Building a Financially Resilient Utility

Lumber River Council of Government Teaching Tuesdays series
June 15, 2021

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SCHOOL OF GOVERNMENT
Environmental Finance Center
www.efc.sog.unc.edu
EFC’s mission: Dedicated to enhancing the ability of governments and other organizations to provide environmental programs and services in fair, effective and financially sustainable ways through:

- Direct advising
- Applied research
- Teaching and outreach

http://efc.sog.unc.edu

Part of the UNC School of Government
Typical assistance to utilities

- Phone/email advising
- Staff & board education
- Financial health review
- Rates/rate structure analysis
- Capital funding scenarios
- Regionalization assistance
- Resource/info. development
- And more

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Thank you
Utility Financial Resilience
Cost recovery in 398 local government water and wastewater utilities during FY2019

Local Government-Owned Water and Wastewater Utilities’ Cost Recovery in FY 2019
- Operating revenues < operating expenditures (11%)
- Operating revenues < operating expenditures + principal + interest on long-term debt (12%)
- Operating revenues > operating expenditures + principal + interest on long-term debt (77%)

Depreciation is not included in operating expenditures. Data obtained from the Local Government Commission, analyzed by the Environmental Finance Center at UNC.
Utilities designated as “distressed” in April 2021

Distressed Unit Designation as of April 14, 2021
- Distressed: 95
- Distressed designation being re-evaluated: 18
- Not Distressed: 383
A Guiding Principle for Enterprise Funds

Self-sufficiency

Revenues collected = Costs expended
Avoid or minimize transfers
Budgeting and Financially Managing your Enterprise Fund
Enterprise Fund at the start of the Fiscal Year

Expenses

Enterprise Fund at the end of the Fiscal Year

Revenues
## What costs should utilities account for?

<table>
<thead>
<tr>
<th>Operations &amp; Maintenance</th>
<th>Debt</th>
<th>Future capital</th>
<th>Reserves</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Personnel</td>
<td>• Principal and interest on existing debt</td>
<td>• Cash for projects and matches</td>
<td>• Build and maintain reserves for emergencies and capital</td>
<td>• Indirects and expenses related to the utility (fleet, buildings, shared expenses)</td>
</tr>
<tr>
<td>• Chemicals</td>
<td>• New debt service?</td>
<td>• Outlays to improve existing infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Energy</td>
<td></td>
<td>• Outlays for new infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Billing</td>
<td></td>
<td>• Planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Equipment</td>
<td></td>
<td>• Contingencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Contracts</td>
<td></td>
<td></td>
<td>• Build and maintain reserves for emergencies and capital</td>
<td></td>
</tr>
<tr>
<td>• Purchase agreements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Maintenance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Planning</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NOT transfers to other funds if not related
Sources of revenue for utilities

- Rates and fees charged to customers
- Rates charged to other utilities for services
- Interest earnings and non-operating revenues
- Loans, bonds
- Grants
- This year: ARP relief funds (non-recurring)

Transfer from other funds
Transfers out would disqualify you from funding since July 1, 2014.

§ 159G-37. Application to CWSRF, Wastewater Reserve, DWSRF, and Drinking Water Reserve.

(b) Certification. - The Division of Water Infrastructure shall require all local governments applying for loans or grants for water or wastewater purposes to certify that no funds received from water or wastewater utility operations have been transferred to the local government’s general fund for the purpose of supplementing the resources of the general fund. The prohibition in this section shall not be interpreted to include payments made to the local government to reimburse the general fund for expenses paid from that fund that are reasonably allocable to the regular and ongoing operations of the utility, including, but not limited to, rent and shared facility costs, engineering and design work, plan review, and shared personnel costs. (2005-454, s. 3; 2011-145, s. 13.3(kkk); 2013-360, s. 14.21(i); 2013-413, s. 57(u); 2014-100, s. 14.17; 2014-115, s. 17.)

Since July 1, 2014
Multiple faces of Transfers

• Cost reimbursements
  – E.g. Part of city manager’s time
  – Fraction of fleet maintenance costs
  – Percentage of shared building operating costs

• Procedural transfers
  – Moving funds from operating to capital project fund

• General Transfers
  – No documentation at all
  – Plug a hole in General Fund or Enterprise Fund
  – Reduce need for property tax/fee increase (i.e. subsidize)
  – Paying a dividend or profit

Avoid these (including PILOTs) if plan to access DWI funding programs

Document these
Isn’t a balanced budget enough? Not always.

