Smart Management for Small Water Systems

Water System Management & Finance for Board Members

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Tonya Bronleewe & Nicholas Willis

Environmental Finance Center, Wichita State University

www.efcnetwork.org

EFCN environmental finance center network

American Water Works Association

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Managerial Capacity

Financial Capacity

Capacity Development

*Water system capacity means the ability of a system to **plan for**, **achieve**, and **maintain** compliance with drinking water standards now and into the future.*

3 Components of Capacity Development

Managerial — Clear Roles, Effective Policies, Thorough Planning

Financial — Budgeting, Accounting, Planning, Internal Controls

Technical — Infrastructure, Source, Standards, Rights, Operators

Managerial Capacity

The utility's institutional and administrative capabilities

Utilities with good managerial capacity are:

- ✓ Organized, well-run & efficient
- ✓ Accountable & transparent
- ✓ Responsive to customers
- ✓ Effective policy makers and implementers
- ✓ Short- & long-term planners

Public Water Systems

Provide **safe** drinking water at most **appropriate cost**

- ✓ **Water Quality**
- ✓ **Reliability**
- ✓ **Affordability**

What Law Keeps My Water Safe?

Safe Drinking Water Act

passed by congress in 1974

EPA granted the role of administering the SDWA to the states:

- Permit, monitor, report & enforce
- Training and technical assistance

Legal Framework

Duty of Care

- Exercise good judgement
- Make decisions based on available information & resources

Duty of Loyalty

- Decide & act in good faith
- Make decisions in the best interest of the utility

Duty of Obedience

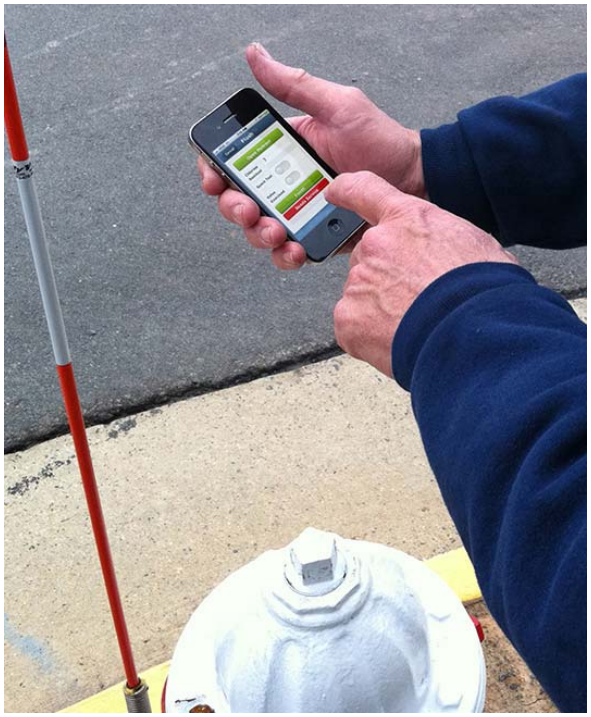
- Obey the law
- Make decisions that are faithful to the mission, bylaws & policies of the utility

Board Member Roles & Responsibilities

- Be a good **team member**
- Develop **long-term goals** that protect health and financial sustainability
- Set **policies** for effective and legal system operation
- Set customer service goals
- Oversee finances
- Act transparently
- Communicate to customers

Staff (manager, administrator, clerk) Roles & Responsibilities

- Run the system (day-to-day tasks)
- Implement & enforce policies
- Maintain financial records
- Operate, maintain, repair, manage & replace assets
- Implement a water loss control program
- Practice energy efficiency
- Provide customer service
- Keep the board informed



