Financial Management for Water & Wastewater Funding Program Applicants

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Best Resource: EFCNetwork.org

Webinar Objectives

- Learn about the project priority list
- Understand your system's financial position
- Discuss how to raise appropriate revenues

Project Priority List

Minnesota Funding Acronyms

DW

Drinking Water

CW

Clean Water

(Wastewater and Stormwater)

Minnesota Funding Acronyms

PPL

Project Priority List

IUP

Intended Use Plan

(list of ranked projects that are ready for funding)

Minnesota Funding Acronyms

MDH

MN Department of Health

MPCA

MN Pollution Control Agency

Minnesota Funding Acronyms

PFA

MN Public Facilities Authority

MINNESOTA
PUBLIC FACILITIES AUTHORITY

DEED

MN Department of Employment and Economic Development

POSITIVELY Minnesota
Department of Employment and Economic Development

Minnesota Funding Acronyms

SRF

State Revolving Funds
(infrastructure loans)

PSIG

Point Source Implementation Grant

SCDP

Small Cities Development Program

WIF

Wastewater Infrastructure Fund (affordability grants)

RD

USDA Rural Development

PPL = Minnesota Priority Lists for Water Infrastructure Projects

- PPLs identify cities seeking funding for wastewater and drinking water infrastructure projects over the next five years

PPL = Minnesota Priority Lists for Water Infrastructure Projects

- Cities submit PPL requests to MPCA (clean water) and MDH (drinking water) as first step in funding process
  - Clean Water PPL Deadline (to MPCA) – first Friday in March
  - Drinking Water PPL deadline (to MDH) – first Friday in May
  - CW & DW IUP Deadline (to PFA) – first Friday in June

PPL = Minnesota Priority Lists for Water Infrastructure Projects

- State grant and loan funding follows PPL priorities
  - RD and SCDP also consider PPL priorities
  - PPL lists used by state and federal agencies to coordinate funding

- Score and rank
  - Based on Public Health and Environmental Impacts

CW & DW SRF
Low Interest Loans

PSIG
Grants to Meet More Stringent Pollutant Limits

WIF
Affordability Based Grants

State Funding (PFA/MDH/MPCA)

CW & DW PPLs

Federal Funding

USDA RD
Loans & Grants

SCDP
Block Grants Administered by DEED

Minnesota Pollution Control Agency

www.pca.state.mn.us

Minnesota community options for water infrastructure financing

Managing wastewater, stormwater and drinking water supplies is important for the health and safety of any community. It can also make a difference to a community's growth potential and environmental value, in terms of attracting new businesses, new residents and additional visitors. Achieving solutions is a complicated journey, requiring several steps to reach the destination. This flyer addresses one of the major steps – financing. Following is an outline of financing options for public entities. Use this matrix as a guide for researching financial options. Examine the requirements for each program and see if your entity qualifies. If so, contacting the funding agency is the first step toward an affordable solution that protects health and safety while enhancing your community.

Program	Objective	Applicant	Uses	Population	Terms/conditions
MINNESOTA PUBLIC FACILITIES AUTHORITY	**Minnesota Public Facilities Authority** Becky Sabie, PFA Program Coordinator 651-259-7470 Rebecca.Sabie@state.mn.us http://mn.gov/deed/government/public-facilities/funds-programs/				
Minnesota Pollution Control Agency	**Minnesota Pollution Control Agency** Bill Dunn CWRF Program Coordinator 651-757-2324 bill.dunn@state.mn.us www.pca.state.mn.us/ppl				
Clean Water Revolving Fund (CWRF) Minn. R. ch. 7077, Minn. Stat. § 446A.07 and 116.16	**Loans** for municipal wastewater and stormwater projects.	Cities, counties, townships, sanitary districts. Projects must be listed on the Minnesota Pollution Control Agency (MPCA) project priority list (PPL) and Public Facilities Authority (PFA) Intended Use Plan.	Build, repair and improve public wastewater or stormwater systems.	No cap or minimum.	Below market interest rates, repayment period is 20 years and, in some cases, 30 years.

Minnesota Pollution Control Agency
651-296-6300 | 800-657-3864 or use your preferred relay service | Info.pca@state.mn.us

December 2016 | wq-wwtp2-42
Available in alternative formats

Understanding Your Water System's Financial Position

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 of Cash on Hand
Can your system meet its short term obligations?	Current Ratio

Whiteboard Video: Financial Benchmarking

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

Operating Ratio

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

Operating Ratio

DEPRECIATION

ANNUAL COST OF WEAR
AND TEAR ON THE SYSTEM

What is Depreciation?

