Smart Management for Small Water Systems

Navigating Water Infrastructure Funding Programs - Workshop for Small Water Systems

06/01/17| Phoenix, AZ

www.efcnetwork.org

UNC ENVIRONMENTAL FINANCE CENTER

EFCN environmental finance center network

American Water Works Association

This program is made possible under a cooperative agreement with the U.S. EPA.

Can You Sleep at Night?

Is your system self sufficient?	Operating Ratio
Are you able to cover your debt service after paying for your day to day operations?	Debt Service Coverage Ratio
If your customers stop paying their bills, how long can you maintain operations?	Days Cash on Hand
Can your system meet its short term obligations?	Current Ratio
How much of your system's expected life has already run out?	Asset Depreciation

Whiteboard Video: Financial Benchmarking for Water Utilities

http://www.waterrf.org/Pages/Projects.aspx?PID=4366

Recording of Prior Webinar: Key Financial Indicators

http://efcnetwork.org/events/webinar-is-your-water-system-financially-healthy-key-financial-indicators/

Quick Review of Key Financial Indicators

Operating Ratio

Current Ratio

Debt Service Coverage Ratio

Days of Cash on Hand

Asset Depreciation

Is your system self-sufficient?

Operating Ratio

$$\frac{\text{OPERATING REVENUES}}{\text{OPERATING EXPENSES}}$$

Include or Exclude

DEPRECIATION

ANNUAL COST OF WEAR AND TEAR ON THE SYSTEM

Read more: http://efc.web.unc.edu/2015/02/27/operating-ratio/

Are you able to cover your debt service after paying for your day to day operations?

Debt Service Coverage Ratio

$$\frac{\text{OPERATING REVENUES} - \text{OPERATING EXPENSES (EXCLUDING DEPRECIATION)}}{\text{PRINCIPAL} + \text{INTEREST PAYMENTS ON LONG TERM DEBT}}$$

Read more: http://efc.web.unc.edu/2015/04/23/debt-service-coverage-ratio/

Can your system meet its short term obligations?

Current Ratio

$$\frac{\text{UNRESTRICTED CURRENT ASSETS EXCLUDING INVENTORIES AND PREPAID ITEMS}}{\text{CURRENT LIABILITIES}}$$

Read more: http://efc.web.unc.edu/2015/10/01/key-indicator-current-ratio/

If your customers stop paying their bills, how long can you maintain operations?

Days Cash on Hand

$$\frac{\text{UNRESTRICTED CASH AND INVESTMENTS}}{\text{OPERATING EXPENSES EXCLUDING DEPRECIATION \& AMORTIZATION / 365}}$$

Read more: http://efc.web.unc.edu/2015/06/24/days-cash-on-hand/

How much of your system’s expected life has already run out?

