

# Managing the Water System Fund

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# Session Objectives

- Describe the legal and financial framework for local government public enterprises
- Explore common and best practices for managing the water system enterprise fund



# Enterprise Fund

- Your water system is supposed to be an enterprise fund, a self-sustaining business unit
- If you are a governmental system, you are not supposed to receive tax dollars nor support the general fund



# Characteristics of Water System Enterprises

- Capital intensive
- Diverse use charges, fees and pricing strategies
- Financial structure varies from operational structure
- Self-regulated monopolies
- Impacts public health and environmental protection



# From Authority to Implementation

**G.S. 160A-311,312**

Local governments given power to provide services



**G.S. 160A-313**

Local governments given authority to finance services



**G.S. 160A-314**

Local governments given authority to charge rates and fees for services



**Local ordinance**

Local government decides to charge rates and fees



**ENTERPRISE/UTILITY IS BORN**



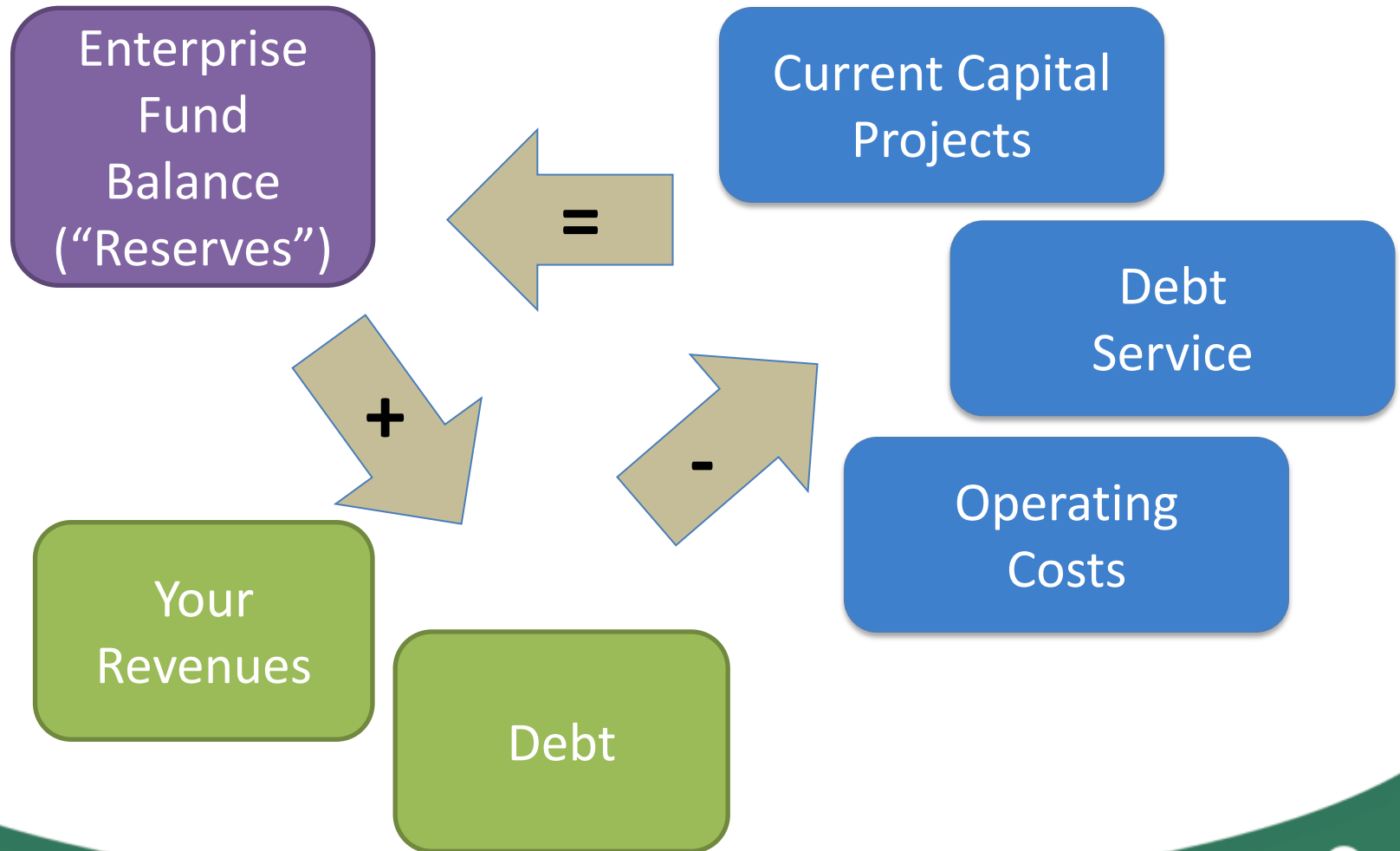
# Guiding Principle for Enterprise Funds

