



Long Term Capital Planning

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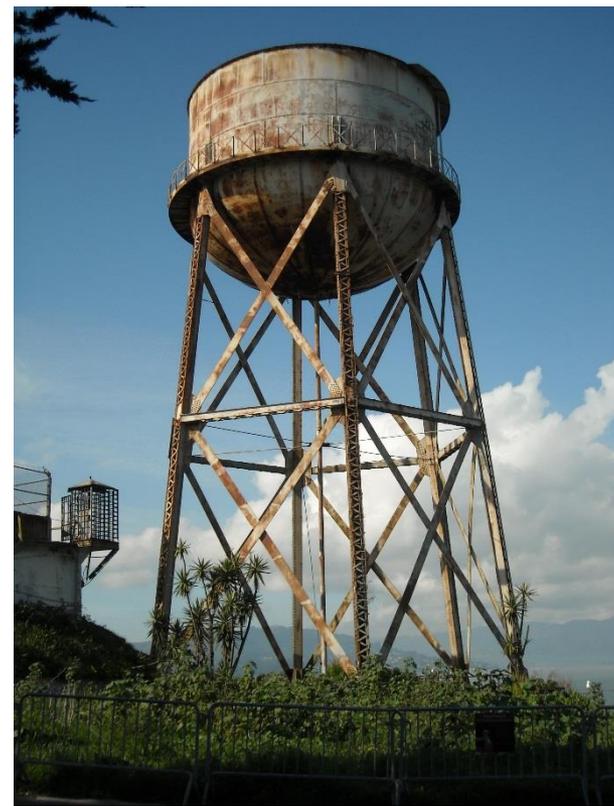
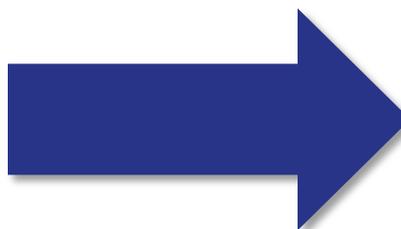
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Infrastructure Wears Out





Session Objectives

- Learn about two aspects of long-term system planning: asset management and capital planning
- Figure out how to pay for the future needs



In the Old Days...

- Water systems took advantage of the federal government's ambitious construction grants program of the 1970s and 1980s
- Everybody loved their “free” money



Capital Finance Today

- The money never really was “free”—it came from tax dollars
- Today, there is a different philosophy of how to pay for water system capital improvements



Capital Finance Today

- In other words, you pay (no sense in sugar-coating this)
- The reality is that water and wastewater infrastructure is expensive, regardless of the size of your system. Smaller or poorer systems will likely have a hard time paying for capital improvements



<http://efc.web.unc.edu/2015/09/09/four-trends-government-spending-water/>

Graphed by the Environmental Finance Center at the University of North Carolina, Chapel Hill.

Source: Congressional Budget Office supplemental data for the *Public Spending on Transportation and Water Infrastructure, 1956 to 2014* report (March 2015). Displays public spending on supply systems for distributing potable water as well as wastewater and sewage treatment systems and plants. Real spending is shown after adjusting nominal spending to their 2014 dollar equivalent using infrastructure-specific price indexes.

Four Trends in Government Spending on Water and Wastewater Utilities Since 1956

SEPTEMBER 9, 2015 / SHADI ESKAF / 0 COMMENTS

 Print  PDF

According to data collected and published by the Congressional Budget Office (CBO), federal, state and local governments in the United States spent more than \$2.2 trillion in the last 59 years on operations, maintenance and capital infrastructure of water and wastewater utilities. That equates to more than \$4 131 000 000 000 in 2014 dollars adjusting for inflation of infrastructure-



Poor Investment → Poor Infrastructure

2013 REPORT CARD for AMERICA'S INFRASTRUCTURE

ASCE
AMERICAN SOCIETY OF CIVIL ENGINEERS

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AMERICA'S GPA:

D⁺

The American Society of Civil Engineers is committed to protecting the health, safety, and welfare of the public, and as such, is equally committed to improving the nation's public infrastructure. To achieve that goal, the Report Card depicts the condition and performance of the nation's infrastructure in the familiar form of a school report card—assigning letter grades that are based on physical condition and needed investments for improvement.

