



Smart Management for
Small Water Systems

Financial Management for Small Water Systems: How to Plan for the Next Five Years and Secure Funding

June 5, 2018 | Baton Rouge, Louisiana

www.efcnetwork.org



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



Background

Applying for a grant or a loan?



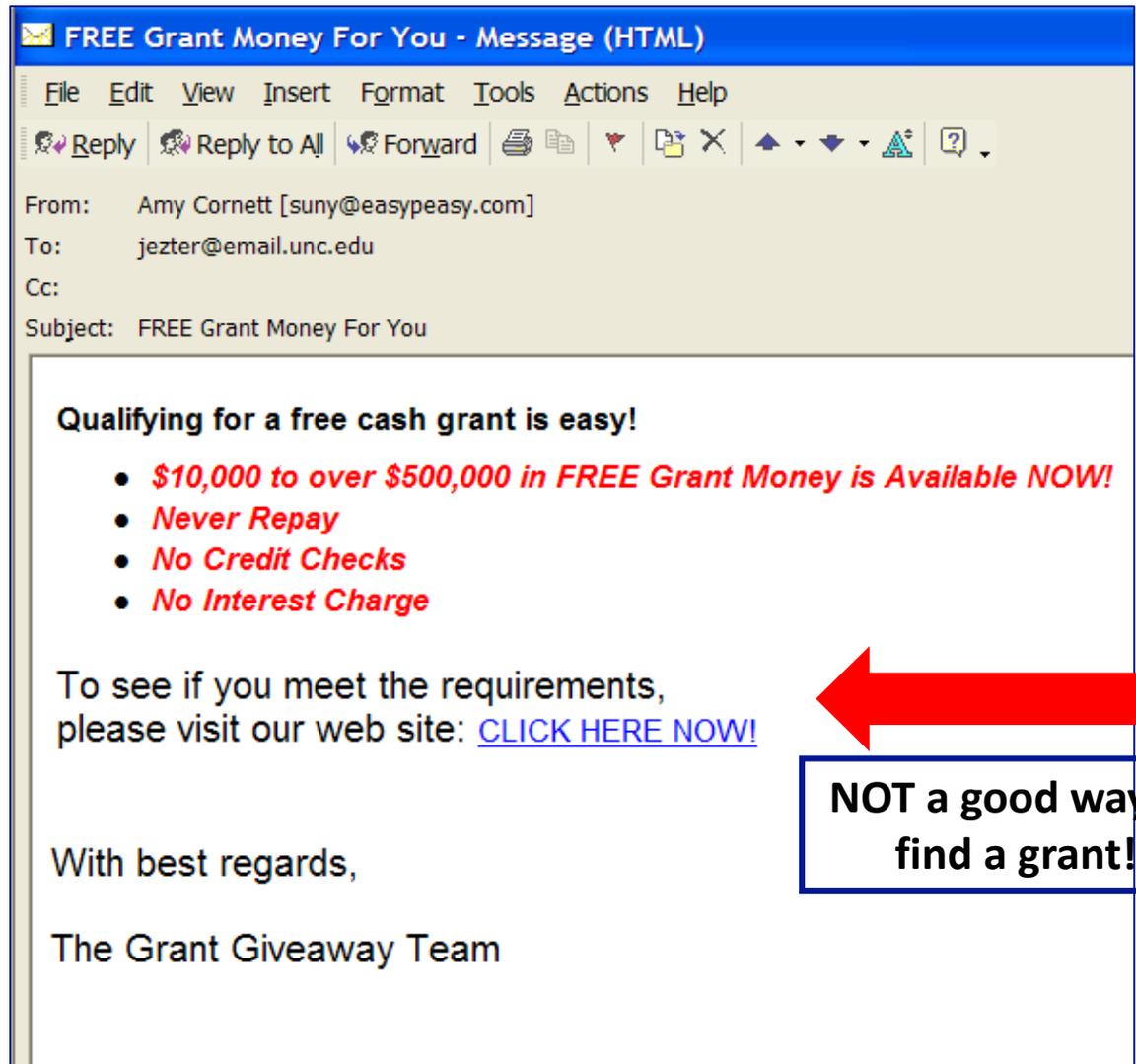
Compare and Contrast Grants vs Loans: Sustainable Funding Sources



How the Payments are Made For Infrastructure Projects

- Save in advance and pay
- Pay as you go (current receipts)
- **Pay afterwards (someone loans you money)**
- **Grants**

About Grants



FREE Grant Money For You - Message (HTML)

File Edit View Insert Format Tools Actions Help

Reply Reply to All Forward

From: Amy Cornett [suny@easypeasy.com]
To: jezter@email.unc.edu
Cc:
Subject: FREE Grant Money For You

Qualifying for a free cash grant is easy!

