FGFOA School of Governmental Finance

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Local Government Ratemaking: Balancing Cost Recovery, Policy Goals, and Customer Affordability

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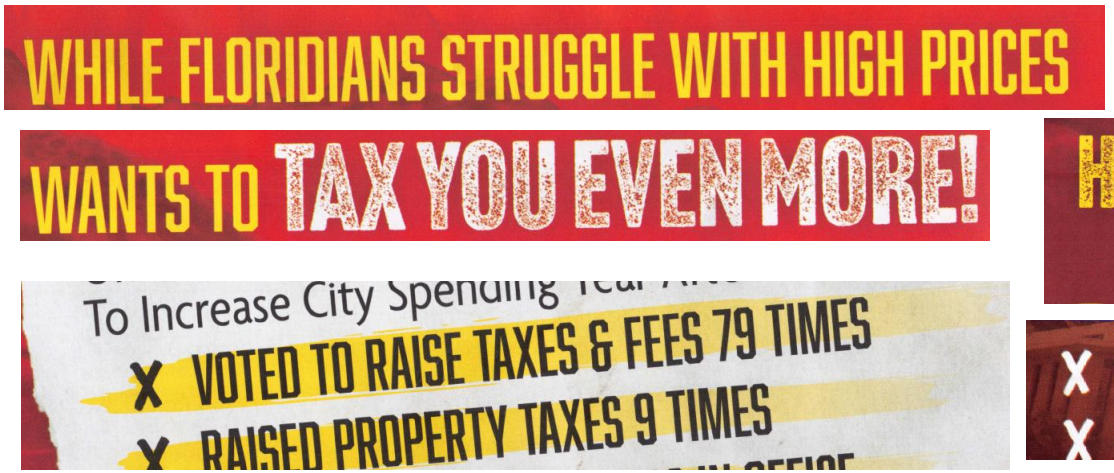
Negative Ad for November 2026 Election



Communication on Rate Increases Often Has Negative Slant

Consultant: raise water rates

A plan to raise water rates by up to 435% will be reviewed

Tax revolt! Angry crowd coaxes City Commission to scrap fee hikes

water, sewer rates could climb nearly 58% under five-year plan

Ratemaking

- **Funds Essential Services and Enables Organization to Accomplish Mission**
- **Ensures Financial Sustainability**
  - Capacity to Support Ongoing Service and Infrastructure Needs Without Financial Stress
- **Impacts Customer Affordability**
  - Affordability = Residents Are Protected from Excessive Financial Burdens While Quality and Level of Service Are Maintained
- **Reflects Community Values**
- **Balances Competing Interests**

Florida State Laws Enacted in 2026 That Affect Ratemaking

BUILDING FEES

- **House Bill 803: Inspection Fees Must Be Based on Actual Cost and Cannot Scale With or Be Based on Project Cost or Valuation**
  - Effective Date: July 1, 2026
  - HB 803 Also Provides for Building Permit Fee Exemption for Projects Up to $7,500 and Reductions in Permit / Inspection Fees When Utilizing Private Providers
  - Few Building Departments Met July 1, 2026 Effective Date (e.g., Changes to Billing Software Takes Time)

- **House Bill 1169: Removes Ability of Local Government to Use Excess Fund Balance to Pay for Construction of Building That Houses Building Code Enforcement Agency**

Florida State Laws Enacted in 2026 That Affect Ratemaking (cont.)

DEVELOPMENT FEES

- **House Bill 399: Application Fees Associated With Development Permits and Development Orders Must Reasonably Relate to the Direct and Reasonable Indirect Costs Associated With the Review, Processing, and Final Disposition of the Application**
  - Effective Date: January 1, 2027
  - Such Fees Cannot Be Based Upon a Percentage of Construction Costs, Site Costs, or Project Valuation

Florida State Laws Enacted in 2026 That Affect Ratemaking (cont.)

UTILITY RATES

- **House Bill 1451: Must Cost-Justify Any Outside-Municipality Surcharges for Water and Wastewater Service (25% Limit)**
  - Effective Date: January 1, 2027
  - Could Previously Charge Up to 25% Without Cost Justification
  - "A municipality may continue to impose a surcharge on consumers outside the municipal boundaries if the surcharge was in effect before March 1, 2026, but only to the extent necessary to comply with the terms of bond covenants in effect as of July 1, 2024. Such surcharges must be phased out by July 1, 2029, or upon the retirement, expiration, or refinancing of the applicable debt obligation, whichever occurs earlier."
  - HB 1451 Also Specifies Annual Reporting Requirements to Florida Public Service Commission If Public Utility Serves Customers Outside Municipality

Two Basic Steps for Ratemaking

- **Given "Big Picture" and Multiple Considerations for Promoting Sustainability, Determine Target Revenue to Be Generated from Rates During Forecast Period**

- **Given Multiple Considerations for Promoting Sustainability, Determine Pricing Strategy / Approach for Generating Target Revenue**

Use of AI in Ratemaking

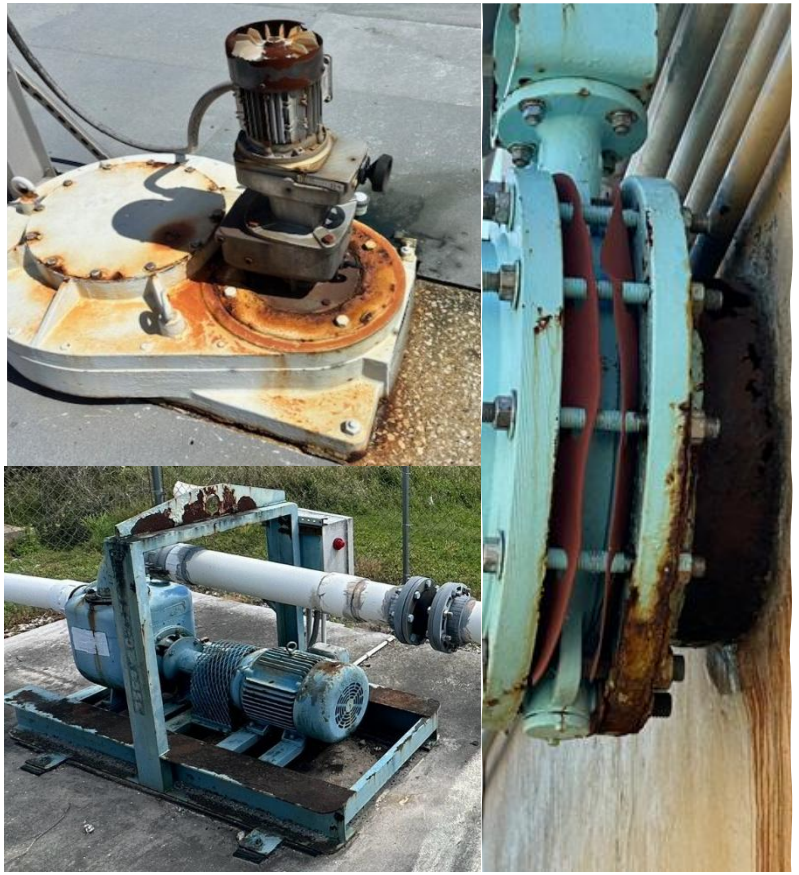
- **Check Calculations**
- **Create and Improve Financial Policies**
- **Identify Weaknesses in Rate Case**
- **Assist With Communication**

Key Challenges Facing Municipalities

- **Fluctuating Revenues**
  - Municipalities Experience Unpredictable Revenue Streams, Causing Budget Planning Difficulties and Financial Instability
  - Changes to Tax-Exempt Property Base
- **Increasing Costs and Service Demands**
  - Substantial Inflation Over Past Few Years
  - Growing Populations Increase Demand for Municipal Services, Placing Pressure on Resources and Infrastructure

Key Challenges Facing Municipalities (cont.)