- Loss of value of an asset not restored by current maintenance
- An economic fact for any water system
- From both physical factors and functional or non-physical factors

https://www.youtube.com/watch?v=d8A7MJXFV1U&t=1115s

$$\frac{\text{Operating Revenues}}{\text{Operating Expenses incl. Depreciation}} > 1 \checkmark$$

Debt Service Coverage Ratio

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

Debt Service Coverage Ratio

- Minnesota SRF borrowers are required to issue a General Obligation Revenue Note to secure the SRF loan

- State law requires 105% revenue coverage for G.O. debt

Debt Service Coverage Ratio

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

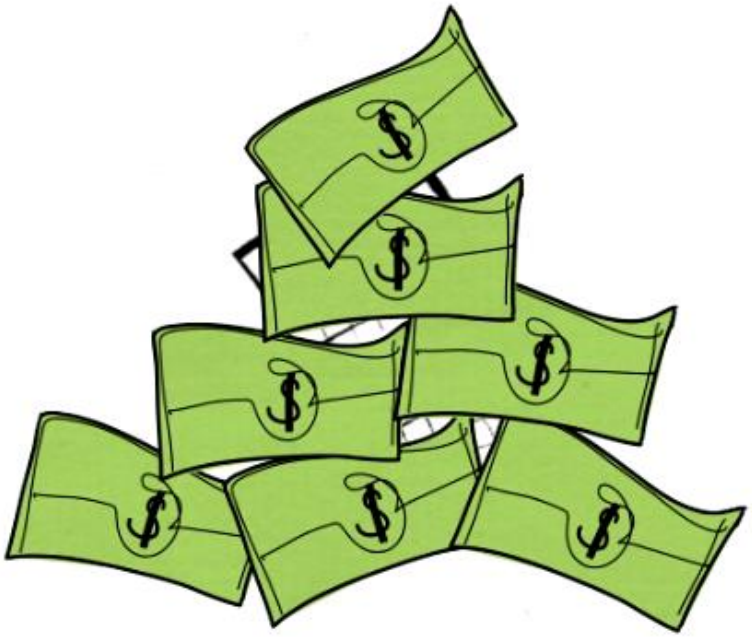
>1.05

Days Cash on Hand

UNRESTRICTED CASH AND INVESTMENTS

OPERATING EXPENSES EXCLUDING DEPRECIATION & AMORTIZATION / 365

Days Cash on Hand



Generally in MN, 3 months of cash on hand plus 1 year of debt service

Current Ratio

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

Current Ratio

> 1 ✓

An Example
Town of Mayberry

- Actual numbers from an average small town community water system

Operating Ratio – Mayberry

PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

1a. $444,231 (*Operating Revenues* **(1)**) / $511,448 (*Operating Expenses (including depreciation)* **(2)**) = 0.87

Other supplies and expense
Depreciation
Total operating expenses
Operating income (loss)

142,465
511,448
(67,217)

NONOPERATING REVENUES (EXPENSES)

Operating Ratio – Mayberry

PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

1b. $444,231 (Operating Revenues **(1)**) / $368,985 (Operating Expenses (excluding depreciation) **(2-3)**) = 1.20

Other supplies and expense
Depreciation 142,463 - (2)
Total operating expenses 511,448
Operating income (loss) (67,217)

NONOPERATING REVENUES (EXPENSES)

DC $511,448 - Dep $142,463 = $368,985

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

OE $368,448
- Dep $142,463

	Enterprise Funds Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 437,947
Purchases of capital assets	
Principal paid on capital debt	(49,655)
Interest paid on capital debt	(35,128)
Net cash (used) by capital and related financing activities	(124.624)

P $49,655
+ I $35,128

2. $\dfrac{\$444{,}231 - \$368{,}985}{\$84{,}783} = 0.89$

Operating Revenues ***(1)*** − *Operating Expenses* ***(2-3)*** *(excluding depreciation)*

Principal & Interest on Long-Term Debt ***(4)***

The accompanying notes are an integral part

Days of Cash on Hand – Mayberry

PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Enterprise Funds

3. $107,706 (*Unrestricted Cash & Cash Equivalents* **(5)**) / $368,985 (*Operating Expenses (excluding depreciation)* **(2-3)**) = 107