- ***\$10,000 to over \$500,000 in FREE Grant Money is Available NOW!***
- ***Never Repay***
- ***No Credit Checks***
- ***No Interest Charge***

To see if you meet the requirements, please visit our web site: [CLICK HERE NOW!](#)

With best regards,

The Grant Giveaway Team

NOT a good way to find a grant!



Grants Aren't Completely Free Money

- Application for the grant can be expensive – staff time and money
- Applications can take months to process
- Often lots of strings attached
- Often require a percentage match
- Lots of competition
- Difficult to sustain



In the Old Days...

- Water systems took advantage of the federal government's ambitious construction grants program of the 1970s and 1980s
- It seemed like “free” money



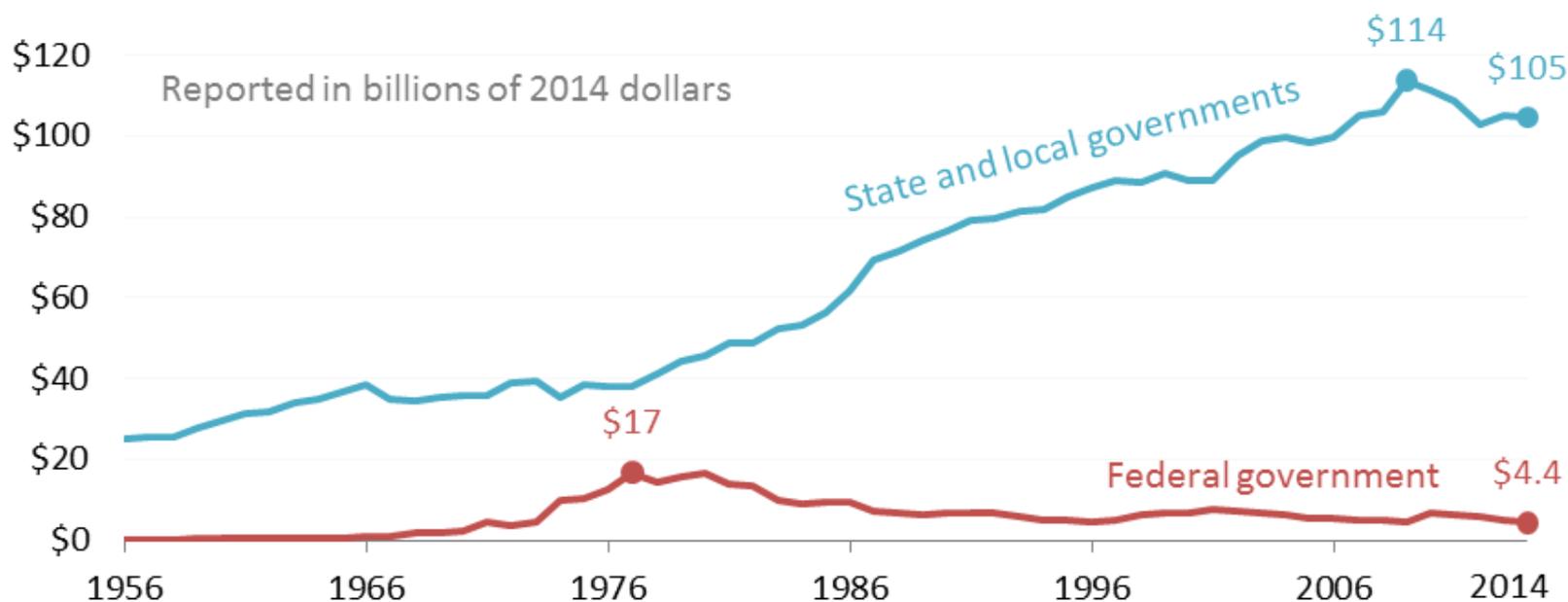
Capital Finance Today

- The money never really was “free”—it came from tax dollars
- Today, the financial burden has been shifted away from federal and state tax dollars (grants) to funds raised by the water system itself (customer sales and loans). For example...



