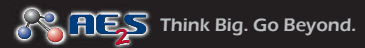


# UTILITY ENTERPRISE MANAGEMENT

# The Source

4th Quarter 2007



## AE2S Financial Presentations

**A**E2S financial experts recently presented at various local conferences to help utility representatives more thoroughly understand the financial aspects of managing water and wastewater utilities and to recognize the importance of responsible financial planning for the future.

Matt Buckley, an AE2S Financial Analyst, presented "Rate Setting" at the Minnesota Rural Water Association Operation and Training Session on October 10, 2007. On October 26, 2007, Matt presented "Planning for Your Utility's Financial Future" at the North Dakota Water and Pollution Control Conference (NDWPCC).

Bruce Grubb, City of Fargo Director of Enterprise, and Eric Dodds, AE2S Fargo/Moorhead Operations Manager, also presented at the NDWPCC. Their presentation was entitled "Who Wants to Pay for Infrastructure? The Story of Fargo's Dedicated Infrastructure Sales Tax".

If you would like a copy of any of the aforementioned presentations, or further information about these topics, please contact any AE2S office. ■

## Intended Use Plans

**O**n September 5, 2007, the Minnesota Public Facilities Authority (PFA) approved its 2008 Intended Use Plans (IUPs) for the Clean Water Revolving Fund and the Drinking Water Revolving Fund. The approved IUPs are available on the PFA's website at

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**U**nderstanding construction cost trends and proactive utility planning are becoming increasingly important in preparing for the future of municipal and rural utilities. Utilities are experiencing financial burdens due to increased, volatile project costs which, in some cases, are causing much needed infrastructure rehabilitation and expansion projects to be postponed.

## Proactive Planning for Construction Costs

Steel prices reached historic high levels several years ago, and have sustained near record high levels. Cement prices and traditional construction material costs have been extremely volatile as the result of trends in housing development and domestic and international construction efforts. The price of copper and electrical supplies has reached such high levels that theft of electrical wiring from construction sites (and even partially completed projects) has been reported on multiple occasions throughout the region. Perhaps best publicized is the cost of oil and petroleum based products, reflected daily in the price at the gas pump. Oil prices impact nearly every aspect of construction from fabrication costs, material costs of PVC and other plastics, and asphalt materials to all transportation associated with construction projects.

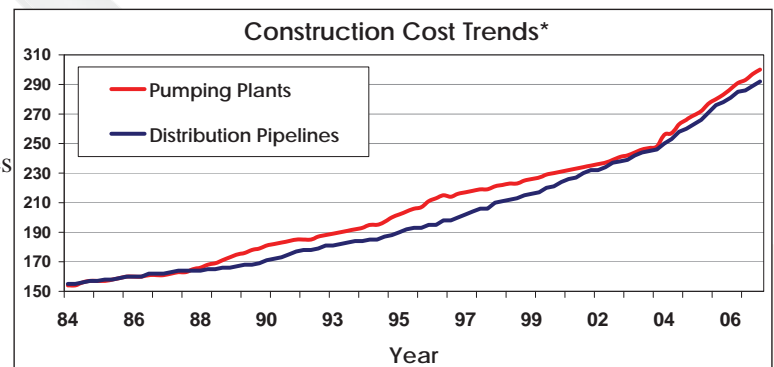
In addition to material prices, the cost and availability of labor compounds project cost escalation. Beyond standard inflation of wages and benefit packages, a strong economy has created competition for a skilled workforce in recent years.

In an effort to better prepare utilities for the potential changes in anticipated construction costs, *The Source* has added quarterly construction cost index

information from the Bureau of Reclamation. The Bureau of Reclamation's Construction Cost Trends (CCT) include various cost indexes that include both material components and contractor's labor and equipment costs. The CCT cost models are developed primarily from information available from:

- Engineering News-Record, weekly publication of McGraw-Hill;
- Price Trends for Federal-Aid Highway Construction, US Department of Transportation; and
- Producer Price Index (PPI), US Department of Labor, Bureau of Labor Statistics.

Material cost increases have had the most significant impact on municipal and rural construction project costs.



\*Based on information from the Bureau of Reclamation

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[www.deed.state.mn.us/community/assistance/pfa.htm](http://www.deed.state.mn.us/community/assistance/pfa.htm). The 2008 IUPs identify wastewater and drinking water projects eligible to receive loans from the PFA in FY 2008.

Please note that to maintain funding eligibility, loan applications must be submitted to the PFA and plans and specifications must be submitted to the Minnesota Pollution Control Agency or Health Department, as appropriate, no later than March 5, 2008. ■

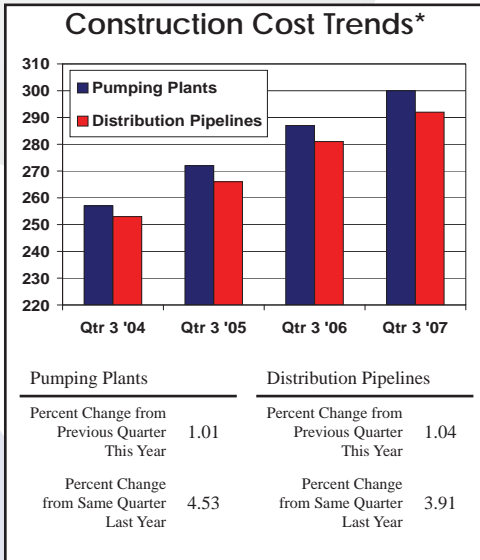
*(Proactive Planning for Construction Costs continued from first page)*

The CCT is a relative measure of the cost of material, equipment, and labor components in the present construction market as compared to the base year. The relative valuation and base year reference for the CCT is 100 in 1977. Although the Bureau of Reclamation tracks CCTs for multiple types of construction projects, land costs, and other indicators, only the CCT for Pumping Plants (water and wastewater treatment and pumping facilities) and Distribution Pipelines (buried pipelines) will be routinely reported.

According to the Bureau of Reclamation's CCT, construction costs have increased 81 and 87 percent for facilities and pipelines, respectively, since 1984. Although construction costs are continuing an increasing trend, the increase from 2006 to 2007 is the lowest annual increase reported since 2003. However, the percentage change from the third quarter last year indicates that construction costs are still increasing faster than the Consumer Price Index. The CCT for the past four years will be shown as a graphic on the back page of this and all future issues of *The Source*.

In addition to the historical CCT data provided quarterly, the Bureau of Reclamation also generates projected CCT index numbers by using the projected inflation numbers published by the Office of Management and Budget. Projected CCT index values are provided on the basis of specific projects for which the Bureau of Reclamation is involved. Based on recent CCT projections, construction costs may be expected to increase by another 3.5 percent by this time next year.

Future construction prices will continue to be affected by circumstances beyond industry control. By understanding the trends in the construction industry, municipal and rural utilities will be able to better prepare and plan for future projects through accurate budgeting and strategic utility rate setting. Proactively planning for increasing construction costs will prepare utilities for the financial implications of future improvement and expansion projects. ■



\*Based on information from the Bureau of Reclamation

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