- **Aging Infrastructure**
  - Older Infrastructure Requires More Maintenance, Upgrades, and Replacements, Increasing Municipal Costs
- **Economic Uncertainties**
  - Unpredictable Economic Conditions (e.g., Tariffs, Wars Causing Spikes in Gas Prices) Challenge Municipalities' Ability to Maintain Sustainable Budgets

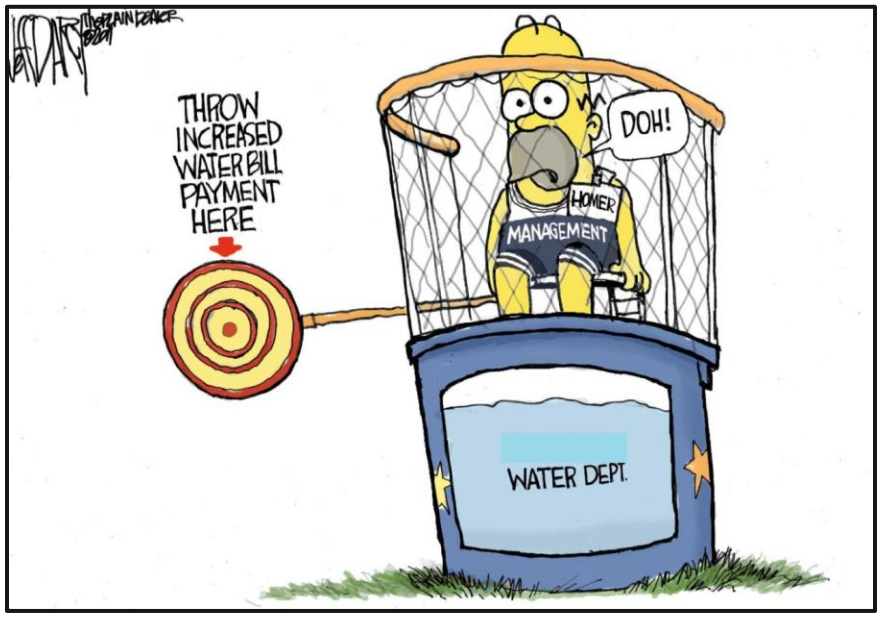


Key Challenges Facing Municipalities (cont.)

- **Labor Issues**
  - Nationwide Issues With Filling Positions and Retaining Employees
  - Unfunded Pensions and Post-Employment Benefits
- **Funding Compliance With Legal Mandates**
  - Many Federal and State Regulations, Such as Treatment Standards for Water and Wastewater
  - Operating Permits from Regulating Agencies Require Full Compliance
  - Risk of Fines or Consent Orders for Non-Compliance

Key Challenges Facing Municipalities (cont.)

- **Resistance to Tax and Rate Increases**
  - With Current Economic Conditions, More Residents and Customers Are Complaining to Their Elected Officials About Cost Increases
  - Must Often Balance What Makes the Most Sense Financially Vs. What Would Be Politically Acceptable



A Sustainable Government Has a Solid Foundation Based on Best Management Practices

Standard & Poor's: Top 10 Management Characteristics of Highly Rated U.S. Public Finance Issuers

- ✓ **Focus on Structural Balance**
- ✓ **Strong Liquidity Management**
- ✓ **Regular Economic and Revenue Updates to Identify Shortfalls Early**
- ✓ **An Established Rainy Day / Budget Stabilization Reserve**
- ✓ **Prioritized Spending Plans and Established Contingency Plans for Operating Budgets**
- ✓ **Strong Long-Term and Contingent Liability Management**

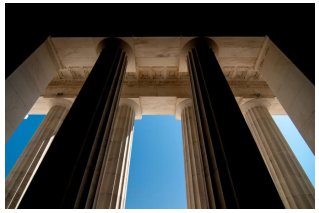
Standard & Poor's: Top 10 Management Characteristics of Highly Rated U.S. Public Finance Issuers (cont.)

- ✓ **Multi-Year Financial Plan in Place That Considers the Affordability of Actions or Plans Before They Are Part of the Annual Budget**
- ✓ **Formal Debt Management Policy in Place to Evaluate Future Debt Profile**
- ✓ **A Pay-As-You-Go Financing Strategy as Part of the Operating and Capital Budget**
- ✓ **A Well-Defined and Coordinated Economic Development Strategy**

What Are Some Practical Ways We Can Help Make a Local Government More Sustainable?

Core Pillars of a Sustainable Local Government

- ✓ **Proactive Financial Planning**
- ✓ **Resilient Infrastructure and Risk Management**
- ✓ **Equitable, Strategic, and Affordable Pricing**
- ✓ **Community Engagement and Trust**



Proactive Financial Planning

Financial Management Policies Should Be Adopted By Governing Body

- **Help Guide Future Financial and Tax/Rate Decisions**
- **Demonstrate to a Variety of Stakeholders That Local Government Is Being Transparent, Is Following Sound Financial Practices, and Has (Or Is Working Toward) Financial Stability / Conformity With Best Management Practices**
  - **Show Rate Payers That Government Is Looking Ahead at Rate Demands and Has a Plan to Use Revenues to Accomplish Mission While Keeping Rates Affordable**
  - **Often Published on Local Government's Website**

Financial Management Policies Should Be Adopted By Governing Body (cont.)

- **Stakeholders (cont.)**
  - **Demonstrate Fiscal Responsibility By Policy Makers / Members of the Governing Body and Help Them Defend Financial Decisions**
  - **Provide Financial Clarity and Credibility to Lenders and Credit Rating Agencies, Leading to Higher Credit Ratings and Lower Interest Rates and Issuance Costs When Debt Financing**
    - **Lower Implied Financial Risk**
    - **Credit Rating Agencies May Give Government a Lower Financial Management Score If No Financial Management Policies Have Been Adopted**

Financial Management Policies Should Be Adopted By Governing Body (cont.)

- **Stakeholders (cont.)**
  - **Provide Government Staff With Clear Direction on Financial Objectives**
  - **Show Regulatory Agencies Offering Low-Cost Loans or Grants That Government Is Positioned to Respond to Regulatory Fluctuations for Compliance and Would Potentially Benefit from Financing Programs**

Financial Management Policies Should Be Adopted By Governing Body (cont.)

- **Best Management Practices: Willingness of Political Leaders to Adjust Taxes / Rates When Necessary**
  - **Adopted Financial Management Policies Can Help Demonstrate Willingness or Commitment to Increase Taxes / Rates**

Financial Management Policies Should Be Adopted By Governing Body (cont.)

- **Local Government Credit Ratings Have Sometimes Been Upgraded Shortly After Adoption of Financial Management Policies Document By Governing Body**

- **Some Financial Management Policies Documents Are More Comprehensive Than Others**
  - Local Government Can Decide Which Elements to Address in Financial Management Policies Document
  - Could Cover All Funds or Only Certain Funds

Financial Management Policies Should Be Adopted By Governing Body (cont.)

- **Should Consider Existing Financial Position, Dependence on Debt, and Ability to Meet Financial Targets**
- **Could Consider Specifying Incremental Steps in Financial Management Policies Document**
  - Example: 150% All-In Debt Service Coverage Financial Target in Fiscal Years 2024 and 2025; 175% in Fiscal Years 2026 and 2027; and 200% in Fiscal Year 2028 and Beyond

- **If Financial Targets Are Not Met in Given Year, Should Ideally Specify Timeframe for Improving Financial Position to Meet the Targets**

Financial Management Policies Should Be Adopted By Governing Body (cont.)

- **No Need to Start from Scratch – Build from the Work of Other Local Governments!**
  - Many Financial Management Policies Documents Are Available Online
  - Can Incorporate Best Elements from Other Documents

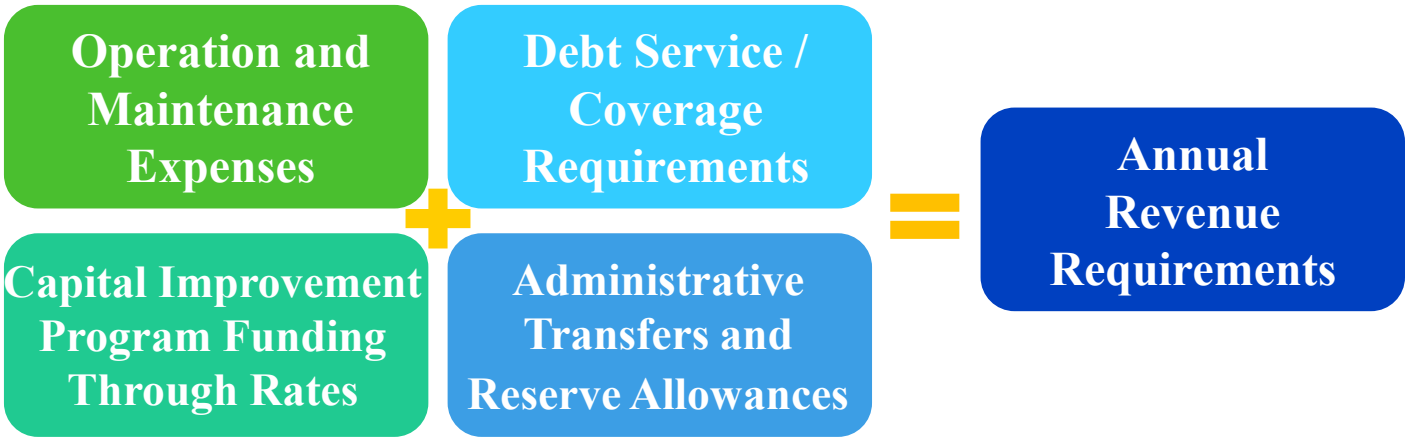
- **Use AI to Help Create and Improve Policies!**

Financial Management Policies Should Be Adopted By Governing Body (cont.)