State and local government spending on water and wastewater utilities continued to grow while federal spending declined since the 1980s

State and local governments spent 24 times as much as the federal government in 2014



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.



Loans

- Typically from a bank
- Can be from a government-sponsored program such as the Drinking Water State Revolving Fund



The Debt Market

- Why Borrow?
- Water infrastructure has a long useful life. You may wish to amortize the loan over the life of the equipment so that the people who benefit from the system pay for it

Bonds

- A written promise to repay borrowed money (on a definite schedule and usually at a fixed rate of interest for the life of the bond)
- Different types exist:
 - General Obligation (GO)
 - Revenue



Source: bettermondays.com



When You Need Cash Now: The Debt Market

- Lenders will look at your creditworthiness, your ability to repay the debt, in determining whether to loan to you and your interest rate
- Certain best practices can increase your chances of funding



Using Metrics from a Rates Dashboard

Rates Dashboards

Select “Map of Water and Wastewater Rates Dashboards” under the Resources Tab, and click on any state in blue to view its dashboard.



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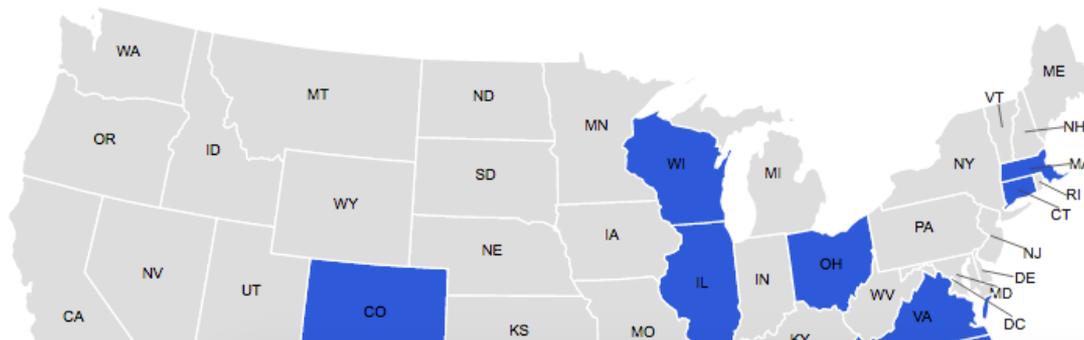
🏠 > MAP OF WATER AND WASTEWATER RATES DASHBOARDS

- Resource Library
- E-Learning Modules
- Funding Sources by State
- Map of Water and Wastewater Rates Dashboards