Other supplies and expense
Depreciation
Total operating expenses
Operating income (loss)

NONOPERATING REVENUES (EXPENSES)

126,202 (3)
142,463 - (2)
511,448

Dep $671,333
Dep $213,251

Unrestricted
Total net assets

DECEMBER 31, 2010

Enterprise Funds
Water and Sewer

ASSETS

Current assets
  Cash 107,706 -(5)
  Restricted cash 176,424

$107,706 *Unrestricted Cash & Cash Equivalents (5)* + $41,870 *Receivables, net (6)*

4. ——————————— = 1.38

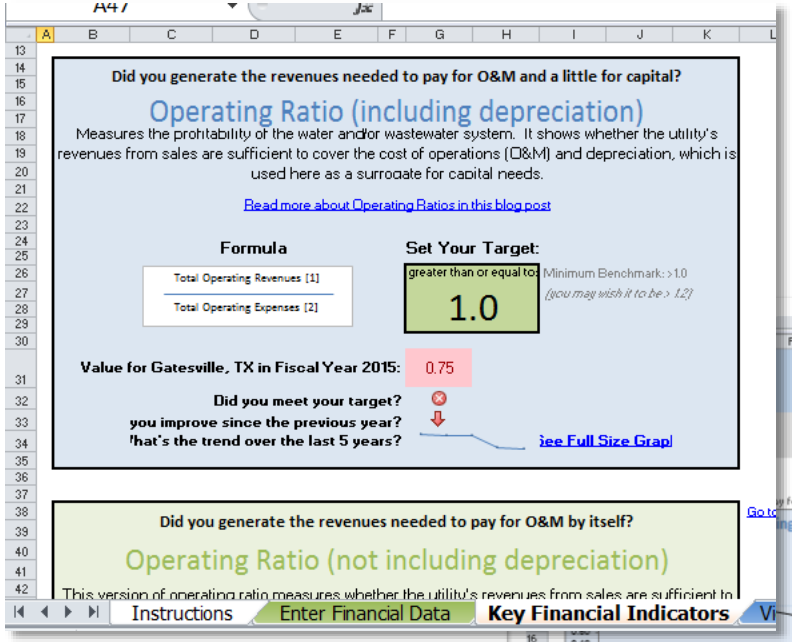
$108,390 *Current Liabilities (7)*

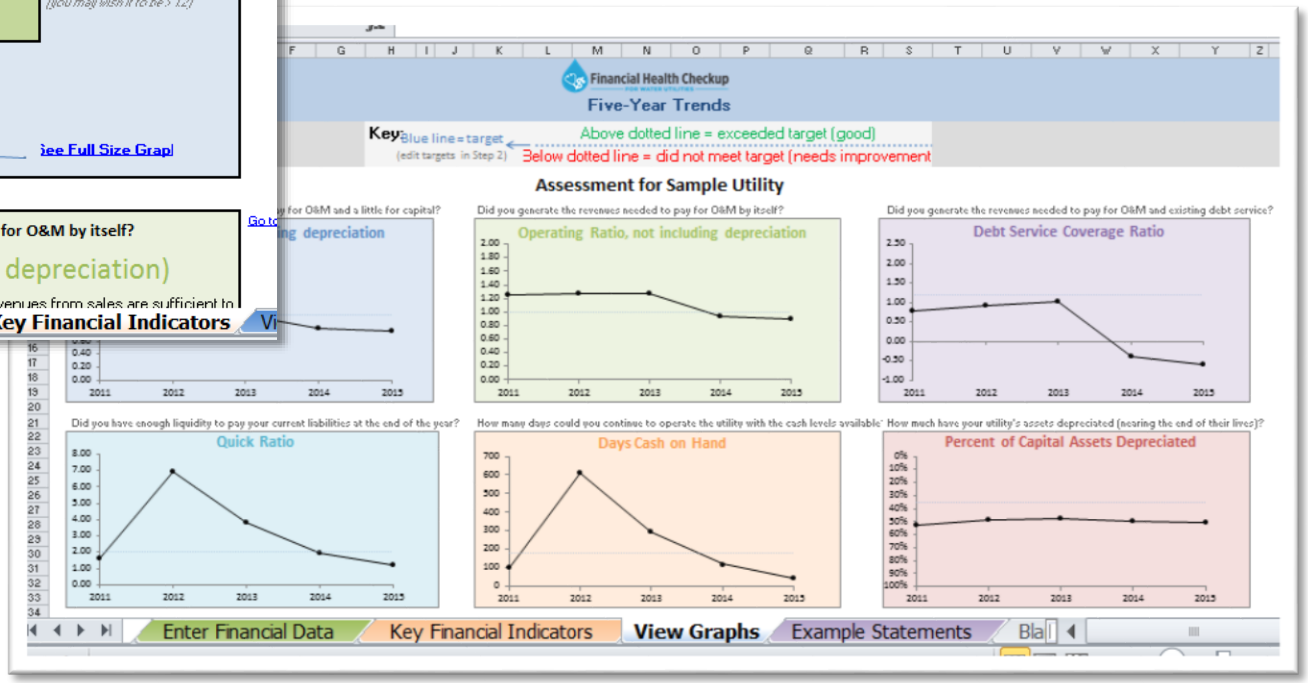
LIABILITIES

Current liabilities
  Accounts payable $ 9,311
  Customer deposits 44,229
  Bonds payable current 54,850
  Total current liabilities 108,390 -(7)

Noncurrent liabilities
  Bonds, notes and loans payable 828,452
  Total noncurrent liabilities 828,452