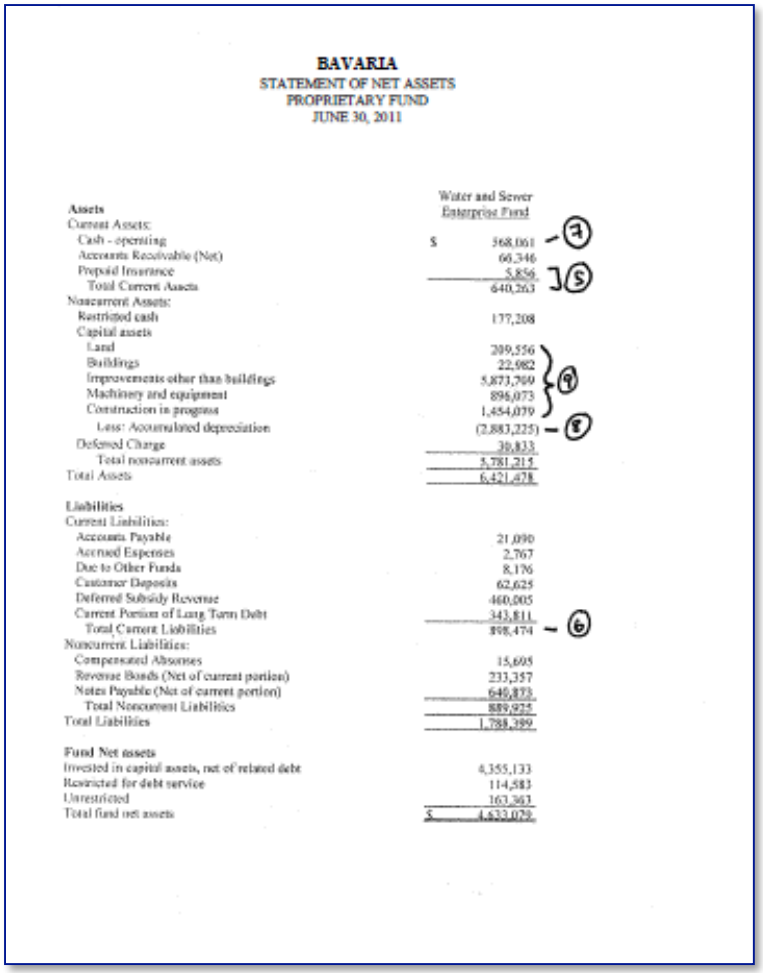
Asset Depreciation

$$= \frac{Accumulated\ Depreciation}{Gross\ Plant\ and\ Equipment}$$

Caveat: this indicator is only as accurate as your depreciation schedule, and even then historic pricing is likely to distort the results.

Where Do We Get Started?

- Local governments: audited financial statements
- Non-governments: balance sheets, shareholder reports, annual reports, etc.



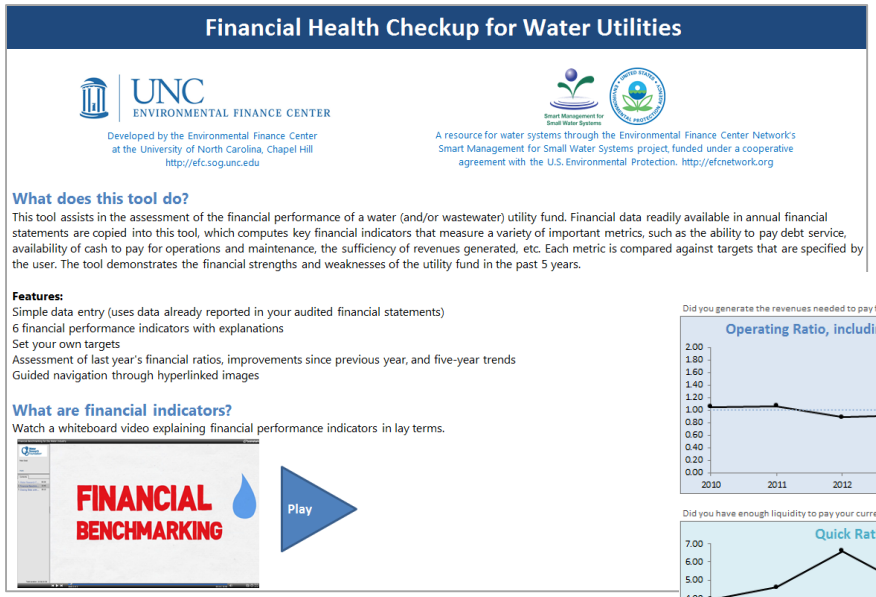
BAVARIA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

	Water and Sewer Enterprise Fund
Assets	
Current Assets:	
Cash - operating	$ 368,061
Accounts Receivable (Net)	66,346
Prepaid Insurance	5,856
Total Current Assets	640,263
Noncurrent Assets:	
Restricted cash	177,208
Capital assets	
Land	209,556
Buildings	22,982
Improvements other than buildings	5,873,769
Machinery and equipment	896,073
Construction in progress	1,454,079
Less: Accumulated depreciation	(2,883,225)
Deferred Charge	30,833
Total noncurrent assets	5,781,215
Total Assets	6,421,478
Liabilities	
Current Liabilities:	
Accounts Payable	21,090
Accrued Expenses	2,767
Due to Other Funds	8,176
Customer Deposits	62,625
Deferred Subsidy Revenue	460,005
Current Portion of Long Term Debt	343,811
Total Current Liabilities	898,474
Noncurrent Liabilities:	
Compensated Absenses	15,605
Revenue Bonds (Net of current portion)	233,357
Notes Payable (Net of current portion)	646,873
Total Noncurrent Liabilities	889,925
Total Liabilities	1,788,399
Fund Net assets	
Invested in capital assets, net of related debt	4,355,133
Restricted for debt service	114,583
Unrestricted	163,363
Total fund net assets	$ 4,633,079

