

Recommendations for Funding Water, Sewer and Drainage Systems



Presentation to the
Citizens and Businesses
of New Orleans
January 2012



Agenda



- **Opening Remarks**

Alex Lewis, Facilitator

- **Overview**

Marcia St.Martin, Executive Director

- **Presentation / Questions and Answers**

Bob Miller, Deputy Director

- **Closing Remarks**

Marcia St.Martin





Opening Remarks and Ground Rules

Alex Lewis, Facilitator



Meeting Purpose



1. Communicate the financial problems facing the Sewerage and Water Board.
2. Communicate the plans to address those problems.
3. Receive feedback from citizens and businesses on solutions to the problems.



Next Steps in Process



1. Prepare transcript of meetings and post on S&WB website.
2. Present transcripts of meetings and recommendations to S&WB Board of Directors, Board of Liquidation and City Council for review and approval.



Ground Rules



- Prepare and submit a comment card with any questions or comments.
- Questions and comments will be read aloud to the audience and staff will provide answers.
- Followup questions and comments are allowed but limited to three minutes per person.
- One person should speak at a time to allow court reporter to transcribe meeting.
- Sewerage and Water Board staff will remain after meeting for additional discussions.





Overview and Introductions

Marcia St.Martin, Executive Director



We're Facing Serious Financial Challenges



- Aging infrastructure.
- Significant new expenses.
- Inability to borrow additional funds.



Before the Storm



- S&WB was facing typical problems related to aging infrastructure and increasing regulations prior to Hurricane Katrina.
- S&WB's financial condition was reasonably strong and had cash balances that allowed for initial recovery activities to proceed quickly following Hurricane Katrina.



After the Storm



Financial condition deteriorated rapidly following:

- loss of substantial portion of customers
- sharply increased operating and maintenance expenses
- capital requirements for replacement or rehabilitation of facilities and equipment.



After the Storm



- Federal and State funds, while significant, have been much less than needed to repair or replace what was damaged or destroyed.
- Drastic cost cutting measures have provided only a portion of the resources needed to meet these challenges.



We've Reached a Tipping Point



- The Board cannot continue to defer necessary operating and capital initiatives without seriously and adversely affecting its ability to deliver reliable, sustainable, and necessary services.
- This condition will continue to worsen until additional financial resources are provided.





No Water...
No Sewer...
No Drainage...
No New Orleans.



Request for Support



- The recommendations in this presentation are tied to the water, sewer, and drainage improvements that we need as a community.
- Many of these recommendations are not new. Previous requests for additional rates were not approved and our financial condition has only worsened.



Request for Support



- State statutes require the approval of the S&WB Board of Directors, the Board of Liquidation and the City Council to implement the rates and charges that are needed.
- In order to gain that approval, we are seeking the informed consent of the customers and businesses of New Orleans.



Request for Support



- We have diligently used the best financial planning and ratemaking practices. Our approach is reasonable, sensible, and responsible.
- We acknowledge that the proposed rate changes will result in additional expenses for you, your families, the citizens that you represent and the businesses that you own and operate.



Request for Support



- We are listening and we do care about the effects that these actions will have on the people of New Orleans.
- We ask that, after listening to our plans and providing your feedback, that you will understand the necessity of these recommended rates and charges.



Our Katrina Story



Our Katrina Story



Our Katrina Story



Our Katrina Story



Our Katrina Story



Our Katrina Story



Our Katrina Story





Presentation of Financial Problems and Plans

Bob Miller, Deputy Director



Problem #1



Cash balances have been depleted.

Consequences:

- *No reserves available for next emergency.*
- *Lower credit rating.*



Problem #2



Cash income barely exceeds cash expenses.

Consequences:

- *No ability to borrow funds for needed capital improvements.*
- *Lower credit rating.*



Problem #3



No additional debt funds available for needed capital improvements.

Consequences:

- *Risk of equipment failure.*
- *Risk of failure to provide service.*
- *Potential for non-compliance with Federal Consent Decree on sewer system.*



Problem #4



Current operations and maintenance expenses have been cut to unsustainable levels.