Financial Health Checkup Tool





Raising Appropriate Revenues

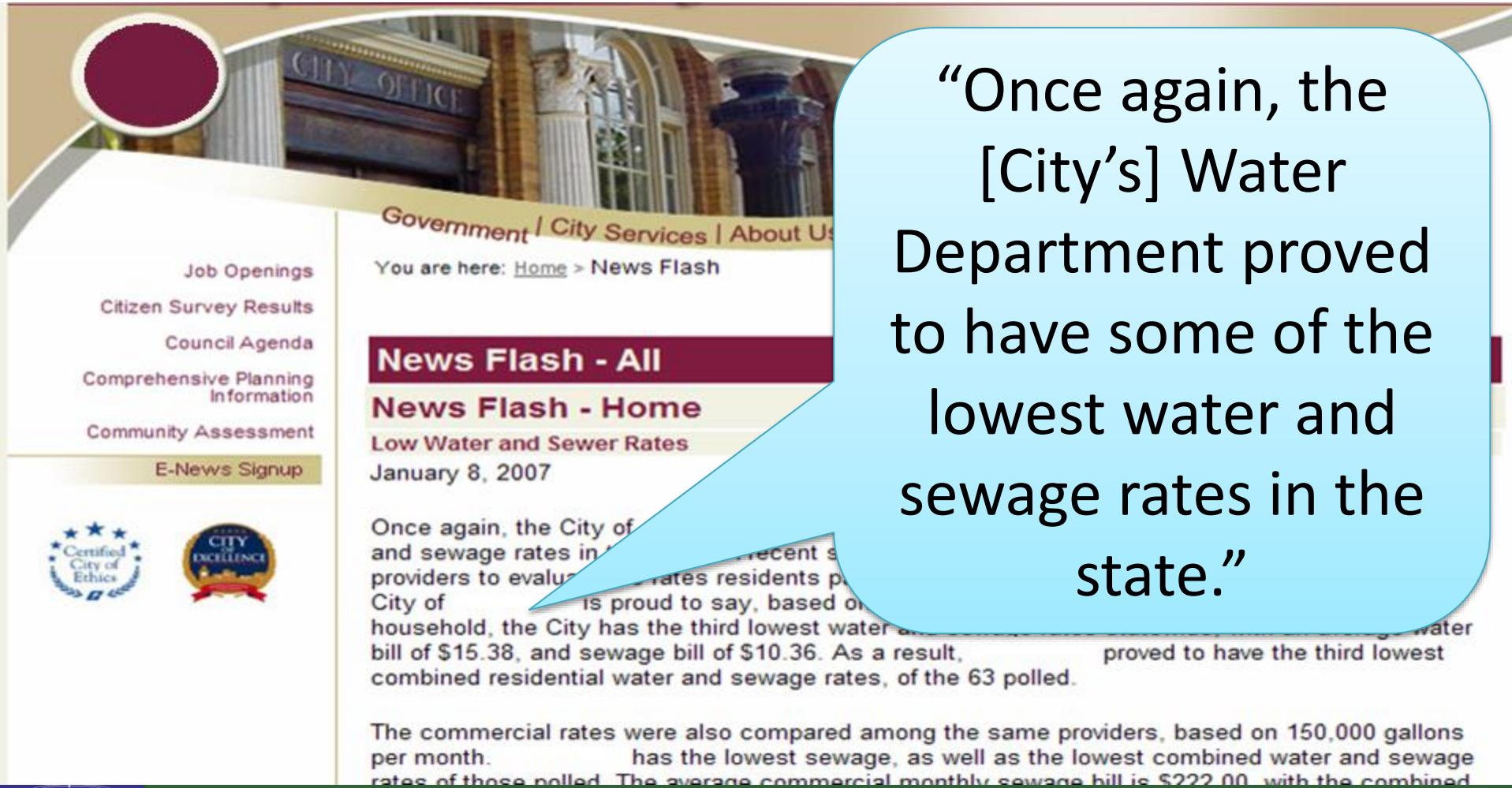
How to Pay for Capital Improvements

- Pay as you go (current receipts)
- Save in advance and pay (reserve funds)
- Pay later (someone loans you money)
- ~~Grants (let someone else pay)~~

“Full Cost Pricing”

- Operations & maintenance expenditures
- Taxes and accounting costs
- Contingencies for emergencies
- Principal and interest on long-term debt
