Baltimore Regional Water Governance Taskforce

Meeting #4: Final Fiscal Analysis

November 1, 2023

Today's Agenda

6:00 pm to 6:15 pm	Recap and follow-up from Meeting #3
6:15 pm to 7:00 pm	Consultant presentation
7:00 pm to 7:45 pm	Taskforce discussion
7:45 pm to 8:00 pm	Break
8:00 pm to 8:45 pm	Public comments
8:45 pm to 9:00 pm	Taskforce reconvenes

Notes for Attendees

- If you would like to comment or ask a question, and have not already signed up online, please add your name on the tablet sign-up with our staff
- Please limit your comment or question to 2 minutes; you will be timed
- No follow up comments or questions beyond that time, please
- If the Task Force can provide you a response they will do so after you finish speaking
- All comments will be noted and posted the website

Task Force Meeting Schedule

Taskforce Meeting #1: Existing Organization & Agreements

Wednesday, September 13 at 6:00pm

Baltimore County, Randallstown Community Center

Taskforce Meeting #2: Governance Models

Wednesday, October 4 at 6:00pm

Baltimore City, Middle Branch Fitness and Wellness Center

Taskforce Meeting #3: Governance Models & Preliminary Fiscal Analysis

Wednesday, October 18 at 6:00pm

Baltimore County, CCBC Essex

Taskforce Meeting #4: Final Fiscal Analysis

Wednesday, November 1 at 6:00pm

Baltimore City, Mount Pleasant Church and Ministries

Taskforce Meeting #5: Summary & Recommendation

Thursday, November 16 at 6:00pm

Virtual

Taskforce Meeting #6: Final Recommendation Report

Thursday, January 25 at 6:00pm

Virtual

Recap and Follow-up from Meeting #3

Task Force's charge

- The Task Force shall:
  - strive for consensus among its members.
  - review the findings and governance case studies from NewGen's Business Process Review finalized in July 2021.
  - consult with MDE and MES.
  - **report findings and recommend the appropriate governance model to the Mayor of Baltimore City, the County Executive of Baltimore County, the Governor on or before January 30, 2024.**

Maryland Department of the Environment

MARYLAND ENVIRONMENTAL SERVICE

CITY OF BALTIMORE

BALTIMORE COUNTY MARYLAND

THE OFFICE OF Governor Wes Moore

MARYLAND GENERAL ASSEMBLY

Criteria for identifying recommended governance model (1/3)

HB 843 sets out the methodology for the Task Force to identify the governance model

Each member shall…..**assess how each different governance approach may improve the following**:

- management;
- operations;
- employee recruitment;
- retention and training;
- billing and collections;
- planning for capital improvements;
- emergency management; and
- rate stability for customers

Covered in Meeting 2

Criteria for identifying recommended governance model (2/3)

Assess alternative governance structures for the Baltimore region's water and wastewater utility, **including frameworks for**:

- governance;
- financing;
- capital planning;
- future system capacity expansion;
- decision–making processes; and
- ongoing operations and maintenance of safe, efficient, equitable, and affordable water and wastewater systems serving the Baltimore region

Covered in Meeting 2

Criteria for identifying recommended governance model (3/3)

Analyze the fiscal implications and efficiencies of each alternative governance structure, including estimated short– and long–term costs, 10–year historical costs that both jurisdictions have paid to the utility, **and cost–savings associated with**:

- system transitions;
- asset leases and capital planning;
- rate restructuring for Baltimore City, Baltimore County, and other wholesale stakeholders;
- debt consolidation and extension;
- staffing and pension liabilities; and
- other relevant costs to jurisdictions or customers served by the shared systems

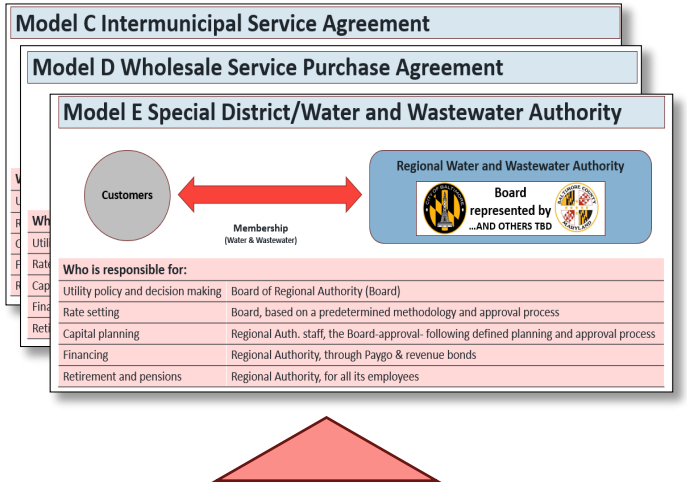
As-is conditions covered in Meeting 3,

This meeting: Alternatives

Where we are

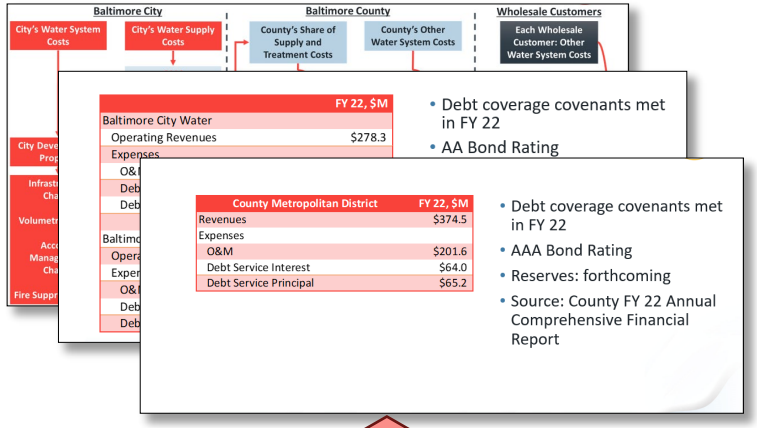
Preliminary understanding of Models, C,D, E

Meeting 2



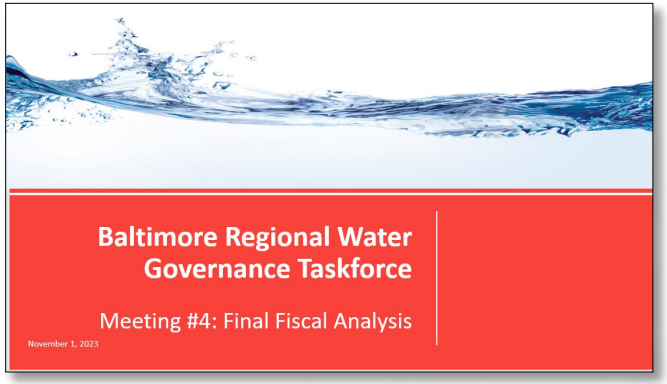
As-is financial status (City and County)

Meeting 3



Final Fiscal analysis of Models E, D, and C

Meeting 4



Follow ups from previous meetings

Follow-Up Items from Previous Task Force Meetings

Follow-up Item Groupings

Governance

State Support

Wholesaler Capital Improvements

Future Capital Improvements

Pensions

Debt

Outsourcing

Cost Allocation Model

Bill Comparison (City & County)

Follow-ups: Governance

- Historical experiences of other cities moving to a special district/authority model.
- Examples of how other utilities that transitioned into Special Districts/Authorities handled the issue of employee pensions.
- Shortlist of comparable utilities that are being interviewed further and details of those interviews.