ESTIMATED INVESTMENT NEEDED BY 2020:

\$3.6 TRILLION

REPORT CARD

Aviation	D	Ports	e
Bridges	e+	Public Parks	e-
Dams	D	Rail	e+
Drinking Water	D	Roads	D
Energy	D+	Schools	D
Hazardous Waste	D	Solid Waste	B-
Inland Waterways	D.	Transit	D
Levees	D.	Wastewater	D

<http://www.infrastructurereportcard.org/>



Two Related Concepts:

Asset Management & Capital Planning



Working **smarter** *not harder* is the essence of Effective Management / Asset Management

Let's hear from a practitioner...



Mike Daly, White Cliffs, NM **Video Profile**



Asset management helps you have the most impact in your system by spending your limited dollars in the best way possible



What does this type of analysis take?

- Nothing more than following a systematic approach for managing the assets
- 5 core components of Asset Management



Five Core Components of AM



Current State of the Assets



Level of Service



Criticality



Life Cycle Costing

Long-Term Funding





Current State of the Assets

- What do I own?
- Where are the assets?
- What condition are they in?
- How much useful life is remaining?
- What is the replacement value?



Level of Service

Involve
Customers



Measurable
Goals: Internal
and External



Track Progress
Towards
Meeting Goals

Involve
Staff



What would my customers want?

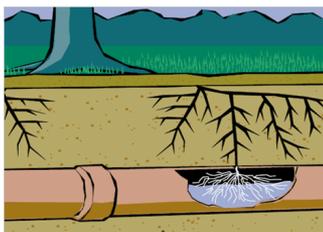


Asset Criticality

What is the probability or likelihood that a given asset will fail?

How do my assets fail?

What's the condition of my assets?





Asset Criticality

What is the consequence if the asset does fail?

What is the cost of the repair?

Are there legal consequences, environmental consequences, social consequences?

Are there redundant assets?





Asset Criticality





Quick Exercise—4 Assets

1. Brand new overhead storage tank
2. Aging booster pumps that serve a hospital and neighborhood
3. 20 year old lines on Forest Drive, a typical residential neighborhood
4. 20 year old meters