- **Possible Financial Management Policies:**
  - Bond Rating
  - Cash Reserves
  - Debt Service Coverage
  - Debt Capacity
  - Debt Refunding
  - Project Funding
  - Capital Reinvestment
  - Automatic Rate Increases
  - Budget
  - Investment
  - Rate Review
  - Fixed Charge Recovery
  - Impact Fees
  - Transfers to General Fund
  - Closed Fund
  - Policy Updates

Financial Planning Should Ideally Accomplish Multiple Objectives

- **Fund Revenue Requirements That Are "Right-Sized"**



- **Meet or Set Course to Eventually Meet Established Financial Targets**
  - Debt Service Coverage If Applicable
  - Working Capital Fund Cash Balance
  - Capital Replacement Fund Cash Balance

Financial Planning Should Ideally Accomplish Multiple Objectives (cont.)

- **Balanced Debt Risk – Debt Financing Vs. Pay-As-You-Go**
  - Outstanding Debt to Net Assets ≤ 50%
  - Debt Service Coverage Above Minimum Required
  - Pay-As-You-Go Funding for Recurring / Routine Capital Needs and Assets With Shorter Service Lives
- **Affordable Rates**
- **Competitive Rates**
  - Rate / Bill Comparison
- **Minimize "Rate Shock"**
- **Meet Statutory, Case Law, and Debt Instrument (e.g., Bond Ordinance / Resolution) Requirements**

Develop Multi-Year (at Least Five Years) Financial Models to Assist With Planning Process

Table RateScenario

High Level Water and Wastewater Financial and Rate Scenario Worksheet

Line No.	Description	Fiscal Year Ending September 30, 2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
1	**Overall Rate Adjustments**	0.00%	8.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.00%	3.00%	3.00%
2	**All-In Net Revenues Debt Service Coverage (Target 200%)**	225%	391%	276%	248%	285%	314%	302%	305%	274%	363%	503%
3	**Debt Service Coverage Target Met?**	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
4	**Amount Available for Pay-As-You-Go Capital Funding After Payment of Operating Expenses and Debt Service**	$ 4,614,508	$ 6,523,531	$ 5,487,592	$ 5,925,391	$ 7,382,456	$ 8,571,633	$ 9,036,241	$ 9,879,679	$ 9,860,779	$ 11,910,157	$ 13,960,718
5	**Ending Unrestricted Cash and Cash Equivalents Balance [1]**	$ 24,327,258	$ 16,551,224	$ 15,818,313	$ 16,503,916	$ 16,971,632	$ 18,982,258	$ 21,793,256	$ 22,718,820	$ 25,058,806	$ 29,671,504	$ 36,435,920
6	Target Cash Balance (Recognized Cash Target) [2]	$ 12,544,223	$ 13,946,275	$ 14,918,581	$ 15,946,358	$ 17,032,486	$ 18,179,991	$ 19,392,045	$ 20,671,974	$ 21,811,509	$ 23,000,810	$ 24,241,840
7	**Cash Balance Target Met?**	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
8	Minimum Balance - 20% of Operating Budget for Emergencies and Disasters Per City Policy) [2]	$ 5,763,637	$ 6,150,340	$ 6,495,044	$ 7,010,115	$ 7,577,968	$ 8,098,097	$ 8,601,901	$ 9,125,314	$ 9,589,138	$ 10,087,701	$ 10,599,649
9	**Cash Balance Minimum Met?**	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
10	**Residential Bill as % of Median Household Income [2]**	1.59%	1.68%	1.71%	1.75%	1.78%	1.82%	1.85%	1.89%	1.91%	1.92%	1.94%
11	**Is Rate and Financial Plan Affordable? (< 2% MHI)**	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
12	Residential Water and Wastewater Bill @ 3,000 Gallons Usage	$ 85.34	$ 92.17	$ 95.85	$ 99.69	$ 103.68	$ 107.82	$ 112.14	$ 116.62	$ 120.12	$ 123.72	$ 127.43
13	Change in Monthly Bill		6.83	3.69	3.83	3.99	4.15	4.31	4.49	3.50	3.60	3.71
14	Average of Surveyed Utilities (Assumes 4% Annual Increase)	72.82	75.73	78.76	81.91	85.19	88.60	92.14	95.83	99.66	103.65	107.79
15	Starting Cash and Cash Equivalents Balance	$ 38,573,364	$ 24,327,258	$ 16,551,224	$ 15,818,313	$ 16,503,916	$ 16,971,632	$ 18,982,258	$ 21,793,256	$ 22,718,820	$ 25,058,806	$ 29,671,504
16	Year-End Surplus / (Deficiency)	(14,246,106)	(7,776,033)	(732,911)	685,603	467,716	2,010,627	2,810,998	925,564	2,339,986	4,612,698	6,764,417
17	**Operating Expenses** (Does Not Include Depreciation and Amortization Expenses)	$ 20,507,342	$ 21,985,925	$ 23,877,691	$ 25,121,440	$ 26,507,584	$ 27,919,192	$ 29,494,150	$ 30,921,904	$ 32,421,584	$ 33,993,964	$ 35,615,395
18	**Total Debt Service [3]**	$ 3,696,335	$ 2,242,244	$ 3,109,937	$ 4,003,743	$ 3,999,803	$ 3,999,659	$ 4,479,113	$ 4,824,985	$ 5,663,330	$ 4,534,386	$ 3,422,132
19	Other Revenue Requirements **Pay-As-You-Go Capital Improvement Program [4]**	$ 20,010,614	$ 15,799,564	$ 7,520,502	$ 6,639,788	$ 8,314,740	$ 7,961,006	$ 7,625,243	$ 10,354,115	$ 8,920,793	$ 8,697,459	$ 8,596,301
20	Additional Item	-	-	-	-	-	-	-	-	-	-	-
21	Total Other Revenue Requirements	$ 20,010,614	$ 15,799,564	$ 7,520,502	$ 6,639,788	$ 8,314,740	$ 7,961,006	$ 7,625,243	$ 10,354,115	$ 8,920,793	$ 8,697,459	$ 8,596,301
22	Gross Revenue Requirements	$ 44,214,292	$ 40,027,733	$ 34,508,130	$ 35,764,972	$ 38,822,127	$ 39,879,857	$ 41,598,506	$ 46,101,004	$ 47,005,707	$ 47,225,809	$ 47,633,828
23	Less Income and Funds from Other Sources Other Operating Revenue	$ 3,343,250	$ 2,370,950	$ 2,141,770	$ 2,591,770	$ 3,225,270	$ 3,496,770	$ 3,496,770	$ 3,496,770	$ 3,496,770	$ 3,496,770	$ 3,496,770
24	Bulk Water Revenue	38,039	38,039	38,039	38,039	38,039	38,039	38,039	38,039	38,039	38,039	38,039
25	**Grant Reimbursements**	-	-	-	-	-	-	-	-	-	-	-
26	**Capacity Fees Used to Pay City Debt Service**	150,000	500,000	500,000	600,000	600,000	600,000	600,000	600,000	600,000	650,000	650,000
27	**Capacity Fees Used to Pay Peace River Debt Service**	1,000,000	1,000,000	800,000	800,000	800,000	800,000	800,000	800,000	800,000	750,000	750,000
28	Unrestricted Interest Income	-	62,764	43,843	85,097	88,437	90,693	173,590	181,991	263,166	306,372	
29	Net Revenue Requirements	$ 39,683,003	$ 36,055,980	$ 30,984,478	$ 31,650,067	$ 34,070,382	$ 34,854,356	$ 36,511,760	$ 40,992,606	$ 41,888,907	$ 42,027,834	$ 42,392,648
30	Revenue from Existing Rates **System Revenue**	$ 25,436,897	$ 26,185,136	$ 26,933,376	$ 27,681,615	$ 28,429,854	$ 29,178,094	$ 29,926,333	$ 30,674,573	$ 31,422,812	$ 32,171,052	$ 32,919,291
31	Prior Year Rate Adjustment	-	-	2,154,679	3,410,375	4,779,855	6,269,005	7,884,010	9,631,360	11,517,860	13,111,019	14,806,014
32	Total Applicable Rate Revenue	$ 25,436,897	$ 26,185,136	$ 29,088,046	$ 31,091,990	$ 33,209,709	$ 35,447,098	$ 37,810,343	$ 40,305,933	$ 42,940,673	$ 45,282,070	$ 47,725,305
33	Rate Adjustments	0.00%	8.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.00%	3.00%	3.00%
34	Effective Months	12	12	12	12	12	12	12	12	12	12	12
35	Percent of Current Year Effective	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
36	Revenue from Current Rate Adjustment w/ Effective Months	$ -	$ 2,094,811	$ 1,163,522	$ 1,243,680	$ 1,328,388	$ 1,417,884	$ 1,512,414	$ 1,612,237	$ 1,288,220	$ 1,358,462	$ 1,431,759
37	Total Revenue w/ Effective Months	$ 25,436,897	$ 28,279,947	$ 30,251,567	$ 32,335,670	$ 34,538,097	$ 36,864,982	$ 39,322,757	$ 41,918,170	$ 44,228,893	$ 46,640,532	$ 49,157,065
38	Revenue Surplus/(Deficiency) Under Proposed Rates	$ (14,246,106)	$ (7,776,033)	$ (732,911)	$ 685,603	$ 467,716	$ 2,010,627	$ 2,810,998	$ 925,564	$ 2,339,986	$ 4,612,698	$ 6,764,417
39	Revenue Surplus/(Deficiency) as % of Revenue	-56.0%	-27.5%	-2.4%	2.1%	1.4%	5.5%	7.1%	2.2%	5.3%	9.9%	13.8%