Tampa Bay Water – Transition to Authority

- Impetus: Adverse Environmental Impact of Water Production and non-representative governance outcomes, need for expanded production capacity.
- Members had different costs for the water supplies they owned.
- Environmental Regulators began significantly cutting existing wellfield permits.
- Legislature threatened to impose its solution if parties did not resolve legal and environmental problems.
- Established Group of 18 to lead creation of the resolution.
- 24-month duration from start to adoption of new Authority's Charter
- New Board consists of 9 members, 2 each from the three counties, one each from the 3 cities.

Tampa Bay Water – Transition to Authority

- No source of outside funds used to pay for transition.
- State's regulator provided significant alternative water supply grant co-funding to incent authority formation.

Outcome:

- Regional Water Authority – Exclusive water supplier for members
- Uniform rate for all wholesale water sold.
- Tampa Bay Water purchased all of their member's Water supply assets - $2.00 per permitted gallon of production capacity.
- Refinanced all WCRWA's past outstanding debt.
- Newly Constituted Board Votes were binding – arbitration was dispute resolution.
- Did not involve significant pension or employee transitions.

GLWA - Transition to Authority

- Impetus: Detroit Water and Sewer's Bankruptcy settlement and plan to position Detroit and southeast Michigan for long-term economic, environmental and social success.
- GLWA began as independent regional water and wastewater (Wholesale) authority, separate from the Detroit Water and Sewer Department (DWSD) in 2016.
- GLWA Board of Directors - 2 City of Detroit representatives and 1 representative each from Oakland County, Macomb County, Wayne County, and the State of Michigan.
- Detroit Mayor appoints Detroit's representatives, the county representatives are appointed by their respective counties, and the state representative is appointed by the governor.

GLWA - Transition to Authority

- GLWA holds a 40-year lease for DWSD treatment plants, major water transmission mains, sewage interceptors and related facilities.
- GLWA pays Detroit $50 million/year lease payment for capital improvement for the Detroit's (retail) water system and to repair Detroit’s (retail) aging water infrastructure.
- Reportedly - another $50 million a year payed toward pension costs and a fund to aid struggling customers.
- GLWA also assumed $4 billion of DWSD's debt.
- 75% of GLWA’s customers reside in the suburbs, with the remaining customers residing in the City of Detroit.
- Lease agreement - "lengthy and contentious negotiations" suburban Detroit leaders feared prospect of bailing out Detroit's water system.

GLWA – Transition to Authority

GLWA manages one of the larger wastewater treatment plants (WWTP) in the United States, serving the City of Detroit and 76 suburban communities.

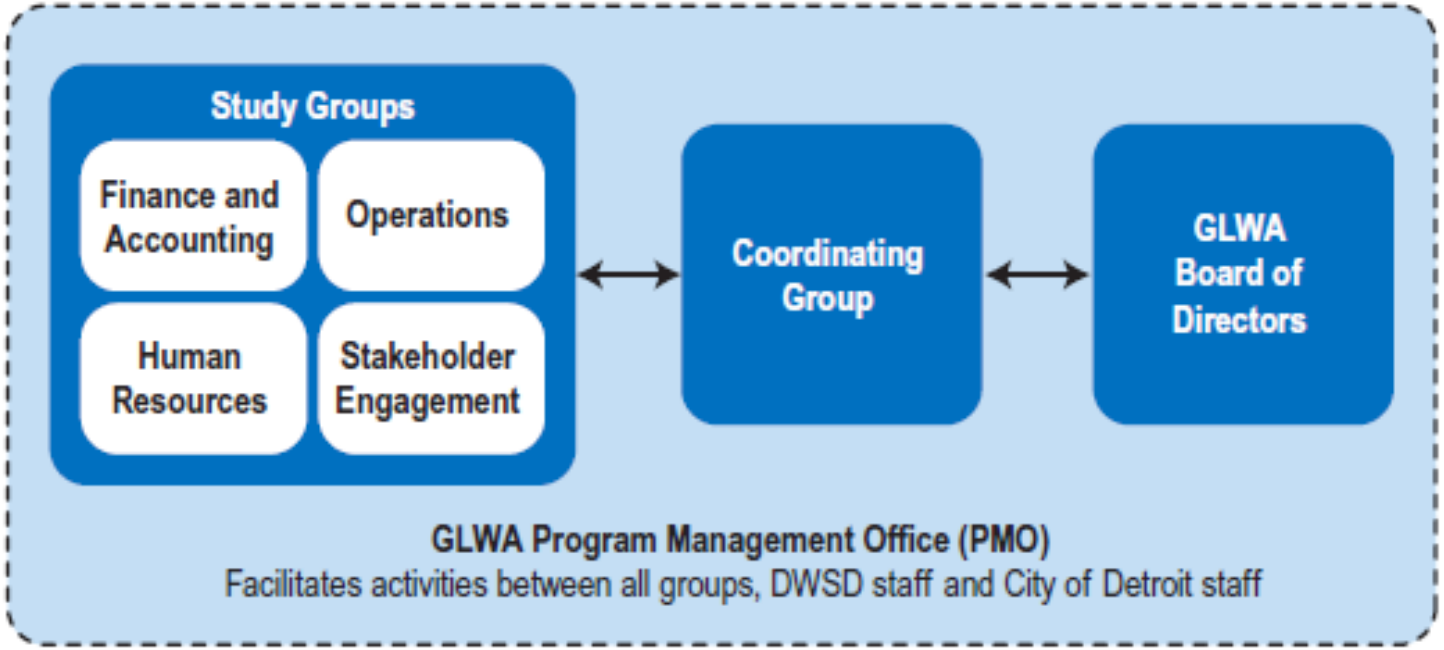
- The GLWA WWTP treats approx. 650 MGD.
- City & County Combined WWTP capacity 200 MGD total.

Outcome:

- Regional Water Authority – assumed O&M and Capex funding obligations for City of Detroit's Wholesale Water & Sewer Department assets.
- GLWA Use a "Model Contract" with all of its (retail) customers.

GLWA - Transition to Authority

Flow of Information During GLWA Formation



Information flows between all groups involved in creation of the GLWA. The PMO facilitates activities between all groups serving as a repository of all work, providing scheduling oversight and facilitating meetings to keep work activities on target. The Coordinating Group serves as a clearinghouse that reviews information and forwards it on to the GLWA Board for decision making and incorporation into the final agreements.

Follow-ups: State Support

Detail the level of state and federal support to Baltimore's water and wastewater sector (capital vs. operating expenses)

Outstanding SRF Loan Principal from MDE (Source: MDE)

- City Water: $147M
- City Sewer: $407M
- County Water: $98M
- County Sewer: $292M
- Pending SRF loans: $250M City and $50M County

City WIFIA Loan: ~$350M

Consider governance model options involving a financing arm or conduit (e.g. MEDCO) that would raise debt on behalf of the newly formed water and wastewater authority

- Future conversation with MEDCO is pending.