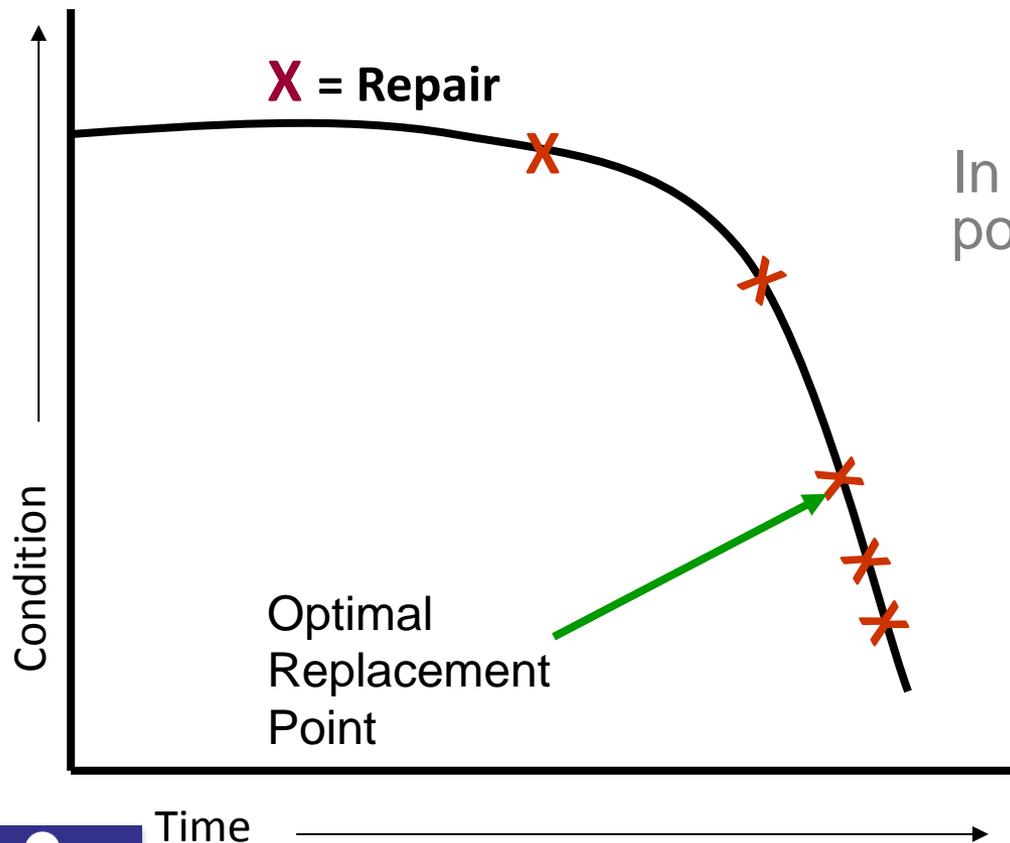


Asset Criticality





Life Cycle Costing: Replacement of Assets



In theory, there is an exact right point at which to replace an asset

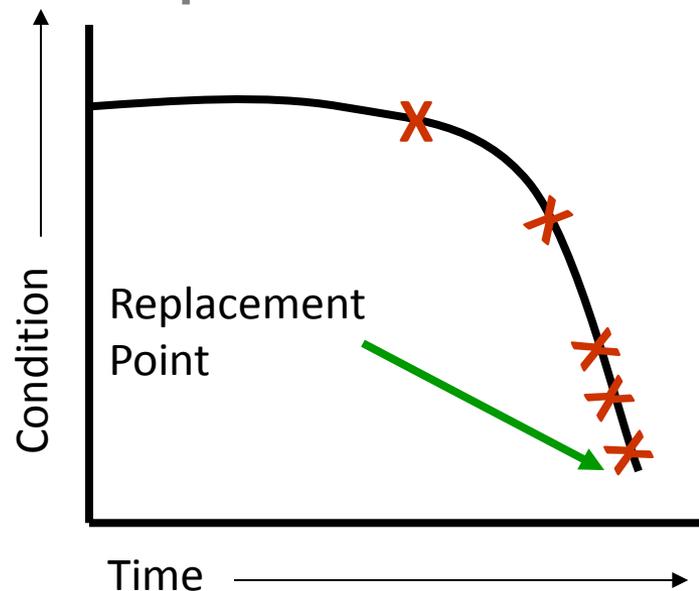
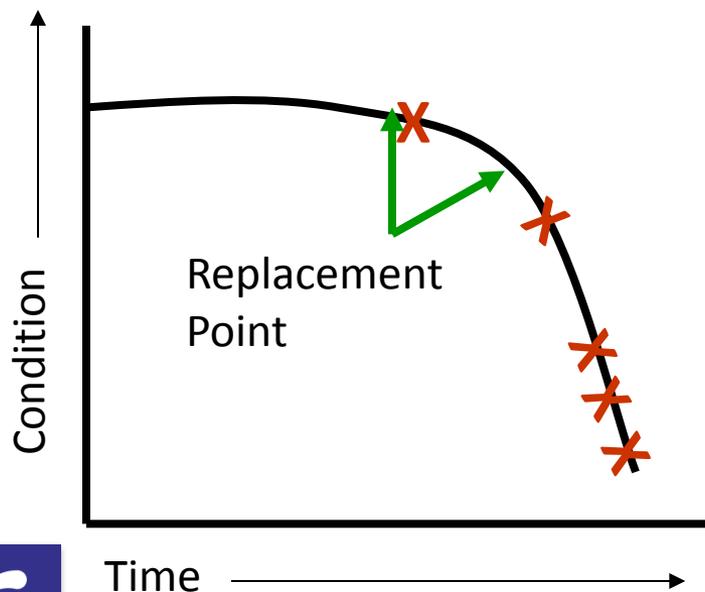
Not possible to know the optimal time to replace every asset
So... need to use the concept of risk