## Self-sufficiency

Revenues collected = Costs expended  
(in a given year or over time)



# Water System Finance Diagram



# Rates

- Rates are the primary source of income for local government and other community systems
- We'll spend a lot of time today talking about rates





# Ideal Pricing

- Prices cover full “costs” of service
- Prices send and reinforce strategic messages
- Prices follow State’s laws and policies
- Beneficiaries pay for their benefits
- Polluters pay for their pollution
- Ability to pay is recognized and addressed
- Simple



# Understanding Operating Costs

- What you need to run your business day in and day out
- What are your operating cost categories?
  - Personnel
  - Water bulk purchases
  - Chemicals
  - Office equipment
  - Energy
  - Supplies
  - Lab tests
  - Etc.



# Understanding Capital Costs

- The “big stuff”
- Rehabilitation & replacement of existing infrastructure
- New infrastructure as needed to serve your customers



# Methods to Budget for Capital Costs

- Create and maintain a Capital Improvement Plan
- “Fund” your depreciation, with a little extra
- Estimate from past expenses, but adjust for the future
- Do NOT ignore capital costs and only budget for O&M. Every utility has capital costs.



# Understanding Debt Service

- What you owe on loans and bonds, paid back on a regular schedule



# Setting Small Drinking Water System Rates for a Sustainable Future

One of the Simple Tools for Effective Performance (STEP) Guide Series



[http://www.epa.gov/ogwdw/smallsystems/pdfs/guide\\_smallsystems\\_final\\_ratesetting\\_guide.pdf](http://www.epa.gov/ogwdw/smallsystems/pdfs/guide_smallsystems_final_ratesetting_guide.pdf)

- Determining Costs
- Determining Current Revenues
- Setting Aside a Reserve
- Determining Revenues Required
- Designing Rate to Cover Costs
- Implementing the Rate
- Reviewing the Rate



# Where does your water system revenue come from?

# Reserve Account(s)

- If revenues exceed costs, the extra money can go into one or more reserve account(s) specifically for the water system
- Can set up specific reserves for narrower purposes (designated reserves)
- Examples: unrestricted, rate stabilization, rainy day, capital reserve, etc.
- If you include depreciation as a cost, this is where that money would go





# Why Do You Need a Reserve Account?

- Future Capital Needs
- Rainy Day Fund—what happens if your revenue is decreased?
- Emergency Fund



# How Much Do You Need In Your Reserves?

- It depends

(see <http://efc.web.unc.edu/2013/02/12/right-sizing-reserve-funds/>)

- Enough to pay for your most expensive piece of equipment?
- Enough to cover your costs if you had no revenue for two months?
- Enough to cover the projects in your capital improvement plan?



# Transfers between General Fund and Enterprise Fund

- OK if paying for services rendered or payment in lieu of taxes
  - In fact, don't report it as a "transfer" but as an expense (on the LGC forms)
- Maybe OK if loaning money that *gets paid back*
- Not OK if just moving money between the two funds when one falls short (i.e. subsidizing)
  - Technically can do that, but draws scrutiny from LGC and would be ineligible for state-subsidized funding for the enterprise fund (NC G.S. 159G-37)



# Small System Challenges

- Dis-economies of Scale
- Insufficient Revenue from Small Customer Base
- Regulatory Compliance
- Addressing Current and Future Infrastructure Needs
- Workforce – retirements and high turnover
- Difficulty in raising funds for capital projects

