

Proactive Steps to Improving Financial Resilience

Jeff Hughes

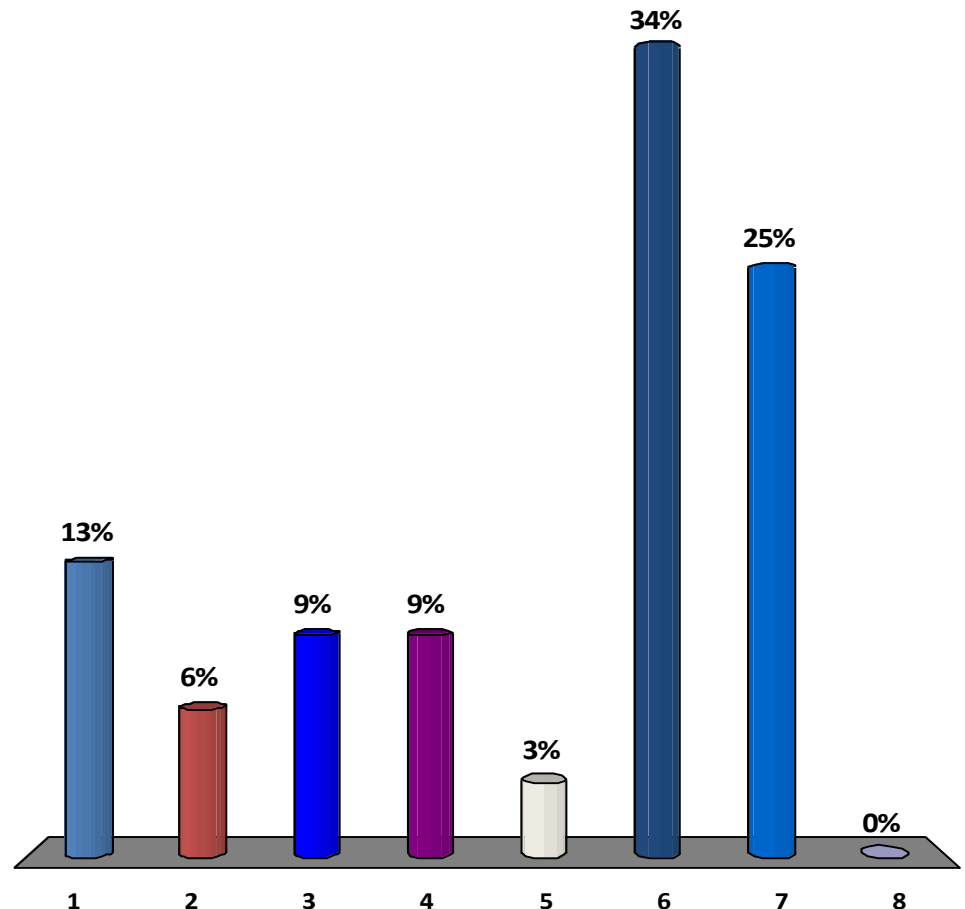


Session Objectives

1. Improve ability to assess financial health
2. Improve understanding of strategies and initiatives that support financial health
 - Financial Policies
 - Supplemental Services
 - Pricing and Business Models
 - Capital Planning

The biggest threat to financial health in my utility is?

1. Falling sales per customer
2. Too much debt
3. Stability of customer base (residential and industrial)
4. Governing board
5. Rising costs
6. The state of our physical infrastructure
7. Ability to generate sufficient revenue
8. Other?





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The Chicago Infrastructure Trust has tapped Stephen S. Beitler, a founder and managing director at a Chicago area private equity investment and advisory company, to serve as its first executive director. [MORE »](#)

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Moody's Downgraded Record \$311B of Debt in 2012

by: JENNIFER DEPAUL

Moody's Investors Service downgraded a record \$311 billion of public finance debt in 2012, surpassing the previous 2009 record of \$256 billion, a negative trend that is likely to continue this year.