Budget Expenses

<table>
<thead>
<tr>
<th>Account Description</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-010-01 W/S PROF. SERVICES</td>
<td>$500,00</td>
</tr>
<tr>
<td>30-010-02 TOWN MANAGER SALARY</td>
<td>$29,400.99</td>
</tr>
<tr>
<td>30-010-03 W/S EMPLOYEE SALARY</td>
<td>$57,200.00</td>
</tr>
<tr>
<td>30-010-04 CLERK SALARY</td>
<td>$7,251.88</td>
</tr>
<tr>
<td>30-010-05 PICA EXPENSE</td>
<td>$5,703.00</td>
</tr>
<tr>
<td>30-010-06 W/S EMPLOYMENT TAX</td>
<td>$975.00</td>
</tr>
<tr>
<td>30-010-07 W/S OVERTIME</td>
<td>$4,500.00</td>
</tr>
<tr>
<td>30-010-08 MEMT BONUS</td>
<td>$3,000.00</td>
</tr>
<tr>
<td>30-010-09 HOLIDAY/EMPLOYEE APREC</td>
<td>$1,200.00</td>
</tr>
<tr>
<td>30-010-10 POSTAGE</td>
<td>$2,700.00</td>
</tr>
<tr>
<td>30-010-11 OFFICE SUPPLIES/REPAIRS</td>
<td>$4,700.00</td>
</tr>
<tr>
<td>30-010-12 PHONE</td>
<td>$3,400.00</td>
</tr>
<tr>
<td>30-010-13 W/S UTILITIES</td>
<td>$30,000.00</td>
</tr>
<tr>
<td>30-010-14 TRAINING</td>
<td>$2,400.00</td>
</tr>
<tr>
<td>30-010-15 EMPLOYEE SCREENING</td>
<td>$105.00</td>
</tr>
<tr>
<td>30-010-16 MAINT/REPAIR/SYST-EQUIP</td>
<td>$30,000.00</td>
</tr>
<tr>
<td>30-010-17 MAYOR SALARY</td>
<td>$1,800.00</td>
</tr>
<tr>
<td>30-010-18 BOARD SALARY</td>
<td>$10,000.00</td>
</tr>
<tr>
<td>30-010-20 W/S UNIFORMS</td>
<td>$2,000.00</td>
</tr>
<tr>
<td>30-010-30 GAS AND OIL FOR VEHICLES</td>
<td>$4,500.00</td>
</tr>
<tr>
<td>30-010-31 TIRES FOR VEHICLES</td>
<td>$600.00</td>
</tr>
<tr>
<td>30-010-32 REPAIRS TO VEHICLES</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>30-010-33 SUPPLIES &amp; MATERIALS</td>
<td>$3,000.00</td>
</tr>
<tr>
<td>30-010-34 CHEMICALS AND SALT</td>
<td>$20,000.00</td>
</tr>
<tr>
<td>30-010-35 CONTRACTED SERVICES</td>
<td>$36,500.00</td>
</tr>
<tr>
<td>30-010-36 STATE PERMITS</td>
<td>$1,700.00</td>
</tr>
<tr>
<td>30-010-37 DUES/SUBSCRIPTIONS</td>
<td>$1,500.00</td>
</tr>
<tr>
<td>30-010-38 DEPRECIATION</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-39 INSURANCE</td>
<td>$13,600.00</td>
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<tr>
<td>30-010-55 HOSPITAL INSURANCE</td>
<td>$22,442.00</td>
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<tr>
<td>30-010-57 MISC EXPENSE</td>
<td>$500.00</td>
</tr>
<tr>
<td>30-010-60 W/S - FIRE</td>
<td>$9,272.00</td>
</tr>
<tr>
<td>30-010-70 WATER STUDY EXPENSES</td>
<td>$24,000.00</td>
</tr>
<tr>
<td>30-010-74 ONLINE PAYMENTS SVC</td>
<td>$1,600.00</td>
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<tr>
<td>30-010-75 AKRA LOAN PRINCIPAL</td>
<td>$8,875.00</td>
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<tr>
<td>30-010-76 PURCHASE WATER BILL</td>
<td>$2,400.00</td>
</tr>
<tr>
<td>30-010-79 BANKING FEES</td>
<td>$500.00</td>
</tr>
<tr>
<td>30-010-90 CAPITAL OUTLAY NEW EQUIP</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-92 CAPITAL OUTLAY OTHER</td>
<td>$20,500.00</td>
</tr>
<tr>
<td>30-010-93 FUND BALANCE APPROPRIATED</td>
<td>$9,187.87</td>
</tr>
<tr>
<td>30-010-94 SALES TAX REFUND</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-95 W/S CHARGES</td>
<td>$344,445.00</td>
</tr>
<tr>
<td>30-010-96 W/S ADJUSTMENTS</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-97 TAP CONNECTIONS</td>
<td>$1,500.00</td>
</tr>
<tr>
<td>30-010-98 SERVICE CHARGES/CUT OFFS</td>
<td>$12,500.00</td>
</tr>
<tr>
<td>30-010-99 IMPACT FEES</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>30-010-100 CAPITAL CONTRIBUTIONS</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-101 ONLINE W/S PAYMENT FEE</td>
<td>$1,600.00</td>
</tr>
<tr>
<td>30-010-102 CONTRIBUTED CAPITAL - G.R.S.P.</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-103 CONTRIBUTED CAPITAL</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-104 RDEG - Pump Station</td>
<td>$12,000.00</td>
</tr>
<tr>
<td>30-010-105 INJURY GUI</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-106 INFRASTRUCTURE</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-107 TRASH PICK UP</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-108 TRANSFER TO OTHER FUND</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