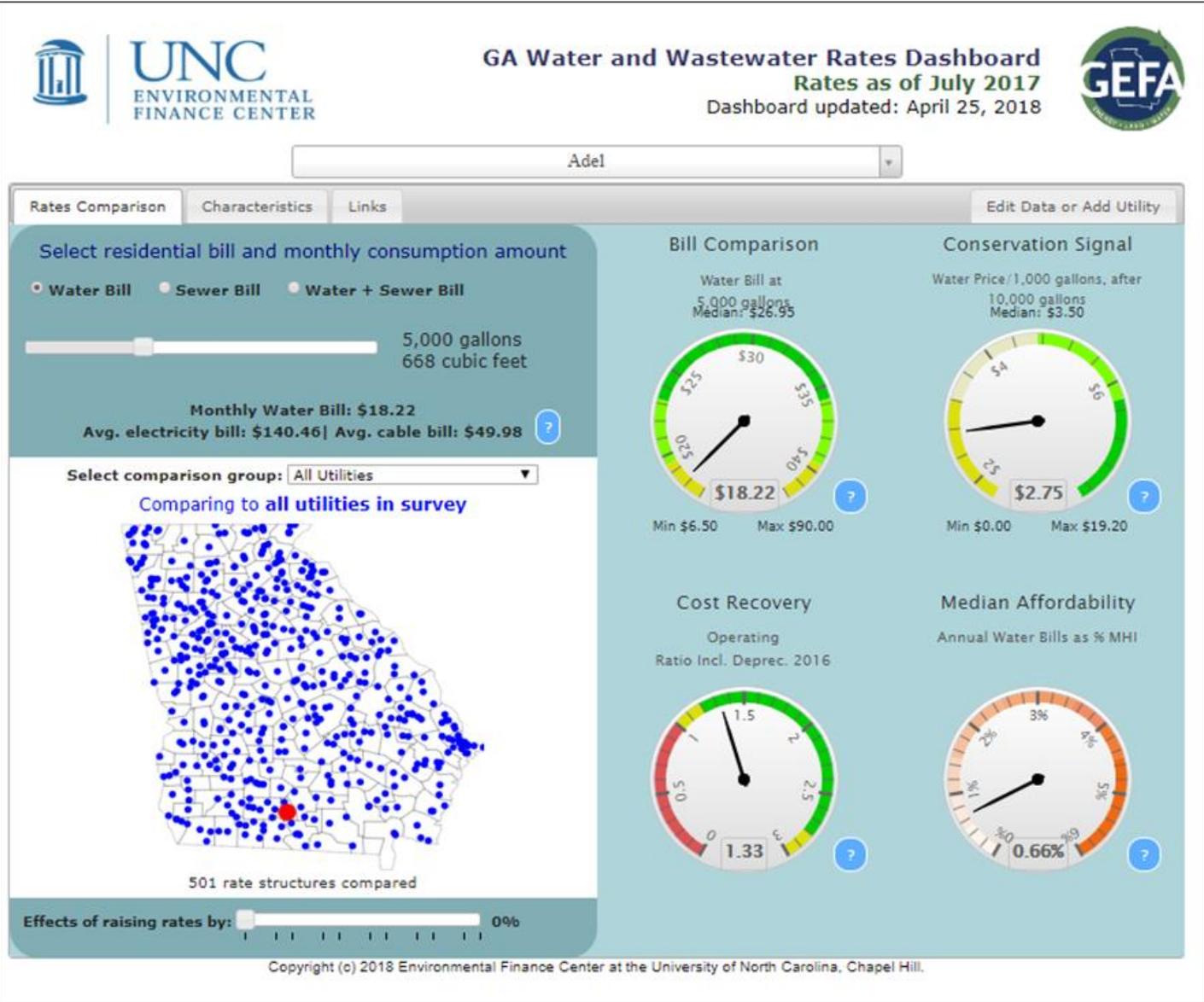
Map of Water and Wastewater

This map shows Water and Wastewater Rates Dashboards created by the EFCN:

Click a state in blue to view its dashboard



Example Dashboard:



Example
Dashboard:



AZ Water and Wastewater Rates Dashboard

Rates as of April 2015
Last updated: September 9, 2015



ABRA Water Company, Inc.

Rates Comparison

Financial Benchmarks

Characteristics

Links

Edit Data or Add Utility

Select service provided. (Display will not change if the utility has a combined water and sewer enterprise fund.)

- Water Bill
- Sewer Bill
- Water + Sewer Bill

Ability to cover expenditures and debt service

Op. Rev. / Op. Expend.

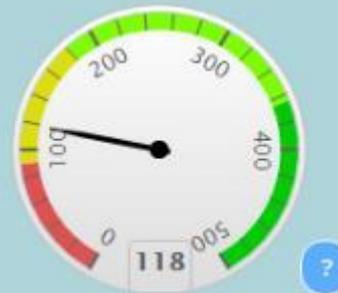


Debt Service Coverage Ratio



Measures of liquidity

Days Cash on Hand



Cost Recovery

Operating Ratio (Incl. Dep.)