Footnotes:

[1] Does not include cash balances in capacity fee funds or construction funds from debt financing.

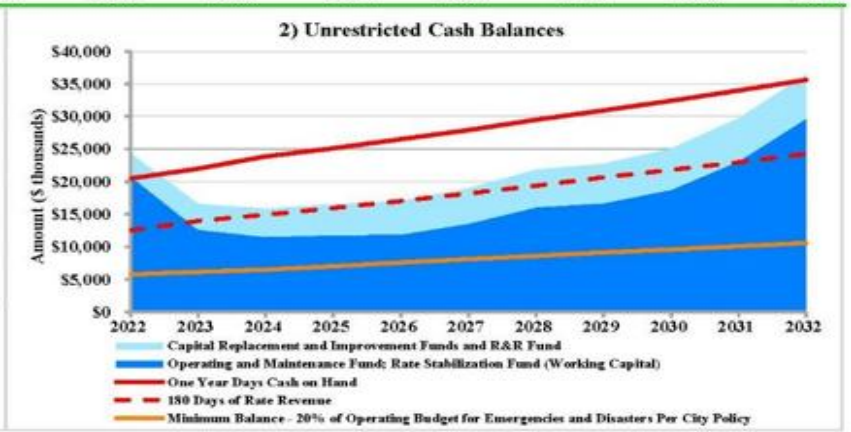
[2] Amounts derived as follows:

Cash Target												
120 Days of Rate Revenue	$ 8,362,815	$ 9,297,517	$ 9,945,721	$ 10,630,905	$ 11,354,991	$ 12,119,994	$ 12,928,030	$ 13,781,316	$ 14,541,006	$ 15,333,874	$ 16,161,227
Annual Depreciation Expense	5,797,219	5,797,219	5,797,219	5,797,219	5,797,219	5,797,219	5,797,219	5,797,219	5,797,219	5,797,219	5,797,219
Total	$ 14,160,034	$ 15,094,736	$ 15,742,940	$ 16,428,124	$ 17,152,210	$ 17,917,213	$ 18,725,249	$ 19,578,535	$ 20,338,225	$ 21,131,093	$ 21,958,446
180 Days of Rate Revenue	$ 12,544,223	$ 13,946,275	$ 14,918,581	$ 15,946,358	$ 17,032,486	$ 18,179,991	$ 19,392,045	$ 20,671,974	$ 21,811,509	$ 23,000,810	$ 24,241,840
365 Days Cash on Hand	$ 20,507,342	$ 21,985,925	$ 23,877,691	$ 25,121,440	$ 26,507,584	$ 27,919,192	$ 29,494,150	$ 30,921,904	$ 32,421,584	$ 33,993,964	$ 35,615,395
Recognized Cash Target	$ 12,544,223	$ 13,946,275	$ 14,918,581	$ 15,946,358	$ 17,032,486	$ 18,179,991	$ 19,392,045	$ 20,671,974	$ 21,811,509	$ 23,000,810	$ 24,241,840
Cash Minimum												
Minimum Balance - 20% of Operating Budget for Emergencies and Disasters Per City Policy	$ 5,763,637	$ 6,150,340	$ 6,495,044	$ 7,010,115	$ 7,577,968	$ 8,098,097	$ 8,601,901	$ 9,125,314	$ 9,589,138	$ 10,087,701	$ 10,599,649
Debt Service Coverage Target												
All-In Debt Service Coverage Target	200%											

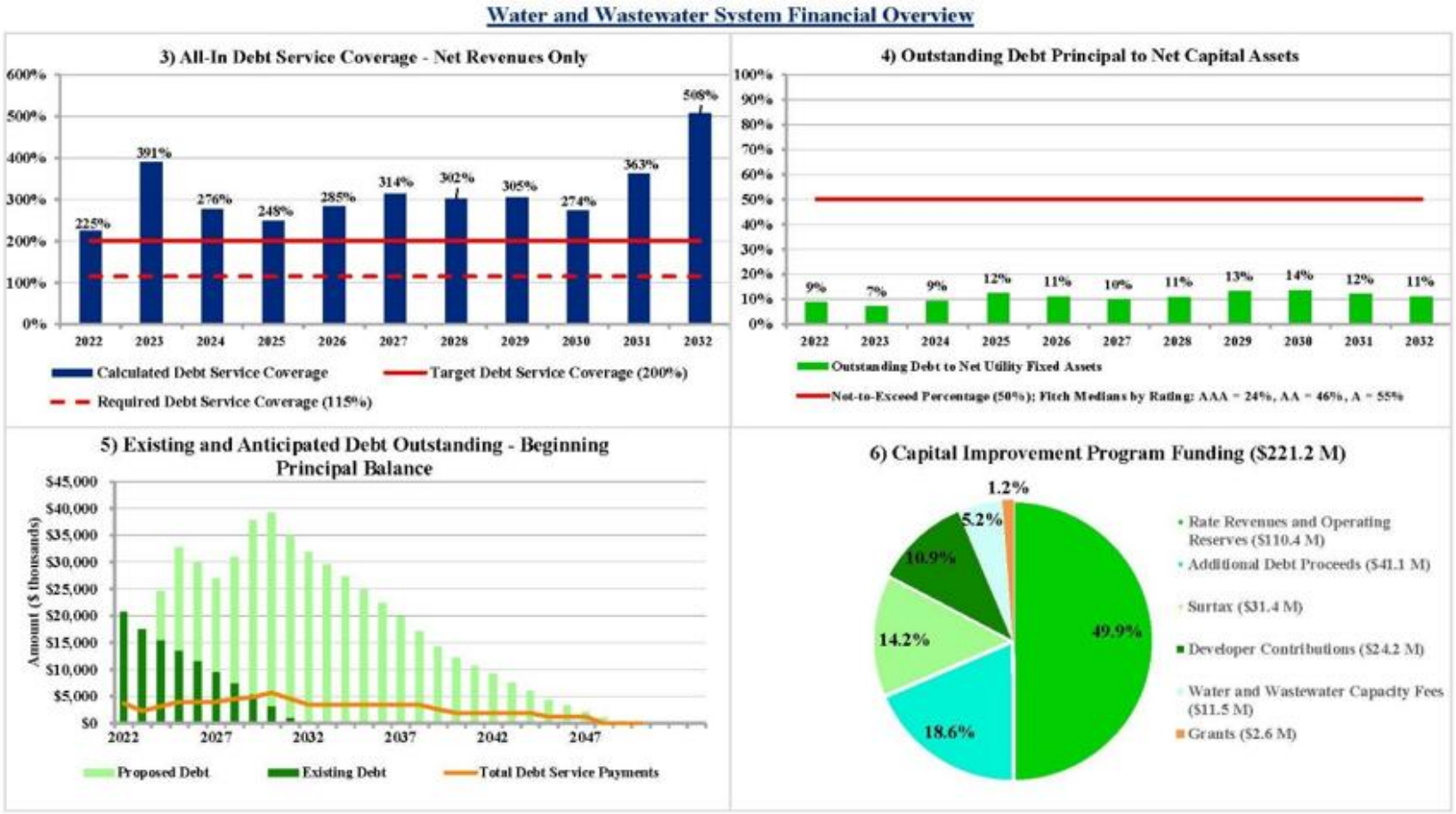
Use of Graphical Management / Financial Dashboards Can Help Accomplish Objectives