Total Budget: $382,933

Budget Revenues

<table>
<thead>
<tr>
<th>Account Description</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-010-01 W/S INTEREST EARNED DEPOSITS</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-02 CONTRIBUTIONS/Donations</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-03 W/S MISC. REVENUE</td>
<td>$700.00</td>
</tr>
<tr>
<td>30-010-04 FUND BALANCE APPROPRIATED</td>
<td>$9,187.87</td>
</tr>
<tr>
<td>30-010-05 SALES TAX REFUND</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-06 W/S CHARGES</td>
<td>$344,445.00</td>
</tr>
<tr>
<td>30-010-07 W/S ADJUSTMENTS</td>
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</tr>
<tr>
<td>30-010-12 ONLINE W/S PAYMENT FEE</td>
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</tr>
<tr>
<td>30-010-13 CONTRIBUTED CAPITAL - G.R.S.P.</td>
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</tr>
<tr>
<td>30-010-14 CONTRIBUTED CAPITAL</td>
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</tr>
<tr>
<td>30-010-15 RDEG - Pump Station</td>
<td>$12,000.00</td>
</tr>
<tr>
<td>30-010-16 INJURY GUI</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-17 INFRASTRUCTURE</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-18 TRASH PICK UP</td>
<td>$0.00</td>
</tr>
<tr>
<td>30-010-19 TRANSFER TO OTHER FUND</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

Total Revenues: $382,933

No budget for capital expenses, reserves or depreciation.

No comparison to previous budgets. Is it adequate and growing?

No info on current financial health of Enterprise Fund. Do you need to budget for and build reserves?
Steps to take when reviewing rates and budgeting

1. Assess the financial health of your Enterprise Fund
2. Look at trends in your expenses over time
3. Plan for capital projects and how to fund them
4. Budget for all the above expenses and reserve target
5. Look at trends in water sales and revenues
6. Review rates annually and project revenues conservatively (worse case scenarios) using a multi-year cash flow model
7. Propose and adjust rates
8. Track and monitor your budget monthly
Assessing Your Utility’s Financial Health
Handout for board members

Questions to ask your Utility Manager:

1. Have we been notified by the Local Government Commission or the State Water Infrastructure Authority that our utility is “distressed” or deficient in some way?

2. How many times have you attended meetings or conferences with your peers or other utility managers over the past few years?

3. Are we regularly transferring funds into the Enterprise Fund that are not associated with water or wastewater projects or services?

4. Are we regularly transferring funds into the Enterprise Fund that are not associated with water or wastewater projects or services?

5. When was the last time we reviewed our utility’s operations, maintenance, debt service, capital projects, and other factors that contribute to the overall financial stability of our utility?

6. Are we regularly transferring funds into the Enterprise Fund that are not associated with water or wastewater projects or services?