Follow-ups: Wholesaler Capital Improvements

Detail the cost sharing arrangements with the City's wholesale customers for capital improvements

- Water: Per the Cost Allocation Model Methodology (CAM)
- Wastewater:
  - Per terms of the contracts between the wholesale customers and the County.
  - Based on design flow

Follow-ups: Future Capital Improvements

Provide impact of future capital costs over time

- Request by Task Force to share financial plan projections pending with City and County.
- Financial plan projections incorporate all reported aspects of utility expenses, including changes in O&M costs.
- Separation of financial impacts due to O&M vs. capital is not feasible as that is not part of a financial plan projection.

Follow-ups: Outsourcing

Provide split between in-house and outsourced work including cost of outsourcing

- Typical Outsourced Work at the County
  - Professional Services: Engineering, program management for consent decree compliance, hydraulic modeling for Water Analyzer Office, independent auditors, rate consultants
  - No ongoing O&M is outsourced
- Typical Outsourced Work at the City
  - Professional Services: Engineering, program management for consent decree compliance, independent auditors, rate consultants, bond consultant
  - Some O&M has been outsourced, due to hiring challenges

Follow-ups: True-Up Process

Breakdown of costs recovered through the annual True-Up Process

- True-up process recovers the differences in allocated costs between estimates and actuals.

Follow-ups: Cost Allocation Model (CAM)
Historical Wholesale Revenues, Annotated

Historical Revenues from Wholesale Customers					
FY	Anne Arundel County	Baltimore County	Carroll County	Harford County	Howard County
2013	$496,626	$107,574,697	$482,904	$275,899	$13,871,179
2014	$465,099	$117,351,073	$551,843	$185,838	$14,965,022
2015	$478,139	$114,042,928	$576,566	$265,127	$16,093,911
2016	$462,605	$116,247,387	$670,118	$182,414	$18,289,401
2017		$125,685,877	$676,833	$155,532	$16,554,401
2018		$124,604,313	$739,969	$241,858	$27,313,215
2019		$132,030,063	$638,068	$524,304	$26,055,254
2020		$105,503,921	$871,514	$240,848	$41,913,978
2021		$158,725,770	$1,236,806	$454,255	$1,709,878
2022	$1,133,778	$133,442,812	$923,144	$430,599	$24,208,749

Anne Arundel County: no water purchased from City in years with zero allocated costs.
Baltimore County: revenues include water and wastewater. Wastewater includes revenues from Wholesale Partners.
Howard County: City staff report that the variation in 2020 and 2021 is due to 2021 revenues being recorded in 2020.

Follow-ups: Capital Costs in As-Is Condition

Does the County's Capital Costs in its FY 24 through FY 29 Capital Improvement program include contributions to the City?

- Projected capital spending by the County **does** include contributions to the City.

Follow-ups: Debt(1/5)

Debt projections showing a schedule of new debt expected to be incurred by both the City and the County, and debt to be repaid

	Baltimore City, Water ($M)	Baltimore City, Wastewater ($M)	Baltimore County, Water + Wastewater ($M)
Existing Outstanding Debt	$1,454 M	$1,696 M	$2,014 M
Projected Change in Debt, FY 24-FY 29			
Projected FY 24 - FY 29 New Debt	$523 M	$802 M	$955 M
Projected FY 24 - FY 29 Principal Repaid	($253 M)	($373 M)	($535 M)
Total projected change in Debt, FY 24- FY 29	**$270 M**	**$429 M**	**$420 M**

City repayment source: 2022 CAFR, page 66. 2028-2029 are extrapolated.

County source: County staff, 10/25/23

Follow ups: Debt(2/5)

Provide chart showing debt service at different interest rates

Annual Debt Service on a hypothetical $100 million, 30-year bond issuance, at varying interest rates.

Borrowing Rate	4.00%	5.00%	6.00%
Annual Debt Service	$5.78 M	$6.51 M	$7.26 M
Increase		+ $0.72 M	+$1.48 M

Follow ups: Debt(3/5)

Options/examples of contractual arrangements between a new entity/utility and the City and County, respectively, to provide debt service payments annually, such that each jurisdiction meets its own debt service requirements, avoiding the need for debt refinancing

Impact of asset ownership on debt financing

- Debt financing can be separated from asset ownership.
- The asset-owning entity conveys usage rights to the debt-issuing entity through a lease agreement, facilities usage agreement, or comparable long-term agreement.
- Examples include Los Vaqueros Reservoir Joint Powers Authority, who is preparing to issue debt to finance water assets that will be owned by member agencies and GLWA .

Follow ups: Debt(4/5)

Provide bond ratings for the utilities (City and County) and any associated financial metrics of each of the utilities

- Financial Metrics supportive of AAA rating*

	AA	AAA
Days Cash On Hand	> 150 days	> 250 days
Debt Service Coverage	1.70x	2.00x
Debt to Operating Revenues	2 to 4x	< 2x

*Source: Moody's Investors Service

- Financial metrics comprise 40% of ratings scorecard, with the remaining 60% reflective of system characteristics, management, and legal provisions
- Borrowing interest rate impact of AAA versus AA rating in current market: 0.25% to 0.30%

Follow-ups: Debt(5/5)

Cost of capital for refinancing existing debt at current interest rates and how that would impact rate payers

- Discussed later in Model E.

Consult with MDE and EPA on financing mechanisms that they administer

- Ongoing

Provide financial models for each jurisdiction (City and County)

- Pending

Follow-ups: Rate Setting

Clarify how the collection of rates from commercial businesses that are currently not paying would affect the rate base

- Pending input from City staff.

City to provide details on when the last cost of service study was done and its results

- Most recent cost of service study was in 2016.

