



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.



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 growth needs, expansion



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.

Example Capital Improvement Plan (CIP)

Project Name	Planning Years (Values in 000s)					Future	Total
	FY 02	FY 03	FY 04	FY 05	FY 06		
Water Supply & Treatment							
Water Treatment Objective							
Lime pumps and slakers	740						740
Chemical Enclosures		500					500
Filter 7-18 Control			330				330
Filter Gallery Rehab	1,140						1,140
High Service Pumps		1,500					1,500
Upgrade or Replace Reclaim System Drier	200						200
New Membrane Skids				5,700			5,700
Sodium Hypochlorite Plant	2,000						2,000
Additional Storage Tanks					5,000	3,300	8,300
Repair R/O Capacity		150					150
Filter Gallery Mech Parts	300						300
MMIS						150	150
VFDs - HSP		344					344
Membrane Replacement		1,600					1,600
Painting of Water Plant						3,000	3,000
Phase II Emergency Power Generator						1,500	1,500
Portable Generator - South Well Field				150			150
Replacement of Fuel Tanks			170				170
Upgrade of Existing Control System @ WTP						580	580
Water Treatment Total	4,380	4,094	500	5,850	5,000	8,530	28,354



Where Can You Find the Prices?

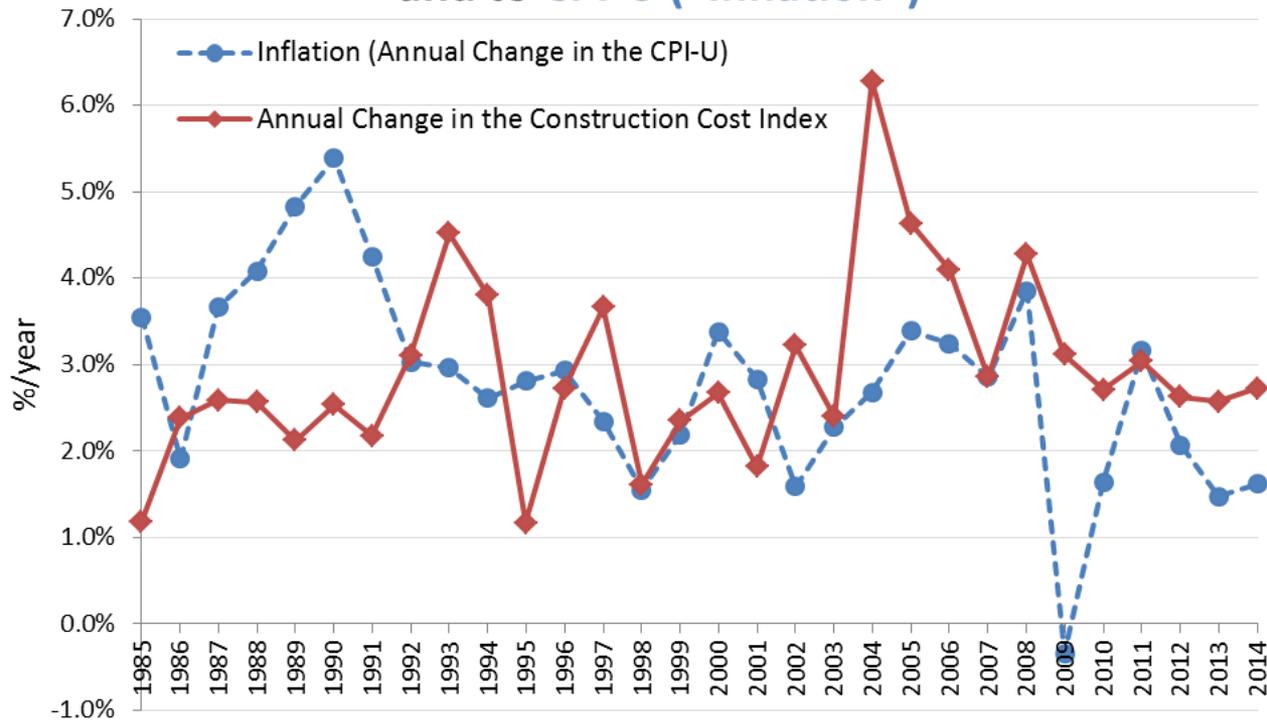
- Call a vendor. Actually, call a few.
- Ask other systems
- Look at past expenses but adjust for increases in costs



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.