7. Does it make sense for us to consider partnering with another utility or outsourcing some operations?

8. When we review the financial statements of our utility, does it appear that our utility is financially sound and capable of meeting its financial obligations for the coming year?

9. Is the utility adequately staffed?

10. Are these members, utility managers, managers, and board members attending training?

Note: Some questions are specific to local governments in North Carolina and may not apply elsewhere.
Tools you can use

- Monitor finances against the budget
- Monitor collections
- Track financial performance indicators
Examples of what you can assess with financial performance indicators

<table>
<thead>
<tr>
<th>Question</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is your utility self-sufficient?</td>
<td>Operating Ratio</td>
</tr>
<tr>
<td>Are you able to cover your debt service after paying for your day-to-day operations?</td>
<td>Debt Service Coverage Ratio</td>
</tr>
<tr>
<td>If your customers stop paying their bills, how long can you maintain operations?</td>
<td>Days Cash on Hand</td>
</tr>
<tr>
<td>Can your system meet its short-term obligations?</td>
<td>Quick / Current Ratio</td>
</tr>
<tr>
<td>How much of your utility’s expected life has already run out (and how much is left)?</td>
<td>Percent Depreciated</td>
</tr>
</tbody>
</table>

These indicators (and more) focus mostly on current revenues and expenses. Need to consider future costs as well.
Whiteboard video: financial benchmarking

https://www.youtube.com/watch?v=pfs0brT_jkU

Part of a series of whiteboard videos at this link
Where to Find Data

Local governments:
annual audited financial statements

Non-governments:
balance sheets, shareholder reports, annual reports, etc.
Operating Ratio

\[
\frac{\text{Total Operating Revenues}}{\text{Total Operating Expenses}} = \text{Operating Ratio}
\]

Calculate two numbers:
on one \textit{including} depreciation in total operating expenses, and one \textit{excluding} depreciation.
Aim to exceed well over 1.0

http://efc.web.unc.edu/2015/02/27/operating-ratio/
Days of Cash on Hand

\[
\text{Unrestricted cash and cash equivalents} = \frac{\text{(Operating Expenses excluding depreciation)}}{365}
\]

Aim for > what you need to hold in reserve for emergencies, cashflow fluctuations, unexpected revenue losses, ability to cover ? days or months of costs without rev.

http://efc.web.unc.edu/2015/06/24/days-cash-on-hand/
Find your utility’s latest FY metrics on the NC Water and Wastewater Rates Dashboard

Consider trends in the last 5 years
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

Free, simplified Excel tool allowing you to track and benchmark financial performance metrics for your water/sewer fund in the past 5 years
Benchmark your Enterprise Fund over 5 years on the Local Government Commission’s Financial Reports and Analysis Tools

Financial Strategies for Resiliency
Financial strategies for resiliency

- **Careful** reduction and management of operating costs
- Planning for asset management and capital costs
- Build up reserves
- Set and track financial performance targets
- Plan and budget for water use reductions
- Revenue enhancement
- Rate adjustment approaches
- Alternative rate designs

* Use with extreme caution. Never cut costs if it will negatively affect levels of service or simply delay expenses to a later year (when costs will be higher).
Careful* reduction and management of operating costs

- Reduce non-revenue water
- Energy management
- Asset management to reduce maintenance
- Partner with other utilities
- Monitor expenditures over time

* Use with extreme caution. Never cut costs if it will negatively affect levels of service or simply delay expenses to a later year (when costs will be higher).
Example of Ahoskie, NC’s cost reductions

https://efc.sog.unc.edu/resource/resources-systems-evaluating-expenses
Planning for asset management and capital costs

- Re-examine the need for expansions
- Partner with other utilities on regional capital projects to reduce costs and achieve higher priority points
- Create an asset management plan and a capital improvement plan
- Explore and test funding scenarios (debt vs. cash)
- Learn about different subsidized funding programs
- Look into debt refinancing if applicable
- Find out how to achieve a (higher) credit rating
Plan to Pay: Scenarios to Fund your C.I.P.

http://efc.sog.unc.edu or http://efcnetwork.org
Find the most up-to-date version in Resources / Tools

List your capital projects and compare different scenarios for funding them by automatically estimating the impact on your rates.

Excel®-based Free to download Free to use
Build up reserves

Reserves are funds built up over time that you can use for various purposes.