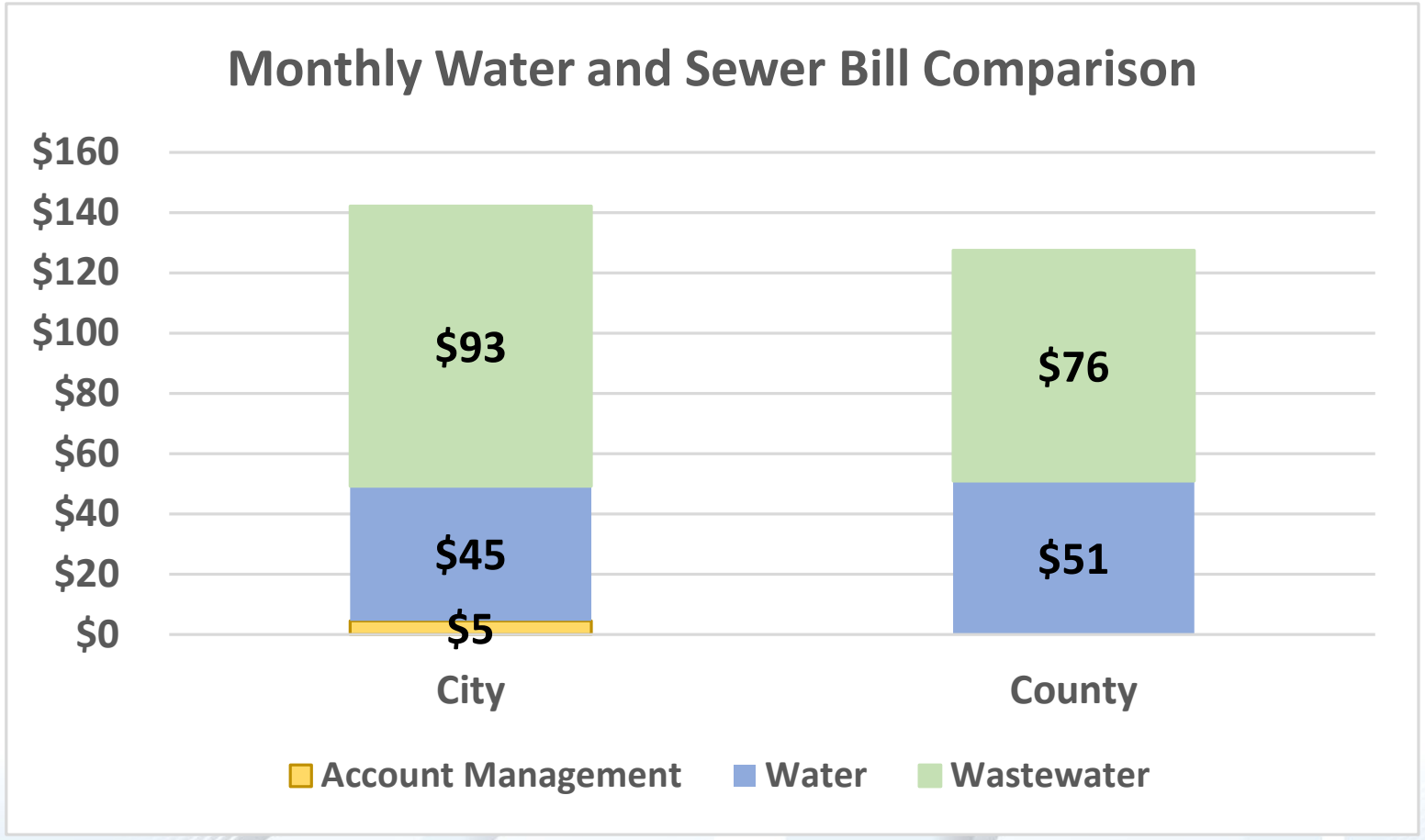
Follow-ups: Rate Setting

Question: Clarify how the fire suppression fee is applied in the City

- Residential customers with sprinkler systems pay $13/month Fire Suppression Fee
- Sprinklers require a larger water meter than would otherwise be needed
- Residential customers with sprinkler systems pay a discounted Water Infrastructure Charge
- Commercial customers with fire services pay a $14/month Fire Protection Fee
- All commercial fire services are metered
- Fire Protection Fee is the same for all fire service meter sizes
- Fire Protection Fees established in early 2000s

Follow-ups: Fixed vs Volumetric Charges

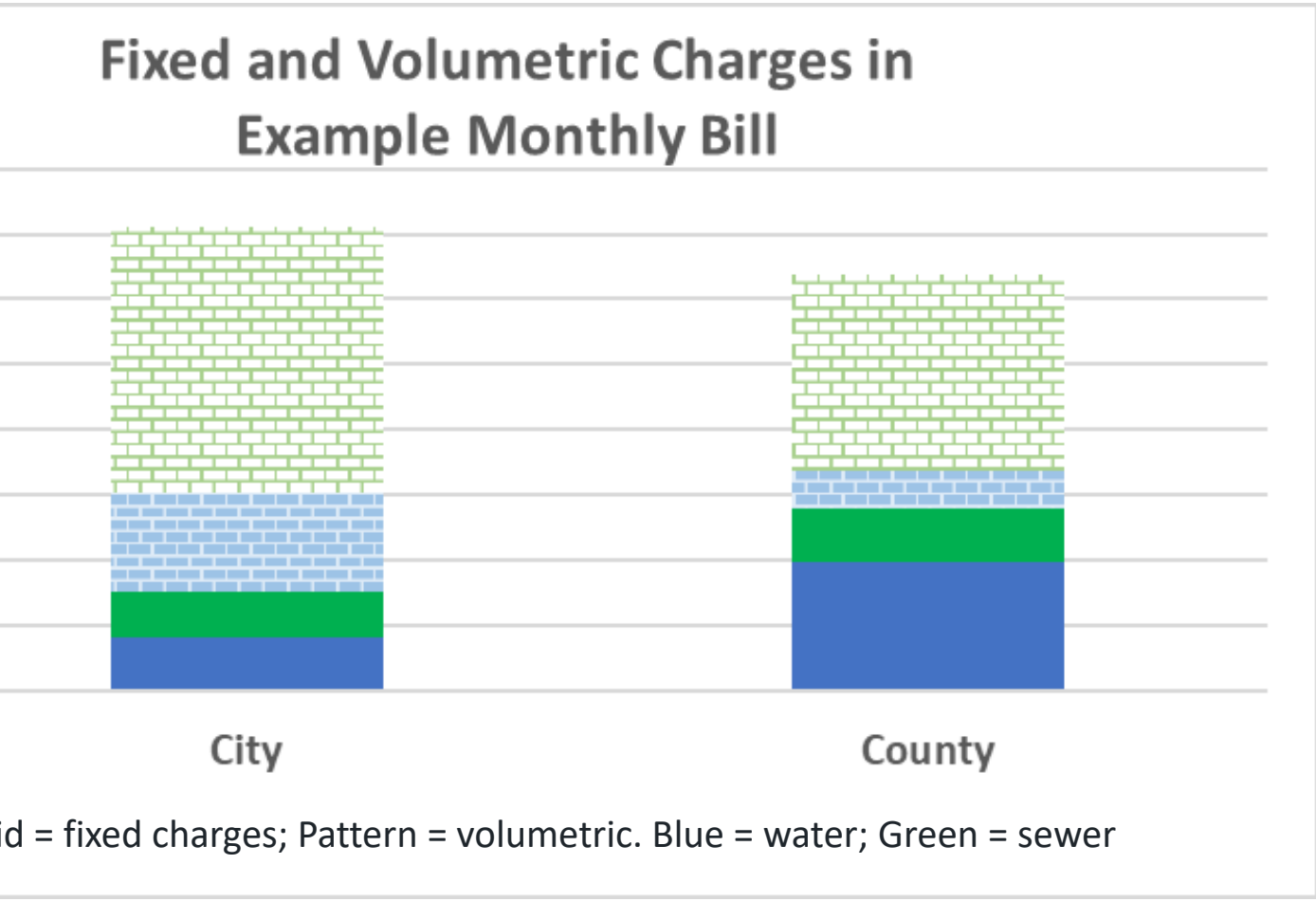
Question: For an average customer bill at the City and County level, show what percentage of the bill is fixed charge vs. volumetric charge



Based on water use of 8 ccf/month and 100 foot frontage.

Exclude Stormwater Charge and Bay Restoration Fee.

