Smart Management for Small Water Systems

Utility Rate Setting & Financial Planning Training

Stacey Isaac Berahzer
Macon, GA
March 10, 2016

EFCN environmental finance center network

American Water Works Association

UNC ENVIRONMENTAL FINANCE CENTER

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

Assessing Financial Condition

Session Objectives

- Understanding where your water system is right now financially

- Learning some standard measures that funders will be concerned with

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

Smart Management for Small Water Systems

UNC
ENVIRONMENTAL FINANCE CENTER

Whiteboard Video:
Financial Benchmarking for Water Utilities

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

Smart Management for
Small Water Systems

UNC
ENVIRONMENTAL FINANCE CENTER

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/

Smart Management for
Small Water Systems

UNC
ENVIRONMENTAL FINANCE CENTER

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

Smart Management for Small Water Systems

UNC ENVIRONMENTAL FINANCE CENTER

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/

Smart Management for
Small Water Systems

UNC
ENVIRONMENTAL FINANCE CENTER

Can your system meet its short term obligations?

Smart Management for
Small Water Systems

UNC
ENVIRONMENTAL FINANCE CENTER

Current Ratio

UNRESTRICTED CURRENT ASSETS
EXCLUDING INVENTORIES AND
PREPAID ITEMS

─────────────────────────────

CURRENT LIABILITIES

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

Smart Management for
Small Water Systems

UNC
ENVIRONMENTAL FINANCE CENTER

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

Smart Management for
Small Water Systems

UNC
ENVIRONMENTAL FINANCE CENTER

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/

Smart Management for Small Water Systems

UNC ENVIRONMENTAL FINANCE CENTER

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

Smart Management for
Small Water Systems

UNC
ENVIRONMENTAL FINANCE CENTER

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.

Smart Management for Small Water Systems

UNC
ENVIRONMENTAL FINANCE CENTER

Where Do We Get Started?

- Local governments: audited financial statements

- Non-governments: balance sheets, shareholder reports, annual reports, etc.

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
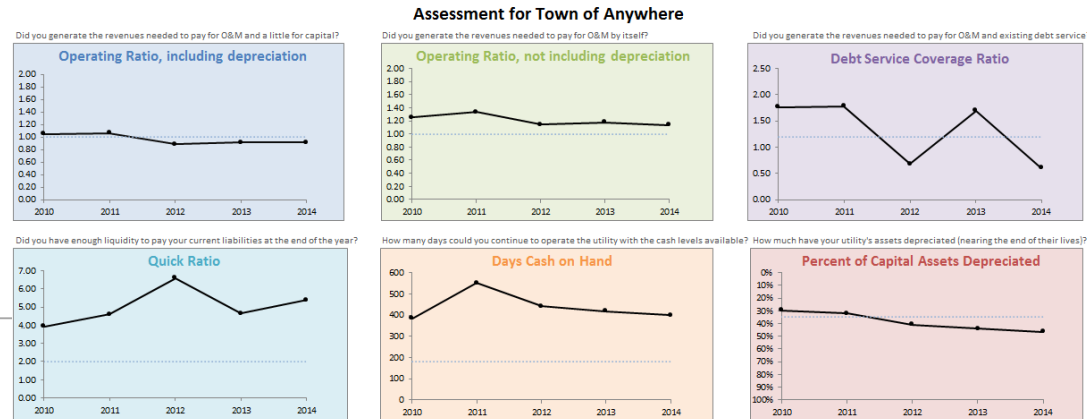
Created by the Environmental Finance Center at the University of North Carolina, Chapel Hill's School of Government
A resource for water systems from the EFCN's Smart Management for Small Water Systems project
funded under a cooperative agreement with the U.S. E.P.A.

Tip: when you first use this file after downloading from our website, click on "Enable Editing" at the top
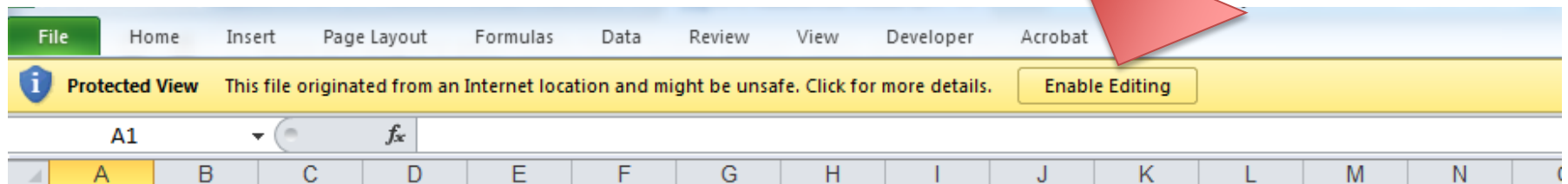
Demonstration of the tool

Direct link to the tool:
http://www.efc.sog.unc.edu/reslib/item/financial-health-checkup-water-utilities

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

Smart Management for
Small Water Systems

UNC
ENVIRONMENTAL FINANCE CENTER

So….

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

- How do we estimate the future costs and revenues?

Smart Management for
Small Water Systems

UNC
ENVIRONMENTAL FINANCE CENTER

Generating Revenue - Rates

LUNCH