Financial Health Checkup for Water Utilities

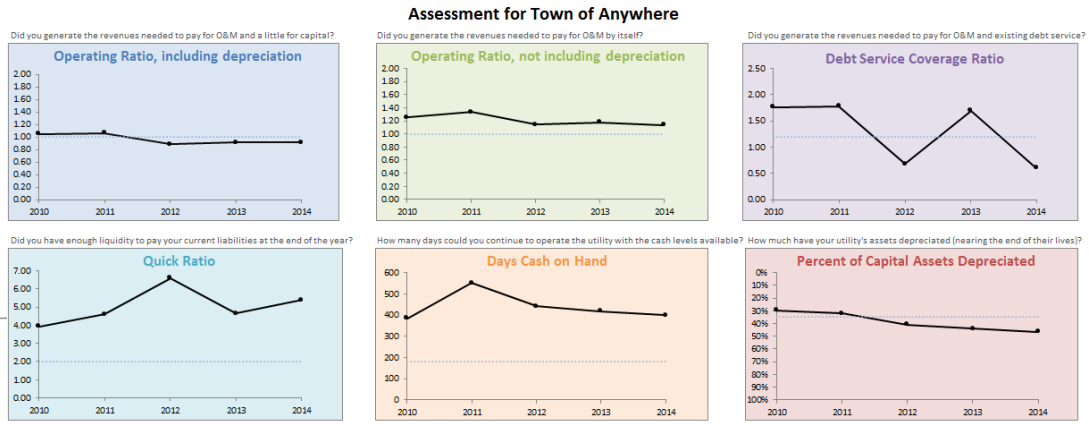
http://efc.sog.unc.edu or http://efcnetwork.org

Find the most up-to-date version in Resources / Tools



Excel®- based tool

Free to use



Created by the Environmental Finance Center at the University of North Carolina, Chapel Hill's School of Government

A resource for water systems from the EFCN's Smart Management for Small Water Systems project

funded under a cooperative agreement with the U.S. E.P.A.

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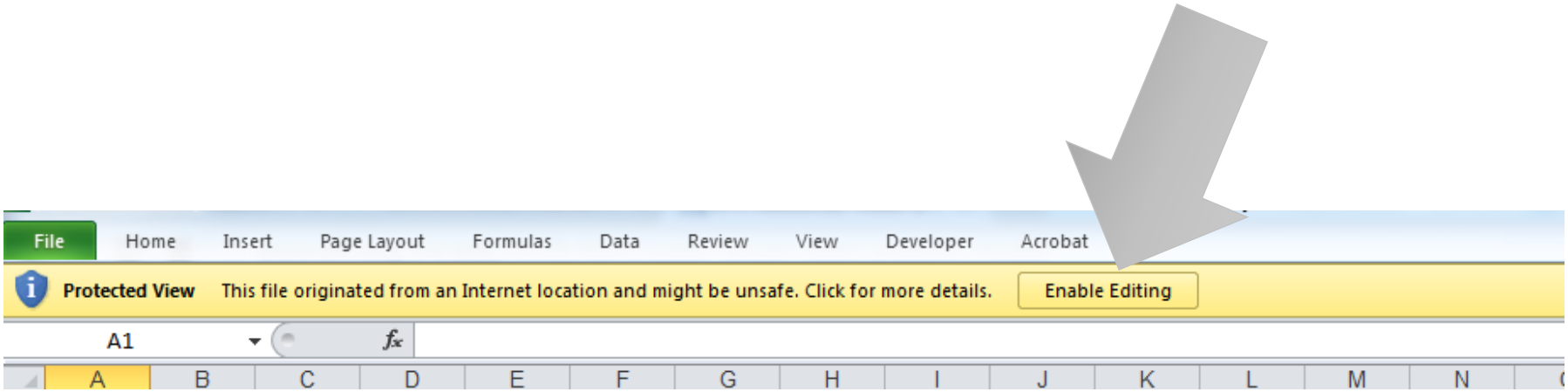

Why Care About This?

- Funders and ratings agencies care about this
- As you think about the future needs of your system, you have to know where you are starting from

So....

- Now that we know where we are, let's decide where we are going…

- How do we estimate the future costs and revenues?