Follow-ups: Fixed vs Volumetric Charges



Based on water use of 8 ccf/month and 100 foot frontage.

This example:

City bill is 21% fixed charges; County bill is 44% fixed charges.

Exclude Stormwater Charge and Bay Restoration Fee.

Follow-ups: Pensions

Key Pension Terms

- Total Pension Obligation
  - Total amount due to retirees
- Net Position
  - Actual amount of money available to make the payments to retirees
- Net/Unfunded Pension Obligation
  - Difference between Total Pension Obligation and Net Position

Follow-ups: Pensions

City Pension Plan Benefits

- Water and WW employees of the City are covered under Employees' Retirement System(ERS) of the City of Baltimore (a Pension Trust of the City of Baltimore)
- The ERS is a defined benefit contributory plan established on January 1, 1926
- All benefit provisions are established by City Ordinance and are amended only by the Mayor and City Council
- As of June 2022, the ERS consisted of 18,021 members out of which 1,687 are related to Water and WW operations.

Follow-ups: Pensions

County Pension Plan Benefits

- Water and WW employees of the County are covered under Employees' Retirement System(ERS) of Baltimore County (a Pension Trust Fund of Baltimore County)
- The ERS is a defined benefit contributory plan established on January 1, 1945
- The authority to establish and maintain the Pension Plan is established by Baltimore County Code
- As of June 2022, the ERS consisted of 18,274 members out of which 1,004 are related to Water and WW operations.

Follow-ups: Pensions

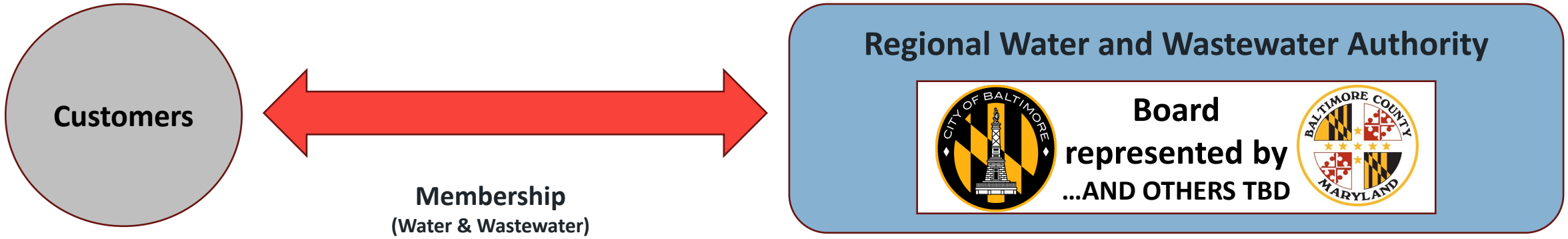
Benefit comparison:

- County and City plans are different
- Benefits depend on hiring date and length of service
- Discussed further under Models C, D, and E
- Pension funding (City):
  - Net Pension Obligation per Water and WW member = $35,000
  - Net Pension Obligation for Water and WW members = $59M
- Pension funding (County):
  - Net Pension Obligation per water and waste-water related member = $70,000
  - Net Pension Obligation for water and waste-water related members = $70M

Fiscal Analysis: Model E Special District/Authority

Model E Recap: Model E

Model E Special District/Water and Wastewater Authority



Who is responsible for:	
Utility policy and decision making	Board of Regional Authority (Board)
Rate setting	Board, based on a predetermined methodology and approval process
Capital planning	Regional Auth. staff, the Board-approval- following defined planning and approval process
Financing	Regional Authority, through Paygo & revenue bonds
Retirement and pensions	Regional Authority, for all its employees

*Includes operational and business process policies on recruitment, training, salaries, IT, affordability, customer service etc.

Model E Authority Option Snapshot

- The Authority's Board at a minimum makes **all** decisions about water treatment, conveyance and distribution system and the wastewater joint use facilities:
  - budget and resource allocation, personnel hiring and terminations, organization structure, performance accountability, strategic priorities, O&M and capital priorities, equity, billings and customer service.
- Board consists of appointed elected officials for accountability
- Consider requiring audited financial reports, periodic cost of service studies, management audits, and regularly published Key Performance Indicator metrics.
- Options:
  - Uniform rate structure or district rate structure
  - Wholesale service provider or turnkey water & sewer service provider
- For Wholesale Service Provider:
  - City retains City retail water & sewer systems O&M, rate setting, billing and collections.
  - Counties retains all retail water & sewer systems O&M, rate setting and assumes all retail billing and collections.

Model E Authority Option Rate Considerations

Develop a Regional Rate Structure that:

- **Under a uniform rate** – is based on consolidated regional Cost of Service & rate design that results in all customers in a given rate class paying the same amount across applicable service area.
- **Under a district rate structure** – is based on Cost of Service & rate design for each district that results in all customers in a given district and rate class paying the same amount.
- Establishes the Authority's basis and procedures for setting Wholesale Rates and for dispute resolution.

Model E Transition: Approach

- Assemble Transition Working Group – Consisting of City/County/Member – Mayor/Executive; Utility Directors; Appointed future Board Elected Officials - identify support work groups.
- For District/Authority option; Identify all internal and boundary issues and conditions.
- Maximize use of internal City and County member resources:
  - Legal
  - Financial
  - HR – Salary-Benefits - Pensions
  - Benchmarking Best Practices-O&M Performance
- Procure advisory support as needed.
- Create Charter for new authority – obtain City/County approvals.

Model E System Transition: Costs and Timeline

- Other transitions to new authority, the timeline has taken from 12 to 24 months.
- If all City/Counties human resources are utilized, additional outside costs could be minimal.
- Transition Costs assumptions are forward looking and will be based on resource availability for yet undetermined set of issues, by parties not yet determined that will determine the extent of need for third-party support.
- Examples of third-party services such as facilitation, management consulting, legal, investment banking, or employee relations and benefits support.
- We have used a conceptual cost range from $250,000 for Model C option and $1,000,000 for Models D and E options respectively, not including retirement benefit transition costs.
- Retirement Benefit transition cost magnitude - Pending

Model E Asset Leases

- If assets management and O&M obligations change based upon a lease agreement, then lease costs are a major future consideration.
- Asset Leases are primarily real estate, vehicles and software
  - CAM allocates $500,000 a year in leased assets between the City, County, and Wholesale Partners
- Regional Authority affect on Asset Leases
  - Vehicle and software leases to be transferred to the Authority.
  - Existing real estate lease agreements dictate if transferring to another entity is allowed.

Model E Capital Costs

- District/Authority formation would require reconciliation of currently projected capital improvement programs, consent decree cost obligations and other planned capital commitments.
- Capital costs would be decided by the new Authority.
- Capital projects to be selected and authorized by the Authority Board.

Model E Billing and Collections

- Billing and collections would be consolidated and staffed by the new Authority aligned with jurisdiction limits of Authority.
- Requires establishing one set of billing and collection policies aligned with jurisdiction of Authority
  - For e.g., If election for wholesale Authority & District Rates - City and County continue to set retail rates.
- Transition costs may include completing migrating City and County data to one billing system.
- Potential cost savings by consolidating all customer service, billing & collection to one agency.