Asset Management

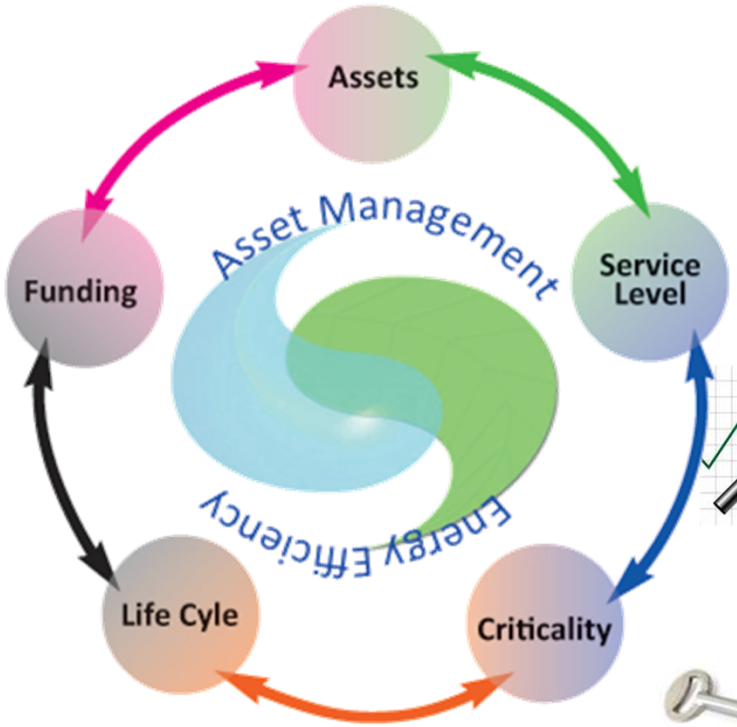
Asset Management is maintaining a **desired level of service**

(*what you want your assets to provide*)

At the lowest **life cycle cost**

(*best appropriate cost – not "no cost"*)

Five Core Components of Asset Management



Current State of the Assets

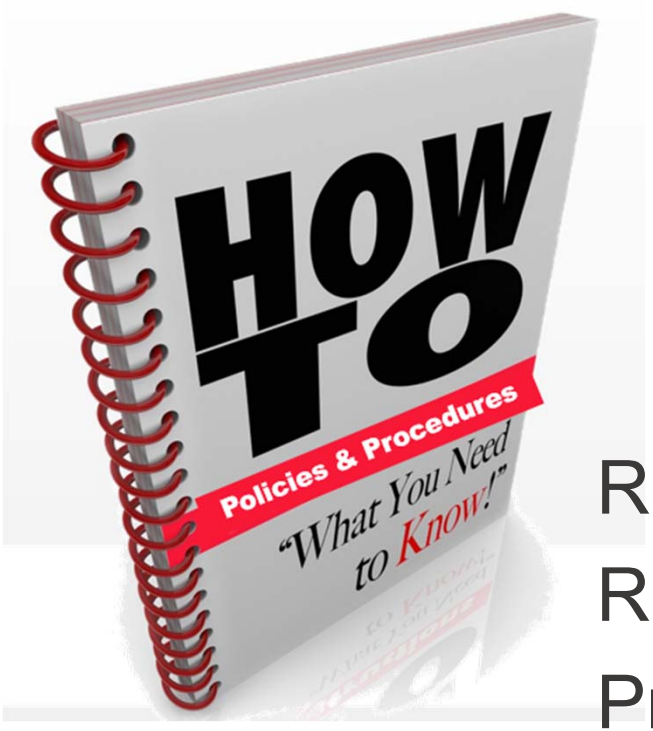
Level of Service

Criticality

Life Cycle Costing

Long-Term Funding

Policies & Procedures



Board – Sets Policies

Staff – Implements Policies

Both – Write Policies

Read them

Review regularly

Provide copies to all staff & the board

Benefits

- Attracts qualified employees
- Attracts qualified contractors
- Decreases disturbance as staff changes
- Instills customer confidence and trust

Personnel Policies

Employees are a utility's most valuable asset

Sets staff expectations

Uniform direction for staff and management

Instill confidence, trust & satisfaction

Purchasing Policies

Ensure public funds are used efficiently.