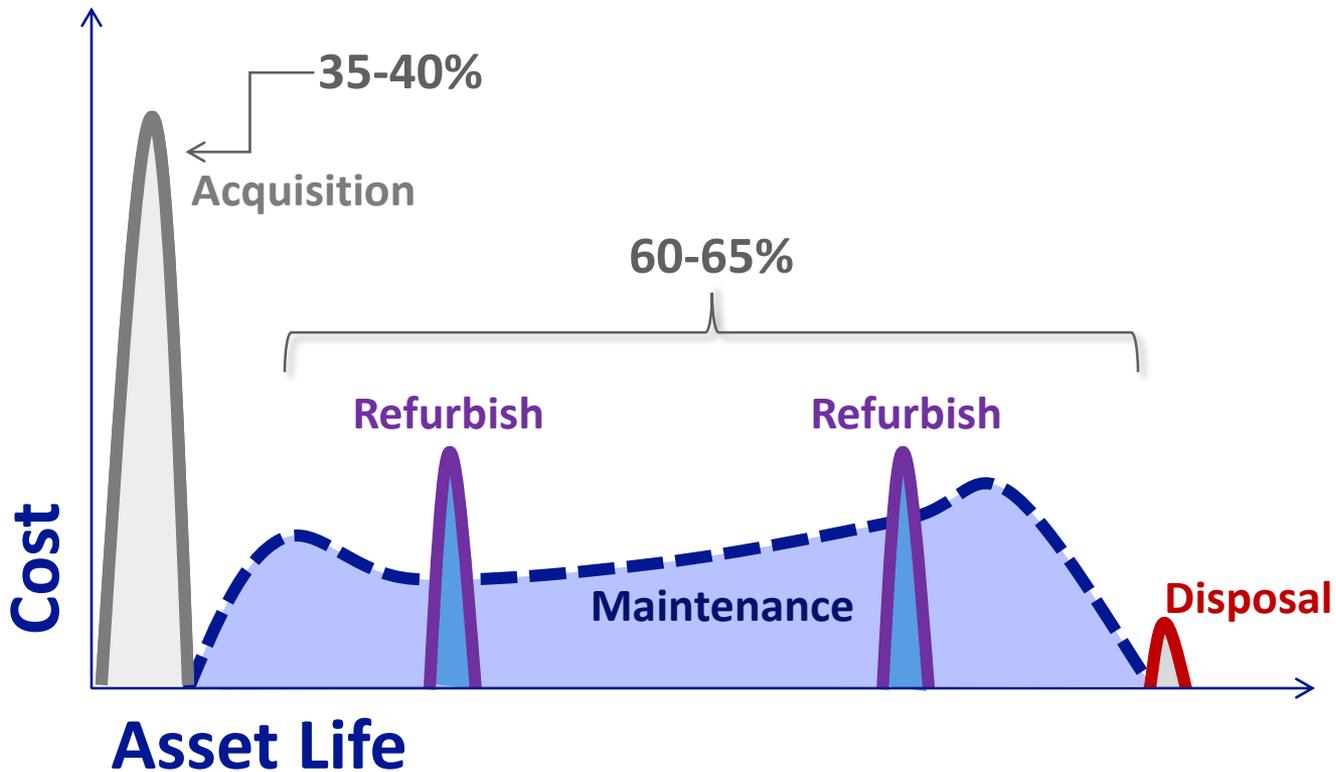
<http://efc.web.unc.edu/2012/09/26/using-an-index-to-help-project-capital-costs-into-the-future/>



Drive Down the CIP Cost

- Is it possible to
 - Eliminate projects?
 - Defer projects?
 - Repair or refurbish instead of replace?
 - Find a non-asset solution?
 - Find collaboration/partnerships alternatives with neighboring systems?
 - Improve balance of cash vs. debt-financed?
- Re-evaluate water demands of your customers. Many systems are now noticing that *total* demand is *decreasing* over time.

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



Source: Adapted from Steve Allbee, USEPA

Resource Webpage for Capital Planning

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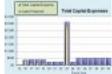
About Services Programs Resources Events

Mission Statement

We work to enhance the ability of governments and other organizations to provide environmental programs and services in fair, effective and financially sustainable ways.