Model E Rate Restructuring

- Uniform Rate – Will require reconciliation of different rate structures between the City and the County.
- District Rates
- New Authority should include affordability and equity programs when developing rate structure.
- Affordability programs should be available to both City and County customers.

Model E Debt Obligations – City Water Utility

- **Need to Refinance Existing Debt?**
  - $1.5 billion of Water System debt is secured by a pledge of assets and revenues.
  - Legal analysis is required to determine whether Model E would require refinancing.
- **Cost of Refinancing: $90 to $200 million present value**
  - The high estimate assumes that outstanding debt is refunded at current market rates through issuance of taxable and tax-exempt refunding bonds.
  - The low estimate assumes that the outstanding 2021 WIFIA Loan and Series 2020-B taxable refunding bonds, which together account for 80% of the high estimate refunding cost, are instead refinanced through negotiations with the EPA and more highly structured and optimized plans of finance.

Model E Debt Obligations – City Wastewater Utility

- **Need to Refinance Existing Debt?**
  - $1.7 billion of Wastewater System debt is secured by a pledge of assets and revenues.
  - Legal analysis is required to determine whether Model E would require refinancing.
- **Cost of Refinancing: $130 to $340 million present value**
  - The high estimate assumes that outstanding debt is refunded at current market rates through issuance of taxable and tax-exempt refunding bonds.
  - The low estimate assumes that the outstanding 2021 WIFIA Loan, MWQFA revolving fund loans, and Series 2020-A taxable refunding bonds are refinanced through negotiations with the EPA and MWQFA and through more highly structured and optimized plans of finance.

Model E Debt Obligations – County Metro District

- **Need to Refinance Existing Debt?**
  - $2.2 billion of Water and Wastewater debt issued through the County's Metropolitan District is secured by the general obligation pledge and taxing authority of the County.
  - Legal analysis is required to determine whether Model E would require refinancing.
- **Cost of Refinancing: $105 M to $185 M present value**
  - The high estimate assumes that outstanding debt is refunded at current market rates through issuance of taxable and tax-exempt refunding bonds.
  - The low estimate assumes that the outstanding MWQFA revolving fund loans are refinanced through negotiations with the MWQFA.

Model E Debt Obligations Summary

- Estimated Present Value of Refinancing Cost in $ millions

$, millions	No Refinancing Needed	Refinancing - Low Case	Refinancing – High Case
City Water Utility	$0	$90	$200
City Wastewater Utility	$0	$130	$340
County Metro	$0	$150	$185
Total	$0	$370	$725

Model E Pension Obligations

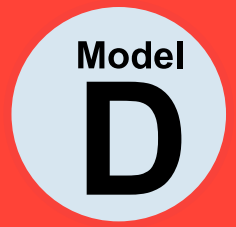
- A new Pension Plan could be created covering all employees of the Special District/Authority or all employees of the Special District/Authority could be brought under an already existing pension Plan either of the City or of the County.
  - Any merger or transfer of assets between two pension plans would require careful evaluation of the total pension obligation/member and net position/member so that there is no adverse impact on any member's benefits.
  - There may be additional employer contributions required from City/County to make the new plan's benefits equal for all members.

Model E Special District/Water and Wastewater Authority Fiscal Snapshot

Note: Most impacts will depend on future policy decisions and negotiated outcomes

Impact on asset lease	If authority uses lease to gain control of wholesale and/or retail W&S assets, then lease is key outcome
Impact on capital costs	Combined existing capital program commitments and new costs will be determined by the new Authority
Impact on billing and collections	Billing and collection function consolidated and staffed by the new Authority based on the Authority's jurisdiction
Rate restructuring considerations	Reconcile differences in rate structure between the City and the County based on the Authority's jurisdiction
Debt obligations	Combined Debt commitments consistent with Charter obligations; new debt to be determined by the Authority
Transition of pensions	Depends on future policy decisions and negotiated outcomes

Fiscal Analysis: Model D Wholesale Service Agreement



Model D Recap: Model D

Model D Wholesale Service Purchase Agreement

Who is responsible for:	
Utility policy and decision making	Set by service provider, purchasing utilities set their jurisdiction's policies
Rate setting	Wholesale rates by service provider, retail rates independently by each utility
Capital planning	Service provider plans; purchasers agree to buy set volume over term for funding
Financing	Service provider through Paygo or bonds
Retirement and pensions	Wholesale by service provider, retail by each utility

*Includes operational and business process policies on recruitment, training, salaries, IT, affordability, customer service etc.

Model D Wholesale Agreement Option Snapshot

- The City's Director of Public Works makes **all** decisions about water system and the Joint Use Wastewater facilities:
  - budget and resource allocation, personnel hiring and terminations, organization structure, performance accountability, strategic priorities, management of the reservoirs and capital priorities.
- Counties become City's Wholesale Customers – Fee based on Fixed Charges and Volume or Usage.
- City retains City retail Water & Sewer Systems O&M, rate setting, billing and collections.
- Counties retains all retail Water & Sewer Systems O&M, rate setting and assumes all retail billing and collections.

Model D Wholesale Purchase Agreement, Rate Considerations

- Develop a Wholesale Purchase Agreement and Rate Structure that:
  - Ensures that long-range planning and capacity management are commitments that are provided for in Purchase Agreement
  - Retail water and sewer billing and customer services are “Purchasing” or Retail utility matters.
  - Establishes the City’s basis and procedures for setting Wholesale Rates and for dispute resolution
  - Ensure notice and transparency on changes or updates on essential matters such as long-range planning, capacity management, regulatory compliance, service interruptions, service level changes and uncontrollable events.
    - Audited financials, Periodic management and performance audits, regularly publishing Key Performance Indicator metrics.
  - Rates typically have Fixed & Variable components

Model D Transition: Approach

- Assemble Transition Working Group – Consisting of City/County/Member – Mayor/Executive; Utility Directors; Member Elected Officials
- For Wholesale agreement option; Identify all internal and boundary issues and conditions
- Maximize use of internal City and County member resources:
  - Legal
  - Financial
  - HR – Salary-Benefits - Pensions
  - Benchmarking Best Practices-O&M Performance
- Procure advisory support as needed.
- Revise Interlocal Agreements for wholesale relationship and get City & member County Authorizations

Model D System Transition: Costs and Timeline

- Transition Costs assumptions are forward looking and will be based on resource availability for as yet undetermined set of issues, by parties not yet determined that will determine the extent of need for third-party support.
- Based upon other similar transitions the timeline can be from 12 to 24 months.
- Modifying the ‘72 and ‘74 Agreements (the Intermunicipal Agreement Option) should be on the lower end of the timeline scale.
- If all City/Counties human resources are utilized, additional outside costs could be minimal.
  - Examples of third-party services are facilitation, management consulting, legal, investment banking, or employee relations and benefits support
  - We have used a conceptual cost range from $250,000 for Model C option and $1,000,000 for Models D and E options respectively, not including retirement benefit transition costs.
- Retirement benefit transition costs - Pending

Model D Asset leases

- Asset Leases are primarily real estate, vehicles and software
  - CAM allocates $500,000 a year in leased assets between the City, County, and Wholesale Partners
- Wholesale Purchase Agreement affect on Asset Leases
  - None

Model D Capital Costs

- City would be solely responsible how Capital Costs are determined for wholesale assets.