Life Cycle Costing & Risk

High risk : replace assets early, before failure

Low risk assets: run to failure and replace afterwards





Long Term Capital Planning

- This is strongly related to asset management
- An official multi-year document that identifies and prioritizes capital projects, identifies funding sources, and sets timelines



Capital Improvement Program

- Identify regulatory deficiencies (discuss with regulatory agencies, look at proposed regulations, talk to consultants), in a 10-20 year window
- Identify changes in service population (increase, decrease, stay the same)



Capital Improvement Program

- Identify deferred maintenance problems or where current service is inadequate
- Prioritize based on need realizing that “hidden” infrastructure tends to be ignored



Capital Improvement Program - Timelines

- Use **Asset Management Plan** to plan for capital expenses in the long term (~20 years)



Capital Improvement Program - Timelines

- Create a **Capital Improvement Plan** with a narrower timeline (~5 years) in more detail. Specify the projects and accurate estimates of cost. Plan where money will come from.



Capital Improvement Program - Timelines

- Create a **Capital Improvement Budget** with an even narrower timeline (1 – 2 years) committing funds for the planned capital projects. Get it approved/adopted.

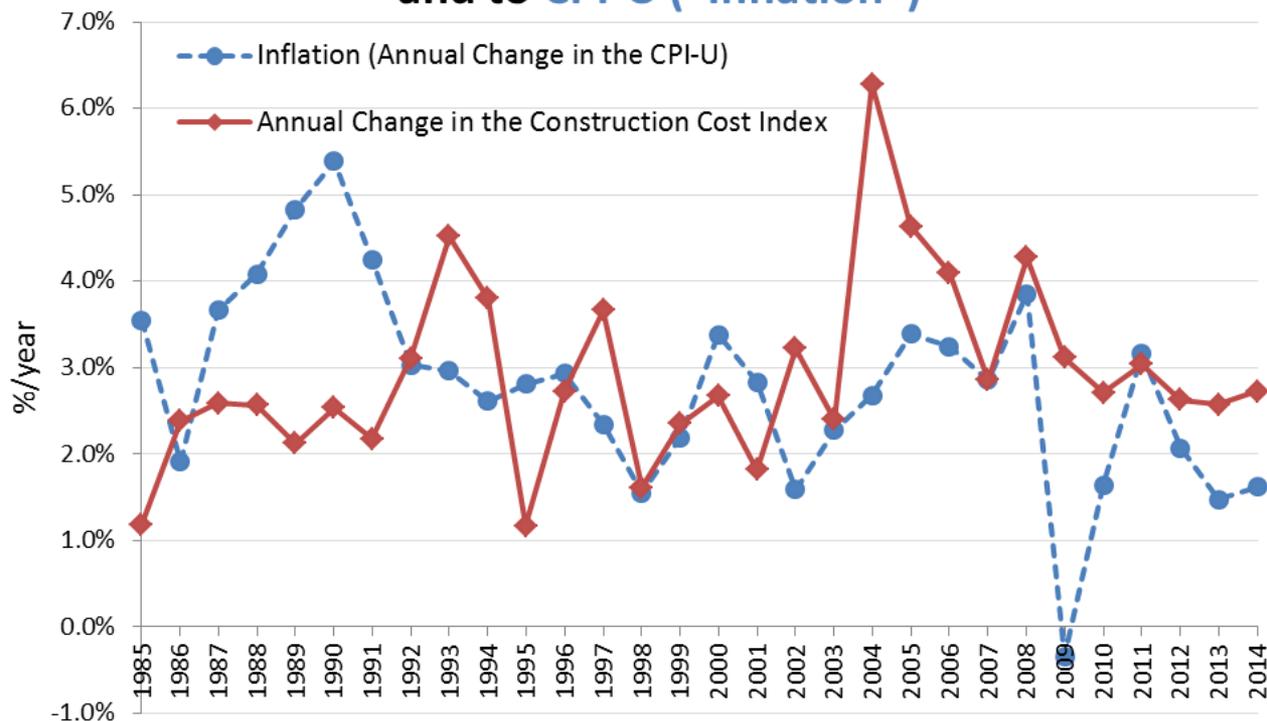


Measures of Inflation

- **Consumer Price Index (CPI)**—measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services
- **Construction Cost Index (CCI)**—average prices for labor and key construction materials from 20 cities across the United States