- Reserves for capital improvement
- Source water protection

Systems Love Low Rates, but...



"Once again, the [City's] Water Department proved to have some of the lowest water and sewage rates in the state."

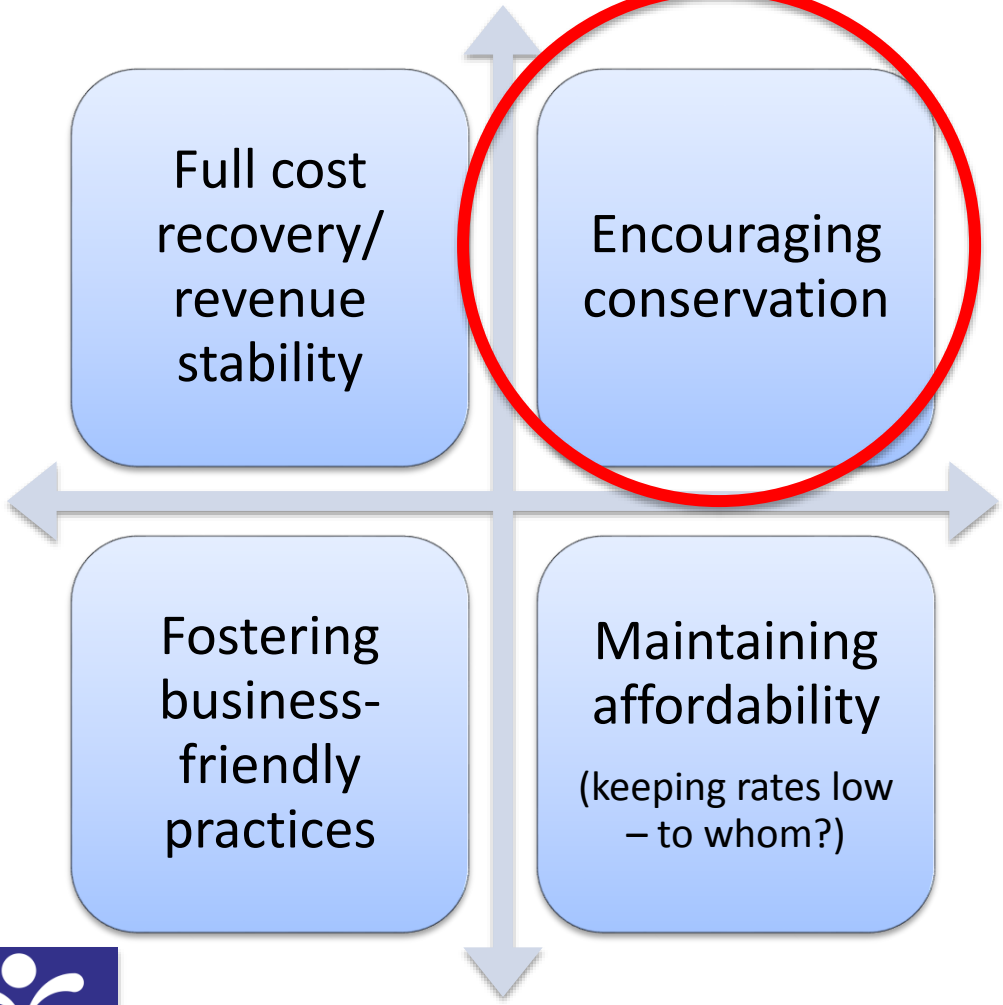
Non-Recurring Revenues

- Penalties
- Cellphone & radio receivers on the tank
- Ads on the tank
- Tap or connection fees
- System development charges
- Grants

But most of your revenue comes from your rates

How do we get the rates “right?”

