

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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STATE AND LOCAL GOVERNMENT FINANCE DIVISION Financial Best Practices Local Government Utility Systems

LRC Meeting
Monday, March 26, 2018



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Financial Best Practices – Utility Systems

- General best practices
- Four sub categories
 - Sales and other inflows
 - Collections
 - Operations and other outflows
 - Capital needs
- Benchmarks and Unit Assistance List

General Best Practices

- Like any other function of government, must comply with requirements of Local Government Budget and Fiscal Control Act
- Operation should be self-sustaining
- Operation should not be subsidizing other funds
- Cash reserves (fund balance) should not be used to cash flow operations
- Need qualified and trained staff to manage including the financial aspects

Sales and Other Inflows

- Rates should be sufficient to cover:
 - Current operations and maintenance costs
 - Current and future debt service
 - Savings to cover any budgetary shortfalls
 - Capital component



Sales and Other Inflows

- Rate setting
 - Obtain professional assistance if don't have expertise on staff
 - Examine rate structures each year as part of budget process
 - Follow up on rate changes to ensure having the projected effect on revenues



Sales and Other Inflows

- Inside/outside rates
 - Focus on cost differential to provide service
 - Greater distances, different elevations to outside customers
 - Increased travel time and related expenses for maintenance and operations associated with outside customers
 - Lower development densities resulting in higher cost per connection
 - Larger pumps, additional storage, larger transmission lines required to provide adequate water and water pressure out of town

Sales and Other Inflows

- Inside/outside rates (cont.)
 - Outside rates have historically been set at 1 ½ to 2 times or more of the inside rates
 - Focus should be on cost recovery
 - Long term solutions that focus on “we” instead of “us” and “them”

Collections

- Adopt strong collections policy and enforce uniformly
- Set billing cycle for a reasonable amount of time
- Establish late fees to serve as a deterrent; cut-off or reconnect charges that recover entity's cost
- Adopt ordinance prohibiting meter tampering, with sufficient penalties; utilize locks on meters if necessary
- Ensure deposit is sufficient to cover potential lost revenue
- Utilize debt setoff program

Operations

- Goal is to capture full cost of providing service
 - May include a reasonable cost allocation of indirect costs; should be supported by sufficient documentation to show reasonable correlation
 - Don't present as a transfer on GAAP financials
 - Should be operated like a business and therefore should bear all applicable costs

Operations

- Reconciliation
 - Should be able to reconcile number of gallons pumped to the number of gallons billed
 - Unaccounted for or "lost" water should be 15% or less
 - Accounted for but not billed should be tracked
 - AWWA, RWA, and SERCAP are have resources to assist with water auditing

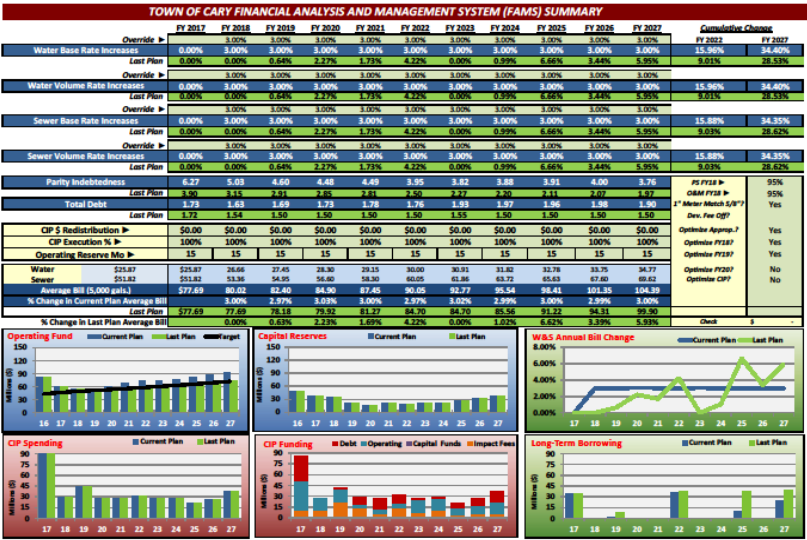
Capital Needs

- Rates should include a capital cost component to build reserves
- Operations budget should include regular maintenance
- Entity should be charging sufficient rates to avoid dipping into reserves to cover operation costs, including routine repairs and maintenance

Capital Needs

- CIP
 - All systems should have
 - Planned capital needs 5 to 10 years or longer
 - Debt issuance, reliance on grant funding, and planned use of reserves
 - Can integrate with rate model

10/17/2017, 5:40 PM - TOWN OF CARY FINANCIAL ANALYSIS AND MANAGEMENT SYSTEM (FAMS) SUMMARY - Cary FY 18 Budgeting v 4.8.17 with RDU Chatham received on 7.16.17 item, FINAL FY 2017 FAMS - Cary FY 18 Budgeting v 4.8.17 with RDU Chatham received on 7.16.17 item, FINAL



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Benchmarks and Unit Assistance List (UAL)

- Benchmarks pulled from annual audit data
 - Liquidity ratio – should be 1.0 or greater at a minimum
 - Working capital – should be positive at a minimum
 - Net income before capital contributions – should be positive
 - Revenues over expenditures (budgetary basis) – should be positive
 - Days sales in receivables – should be stable and match up with billing and collection cycle
 - Cash flow from operations – should be positive and sufficient to cover both principle and interest payments made during the fiscal year



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Benchmarks and Unit Assistance List (UAL)

- Poor showing on any of benchmarks will make a unit a candidate for consideration to be on the UAL
- Units with negative trends in multiple benchmarks OR repeated years of negative cash flow from operations will likely be on the UAL



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