Model D Billing and Collections

- The Wholesale Purchase Agreement does have an effect on Billing and Collections.
- City would bill the County on a Wholesale basis
  - Instead of a cost allocation, City would set a wholesale rate
  - County would do its own retail billing for water and sewer services
- City would do its own retail customer billing for water and sewer services.

Model D Rate Restructuring

- Each entity retains their rate setting policies.

Model D Debt Obligations

- Existing debt issuance responsibilities would be unchanged.
  - Each entity retains its current Debt cost responsibilities

Model D Pension Obligations

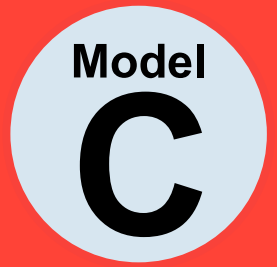
- Existing Pension Plans continue as such with City's employees covered under City ERS and County's employees covered under County ERS.

Model D Wholesale Service Agreement Fiscal Snapshot

Note: Most impacts will depend on future policy decisions and negotiated outcomes

Impact on asset lease	None
Impact on capital costs	City determines Capital Costs for wholesale assets. City & County retail asset capital costs determined by local DPW
Impact on billing and collections	City would set a wholesale rate. City and County each would do its own retail billing and collections for water supply
Rate restructuring considerations	Each entity retains their rate setting policies
Debt obligations	Combined Debt commitments consistent with wholesale obligations; future wholesale debt determined by City
Transition of pensions	No transition. Existing pension plans continue.

Fiscal Analysis: Model C Intermunicipal Agreement



Model C Recap: Model C

Model C Intermunicipal Service Agreement

Who is responsible for:	
Utility policy and decision making*	Handled independently by each utility for services under their jurisdiction
Rate setting	Set by each utility, joint cost sharing
Capital planning	Joint, coordination governed by IM Agreement
Financing	Provided independently by each utility
Retirement and pensions	Handled independently by each utility

*Includes operational and business process policies on recruitment, training, salaries, IT, affordability, customer service etc.

Model C Intermunicipal Agreement Option - Snapshot

- City's Director of Public Works continues to make MOST ALL decisions about the water system and the Joint Use Wastewater facilities including budget and resource allocation, personnel hiring and terminations, organization structure, performance accountability, strategic priorities, management of the reservoirs and capital priorities.
- Continue consolidation of billing system on one IT platform to reduce risks, aid to ensure revenue flow and help provide better customer satisfaction. Implement Joint Customer Service Coordination Solution.
- Consider requiring periodic management and/or performance audits, regularly publish Key Performance Indicator metrics.

Model C Example Attributes – Consider for Modification

- Develop a revised process to:
  - Ensure to that the Director of Public Works' policies, procedures or decisions have been made in consultation with County utility representatives.
  - Better coordinate water and sewer billing and customer service issues.
    - A joint office structured like the Water Analyzer Office may be considered.
  - Ensure collaboration occurs on essential matters such as strategic and long-range planning, capacity management, emergency response, regulatory compliance, service interruptions, service changes, safety issues.
    - Periodic management audits, regularly publishing Key Performance Indicator metrics.
- Conduct a joint review of CAM model, revise and document usage procedures.
- Adopt revenue assurance billing & collection quality control processes and procedures.

Model C Transition: Approach

- Assemble Transition Working Group – Consisting of City/County/Member – Mayor/Executive; Utility Directors; Elected Official.
- For Intermunicipal Agreement option; identify all internal and boundary issues and conditions.
- Maximize use of internal City and County member resources:
  - Legal
  - Financial
  - HR – Salary-Benefits -Pensions
  - Benchmarking Best Practices-O&M Performance
- Procure advisory support as needed
- Revise 1972 & 1974 IMAs and update and document CAM & ratify

Model C System Transition: Costs and Timeline

- Based similar transitions, the timeline can be from 12 to 24 months. Modifying the 1972 and 1974 Agreements (Model C) should be on the lower end of the timeline scale.
- If all City/Counties human resources are utilized, additional outside costs could be minimal.
- Examples of third-party services such as facilitation, management consulting, legal, investment banking, or employee relations and benefits support.
- Transition Costs assumptions are forward looking and will be based on resource availability for as yet undetermined set of issues, by parties not yet determined that will determine the extent of need for third-party support.
- We have used a conceptual cost range from $250,000 for Model C option and $1,000,000 for Models D and E options respectively, not including retirement benefit transition costs.
- Retirement Benefit transition costs - Pending

Model C Asset Leases

- Asset Leases are primarily real estate, vehicles and software
  - CAM allocates $500,000 a year in leased assets between the City, County, and Wholesale Partners
- Impact of Model C on Asset Leases
  - None

Model C Capital Costs

- Maintaining the Intermunicipal Agreement would not change how Capital Costs are determined
  - Each entity retains its current responsibilities to determine shared and local capital costs

Model C Billing and Collections

- The unmodified IMA would not have any effect on Billing and Collections.
  - Each entity retains its current responsibilities
- Performance of Billing and Collections could be enhanced by:
  - Updating the existing 1972 and 1974 Agreements to include KPIs and periodic management and performance audits
- Consideration- a joint Billing and Collections office structured like the Water Analyzer Office as noted earlier

Model C Rate Restructuring

- Existing rate setting responsibilities would be unchanged under the IMA Alternative.
  - Each entity retains its current sole authority over rate design and policy

Model C Debt Obligations

- Existing debt issuance responsibilities would be unchanged.
  - Each entity retains its current Debt cost responsibilities