Water and Wastewater System Financial Overview

High-Level Summary	Fiscal Year Ending September 30, 2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Identified Revenue Adjustments											
Water System	0.00%	8.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.00%	3.00%	3.00%
Wastewater System	0.00%	8.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.00%	3.00%	3.00%
Combined System	0.00%	8.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.00%	3.00%	3.00%
Effective Months	12	12	12	12	12	12	12	12	12	12	12
Unrestricted Cash Balance ($ 000's)	$ 24,327	$ 16,551	$ 15,818	$ 16,504	$ 16,972	$ 18,982	$ 21,793	$ 22,719	$ 25,059	$ 29,672	$ 36,436
One Year Days Cash on Hand	20,507	21,986	23,878	25,121	26,508	27,919	29,494	30,922	32,422	33,994	35,615
180 Days of Rate Revenue	12,544	13,946	14,919	15,946	17,032	18,180	19,392	20,672	21,812	23,001	24,242
20% of Op Budget for Emerg. and Disast.	5,764	6,150	6,495	7,010	7,578	8,098	8,602	9,125	9,589	10,088	10,600
All-In Net Revenues Debt Coverage	225%	391%	276%	248%	285%	314%	302%	305%	274%	363%	508%
Revenue Surplus / (Deficiency) ($ 000's):											
Water System	$ (8,063)	$ (3,230)	$ (534)	$ (511)	$ (631)	$ (32)	$ (22)	$ (1,004)	$ (431)	$ (298)	$ (91)
Wastewater System	(6,183)	(4,982)	(616)	796	731	1,709	2,521	1,638	2,509	4,662	6,635
Combined System	(14,246)	(8,212)	(1,150)	285	101	1,677	2,498	634	2,078	4,364	6,544
Monthly Bill @ 3,000 Gallons	$ 85.34	$ 92.16	$ 95.84	$ 99.67	$ 103.65	$ 107.79	$ 112.12	$ 116.61	$ 120.09	$ 123.69	$ 127.42
Increase		6.82	3.68	3.83	3.98	4.14	4.33	4.49	3.48	3.60	3.73
Cost Per Gallon of Total Bill	$ 0.028	$ 0.031	$ 0.032	$ 0.033	$ 0.035	$ 0.036	$ 0.037	$ 0.039	$ 0.040	$ 0.041	$ 0.042
Percent of MHI (Target < 2%)	1.59%	1.68%	1.71%	1.75%	1.78%	1.82%	1.85%	1.89%	1.91%	1.92%	1.94%



Use of Graphical Management / Financial Dashboards Can Help Accomplish Objectives (cont.)



Financial Models and Management Dashboards

- **Communicate Projected Financial Position and Sustainability**
- **Track Whether Financial Targets Are Being Met and Whether Plan Is Affordable**
- **Show Reasonableness of Rate Recommendations**
- **Enable Scenario Analysis**
  - **What If Rates Are Not Adopted?**

Useful Free Online Resources for Financial Planning:
Florida Office of Economic and Demographic Research

- **Website Link:**
  http://edr.state.fl.us/content/population-demographics/data/index-floridaproducts.cfm

- **Source of Information for:**
  - Historical Municipality and County Population Growth
  - Projected County Population Growth
    - No Projections for Municipalities at This Time

Useful Free Online Resources for Financial Planning:
United States Department of Labor

- **Website Links:**
  https://www.dol.gov/sites/dolgov/files/OASAM/legacy/files/DCD-2-CFR-Guide.pdf

- **Guide to Indirect Cost Rate Determination**
  - **Suggested Allocation Bases / Defensible Methodologies**
  - **Guidance Also Available on Other Federal Government Websites**

"The allocation base selected…must be (1) reasonable and consistently applied to direct costs or indirect costs, (2) supported by accurate and current data, (3) appropriate to the cost being distributed, and (4) one which results in an accurate measure of the benefits provided to each activity of the organization."

- **Should Ensure That Any Indirect Cost Allocation Is Reasonably Cost-Based and Could Withstand a Challenge**

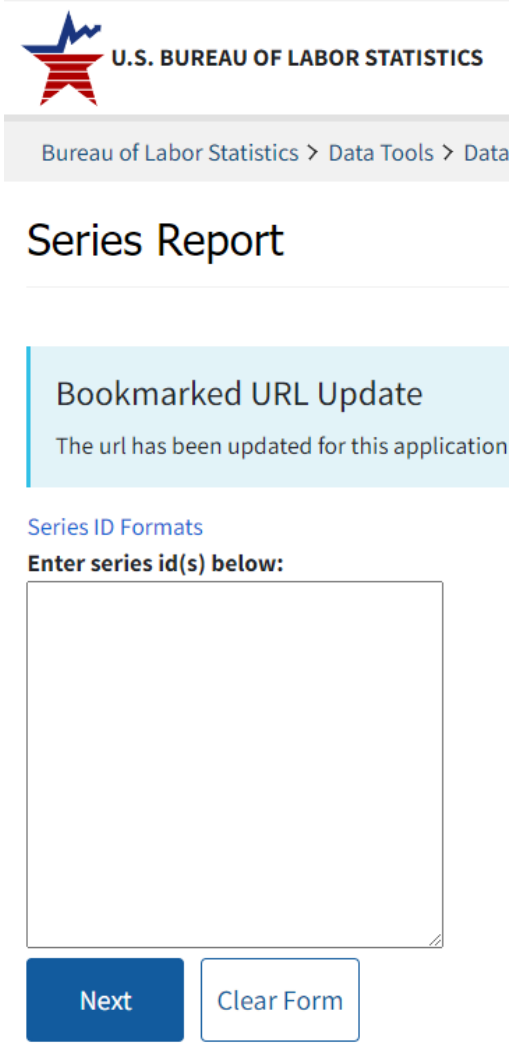
Useful Free Online Resources for Financial Planning:
Bureau of Labor Statistics (bls.gov)

- **Source of Information for:**
  - **Historical National, Regional, and Local Cost Increases**
    - Consumer Price Index
    - Electricity
    - Gasoline
    - Fuel Oil
    - Medical Care
    - Water, Sewer, and Trash Collection Services
    - Industrial Chemicals
    - Other
  - **Can Review Short-Term and Long-Term Trends in Indexes for Specific Costs**

U.S. BUREAU OF LABOR STATISTICS

Useful Free Online Resources for Financial Planning: Bureau of Labor Statistics (bls.gov) (cont.)

- **Indexes Published By BLS Often Used for Automatic Indexing of Rates, Fees, and Charges**
  - https://data.bls.gov/cgi-bin/srgate Can Be Used to Look Up Any Index – Just Need Series ID
  - Sample Series ID: CUUR0000SA0 for CPI – U.S. City Average, All Urban Consumers
  - For Benefit of Staff in Future, Can Be Helpful to Specify Above Link and Series ID in Automatic Indexing Language



Useful Free Online Resources for Financial Planning: Florida Department of Revenue

- **Website Links:**
  https://floridarevenue.com/DataPortal/Pages/TaxResearch.aspx
  https://floridarevenue.com/taxes/governments/Pages/mpst.aspx

- **Source of Information for Tax Practices of Other Local Governments (e.g., Municipal Public Service Tax Rates)**
  - **Several Databases That Can Be Downloaded in Excel Format**

Typical Capital Program Funding Sources

- **Issuance of Debt**

- **Revenues**
  - **Taxes / Charges for Service / Rates**
  - **Cash Reserves**
- **Impact Fees, Assessments, and Other Charges Collected from Growth**
- **Contributed Capital or Funding from External Sources (e.g., Grants, Legislative Budget Appropriation), Facilities, and Property**

"Growth Paying for Growth" - Impact Fees

- **Support Policy of "Growth Paying for Growth"**
- **Dual Rational Nexus Requirements Established Through Case Law**
  - Fee Must Be Proportionate to Benefit Received
- **Can Legally Be Used to Pay for Growth-Related Projects or Growth-Related Debt Service**
  - Should Maintain Expansion Factor for Debt – Percent or Amount of Debt Eligible to Be Paid For With Impact Fees

Impact Fees (cont.)