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Rating Agencies

Agency	Rating Criteria	Assessments and Special Reports	Ratings System
Fitch	US Water and Sewer Revenue Bond Criteria (8/11)	2012 Water and Sewer Medians (12/8/11) 2012 Outlook: Water and Sewer Sector (12/8/11)	AAA AA A BBB +,-
Standard and Poors	Standard and Poors Public Finance Criteria (2007)	Sector Review: Funding Long-Term Needs Remains The Biggest Risk For U.S. Municipal Water And Sewer Utilities (1/31/12) How U.S. Municipal Water And Sewer Bond Ratings Correlate With Some Key Measures Of Issuers ' Credit Quality (9/26/2011)	AAA AA A BBB +,-
Moody's Research and Ratings	RATING METHODOLOGY Analytical Framework For Water And Sewer System Ratings (8/1999)	WATER AND SEWER SECTOR OUTLOOK: Water/Sewer Revenue Bonds Have Positive Rating Trends, With Billions In Issuance Expected Over Next 20 Years (2/2000) UK Water Sector Outlook 2011 Industry Outlook (10/2011)	Aaa Aa A Bb 1,2,3

North Carolina Benchmarking

- LGC Memo: Statistical Information on Water and Sewer Operations (forthcoming)
- EFC Water and Wastewater Financial Benchmarking (any day now)
- SOG Benchmarking Project



Indicators

- Operating Ratio = $\frac{\text{Operating Revenues}}{\text{Operating Expenses}}$
- Operating Margin = $\frac{(\text{Operating Revenues} - \text{Operating Expenses}^{**})}{\text{Operating Revenues}}$

**Operating Expenses include Depreciation which is not a cash expenditure

Indicators

- Debt Service Coverage = Revenue available to pay debt service/Debt Service
- Revenues available to pay debt service = Operating Revenues** – (Operating Expenditures + Other Essential Expenditures)

** Some times DSC is calculated with non-operating revenues

Example

- Operating Revenue \$3.2 million
 - Operating Expenditures \$2 million
 - Contractual Payment to City \$200,000
 - Combined Debt Service (P&I) \$500,000
-
- Overall Debt Service Coverage Ratio =
 $(3.2 - 2. - 0.2)/0.5 = 2.0$

Meeting Revenue Challenges



Rates and Revenues: Water Utility Leadership Forum on Challenges of Meeting Revenue Gaps

Summary Report

Web Report #4405

Subject Area: Management and Customer Relations



- Costs
- Finance Policies
- New pricing and business models
- Supplemental services (behind the meter)
- Affordability programs
- Communication, communication...



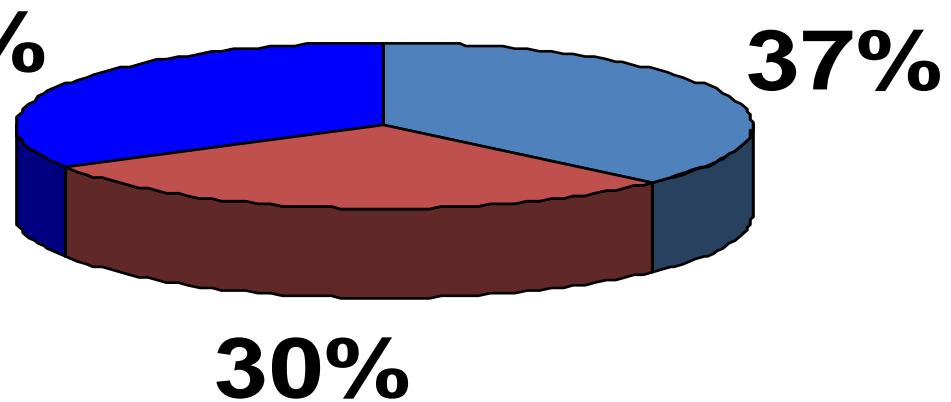
What are you Doing?

- Tools?