Build reserves early: *before* signs of problems. If you are already suffering from loss of customers or water use, it might be too late, unless you can raise rates quickly.
How much do you need in your reserves?

• Look into setting a minimum target for a reserve fund to cover a reasonable decline in revenues so that you can continue to operate the water system and buy yourself enough time to make additional adjustments to mitigate the loss.

• Consider, for instance, a reserve that would cover at least three or four months of all O&M expenses. More would be better. For long-term resilience, aim for more than a year.
Example of target for reserves by a small water system

Town of Shallotte, NC (2,300 accounts):

“Our Board of Aldermen have always used a 90% rule: keeping at least 90% of current budget on hand in case of emergencies.

Being a coastal community, we realize that a hurricane could do significant damage.”
64% of local government utilities in NC had >365 days cash on hand at the end of FY2019 (less than 50% prior to FY2011).

Financial Resilience Dashboard

How long will your unrestricted cash and reserves offset different levels of revenue losses and still cover expenditures on O&M?


Tablea®-based Online calculator Free to use
Set up and track financial performance targets

Set up specific financial performance targets, measure and monitor performance indicators, and adjust financial decisions to maintain success.

More information and examples from NC utilities on a recorded webinar:
https://efc.sog.unc.edu/event/setting-financial-targets-water-utilities-beyond-budget
Examples of financial performance targets

- Minimum Reserves / Cash on Hand
- Working Capital Reserves
- Debt Service Coverage Ratio
- Debt Burden or Debt-Per-Customer
- Cash Financing of Capital Projects
- Rates Affordability
- Credit Rating
**Examples of financial performance targets (in 2014)**

<table>
<thead>
<tr>
<th>Financial Metric</th>
<th>Policy Target</th>
</tr>
</thead>
</table>
| Debt Service Coverage Ratio              | • Parity coverage of 1.5x  
• Total coverage of 1.2x                                                        |
| Debt Load                                | • Debt service less than 40% of total revenue requirements                     |
| Capital Funding                          | • Minimum of 25% of annual capital expenses funded through rate-funded capital (PAYGO) |
| Days Cash on Hand                        | • 180 days                                                                    |
| O&M Budget Escalation                    | • Maximum annual O&M budget escalation of 5%                                   |
| Operating Reserve Fund                   | • Minimum fund balance of 90 days of annual O&M expenses                      |
| Capital Reserve Fund                     | • Minimum fund balance of 25% of annual Capital expenses                      |
| Rate/Revenue Stabilization Fund          | • Minimum fund balance target of 5% of projected annual revenues              |
| Rate Revenue Composition                 | • Minimum of 25% of annual revenue from fixed charges                          |
| Rate Increases                           | • Minimum of automatic rate increases indexed to inflation                     |
| Service Affordability                    | • Maximum annual bill of an average customer of 2% of median household for each water and wastewater |

Targets should be customized for each utility based on objectives, conditions, and purpose. Do not copy-and-paste another utility’s.

Plan and budget for use reductions

• Conservative forecasts
• Run scenarios, not a single forecast
• Look at your long-term trends to inform forecast
• Incorporate short-term and long-term reductions in demand
• Assess the likelihood and consequence of sudden, significant decline in use
• Establish a policy or protocol to move any “excess revenue” into a reserve fund
Water & Wastewater Rates Analysis Model

http://efc.sog.unc.edu or http://efcnetwork.org
Find the most up-to-date version in Resources / Tools

Cash-flow model to compare different rates on your projected fund balance to determine sufficiency of covering costs.

Excel®-based Free to download Free to use
Revenue Enhancement

• Raise rates and fees
• Sell water to neighboring systems
• Generate new revenue from other sources: rethink your utility services (e.g. leasing water tower for cellphone antennas or advertising)
Rate adjustment approaches

Raise rates as often as needed (within reason).

If it’s politically difficult, consider ways to set automatic rate increases:

- Pass-through charges
- Multi-year rate increases
- Indexed rate adjustments
Structural and Managerial Strategies for Resiliency
Structural and Managerial Strategies for Resiliency

- Assist with economic development efforts
- Partnerships with other utilities (regionalization)
- Communication
Partnerships with other utilities

• Share services and equipment
• Sell excess water to other water systems
• Buy water from another water system and reduce or eliminate the need for treatment
• Share personnel
• Consolidate with other water systems to create a regional utility
• Transfer ownership of your system
Spectrum of partnership with other utilities

Any kind of collaboration can be helpful

- **Informal Cooperation**: Work with other systems, but without contractual obligations.
  - **Examples**: Sharing equipment, sharing bulk supply purchases, mutual aid arrangements.