Guide to staff for procuring goods & services

- Optimize price savings
- Buy quality products
- Value vendor relationships
- Comply with state, federal and audit standards

Formal Code of Ethics

Provides guidelines to prevent unethical behavior

Avoids appearance of impropriety

Encourages transparency in board decision making

Fosters public trust

Customer Service Policy

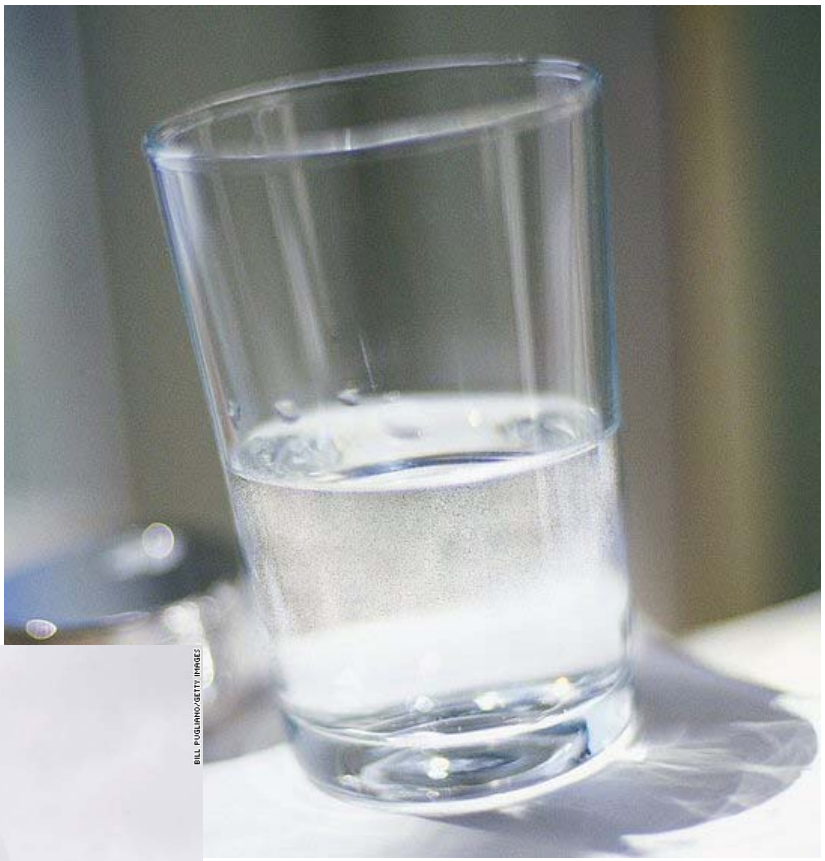
- Should be easy to understand
- Detail rates
- How to get/quit/transfer service
- How to pay a bill
- What happens if payments are not made
- Where to go with questions
- Emergency plans

Customers ARE a utility's business

Communicating with Customers

- Bill stuffers
- Billboards
- Classes
- Consumer confidence report
- Mailers
- Newspapers
- Phonecalls
- Posters
- Radio/TV
- Social media
- Special meetings
- Surveys

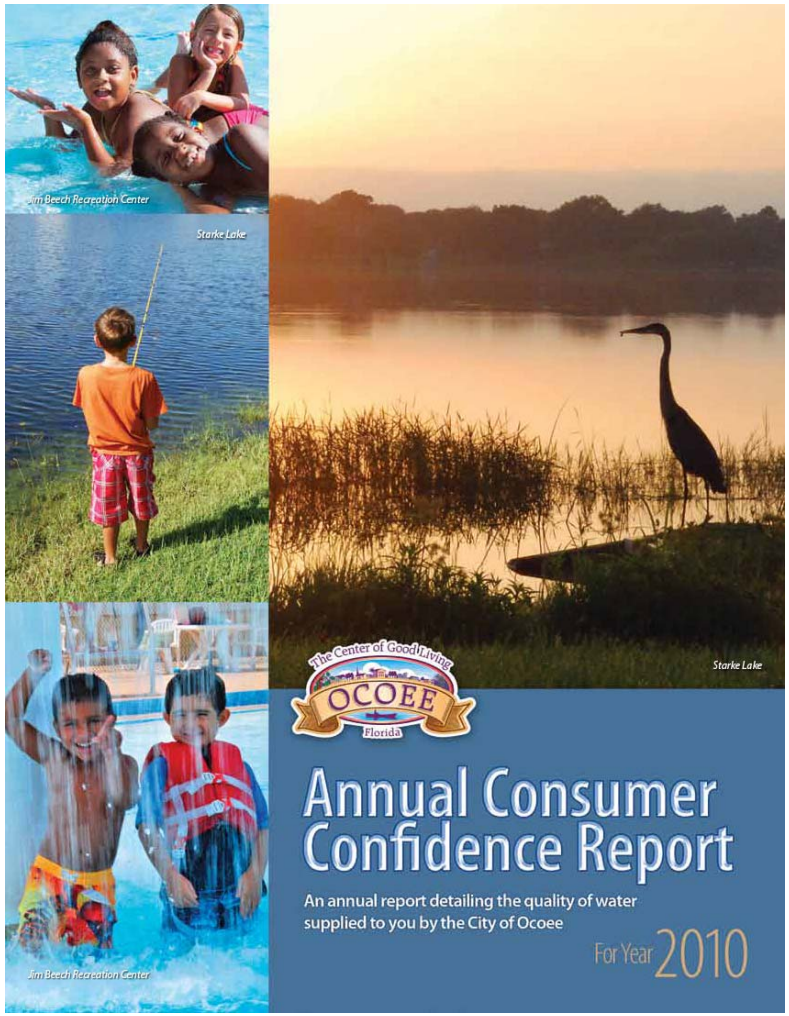
Don’t let the water utility be your community’s best kept secret