- **Florida Impact Fee Act – Section 163.31801, Florida Statutes**
  - **Calculation of Impact Fees Must Be Based on Most Recent and Localized Data Available Within 4 Years of the Current Impact Fee Update**
  - **Impact Fee Collections and Expenditures Must Be Accounted for in a Separate Accounting Fund**
  - **Administrative Charges for Collection of Impact Fees Must Be Based on Actual Costs**
  - **Notice Must Be Provided No Less Than 90 Days Before Effective Date of Ordinance Imposing a Higher Impact Fee**
    - **No 90-Day Notice Required for Impact Fee Decreases**

Impact Fees (cont.)

- If Impact Fees Challenged, Government Has Burden of Proving By Preponderance of Evidence That Fees Meet Requirements of Impact Fee Act and State Legal Precedent
- Does Not Apply to Water and Sewer Connection Fees (Not All Attorneys Agree That Water and Sewer Impact Fees Are Exempt Based on This Language)
- Increase in Impact Fee Rate of Not More Than 25% Must Be Implemented in Two Equal Annual Increments
- Increase in Impact Fee Greater Than 25% But Not More Than 50% Must Be Implemented in Four Equal Installments

Impact Fees (cont.)

- Impact Fee Increase May Not Exceed 50% of Current Fee
- Impact Fee May Not Be Increased More Than Once Every 4 Years
- Local Government Can Increase Impact Fees Beyond the Phase-In Limitations If:
  - A Demonstrated Needs Study Has Been Completed Within Past 12 Months That Expressly Demonstrates Extraordinary Circumstances Necessitating Need to Exceed Phase-In Limitations
  - Local Government Holds Two Publicly Noticed Workshops Dedicated to the Extraordinary Circumstances
  - Impact Fee Increase Is Approved By Unanimous Vote of Governing Body

Impact Fees (cont.)

- **The New Study Must Be Adopted By the Local Government Within 12 Months of the Initiation of the New Impact Fee Study If the Local Government Increases the Impact Fee**

Local Governments Should Obtain Guidance from Their Attorney to Ensure That Implementation of Any Impact Fee Increases Is in Compliance With Florida Law!

Impact Fees (cont.)

- **Spend Fees in Timely Manner**
  - **May Have to Be Refunded If Not Spent Within Certain Period of Time**
- **Maintain Paper Trail of Growth-Related Projects or Growth-Related Debt Service Funded With User Rates or Other Funding Source Due to Insufficiency of Impact Fee Collections at the Time**
  - **May Be Able to Reimburse User Rate / Operating Funds at a Later Date When Impact Fee Cash Balances Are Available**
- **Develop Formal Procedure for Applicants to Submit Alternative Impact Fee Calculation If They Believe Their Impact Would Be Less Than Under Current Methodology**

Availability of Grant Funding

- **Helpful to Have In-House Grant Writer**
  - Could Pay for Themselves If They Secure Enough Awards
- **More Likely to Secure Grants or Loan Forgiveness If:**
  - Community Is Economically Disadvantaged
    - Median Household Income Less Than Florida Average
  - Project Is High-Priority for Agency Awarding Grants
- **Go For It – A Local Government Gets 0% of the Grants Not Applied For – But Manage Expectations!**

Transfers to General Fund from Enterprise Fund

- **Best Management Practice Per Rating Agencies: Limit Non-Enterprise-Related Transfers to General Fund**
  - **Substantial Amount of Capital (Often Secured Through Debt Financing) Is Required to Provide Service**

  - **Should Reinvest in System**

Transfers to General Fund from Enterprise Fund (cont.)

- **Rates and Charges Must Be Just and Equitable**
  - **Counties: Florida Statute 153.11(1)(c) Water Service Charges and Sewer Service Charges; Revenues**

    "Such rates, fees and charges shall be just and equitable…"
  - **Municipalities: Florida Statute 180.13(2) Administration of Utility; Rate Fixing and Collection of Charges**

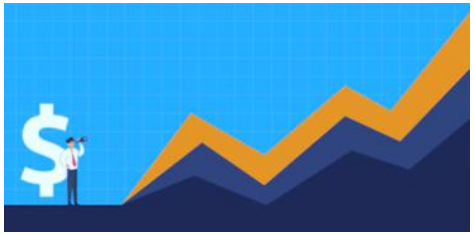
"The …legislative body of the municipality…may establish just and equitable rates or charges…"

Transfers to General Fund from Enterprise Fund (cont.)

- **Rosalind Holding Company, Etc., Appellant, v. The Orlando Utilities Commission, et al., Appellee. District Court of Appeal of Florida, Fifth District. July 22, 1981.**
  - ***"Absent a controlling statute, a municipal utility, like any other utility, is entitled to earn a reasonable rate of return on its capital and its rates may be set so that it earns a rate of return on its equity comparable to other similar businesses."***
  - ***"The parties all agree that basing rates on cost of capital is the most universally adopted and reasonable method in the industry."***

What Is a Defensible Level of Transfers to General Fund from Enterprise Fund?

- **Defensible Transfers to General Fund from Enterprise Fund:**
  - Allocable Costs – Direct or Indirect
  - Reasonable Rate of Return



- **Potential Approaches for Determining Reasonable Rate of Return**
  - Estimating Allowable Return on Investment If Enterprise Were Private and Regulated By Florida Public Service Commission (Cost of Capital Analysis)
  - Consistent With Industry Norms
- **Should Monitor Future Bills By Florida Legislature**
  - Historical Efforts By Representatives to Limit Non-Utility-Related Transfers to General Fund

Useful Free Online Resources for Financial Planning: Websites of Other Local Governments

- **Searchable Agendas and Minutes**
  - Resolution and Ordinance Examples
  - Reports and Other Useful Information in Agenda Backup Materials
- **Current Rates**
- **Financial Policies, Budgets, and Reports**
- **Study Reports, Planning Documents, Etc.**
- **Websites Can Promote Transparency in Government Operations!**

Useful Free Online Resources for Financial Planning: Municode and American Legal Publishing

- **Website Link:**
  https://library.municode.com/fl
  https://codelibrary.amlegal.com/regions/fl

- **Searchable Codes for Local Governments**
  - Can Reference Code Language of Governments That Already Have Well-Developed Policies
  - Code Sections Can Be Downloaded Into Word or .pdf Format
  - Can Perform a Lot of Research in a Short Period of Time!

municode
POWERED BY CIVICPLUS

American Legal Publishing

Resilient Infrastructure and Risk Management

Asset Management

- **Inventorying Assets, Assessing Condition, and Prioritizing Investments**

  Sample Criteria for Water Utility in Order of Priority:

  - **Public Health and Safety**
    - **Project Addresses Working and Public Health / Safety Issues**
  - **Regulatory Compliance**
    - **Project Promotes Regulatory and Contractual Compliance**
  - **System Reliability**
    - **Project Reduces Risk and Consequences of Asset Failure and Addresses Other Attributes of Asset Management (Redundancy)**
  - **Community / Customer Benefit**
    - **Project Addresses Service Issues Such as Pressure, Taste / Odor and Customer Satisfaction**
  - **Sustainability**
    - **Project Will Result in Long-Term Cost Efficiencies and Has Environmental "Green" Benefits**

Best Management Practices – Infrastructure

- ✓ **Use of Professional Engineers, Either Within the Organization or Outside of It**
  - **Prepare Objective Reviews of System Performance and Needs on a Regular Basis**
  - **Provide Periodic Revisions of Construction Cost Estimates**
  - **Assess Risk of Failure and Implications**

Annual Involvement of Consulting Engineers Is Sometimes Required Per Bond Resolution or Ordinance

Best Management Practices – Infrastructure (cont.)

- ✓ **Regular Consultation with Regional and Local Growth Planners and Community Development Officials to Predict and, If Possible, Limit Infrastructure Needs Related to Population and Business Growth**
  - **Unused Capacity Is the Most Expensive Capacity**

Risk Management

- **The Less Implied Risk of a Local Government's Operations, the Higher the Credit Rating and the Lower the Interest Rate When Debt Financing**

- **Mitigating Operational Risks:**
  - **Well-Trained and Experienced Employees**
    - **Periodic Pay Studies to Ensure Competitive Compensation**
    - **Cross-Training**
  - **Succession Plans to Avoid Loss of Institutional Knowledge**
  - **Investment in Technology to Help Identify Weaknesses and Provide Cybersecurity**
  - **Infrastructure Redundancy**
  - **Emergency Preparedness Plans**
  - **Regular Safety and Security Evaluations**

Risk Management (cont.)