Annual Changes to the Construction Cost Index and to CPI-U ("Inflation")



Data analyzed by the Environmental Finance Center at the University of North Carolina, Chapel Hill.
 Data Sources: Bureau of Labor Statistics, Engineering News-Record ENR.com, InflationData.com, USDA Natural Resources Conservation Services.

<http://efc.web.unc.edu/2012/09/26/using-an-index-to-help-project-capital-costs-into-the-future/>

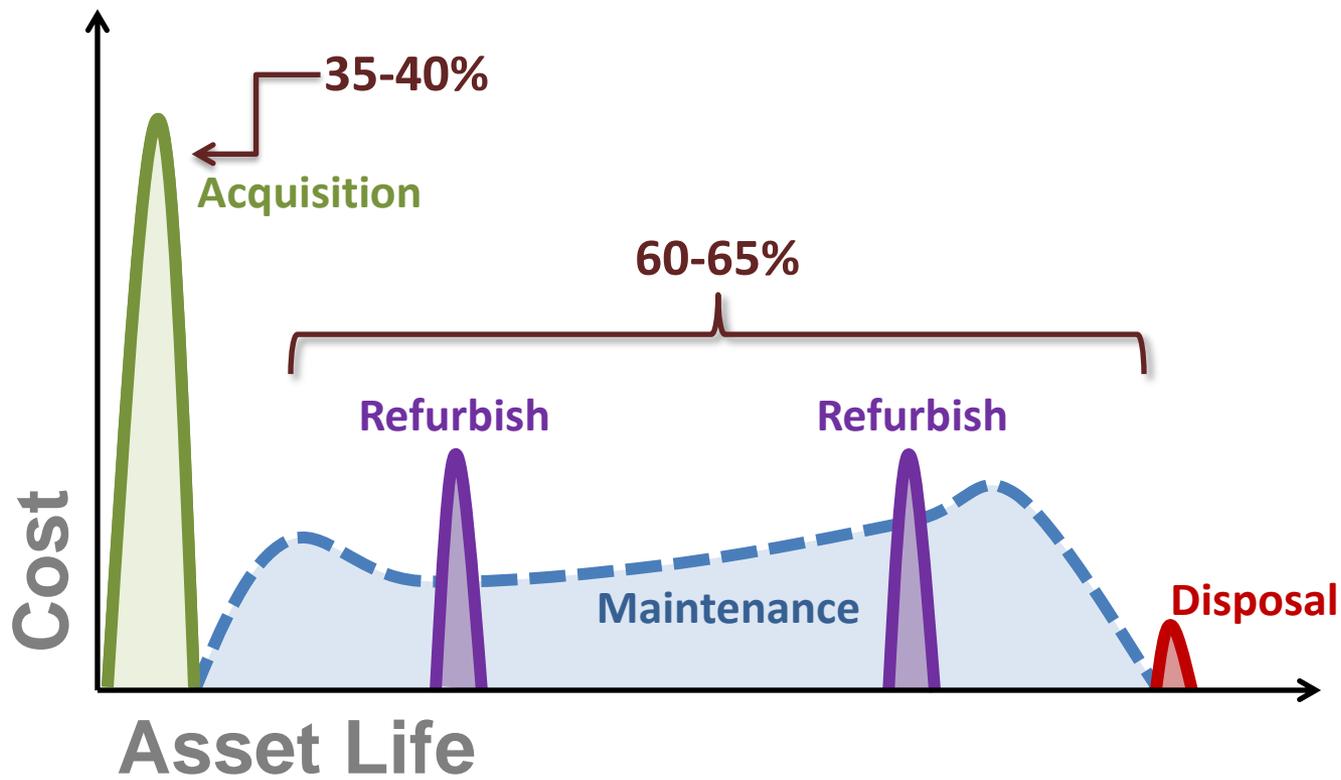


Reminder: Life Cycle Costing

- Purchase Price \neq Total Price



Capital Investments are Just the Tip of the Iceberg...