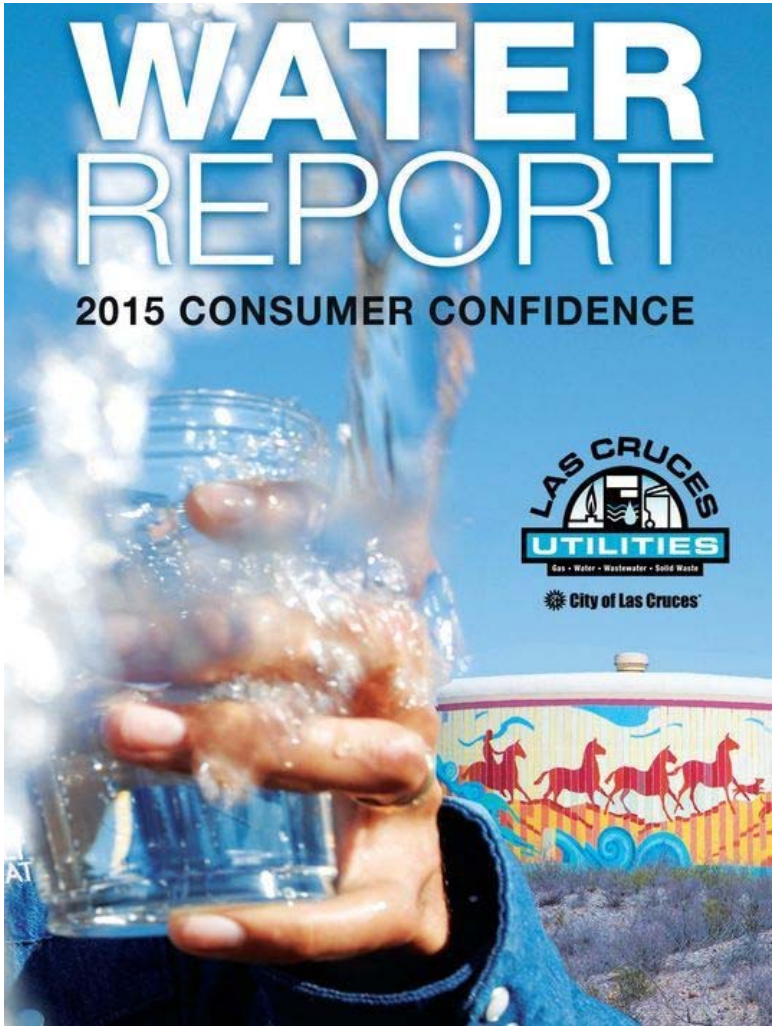



FLINT WATER PLANT

Find your customers where they spend their time

Consumer Confidence Reports





Financial Capacity Development

Financial Capacity

The utility has financial resources to supply safe drinking water in short and long term.