- **Mitigating Financial Risks:**
  - Maintain Strong Financial Metrics to Be Able to Deal With Unplanned Costs
  - Adopt All Rate Increases Needed During Forecast Period
  - When Structuring Debt, Minimize the Deferral of Principal Payments Into the Future, Especially If There Is Minimal Growth Expected
  - Do Not Rely on Less Predictable Income Streams Like Impact Fees to Pay Debt Service
  - When Borrowing, Have Realistic Capital Spending Schedule
    - IRS Rules: Must Spend Bond Proceeds Within 3 Years
  - Balanced Debt Risk: Cash Fund Routine / Recurring Capital Needs or Assets With Shorter Service Lives

Equitable, Strategic, and Affordable Pricing

Pricing Strategies

- **Full-Cost Pricing**
  - Pros: Transparency, Efficiency
    Cons: May Be Unaffordable for Some

- **Subsidized Pricing**
  - Rationale: When a Service Provides a Broad Public Benefit (e.g., Public Libraries, Parks)
  - Minimizes Burdens on Vulnerable Populations
  - Examples: Senior Discounts, Low-Income Assistance Programs
  - Additional Cost for Administration – Large Amount of Time Required to Periodically Confirm That Participants Are Still Eligible for Programs

Utility Ratemaking Involves Balancing Potentially Conflicting Policy Objectives in a Way That Reflects Community Values

SAMPLE UTILITY RATE POLICY OBJECTIVES	
Revenue Stability	Administrative Feasibility
Equity	Public Understanding and Acceptance
Affordability	Economic Development
Water Conservation	Full Cost Recovery

- **Sample Conflicting Rate Policy Objectives:**
  - Higher Base Charges Provide More Revenue Stability But Negatively Affect Low-Income Affordability and Do Not Promote Water Conservation
    - Consumptive Use Permit from Water Management Districts Requires Conservation Rate Structure
  - More Equitable Rate Structures Are Often More Complex and May Not Be Administratively Feasible With Current Billing System

Considerations When Developing Comprehensive Schedule of Rates and Charges

- **Opportunities to Shift Cost Recovery from More Politically-Charged Fees Such as Taxes or User Rates (i.e., Revenue Enhancement)**
  - Fees Which Do This Are Usually Easier to Get Approved
- **Services to Be Specifically Charged for Versus Services Provided as "Cost of Doing Business"**
  - Management Policy Decision
  - May Not Want to "Nickel and Dime" Customers
  - Consider Utilization of Staff and Time Spent Away from "Normal" Jobs to Perform Requested Services

Considerations When Developing Comprehensive Schedule of Rates and Charges (cont.)

- **Established Fee Amount Vs. General "Actual Cost"**

  - Set Fee May Be More Customer-Friendly
    - Customers Know Amount to Pay in Advance By Looking at Schedule Rather Than Securing Cost Estimate from Staff
  - Actual Cost (as Defined) Can Adjust Over Time Without Need to Adopt New Rate
    - Government Staff May Not Like Spending Effort or Going Into Field to Provide Estimates of "Actual Cost"

Useful Free Online Resources for Financial Planning:
Federal Emergency Management Agency

- **Website Link:**
  https://www.fema.gov/assistance/public/tools-resources/schedule-equipment-rates

- **Source of Information for Defensible Charges for Vehicles and Equipment When Developing Specific Rates and Charges**

Considerations When Developing Comprehensive Schedule of Rates and Charges (cont.)

- **Need to Educate Staff on Adopted Fees and How / When to Charge Them**
  - **Staff May Be Unaware That Some Fees Exist or That Fees Must Be Charged Under Certain Conditions**
  - **Staff Input Is Very Important When Developing and Making Decisions on Rate Schedule and Potential New Fees**

Late Fee Policies

- **The More Punitive, The More Financial Burden Placed on Residents or Customers Who May Already Be Struggling to Pay Bills**

- **HOWEVER, What If Everyone Paid Bills Late?**
  - **Government Operations Could Have Sustainability Issues**

Late Fee Policies (cont.)

- **Late Fee Charged By State of Florida for Several Types of Taxes: 10% of Unpaid Tax Per Month, Not to Exceed 50%**
  - **May Be Reasonable Not-to-Exceed Late Fee for Local Governments**
- **Appropriate to Have Minimum Charge to Recover Correspondence Costs (e.g., Stamps, Printing of Delinquency Notices)**

Useful Free Online Resources for Financial Planning:
United States Census Bureau (census.gov)

- **Source of Information for Median Household Income (MHI)**
  - **If MHI Is Lower Than Florida State Average, More Likely to Qualify for Grants**
    - **Grants Also Awarded Based on Project Priority**
    - **Should Manage Expectations**
  - **Loan Forgiveness Through State Revolving Fund (SRF) Loan Program for Water, Wastewater, and Stormwater Infrastructure Projects Is Only Possible If MHI Is Lower Than State Average**
    - **Income Index Numbers Used to Determine Amount of Loan Forgiveness**

Useful Free Online Resources for Financial Planning: United States Census Bureau (census.gov) (cont.)

- **Source of Information for Median Household Income (MHI) (cont.)**
  - **MHI Is Most Common Affordability Metric**
    - **Rating Agencies: Affordable = Monthly Utility Bill for Combined Water and Wastewater Service ≤ 2% of Median Household Income (MHI) of Service Area or ≤ 1% If Only One Service (Water or Wastewater)**
    - **EPA: Affordable = Monthly Utility Bill for Combined Water and Wastewater Service ≤ 4.5% of MHI of Service Area**

Useful Free Online Resources for Financial Planning: United States Census Bureau (census.gov) (cont.)

- **Source of Information for Persons Per Household**
  - Per Capita Standards Can Be Applied to Persons Per Household to Derive Level of Service Per Residential Household Used for Capacity Planning

- **Source of Information for Percent of Persons Below Poverty Level**
  - Persons Who Cannot Afford Financial Plan Regardless of How Low Rate Increases Are

Many Local Governments Do Not Annually Increase Their Rates for Inflationary Effects on the Cost of Operations

- **Important for Governing Bodies to Recognize That Inflation Represents <u>Permanent Increase in Costs</u>**
  - To the Extent That Local Governments Do Not Increase Their Rates to Recover Regular Permanent Cost Increases, Operating Deficiencies Will Progressively Increase and Larger Rate Increases Will Be Required to Fix the Problem

- **Many Cost Increases Are Beyond the Local Government's Control**
  - Examples: Costs of Fuel and Construction Materials That Are Driven By Global Market Forces

Several Local Governments Have Now Made Annual Rates, Fees, and Charges Increases Automatic

- **"Automatic" Means That Increases Are Implemented Without the Need for a Formal Hearing Unless Specific Action Is Taken By Governing Body**
  - Fines Are Generally Not Recommended for Indexing, and There May Be Statutory Limitations on the Amounts

- **Considered a Best Management Practice and Favored By Credit Rating Agencies**
  - From Financial Risk Standpoint, Provides More Assurance That Rates Will Keep Up With Inflation
  - If Financial Projections Are Submitted as Part of Securing Debt Financing, Credit Rating Agencies and Lenders Will Want to Know If All Rate Adjustments Needed to Support the Debt Have Been Adopted

Selection of the Index or Automatic Rate Increase Provision

- **Indexes Commonly Used for Automatically Increasing Rates**
  - National, Regional, or Local CPI as Published By Bureau of Labor Statistics (www.bls.gov)
  - Municipal Price Index as Published By *American City and County* (www.americancityandcounty.com)
  - Annual Increase Allowed for Utilities Regulated By the Public Service Commission
  - ENR Construction Cost Index as Published By *Engineering News-Record* (www.enr.com)

- **When Selecting Index, Should Review Historical Changes in Index Options Vs. Historical Changes in Costs**

Selection of the Index or Automatic Rate Increase Provision (cont.)

