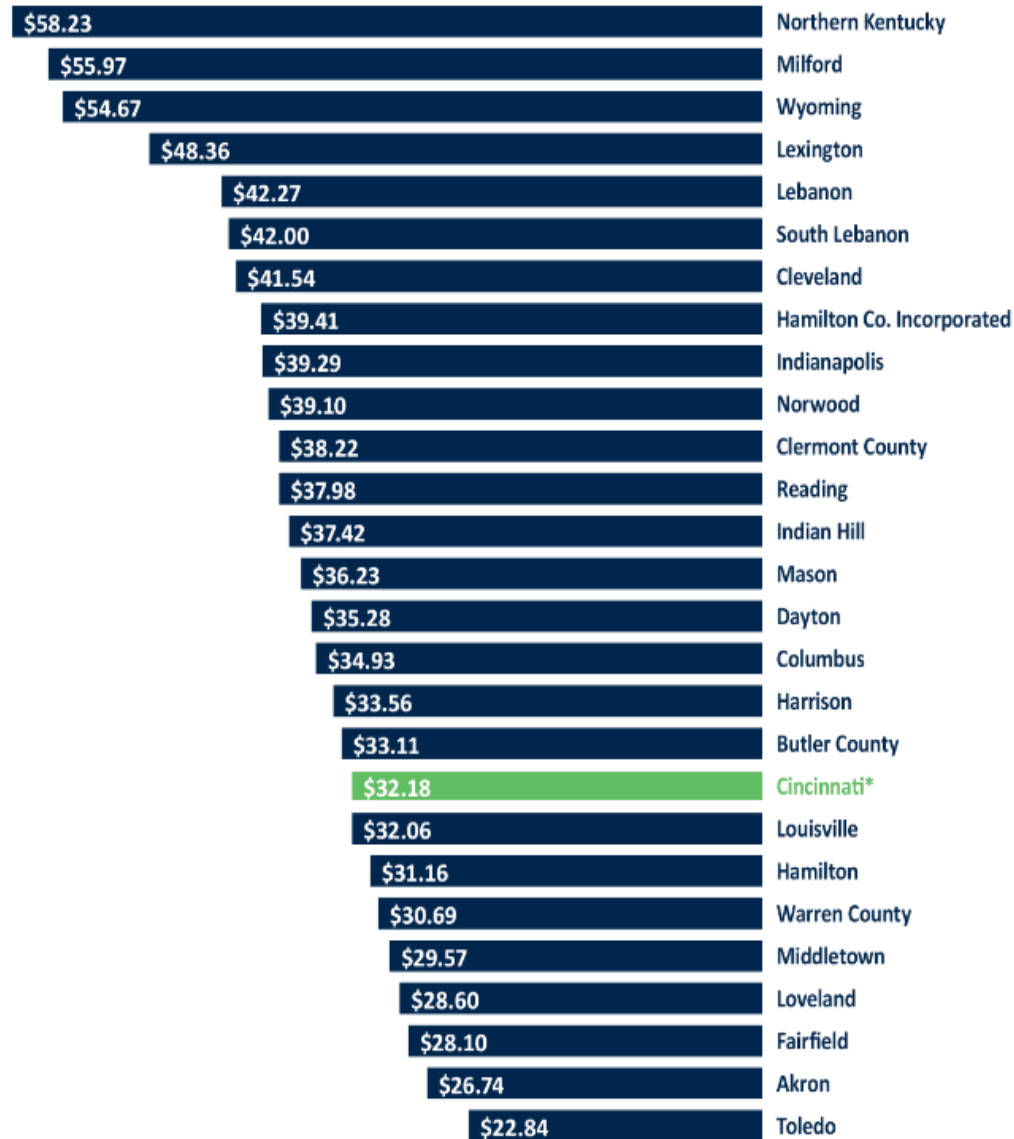
### Average Single-Family Monthly Payment (Calendar Years 2021 thru 2026)

8.33 CCF Per Month (6,230 Gallons) - 5/8" Meter

	Rate Increase:					
	3.75%	3.75%	5.55%	5.55%	5.55%	5.55%
	CY 21	CY 22	CY 23	CY 24	CY 25	CY 26
<b>Inside City</b>						
Commodity Charge	24.99	25.93	27.34	28.84	30.42	32.09
Service Charge	6.54	6.79	7.17	7.57	7.99	8.43
Fire Hydrant Fee	0.65	0.67	0.71	0.75	0.79	0.83
<b>Total Average Monthly Payment:</b>	<b>32.18</b>	<b>33.39</b>	<b>35.22</b>	<b>37.16</b>	<b>39.20</b>	<b>41.36</b>
<b>Total Average Increase Per Month:</b>		\$1.21	\$1.83	\$1.94	\$2.05	\$2.16

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2014	5.50%
2015	4.00%
2016	5.00%
2017	3.75%
2018	3.75%
2019	3.75%
2020	3.75%
2021	3.75%
<b>2022</b>	<b>3.75%</b>
<b>2023</b>	<b>5.55%</b>
<b>2024</b>	<b>5.55%</b>
<b>2025</b>	<b>5.55%</b>
<b>2026</b>	<b>5.55%</b>

## Monthly Water Costs<sup>†</sup> for the Average Single-Family Household



Water Utility /Cost per Month 8.3 CCF

\*Includes fire hydrant fee. Rate effective January 1, 2021.

† Some of the rates above are based on information from the utility's website as of 12/18/20.

# Rate Increase Approval will-

- 1. Provide funding for 100% of the cost of private LSL removal**
  - Positive impact for health and well being of community
  - Allows participation in program regardless of income
  - Investment in lead line removal solves the biggest issue with lead in drinking water
  - Poes GCWW to comply with new regulatory changes
  - Cost of this change amounts to about 1% of overall budget



Thriving Neighborhoods



Safety



# Rate Increase Approval will-

## 2. Provide funds to address aging infrastructure and increase resiliency

- Reduce risk of asset failure
- Reduce unplanned expenses
- Lowers long-term O&M costs
- Better prepare for extreme weather events/impacts



Growing Economic Opportunities



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# Rate Increase Approval will-

## **3. Improve and strengthen financial and operational integrity**

- Maintain AAA bond rating to leverage lowest borrowing costs
- Affords opportunity to refinance current debt at lower interest rates
- Raises net revenues to total debt ratio and days cash on hand to what investors expect from a AAA utility



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# Rate Increase Approval will-

## **4. Allow continued implementation of solutions to assist customers with bill payment**

- Solutions are being developed and implemented
- Allow customer flexibility in bill pay options
- Increase revenue collection
- Allow customers insight and control of their water usage



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Questions?