Benchmarking



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>





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

OPERATING REVENUES



OPERATING EXPENSES



DEPRECIATION

ANNUAL COST OF WEAR
AND TEAR ON THE SYSTEM

Include or
Exclude

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

OPERATING REVENUES – OPERATING EXPENSES
(EXCLUDING DEPRECIATION)

PRINCIPAL + 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

**UNRESTRICTED CURRENT ASSETS
EXCLUDING INVENTORIES AND
PREPAID ITEMS**

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

UNRESTRICTED CASH AND INVESTMENTS

**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

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

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 | \$ 568,001 |
| Accounts Receivable (Net) | 60,346 |
| Prepaid Insurance | 5,856 |
| Total Current Assets | 640,203 |
| 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 | 39,833 |
| Total noncurrent assets | 5,781,215 |
| Total Assets | 6,421,418 |
| 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 Absences | 15,605 |
| Revenue Bonds (Net of current portion) | 233,357 |
| Notes Payable (Net of current portion) | 646,823 |
| Total Noncurrent Liabilities | 895,825 |
| Total Liabilities | 1,794,299 |
| Fund Net assets | |
| Invested in capital assets, net of related debt | 4,355,133 |
| Restricted for debt service | 114,583 |
| Unrestricted | 163,261 |
| Total fund net assets | \$ 4,632,977 |

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

Financial Health Checkup for Water Utilities



Developed by the Environmental Finance Center
at the University of North Carolina, Chapel Hill
<http://efc.sog.unc.edu>



A resource for water systems through the Environmental Finance Center Network's
Smart Management for Small Water Systems project, funded under a cooperative
agreement with the U.S. Environmental Protection. <http://efcnetwork.org>

What does this tool do?
This tool assists in the assessment of the financial performance of a water (and/or wastewater) utility fund. Financial data readily available in annual financial statements are copied into this tool, which computes key financial indicators that measure a variety of important metrics, such as the ability to pay debt service, availability of cash to pay for operations and maintenance, the sufficiency of revenues generated, etc. Each metric is compared against targets that are specified by the user. The tool demonstrates the financial strengths and weaknesses of the utility fund in the past 5 years.

Features:
Simple data entry (uses data already reported in your audited financial statements)
6 financial performance indicators with explanations
Set your own targets
Assessment of last year's financial ratios, improvements since previous year, and five-year trends
Guided navigation through hyperlinked images

What are financial indicators?
Watch a whiteboard video explaining financial performance indicators in lay terms.

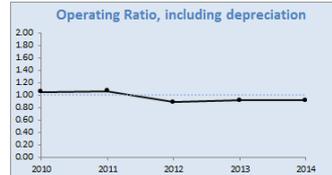




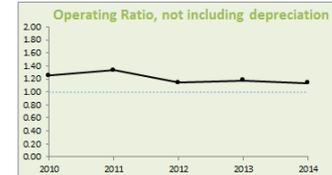
Excel®- based tool
Free to use

Assessment for Town of Anywhere

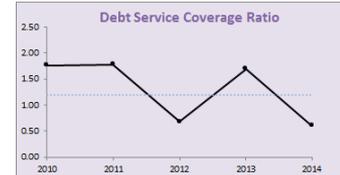
Did you generate the revenues needed to pay for O&M and a little for capital?



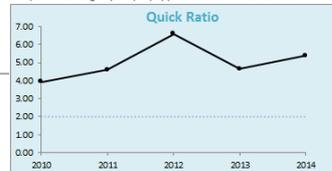
Did you generate the revenues needed to pay for O&M by itself?



Did you generate the revenues needed to pay for O&M and existing debt service?



Did you have enough liquidity to pay your current liabilities at the end of the year?



How many days could you continue to operate the utility with the cash levels available?

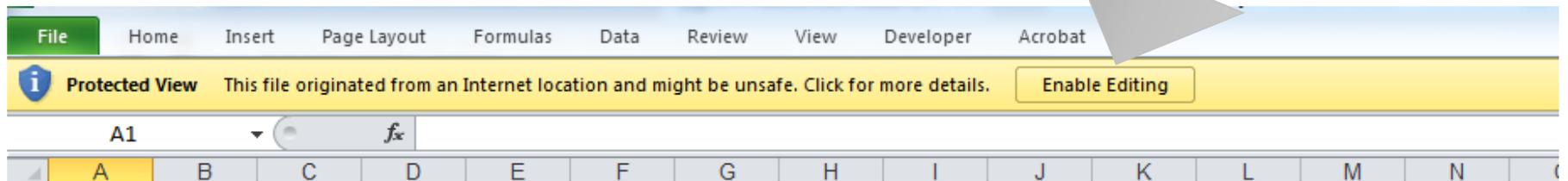


How much have your utility's assets depreciated (nearing the end of their lives)?



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?



BREAK