- **Contractual Assistance**: Requires a contract, but contract is under system's control.
  - **Examples**: O&M, engineering, purchasing water.

- **Joint Powers Agency**: Creation of a new entity by several systems that continue to exist as independent entities.
  - **Examples**: Shared system management, shared operators, shared source water.

- **Ownership Transfer**: Takeover by existing or newly created entity.
  - **Examples**: Acquisition and physical interconnection, acquisition and satellite management, transfer of privately-owned system to new or existing public entity.

*Increasing Transfer of Responsibility*
Partnerships in North Carolina

Partnership activities that North Carolina utilities are currently engaged in or are considering. Excludes interconnections and wholesale purchase/sale agreements for water or wastewater treatment and delivery between utilities.

n = 189

- Working with regional organizations such as COGs: 25%
- Contracting out facility operations to private services: 16%
- Sharing resources (equipment) with neighboring utilities: 16%
- Acquiring or merging with another system: 12%
- Sharing staff with neighboring utilities: 5%
- Purchasing supplies in bulk with other utilities: 4%
- Selling or giving up the system to another utility: 4%
- Other type of utility partnership: 8%
- None of the above: 47%
- Don't know: 5%

Water interconnections in the LRCOG area

Lines and points are only approximations and are not precise representations of locations of water systems and water lines. 
Key financial benefits for utility partnerships*

*Can vary by situation and model

• Economies of scale/operating efficiencies
• Increased access to capital
• Revenue stability
• Improved planning and risk management
• Increased opportunities for economic development
• Enhanced employment and retention incentives
• Reduction in rate discrepancies among nearby communities
• Increased opportunities for water resource management
Guidance on crafting an interlocal agreement

https://vimeo.com/digitalpmedia/review/372993470/18aeaef9a2

https://efc.sog.unc.edu/project/utility-regionalization-and-consolidation
Interlocal agreement considerations described in the guide

1. Defining Current and Future Service Areas
2. Annexation and Growth
3. Key Usage Thresholds
4. Meter Maintenance
5. Water Quality Concerns
6. Water Pressure
7. Adequate Payment for Use of Capital
8. Calculation and Modification of Commodity Charges
9. Reselling Water or Capacity
10. Handling Supply Interruptions and Shortages and Emergencies
11. Transferability of Conservation Status/Measures/Emergency Reduction
12. Non-Revenue Water
Options and Considerations for Consolidation of Water Systems

Available at
https://efc.sog.unc.edu/project/utility-regionalization-and-consolidation

Describes variety of “consolidated” utility models and roles/authority of members.
Forms of consolidation

• Direct Acquisition - one higher-capacity utility absorbing another in its entirety.

• Joint Merger - two or more utilities often, but not necessarily, of similar capacity consolidating to become a new entity that is jointly owned by the participating utilities.

• Balanced Merger - hybrid of the other two types and involves two or more utilities consolidating and creating a governance structure that is designed to allow for participation by the previously existing utilities in future decision-making.

• Consolidation of Governance/Operations/Management
Communication

• With staff: recognize the challenges and empower staff to come up with solutions

• With the board: educate on the issues, enable longer-term planning

• With customers: explain why decisions have been made, get buy-in
Grants and Loans
Funding programs in the state

Find the latest at https://efcnetwork.org/funding-sources-by-state/
Funding for disaster recovery

Find the latest at https://efcnetwork.org/funding-for-disaster-recovery/

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Purpose of Use of Funds</th>
<th>How to Apply</th>
<th>Website</th>
<th>Contact</th>
</tr>
</thead>
<tbody>
<tr>
<td>FEMA</td>
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</table>
Watch recorded webinar on NC funding programs (March 2021)

Presentations by

Funding Programs for Water Systems in North Carolina
March 24, 2021

https://efc.sog.unc.edu/event/funding-programs-water-systems-north-carolina
American Rescue Plan funds

- Local governments receiving ARP funds; most from the NC Pandemic Recovery Office (https://www.nc.gov/agencies/ncpro)

- Can be used for water and wastewater capital projects
  - Frees up your water/wastewater funds for additional work
Viable Utilities Program
Viable Utilities Program

- Provides funding to build a path towards viable utility systems using long-term solutions for water and wastewater distressed utilities.