Source: Adapted from Steve Allbee, USEPA

EFC C.I.P. Tool

<http://efc.sog.unc.edu/>

Free, simplified CIP tool using only MS Excel (EFC @ UNC)

User-friendly Capital Improvement Plan (CIP) for Water and Wastewater Utilities
Version 2.0 (Created September 2012)

20-year capital planning Debt and/or capital reserve financing options Guided data inputs Simple data needs
Financial dashboard outputs Estimates necessary rate increases over time to pay for capital projects

Start

1) Use tabs at bottom of screen and buttons to navigate to different pages.

Next: Enter C.I.P. Projects View Fund Balance
View Dashboard

2) In **"Data Input 1"**, enter utility characteristics, rates and usage information in blue cells.

INSTRUCTIONS

3) In **"Data Input 2"**, enter details on capital improvement projects in the light blue cells. Each row is a different project.

4) In **"20-Year Projections"**, view your fund balance projections for 20 years and observe the estimated rate increases needed each year to pay for your Capital Improvement. No data entry required on this page.

5) After all your utility information and capital improvement project details are entered, go to the **"Dashboard"** to view long term trends in your financial reserves, rate increases and average bills, and capital investments.

	FY15	FY16	FY17	FY18
Estimated Rate Changes Needed to Maintain the Fund Balance				
1-Year Increase (Decrease) in Rates (Base and Volumetric)	N/A	0.0%	5.1%	2.6%
Increase (Decrease) in the Monthly Bill for 5,000 Gallons	N/A	\$0.00	\$1.51	\$0.79
Increase (Decrease) in the Monthly Base Charge	N/A	\$0.00	\$0.54	\$0.34
Monthly Base Charge ("Minimum Charge")	\$12.34	\$12.34	\$12.98	\$13.31
Volumetric Rate at 5,000 gallons/month (5/1000 gallons)	\$5.67	\$5.67	\$5.96	\$6.11
Volume Included with the Base Charge (1,000's of gallons)	2	2	2	2
Approximate Monthly Charge for 5,000 gallons (S)	\$29.35	\$29.35	\$30.94	\$31.65
Projected Fund Balance				
Total Revenues	\$ 1,719,000	\$ 1,963,589	\$ 2,238,247	\$ 2,564,605
Base Charges	\$ 1,776,940	\$ 1,795,322	\$ 1,907,268	\$ 1,976,733
Usage Charges	\$ 3,129,840	\$ 3,094,596	\$ 3,216,589	\$ 3,261,742
Interest Earned from Previous Year's Positive Balance	\$	\$ 9,495	\$ 9,167	\$ 9,597
Revenues from Other Sources Besides Charges	\$ 103,200	\$ 164,266	\$ 168,344	\$ 166,433
Total Expenses	\$ 1,448,000	\$ 1,689,000	\$ 1,950,000	\$ 2,260,000



Software: CUPSS (EPA)

<http://www.epa.gov/cupss/>



CUPSS Check Up Program for Small Systems Set-up | Switch Utility | Create User | Help | Training | Exit

My Home | My Inventory | My O & M | My Finances | My Check up | My CUPSS Plan

Welcome Back Helen, Beauty View Acres Subdivision - DW

What would you like to do today?

- [Do Some Training](#)
- [Enter a New Task or Work Order](#)
- [Create or Update My Schematic](#)
- [Search Asset and Maintenance](#)
- [Create or Update My Inventory](#)
- [Enter My Finances](#)
- [Print My Check Up Reports](#)
- [Work on My CUPSS Plan](#)

My Calendar

April 2008

Sun	Mon	Tue	Wed	Thu	Fri	Sat
30	31	1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	1	2	3
4	5	6	7	8	9	10

My Messages and Alerts

Popup Messages Are Off. Click To Turn On.

Reminder - Today's Tasks	8
Tasks Currently Past Due	160
Assets Needing Update	0
Number of High Risk Assets	2