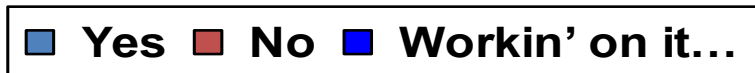
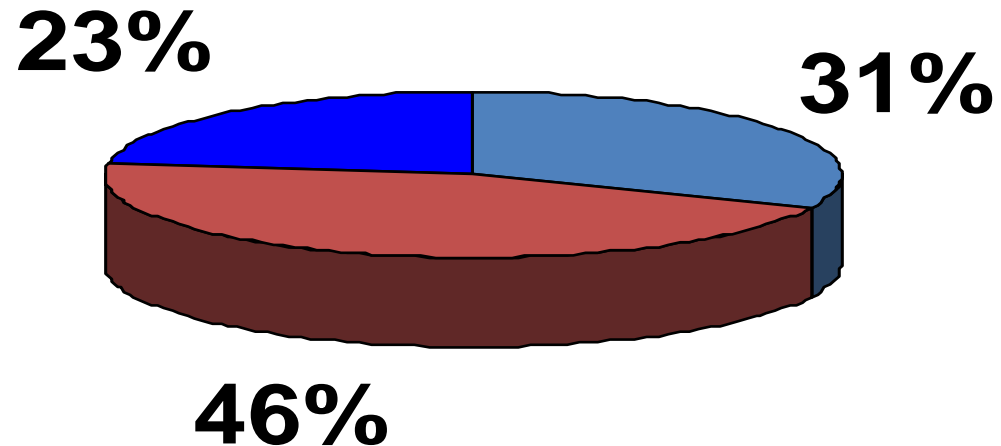
Do you have an approved set of water/wastewater financial performance targets?

1. Yes
2. No
3. Workin' on it...



Do you have an approved set of water/wastewater finance policies? (Last Year's Group)

1. Yes
2. No
3. Workin' on it...



Orange Water and Sewer Authority

- <http://www.owasa.org/about/FinancialDocuments.aspx>

The screenshot shows the OWASA website interface. At the top is the OWASA logo and the text 'ORANGE WATER AND SEWER AUTHORITY' with the tagline 'A public, non-profit agency providing water, sewer & reclaimed water services to the Carrboro-Chapel Hill community.' Below this is a navigation bar with links for 'ABOUT OWASA', 'CUSTOMER SERVICE', 'WHAT WE DO', and 'CONSERVATION & EDUCATION'. There are also links for 'Login', 'Español', and 'Contact Us' along with a search box.

The main content area is titled 'Performance & Financial Information' and includes a sidebar with 'ABOUT OWASA' (Board Of Directors, Board Of Directors' Meetings, Staff Information, Employment Opportunities, Performance & Financial Information), 'MANAGE MY ACCOUNT', and 'START OR STOP SERVICE'.

The main text reads: 'Home > About OWASA > Performance & Financial Information. As a single-purpose governmental entity, OWASA's financial activities are reported as a sole enterprise fund. We operate on a fiscal year that begins on July 1 and ends on June 30. The documents below provide information about our service objectives, business model and performance.'

Under 'Key Indicators and Performance Measurements', there is a link to 'Key Performance Measurement Dashboard - a snapshot in graphic form of information we use to measure organizational performance.' To the right is a bar chart titled 'Average Daily Water and Reclaimed Water Demands Actual vs. FY 2012 Budget Projections (mgd)'. The chart shows data for various months from July 2011 to June 2012, comparing actual demands against budget projections for both water and reclaimed water.

Under 'Strategic Plan', there are links to 'Strategic Plan' (adopted in March, 2010) and 'Strategic Plan Update' (in January, 2012).

Financial Policies and Guidelines:

Internal financial policies

EBMUD Financial Indicator	Target
Working capital reserve	≥ 3x monthly net O&M expenses
Self-insurance reserve	1.25x expected annual costs
Contingency/rate stabilization reserve	20% of annual water volume revenues
Debt service coverage ratio	≥1.6x coverage
Debt-funded capital	≤65% of total CIP spending over 5 year planning period

Other Measures

- Supplemental Services
- Affordability Programs

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