Ask Me Anything! The Importance of Projecting Budgets 8/6/2025

Quick recap

Ashley conducted a "Deep Dive" session on budget projections, marking the 9th month of her "Ask Me Anything" office hours series. She explained that the session was funded by EPA through the Environmental Finance Network and encouraged participants to take a break. The presentation focused on themes introduced in previous sessions, with today's deep dive specifically addressing budget projections.

Next steps

- Small communities to implement regular asset management and capital improvement planning processes
- Small communities to account for routine but non-regular expenses in annual budgets, including testing, tank cleaning, and sludge management
- Small communities to review and adjust rate increase schedules to align with capital improvement plans and infrastructure needs
- Small communities to connect with Environmental Finance Centers for budget planning assistance

Summary

State Revolving Funds: Structure and Impact

Ashley explained the structure and operation of State Revolving Funds (SRFs), highlighting them as a key funding tool for water, wastewater, and stormwater projects. She described how money flows from EPA to states through annual appropriations, which states must match at 20%, and explained that the funds are used for low-interest loans to projects, with drinking water funds starting in the late 1990s and clean water funds since the 1980s. Ashley noted that while SRFs were designed to be self-sustaining, shrinking federal appropriations impact the programs, and she mentioned a future session about set-aside activities.

User Rates and Asset Management

Ashley provided a refresher on the journey to establishing user rates, emphasizing that they are part of a broader process involving asset management, capital improvement planning, and discussions on reserves and debt. She explained the distinction between asset management plans and capital improvement plans, highlighting the importance of aligning funding sources with asset life expectancies. Ashley also discussed the role of reserves in financing medium- and long-lived assets, advocating for a balanced approach to budgeting that minimizes the impact of asset replacements on ongoing operations.

Budget Forecasting for Water Utilities

Ashley discussed the importance of budget projections for water and wastewater utilities, emphasizing that most communities do not currently engage in proper budget forecasting. She highlighted the need to project expenses over a 3-5 year period, considering three main categories: ongoing operations, capital investments, and debt payments. Ashley suggested using a 3% annual inflation rate as a starting point for budget projections and encouraged utilities to account for contractual obligations and other fixed increases when planning their budgets.

Planning for Utility Budget Expenses

Ashley discussed the importance of planning for routine but irregular expenses in small utility systems, such as water testing and tank cleaning, which can significantly impact budgets if not accounted for in advance. She emphasized the need to project expenses, include them in asset management plans, and consider debt service coverage ratios for communities with revenue bonds. Ashley also highlighted the importance of managing the financial impact of maturing debt by either using the resulting gap in revenue v expenses for reserves or backfilling with new debt. The goal is to maintain current rates and manage increases, but to never lower rates.

Revenue Strategies for Small Communities

Ashley discussed the importance of projections for small communities to counter infrequent but significant rate increases. She highlighted the potential of reserve transfers and establish investment policies to generate additional revenue, citing an example from a Vermont city where re-investing cash reserves led to an increase of half a million dollars in revenue. Ashley also mentioned other revenue sources like payment in lieu of taxes (PILOT), as well as the need to meter and bill for free water connections in some communities.

Utility Rate Management Strategies

Ashley discussed strategies for managing utility rates and revenue, emphasizing the importance of planned rate increases to address financial concerns and operational challenges. She highlighted the use of transfers from general funds as a red flag for inadequate revenue planning and suggested a combination of budget planning (PAYGO), cash reserves, and debt to smooth rate increases. Ashley provided examples of well-planned and poorly planned communities to illustrate the impact of effective financial projections and planning.

Water Utility Financial Planning Overview

Ashley explained the financial planning process she prepared for a water utility, detailing how a 3% inflation rate was applied to operating expenses and included debt service, asset reserve funds, and a capital improvement plan. She highlighted the utility's decision to accelerate lead service line replacements due to federal requirements, which would require an additional $50 million annually. Ashley also described how they calculated total expenses over five years, including a 15% debt service coverage ratio (DSCR), and explained the projected revenue increases based on scheduled rate hikes and other revenue sources.

Financial Challenges in Community Revenue

Ashley discussed the financial projections and challenges for two communities. For the first community, she explained how they account for consistent uncollected revenue of 1.8% and projected rate increases to make up for lost revenue. She compared their projected expenses to potential revenue from rate increases and questioned whether to adjust their funding policy for capital improvement projects. For the second community, Ashley highlighted their high delinquency rate of 2.5% and the inclusion of penalties and fees from regular tax sales in their revenue calculations, emphasizing the importance of transparency in financial planning.

Community Debt Management Challenges

Ashley discussed financial challenges faced by a community with poor debt estimation practices and upcoming operational changes, including outsourcing wastewater facilities. She highlighted the community's struggle with a 17% annual budget increase and emphasized the need for better debt management.

Crosscutters Implementation and Budget Strategies

Ashley announced upcoming SRF-related trainings, including a 2.5-hour session on "Navigating Federal Crosscutters" on September 11th, which will focus on small communities and utilities using SRF funds. Ashley discussed the implementation of crosscutters, a federal requirement for infrastructure management, which will apply to every state despite CEU credits only being approved in Vermont.

Disclaimer: this summary was generated using AI but was reviewed and edited by a Human.

From the Chat:

Q: So, is the cross-cutting training only for Vermont? Will the information be helpful to people in any state?

> *A: No, it is not only for VT attendees. The training will be how to apply federal cross cutters to any SRF award, regardless of state. However, there may be VT-specific examples, and the training credit is only available to VT attendees.*

Q: What points have you found useful in overcoming resistance by elected officials in rate increases.

> *A: I would emphasize the board's role in protecting public health and infrastructure, which is the public's investment, noting that delays result in higher future costs and potential fines due to delaying state/federal-required improvements.*

Q: What training or assistance is helpful for budget-makers in small communities. We have some under 400-people communities, and the treasurers are fine, but they aren't certified or trained accountants.

> *A: I would take a simple approach focusing on revenue and expenses using a basic tool like excel and connecting with Environmental Finance Centers for additional support.*