

SMALLER UTILITIES, BIGGER CHALLENGES

Smaller Utilities Gain the Most from Financial Planning and Stakeholder Outreach

BY COLLIN DRAT



It is a challenging time to be a clean water utility. Utilities today face increasing regulations, aging infrastructure, declining use, difficulty achieving

stakeholder buy-in for policy solutions and much more. Even though these challenges impact utilities of all sizes, they are often exacerbated in smaller utilities.

Smaller utilities face all the same challenges as their larger counterparts but must recover the costs over a smaller customer base, asking more

from their customers to provide the same level of service. Even when solutions are identified, customers may be skeptical, and want evidence that the proposed approaches make effective use of limited financial resources.

Two ways smaller clean water utilities can effectively tackle these challenges are comprehensive financial planning and strategic communication and outreach.

Show Them The Money

A comprehensive financial plan is a critical tool for small utilities because it identifies all the



potential demands on the utility's resources and develops a long-term strategy to address them. This typically involves five to 10-year projections of revenues and expenditures, identifying adjustments to rate revenues, as needed, to maintain financial sustainability.

Given the capital-intensive nature of clean water service, capital expenditures are generally the principal driver for additional rate revenues.

broader picture as well as the impact of addressing each challenge individually, and

2. It actually supports communication with customers. Once the plan is developed, utility leadership can begin setting expectations. When circumstances change, this plan also provides a transparent benchmark that can be used to explain those changes.

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Accordingly, a thoughtfully developed capital improvement program will help increase customer buy-in for rate adjustments. Ideally the plan will be based on a comprehensive asset management strategy, which prioritizes assets for replacement based on condition. This is especially critical for linear infrastructure, much of which was installed in large chunks, and will often begin to fail at the same time.

While a financial plan is not a panacea, it is invaluable in two ways:

1. It encompasses all the challenges that can be addressed with a utility's financial resources, allowing utility leadership to see both the

Having a sound, long-term plan, and sharing it transparently, tells customers that utility leaders know how to best use limited financial resources and are prepared to adapt when circumstances change. This builds trust, which will be needed when additional financial resources are requested.

Show Them The Need

Having a sound financial plan isn't enough. To meet the expectations of today's savvy customers, utilities need to go beyond merely communicating the plan to their stakeholders. They must also consider their stakeholders' concerns and perspectives before presenting their rate plan for approval. This requires spending time to truly understand



stakeholders' issues, attitudes and comprehension of rates and infrastructure investments.

This insight, gathered by interviews, workshops or surveys, can inform messaging, so that when utility leaders talk about the need for investments or a rate increase, they connect with the stakeholders in a way that has specific context and relevance to them. It's also important that messaging isn't just responsive to insights, it's also clear and consistent — meaning there's no jargon and communications are written in plain language, accessible to the broadest of audiences.

Another key way to build support for rates and investments is operational transparency. People only value what they can see, so utility leaders need to bring stakeholders in and show them what's happening. For example, instead of presenting a graph of sanitary sewer overflows over time, bring a section of degraded wastewater collection main into the room. This “show, don't tell” approach is much more powerful.

Utilities can use operational transparency to build understanding and support for investments all the time, not just when a rate increase is needed, by inviting stakeholders in for tours, hosting open houses, attending community events and such. These are key ways to build stakeholder value and support for investments.

Conclusion

Financial planning and stakeholder engagement are complementary pursuits that can greatly enhance a utility's success. When resources are limited, it is tempting to see these efforts as extras. In reality, given their size, smaller utilities have the most to gain from these strategies. The good news is, after more than 25 years of working with clean water professionals, we know this group is up to the task.

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