- Run by the State Water Infrastructure Authority (SWIA) and the Local Government Commission (LGC).

- Information on the NC DEQ Division of Water Infrastructure website:

  https://deq.nc.gov/about/divisions/water-infrastructure/viable-utilities
“Distressed” Designations Across North Carolina as Approved by SWIA in April 2021

Distressed Unit Designation as of April 14, 2021
- Distressed: 95
- Distressed designation being re-evaluated: 18
- Not Distressed: 383
Designations in the LRCOG area
Viable Utility Program Overview

- New program established by legislators in 2020 (Session Law 2020-79).
- Goal is to help local government water/wastewater utilities ensure long-term viability.
- SWIA and LGC evaluated 496 local government utilities and identified 95 (plus potentially 18 more) that meet certain criteria used as a first step to identify distressed units.
- Utilities designated as distressed must:
  - Conduct an asset assessment and rate study: these will help you take stock of what you have and plan for their long-term upkeep
  - Participate in training/educational programs: these will enhance the boards’ and managers’ capacity and access to experts to assist with utility management
  - And develop an action plan to put the utility on a course for long-term viability
- Utilities designated as distressed have:
  - Access to the Viable Utilities Reserve grants
  - Potentially greater access to other grants and low-interest loans
  - Access to organizations that assist utilities address issues
- Utilities designated as distressed should first attend a Viable Utilities Program orientation by DWI
- Board members and utility managers are both encouraged to participate
Types of Assistance Suggested by DWI

Plans and Projects

Many kinds of assistance may be available to designated units

- Asset Assessment: [Asset Inventory and Assessment Grants](#)
- Rate Study
- Merger/Regionalization options: [Merger/Regionalization Feasibility Grants](#)
- Interconnection
- Decentralization
- Rehabilitation or replacement
- Emergency operating funds (ONLY if the Local Government Commission has assumed financial control of the LGU)

Education and Training

Designation as distressed can facilitate development and implementation of action plans

- Education and training for local leadership so they have information to share with citizens on the true cost of services they provide.
- Long-term planning ensures viability.
- Helps utilities break the cycle of relying on grants to alleviate difficult, acute or emergency infrastructure situations

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**EFC can assist communities with some of these at no cost**
How EFC can engage with your utility

- Review financial health
- Review rates
- Scenarios for capital funding
- Rate structure designs; affordability
- Develop VUP action plan
- Review interlocal agreements
- Advise on financial management, budgeting, utility partnerships
- Examples from peer utilities
- Resource guides/how-to/models
- Discussions with utility managers in-person, by phone, or virtually
- Board presentations/meetings
- Customized trainings for boards/managers
- Connected to School of Government expertise
Examples of EFC analysis and modeling tools

**Water and Wastewater Rates Analysis Model**

Use this tool to review your rates to ensure projected revenues cover projected expenses. This tool will help you determine whether proposed rates will keep the utility financially self-sufficient for the next few years.

**Financial Health Checkup for Water Utilities**

Use this tool to get a snapshot of your utility's financial health and demonstrate the financial strengths and weaknesses of your utility over the past 5 years. The tool uses your utility's financial data to calculate and visualize 6 financial performance indicators.

**Residential Rates Affordability Assessment Tool**

Use this tool to assess how affordable rates are to your customer base using multiple metrics.

**Plan to Pay: Scenarios to Fund Your Capital Improvement Plan**

Use this tool to help plan how to pay for future capital projects. The tool will estimate the effects that paying for capital projects will have on your rates under various scenarios.

**Bill Payment Assistance Program Cost Estimation For Water Utilities**

Use this tool to estimate the funds needed to create and implement a Bill Payment Assistance Program that helps low-income residential customers when they cannot afford to pay their bill.
Benchmarking rates and finances on the NC Water & Wastewater Rates Dashboard

Webinar on June 15
2:00 – 3:00pm

https://unc.zoom.us/meeting/register/tJIpcO6qpzgvHNGIqL7AvnATWNLMRFRcW5fE

Or contact the EFC for assistance in using the dashboard.

https://efc.sog.unc.edu/ncdashboard