- **Short Term** – pay staff, utilities, repairs, leases, contractors, debt, etc.
- **Long Term** – finance expansion of facilities, major equipment replacements, retain staff, ensure adequate water supplies, etc.

Indicators of Financial Capacity

Adequate and Protected Financial Resources

- Budgets
- Rates & Revenue
- Financial Controls
- Audits
- Credit access

Planning for the Expenses of the Future

- Capital Improvements
- Expenditures
- Revenue meets expenses
- Reserves
- Regulatory changes

Rates & Revenue Sufficiency

Cornerstone of a well-run water utility

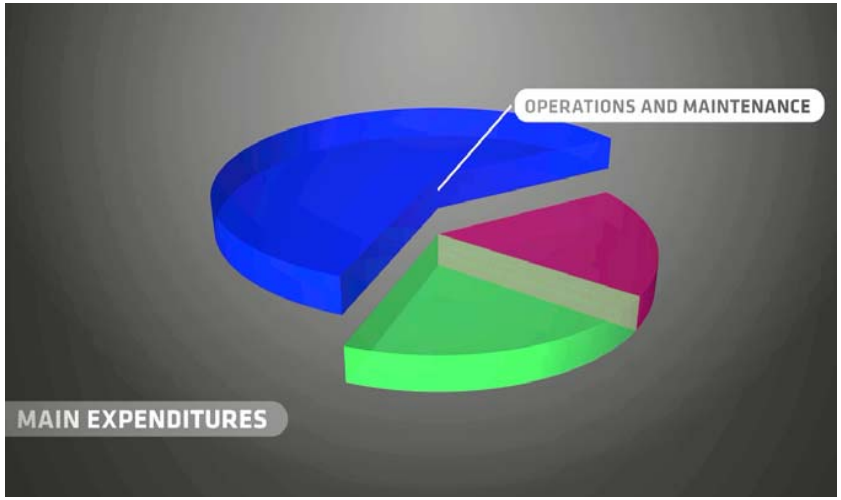
Critical to measure and know all costs & expenses

System expenses should be covered by rates and fees

True cost of service should be reflected

Budgets & Budgeting

- Yearly Plan
  - Public hearing required
  - RWD sets own FY
- Looks to the past
- Projects the future
- Determines priorities
- Staff does legwork
  - Board's role is review & approval



Budgeting Tips for Water Utilities

Remember

- **Water use** (and revenue) swing from year to year
- Suppliers have good knowledge of future costs
- Keep an eye on events of significant users

Always

- Use several past years
- Include major changes
- Include periodic events
- **Budget based on necessary expenditures**
  - Not projected revenue

Financial Reserves

Financial Reserves

Operational

- 3-6 months expenditures
- Smooths cash flow
- Allows for rainy days
- Allows to absorb higher than expected costs or show fall in revenue

Financial Reserves

Repair/Replacement

Based on schedule

Varies year-to-year

Savings account for high priced items that are too cheap for debt

- High Service Pumps
- Tower maintenance
- Well servicing

Financial Reserves

Debt Services

Required by lender

Reduces interest costs

Emergency

Covers unexpected costs

Minimum of current cost of most expensive capital item not in inventory

Capital Improvement Planning

What makes something a capital improvement vs. a regular maintenance or repair?

Maintenance & Repair


Capital improvement

Reasons for Capital Improvement Planning

Meeting regulatory requirements

Proactive – not reactive

Inform future decision makers

Establishes priorities for public review

Funding institutions see system thinks long-term

Not binding, unlike annual budgets

Tips for Capital Improvement Planning

- Set arbitrary minimum price for asset
- Stay realistic
- Five year minimum
- Justify need
- Coordinate with other projects
- Look at broad options
- Detail funding options
- Discuss openly

Capital Improvement Reserves

- Necessary to pay upfront costs
  - Engineering, land, surveys, legal, etc.
- Informed by Capital Improvement Plan
- Use reduces debt burden
- Reserve fund most likely to have large swings in value
- Best practice – transfer most depreciation expense to this fund

Thank you!

Smart Management for Small Water Systems

Thank you for participating today, and we hope to see you at a future workshop!

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