Rank Your Rate Setting Objectives



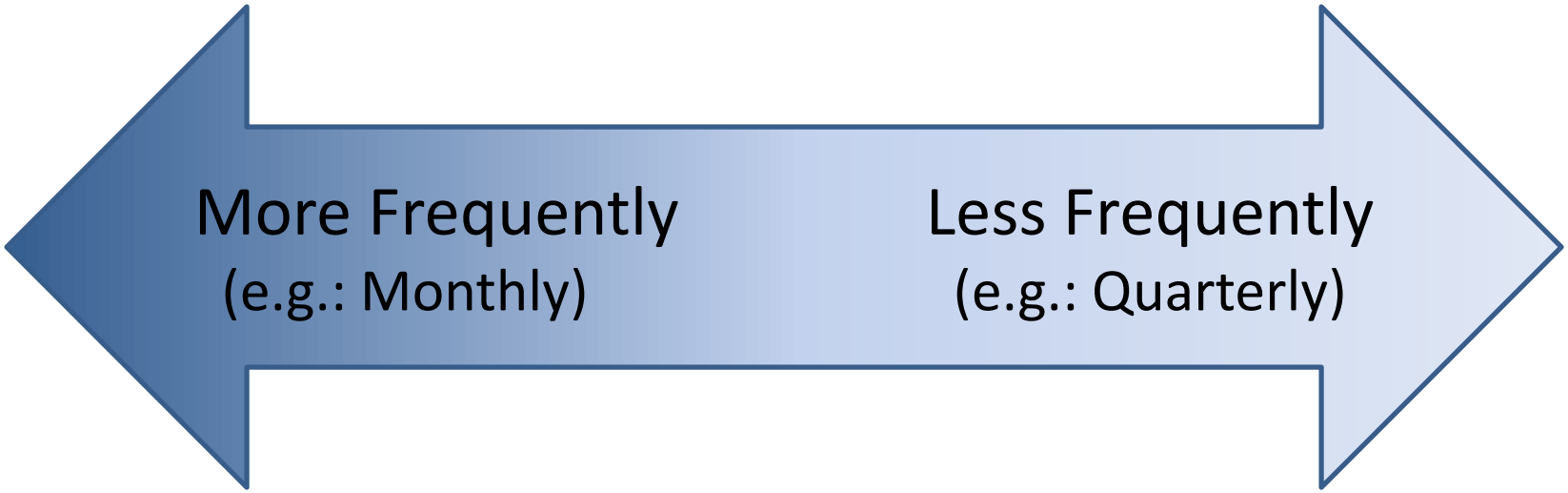
Conservation will always be a priority in Minnesota due to water supply planning requirements

s on the
when
or selecting
cture design.

Customer Classes/Distinctions

- One rate structure for all
- Separate structures based on customer class
- Different base charge based on meter size
- Inside/Outside customers
- Negotiated rate with large customers