Consequences:

- *Risk of equipment failure.*
- *Risk of failure to provide service.*
- *Expensive emergency repairs.*
- *Loss of worker knowledge.*
- *Loss of efficiency.*



Problem #5



Inadequate funds to repay New Orleans portion of SELA drainage improvements.

Consequences:

- *Potential loss of significant federal matching funds.*
- *Potential cancellation of major drainage projects.*



Problem #6



Additional operating and maintenance expenses for new pumping stations constructed by Corps of Engineers at Lakefront and West Closure Complex.

Consequence:

- *Less funds available for other needs.*



Problem #7a



Funds owed to Department of Public Works remain unpaid.

Consequence:

- *Necessary street repaving/rebuilding projects are delayed.*



Problem #7b



Funds owed by Water System to Sewer System remain unpaid.

Consequence:

- *Necessary Federal Consent Decree projects are delayed.*



Problem #7c



Funds owed by Sewerage and Water Board for liability claims remain unpaid.

Consequences:

- *Dissatisfied claimants.*
- *Interest expense on claims.*



Problem Summary



1. Cash balances have been depleted.
2. Income barely exceeds expenses.
3. No funds available for capital projects.
4. Expenses cut to unsustainable levels.
5. SELA Drainage projects are underfunded.
6. New expenses for new pumping stations.
7. Accumulated fund settlements.



Roots of the Problems – Water System



- Water revenues for 1980-1989 were **\$35.7 million below recommended amount.**
- No revenue changes were implemented during 1990-2002.
- Water revenues for 2003-2010 were **\$149.8 million below recommended amount.**



Roots of the Problems – Sewer System



- Sewer revenues were equal to amounts recommended for 1980-1986.
- No revenue changes were implemented during 1987-1997 and 2007-2010.
- Sewer revenues were \$108.5 million below recommended amount for 1998-2006.



Roots of the Problems – Drainage System



- A new drainage service fee was proposed but not approved in 1998.
- As a result, drainage system revenues were **\$195.3 million below recommended amount for 1998-2010.**



What We've Already Done



Pursued every available opportunity for federal and state funds:

- SELA funds
- FEMA reimbursements
- Hazard Mitigation Grant Program funds
- Gulf Opportunity Zone Bonds
- Special Community Disaster Loans



What We've Already Done



Improved effectiveness in billing and collecting water and sewer revenues:

- Reduced number of estimated bills.
- Re-established the Field Account Review process.
- Uncollectible accounts for post-Katrina usage at abandoned properties were written off.



What We've Already Done



Deferred capital projects as long as possible:

- Sewer collection system projects for Federal Consent Decree delayed into “red zone” of final six months on timeline.
- Water treatment plant and pumping facilities “off line” awaiting funding.
- No new significant investment in information technology since pre-Katrina.



What We've Already Done



Reduced expenses below sustainable levels:

- Reduced staffing from more than 1200 down to less than 1000.
- Deferred discretionary preventative maintenance.
- Deferred employee training.
- Deferred hiring for succession planning.
- Delayed repair of water system leaks.





NO WATER...
NO SEWER...
NO DRAINAGE...
NO NEW ORLEANS.



Must-Haves to Find Solution



- Sustainable operations.
- No more deferred spending on infrastructure.
- Restore credit rating in five years.
- Fair rate structure.
- No short-term rate shock.
- Affordable rates and charges.
- Accountability for results.



Strategy #1



- Build cash reserves to 200 days of operation and maintenance expenses.

Benefits:

- *Cash available for emergencies.*
- *Higher credit ratings for bonds.*
- *Lower interest costs.*
- *Lower long-term costs to customers.*



Strategy #2



- Increase amount of revenues in excess of expenses to 1.5 times amount of annual principal and interest payments.

Benefits:

- *Higher credit ratings for bonds.*
- *Lower interest costs.*
- *Lower long-term costs to customers.*



Strategy #3



- Increase amount of revenues available for operations and maintenance:
 - ✓ *Hire electricians, machinists, mechanics, welders, and others to repair plant equipment, buried pipes, hydrants and valves.*
 - ✓ *Hire plant operators to backup and replace others approaching retirement.*
 - ✓ *Replace aging computer systems.*

Benefits:

- *Sustainable operations.*
- *Reduce emergency expenses later.*



Strategy #4



- Fully fund the capital improvement program through combination of cash and debt financing.