Model C Pension Obligations

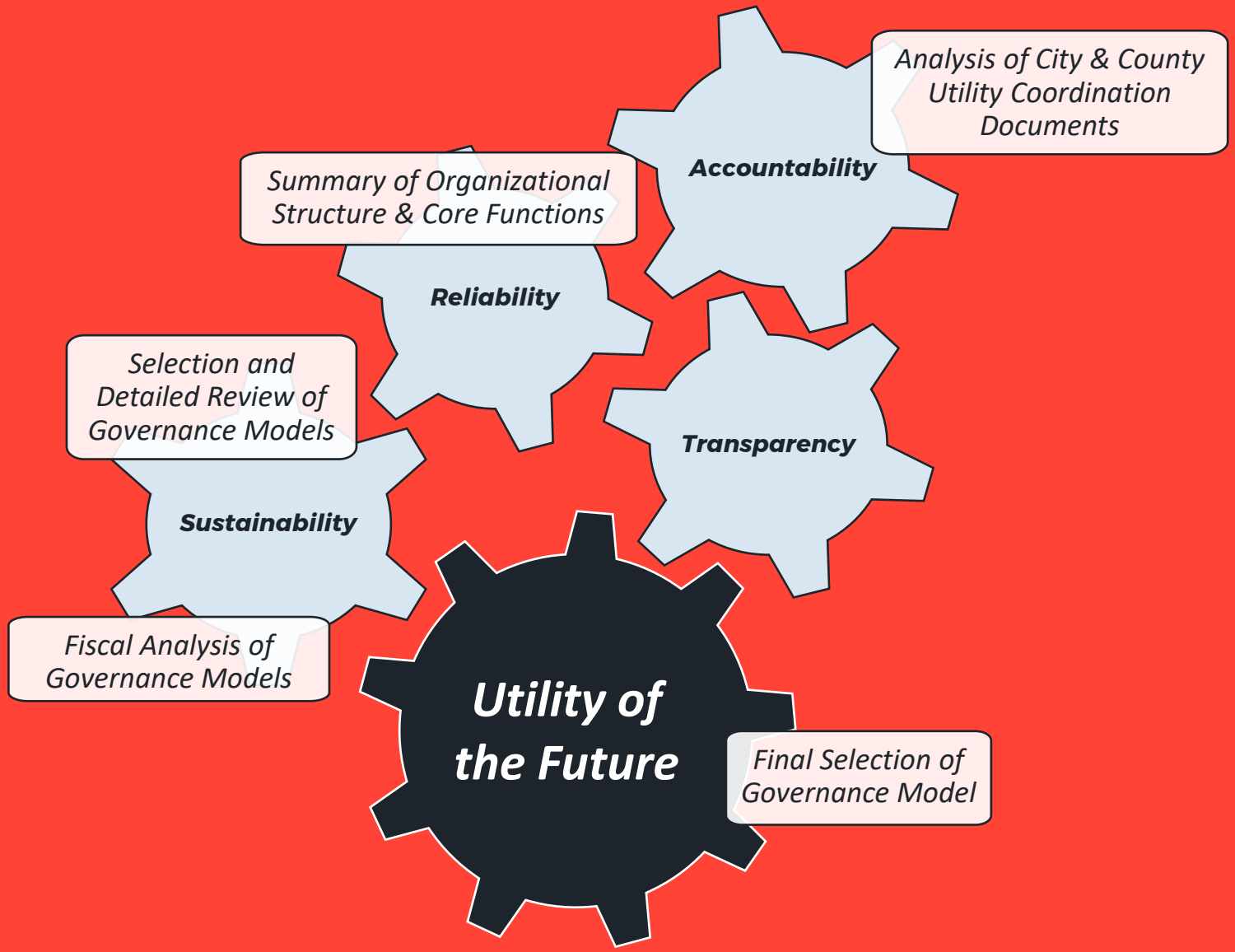
- Employees continue with existing Pension Plans, City's employees covered under City ERS and County's employees covered under County ERS

Model C Intermunicipal Agreement Fiscal Snapshot

Note: Most impacts will depend on future policy decisions and negotiated outcomes

Impact on asset lease	None
Impact on capital costs	No change to how these costs are determined
Impact on billing and collections	No impact unless changes made to current arrangements. Potential for improvements exist
Rate restructuring considerations	Each entity retains its current sole authority over rate design and policy
Debt obligations	Each entity retains its current debt cost responsibilities
Transition of pensions	None. Employees continue with existing Pension Plans

Taskforce Discussion



Task Force Meeting #5

Taskforce Meeting #5:
Summary & Recommendation

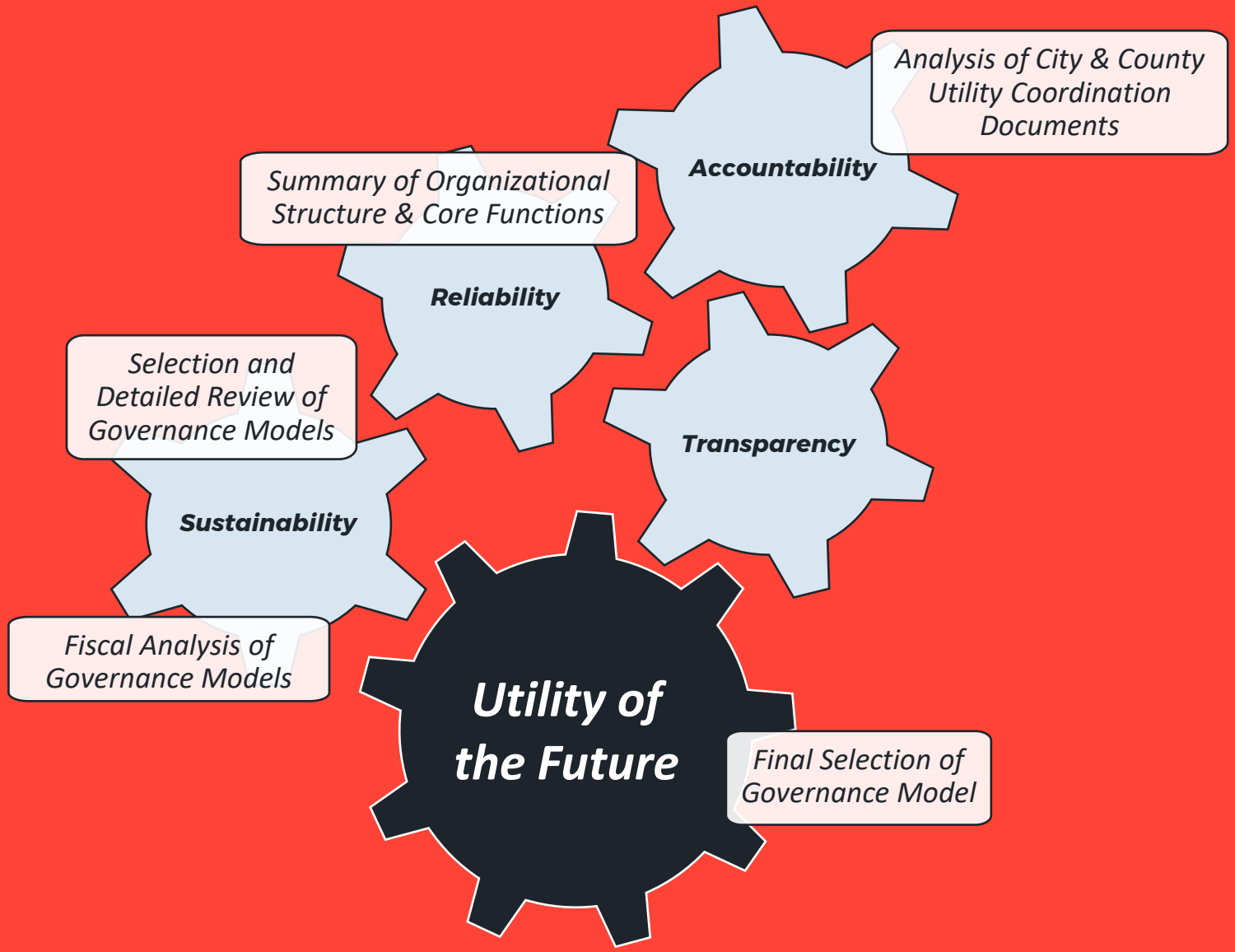
Thursday, November 16 at 6:00pm

Virtual

Break until 8:00 P.M.

Reminder: Please sign up if you would like to comment or ask a question! Sign up sheets are available at the back of the room.

Public Comment



Taskforce Reconvenes