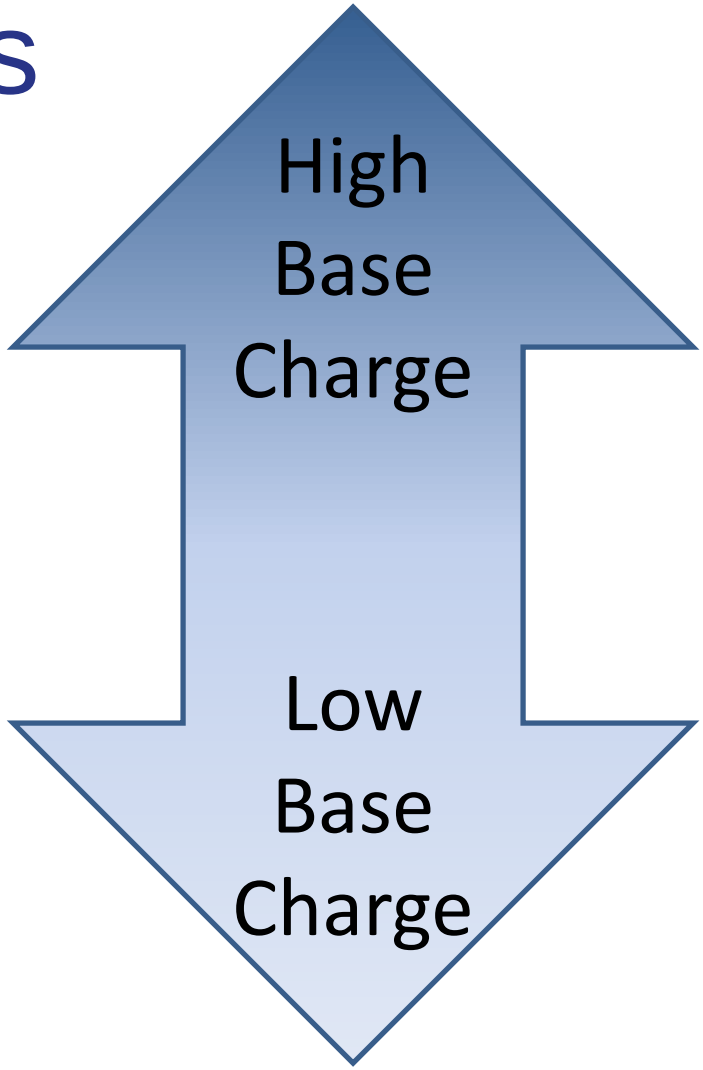
Billing Period



Suggestion: Use a monthly billing period if you can afford it

Base Charges

Suggestion: Smaller utilities should lean towards higher base charges



Consumption Allowance with Base Charge

Do not include any (0 gallons)	Include some amount (e.g. 1,000 gal/mo)	Include high amount (e.g. 3,000 gal/mo)

Suggestion: For systems with low base charges, do not include any consumption allowance. For systems with high base charges but wish to encourage conservation, keep consumption allowance low, if any.

Increasing Block Designs

For block rate structures to be effective:

- Correct number of blocks
- Where the blocks should end/start
- Significant rate differentials between blocks
- Read meters punctually
- Think about large families

Frequency of Rate Changes

- Always review your rates annually (recommended)
- Review your financial health indicators annually, and then review your rates if any of the indicators reflect poor financing
- Raise rates each year automatically based on inflation

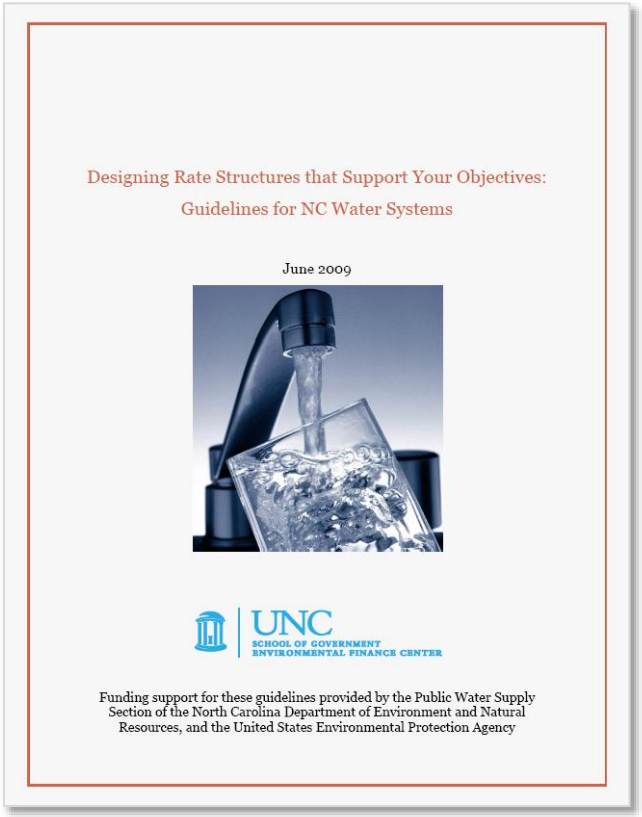
Frequency of Rate Changes

- *Important: Avoid maintaining low rates at the expense of your utility's financial health. It will either lead to a sudden, massive rate increase in the future or to failing systems and endangering public health.*

Designing Rate Structures That Support Your Objectives

Free guide written for system managers

Available at:
http://efc.sog.unc.edu/



A few questions…

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