Project Tools

User-friendly Capital Improvement Plan (CIP) Tool for Water & Wastewater Utilities



Calculator, 03/20/2014 (MS Excel, 802 Kb)

Enter in all capital projects and this tool will project your fund balance (revenues, expenses and reserves), and necessary rate increases for the next 20 years, and more!

What to Include in your Capital Plan:

PROJECT CAPITAL PLANNING AND WASTEWATER



This project, p... Support project... Department of... together many... water and wast... creation of a C... Management P...

Blog Post on "Using an Index to Future"

Read a short blog post on selecting an appropriate...

Summary of

"What to Include in Your Capital Plan: A Reference Guide for NC Water and Wastewater Utilities"

Last updated: February 2011

Categories	EPA's Asset Management: A Handbook for Small Water Systems*	Jack Vogt (DOG Faculty)'s Capital Budgeting and Finance Guide*	DEHM PWS Capacity Development Program	DEHM PWS Loans and Grants	DEHM DWQL Construction Grants and Loans	G.S. 1506-23	USDA Loans and Grants	NC Rural Economic Development Center	Local Government Commission	EPA Drinking Water Needs Survey	DEHM DWML Local Water Supply Plans	EPA Software: CIPSS
Goal statement/Introduction to your capital plan	<input checked="" type="checkbox"/>											<input checked="" type="checkbox"/>
Date of documentation of capital plan	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>							<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Capital planning time period	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Description of systems			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Existing capacity and demand			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Description of customers			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Inventory of existing assets (details on each asset)	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Condition of systems			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Project-specific details (complete for each project in every year)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Financial planning (complete for each year in time period)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Long-term planning descriptions (may be not project-specific)			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Approvals		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>			
Updating the capital plan	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Ties or links to other studies	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		

For updates and to view details in each category, go to <http://www.efc.unc.edu/projects/capitalplanning.html>

Created by the Environmental Finance Center at the UNC School of Government

User-Friendly Capital Improvement Plan (C.I.P.) for Water & Wastewater Utilities Tool

Free, simplified CIP tool using only MS Excel, developed by the Environmental Finance Center at UNC.

Tool developed by **UNC ENVIRONMENTAL FINANCE CENTER**

User-friendly Capital Improvement Plan (CIP) for Water and Wastewater Utilities
Version 2.5 (Updated March 2014)

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

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

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

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

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.

	FY16	FY17	FY18
Estimated Rate Changes Needed to Maintain the Fund Balance			
Total Increase (Decrease) in Rates Basis and Volatility	N/A	2.7%	5.1%
Increase (Decrease) in the Monthly Bill for 5,000 Gallons	N/A	\$0.00	\$1.51
Increase (Decrease) in the Monthly Gas Charge	N/A	\$0.00	\$0.38
Monthly Base Charge ("Minimum Charge")	\$12.34	\$12.34	\$12.38
Volume Rate at 5,000 gallons/month (of 1000 gallons)	\$5.47	\$5.07	\$5.96
Volume Included with the Base Charge (1,000 of gallons)	2	2	2
Approximate Monthly Charge for 5,000 gallons (\$)	\$29.35	\$29.35	\$31.65
Projected Fund Balance			
Total Revenues	\$ 1,910,000	\$ 1,993,000	\$ 2,208,347
Base Charges	\$ 1,776,866	\$ 1,796,322	\$ 1,907,268
Usage Charges	\$ 3,129,840	\$ 3,294,095	\$ 3,295,588
Interest Earned from Previous Year's Positive Balance	\$ -	\$ 9,465	\$ 1,927
Revenues from Other Sources Besides Charges	\$ 103,200	\$ 104,268	\$ 100,344
Total Revenues	\$ 5,410,000	\$ 5,409,050	\$ 5,410,000

Download the latest version at <http://efc.sog.unc.edu>. Find it in Resources / Tools.

Tool development was funded by the Public Water Supply Section of DWR/ NCDENR and partly by the USEPA.



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Development of this tool was funded by the NC Department of Environment and Natural Resources (Public Water Supply Section) and the U.S. Environmental Protection Agency
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What the Tool Does

Summarizes your utility's capital needs in the next 20 years, and estimates rate increases needed to fully fund the capital projects, based on debt and/or cash funding requirements