- **In Lieu of Automatic Increases Based on Index Changes, Could Consider Fixed Percentages for Increasing Rates**
  - Fixed Percentage Does Not Have the Fluctuations in Rate Adjustments Under Indexing Approach
  - May Be Appropriate If Entity Would Like to Annually Increase Rates at Higher Percentage Than What Is Typically Recognized Through Indexing
    - If Entity Is Highly-Regulated (e.g., Utilities), Costs Often Increase at a Higher Rate Than CPI
    - Alternative: Add Percentage to Index Measurement (e.g., CPI plus 1%)

Measurement Basis

- **If a Government Uses Indexing Approach, the Earlier the Month Selected, the Sooner the Government Will Know During the Budget Process What the Following Year's Rate Increases Will Be**

- **Governments Should Consider:**
  - How Soon Following Year's Rate Increase Should Ideally Be Known for Planning and Budgeting Purposes
  - When the Index Data Will Be Available
    - For Example, April Data May Not Be Published Until Middle or End of May
  - Months in Which the Index Is Published
    - Some Inflationary Indexes Are Published Every Two Months, and So Some Months May Not Be Available as a Measurement Basis

Fee Rounding

- **User Rates Can Usually Be Indexed and Rounded to Nearest Cent**

- **For Certain Other Charges, It May Make Sense to Round or Round Up to Nearest Dollar or Nearest Five-Dollar Increment**
  - For Example, Charging $49.73 for a Service Call May Seem Silly – A Rate of $50 May Be More Practical and "Cleaner"
  - Customer Deposits Could Possibly Be Rounded Up to Nearest Five-Dollar Increment

- **Rounding Up Instead of Rounding May Be Needed for Rates Under a Certain Threshold**
  - For Example, If Annual Adjustment Is 2% and Existing Rate Is $24, $24 * (1+2%) = $24.48, Which Would Round to $24 (the Existing Rate) – Should Round Up to $25

Not Limited to Annual Increases

- **Per Florida Statutes, Local Governments Can Increase Local Business Tax Receipts By Up to 5% Every Other Year**

- **Local Governments Can Be Creative in Developing Customized Provisions Appropriate for a Specific Fee**
  - Example: Every Three (3) Years, Fee Automatically Increased By Cumulative Increase in Index
  - Example: Every Two (2) Years, Fee Automatically Increased By $1
  - From Franchise Agreement:

"[The Utility] may not compound indexing for more than any two year period. Stated otherwise, if Utility fails to index in year one, it may index in year two for years one and two, but if it fails to do so, it may not, for example, in year three index for more than years two and three."

Development of Automatic Rate Increase Language in Resolution, Ordinance, or Tariff

- **May Not Want Rates to Decrease If Index Change is Negative**
  - A Floor on the Rate Adjustments Can Be Established By Only Referencing Increases in the Language

In the absence of a formal study recommendation or action by the [insert governing body name], *the rates, fees, and charges in* [insert applicable sections] *shall be automatically increased for inflationary effects on the costs of operations – without a public hearing – effective* [insert effective month and day] *of each fiscal year. The percentage increase shall be the percentage increase, if any, in the* [insert index name, index publisher, and any other information] *from* [insert month] *of the preceding calendar year to* [insert month] *of the current calendar year. The first increases under these provisions, if any, shall become effective* on [insert effective date].

Annual Increase References

- **Some Local Governments Have Added an "Annual Increase Reference" Column to Their Rate Schedules to Specify Automatic Rate Increase Provisions**
  - Provides an Easy Way to Manage and Update Different Increase Provisions for Each Rate, Fee, or Charge
  - Various References Can Be Defined at Bottom of Rate Schedule

Sample Rate Schedule

Description	Amount	Annual Adjustment (References shown are defined at the end of this table)
Fee 1	$100.00	[A]
Fee 2	$50.00	[B]

Annual Adjstment Reference Definitions:

[A]

[B]

Community Engagement and Trust

Communication to Governing Bodies and Public

- **Educate Members of Governing Body and Public on What Is Funded Through Rates or Taxes (What Do the Rates Pay For?)**
- **Provide Regular Updates About Operating Conditions, Financial Position, and Major Issues**
- **Provide Members of Governing Body and Public With Tours of Facilities**
- **One-on-One Meetings Before Public Hearings on Increases and Other Issues**
  - **Could Make Public Hearing Smoother and Significantly Improve Chances of Adoption**

Communication to Governing Bodies and Public (cont.)

- **Use Pictures and Samples to Demonstrate Need**
  - **Infrastructure Is Often "Out of Sight, Out of Mind"**

- **Use "BEFORE" and "AFTER" Pictures to Demonstrate Historical Accomplishments and the Results of Prior Rate Increases**

OLD NEW

OLD NEW

Communication to Governing Bodies and Public (cont.)

- **When Comparing Taxes / Rates to Those of Other Local Governments, Emphasize That Comparison Is Not a "Report Card" on How Well Government Is Performing**
  - **Many Reasons Why Taxes / Rates Differ Among Local Governments**
  - **Each Local Government Is Unique and Has Its Own Set of Challenges**

Communication to Governing Bodies and Public (cont.)

- **Consider Preparing "Questions and Answers" Documents That Could Be Published on Website**
  - **Include How Proposed Course of Action Is in the Best Interests of Residents / Customers**
  - **Simple Communication Points That Can Help Members of the Governing Body Explain Why They Are Supporting the Action to Constituents**

Ongoing Transparency

- **Have a Mindset That the Residents Are Your Boss**
  - Transparency Facilitates Your Boss's Trust
- **Involve the Community Before Setting the Price**
  - When Requesting Adoption of Rate or Tax Increases, It Is Helpful to Communicate Community Outreach Activities – Date, Feedback or Support Received, Etc.
- **Maximize Use of Local Government's Website**
  - Financial Dashboards Showing How Money Collected Is Being Spent
  - Budgets, Financial Reports, Etc.
  - Community Newsletters
  - Pictures of Capital Needs
  - "Before" and "After" Pictures

AWWA Financial Sustainability Certificate Program for Utilities

- **Currently Being Implemented – Stay Tuned!**
- **Modeled After GFOA Awards for Budgets and Financial Statements**
- **Recognizes Water Utilities That Implement Best Financial Practices to Ensure Long-Term Financial Health and Sustainability**
- **Award Is Good Communication to Utility Stakeholders (e.g., Governing Body, Customers, Rating Agencies, etc.)**

AWWA Financial Sustainability Certificate Program for Utilities (cont.)

- **Process**
  - Utility Submits Application to Program
  - Application Is Reviewed and Scored By AWWA Volunteers
  - Potential Issuance of Award Certificate to Utility That Can Help Demonstrate That It Is on the Right Path to Long-Term Financial Sustainability

- **Contact AWWA for More Information!**

American Water Works Association

SOME FINAL THOUGHTS:

- **Strong Financial Management Policies Adopted By the Local Governing Body Can Help Guide Financial and Rate Decisions as Well as Improve Credit Ratings**
- **There Are Many Considerations When Developing a Financial Management Policies Document, and Such Policies Should Be Reviewed Periodically**
  - **No "One Size Fits All"**
  - **Can Build Upon Policy Documents Developed By Others**
- **There Are Many Helpful Free Online Resources for Developing Financial Policies and Plans**

SOME FINAL THOUGHTS (cont.):

- **Should Ideally Build / Establish a Long-Term History of Following Financial Plan and Meeting Financial Targets**

- **Automatic Rate Increases Are a Recommended Policy Consistent With Best Management Practices**
  - **Different Rates, Fees, and Charges Can Have Different Increase Provisions**
  - **Gradual Increases Over Time and Avoidance of "Rate Shock" Can Promote Sustainability and Affordability**

SOME FINAL THOUGHTS (cont.):

- **With Substantial Price Inflation Over Past Few Years, It Is More Difficult to Get Tax and Rate Increases Passed**
  - **More Residents / Customers Are Showing Up at Public Meetings to Complain About the Increases**
  - **Several Members of Governing Bodies Have Called for More Transparency in Communicating Where Money Is Being Spent and What Has Been Accomplished (e.g., Dashboard on Government Website)**
  - **Proactively Improving Transparency and Communication Could Facilitate Support for Financial Plan**

SOME FINAL THOUGHTS (cont.):

- **Use Lots of Pictures to Help Communicate What Government Is Trying to Accomplish Through Financial Plan**
  - **Extremely Effective at Communicating Need**

SOME FINAL THOUGHTS (cont.):

- **For the Long-Term Interests of Residents or Customers, Financial and Rate Planning Should Be Proactive, Not Reactive**
  - Keep Up With Inflation or Permanent Increases in Costs
  - Lower User Rates Over the Long-Term
  - Balanced Debt Risk
  - Higher Credit Rating and Lower Interest Rates When Debt Financing
  - Promotes Sustainability and Affordability!

- **The More a Community Trusts Its Government, the More Support for the Government's Initiatives**
  - Transparency and Communication Are Key!

If You Have Questions Regarding This Presentation or Would Like Additional Information, Please Contact Us!

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QUESTIONS AND DISCUSSION