Benefits:

- *Sustainable operations.*
- *Increased efficiency.*
- *Compliance with Federal Consent Decree.*
- *Improved flood protection through SELA Program.*



Strategy #5



- Pay the \$21.8 million obligation owed to the Department of Public Works.
- Pay the \$8.4 million obligation owed by the water system to the sewer system.
- Pay the \$20.9 million obligation owed to claimants.



Recommended Rate Increases



| Year | Water | Sewer |
|------|-------|-------|
| 2012 | 14% | 15% |
| 2013 | 14% | 15% |
| 2014 | 14% | 15% |
| 2015 | 14% | 15% |
| 2016 | 14% | 15% |



What Does this Mean Average Monthly Residential Bill Using 5,300 Gallons



| Year | Water | Sewer | Total |
|-------------|---------|---------|----------|
| | \$22.70 | \$29.80 | \$52.50 |
| 2012 | \$25.88 | \$34.27 | \$60.15 |
| 2013 | \$29.50 | \$39.41 | \$68.91 |
| 2014 | \$33.63 | \$45.32 | \$78.95 |
| 2015 | \$38.34 | \$52.12 | \$90.46 |
| 2016 | \$43.71 | \$59.94 | \$103.65 |

Assumes rates go into effect July 1 of each year.



Convenience and Value



The advertised cost of a case of 24 bottles of water at a national discount chain is \$3.48.

At that price, the cost of 1,000 gallons would be \$1,098.22.



Our price for 2012: \$3.07

That's three-tenths of a cent per gallon, delivered to your tap.



Convenience and Value



*Our price to
collect and treat
1,000 gallons of
wastewater for
2012: \$4.65*

*That's less than one-half of
a cent per gallon, with the
water returned safely to the
environment.*



Convenience and Value



The increases that we are presenting will bring the 2012 cost of a thousand gallons of drinking water, equal to 24 forty-two gallon drums, to \$3.09 (our proposed price per thousand gallons for the first 3,000 gallons).



Recommendations for Drainage System Funding



Existing millages will need to be
extended and remain in place

and

A new millage will need to be established

or

A new drainage service fee
to be charged to all property owners
will need to be established.



Analysis of Funding Alternatives



| | Equity / Fairness | Ease to Implement | Long-Term Outlook |
|---------------------------------|---|---|--|
| Extend Existing Millages | + Link to property value - Does not require contribution by many benefiting properties | + Requires approval by City Council and voter referendum. | - Current 3 mill levy expires in 2018 unless reauthorized |
| Implement New Millages | + Link to property value - Does not require contribution by many benefiting properties | - Requires approval by City Council, State Legislature, and voter referendum. | + New levy in place for 50 years |
| Implement Drainage Fee | + Most equitable method because requires contribution from all benefiting properties | -Significant data requirements - Requires approval by City Council and voter referendum. | + Requires same approval as other Board rates and charges. |



What Does this Mean? Monthly Residential Drainage Impact



| Year | Estimated Drainage Fee |
|------|------------------------|
| 2012 | \$0 |
| 2013 | \$4.21 |
| 2014 | \$8.43 |
| 2015 | \$12.64 |
| 2016 | \$17.71 |

Assumes fee goes into effect January 1 of each year.



Implementation of Water and Sewer Rates



- Conduct three public hearings in January 2012.
- Send transcripts to S&WB Board of Directors, the Board of Liquidation and City Council.
- Present recommendations and request approvals.
- Implement approved rates on July 1, 2012.



Implementation of Drainage Service Charge



- Gather Property Data.
- Calculate Charges.
- Approval by City Council.
- Implement Charges in 2013.



Next Ten Years



- Recommendations for this five-year period.
- Additional needs for the next five years.
- Annual rate increases will be needed over the next ten years.





Request for Your Input and Support





Questions and Answers

Marcia St.Martin and Bob Miller





Closing Remarks

Marcia St.Martin

