



State and Local Government Finance Division

STATE TREASURER OF NORTH CAROLINA DALE R. FOLWELL, CPA Vale T. Folmell, CPA

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





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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



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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"



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state treasurer of north carolina DALE R. FOLWELL, CPA Vale 7. Folimett, CPA

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



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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

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	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Cumulative (hanae
Override 🕨		3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	FY 2022	FY 2027
Water Base Rate Increases	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	15.96%	34,40%
Last Plan	0.00%	0.00%	0.64%	2.27%	1.73%	4.22%	0.00%	0.99%	6.66%	3.44%	5.95%	9.01%	28.53%
Override 🕨		3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%		
Water Volume Rate Increases	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	15.96%	34,40%
Last Plan	0.00%	0.00%	0.64%	2.27%	1.73%	4.22%	0.00%	0.99%	6.66%	3.44%	5.95%	9.01%	28.53%
Override 🕨		3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%		
Sewer Base Rate Increases	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	15.88%	34.35%
Last Plan	0.00%	0.00%	0.64%	2.27%	1.73%	4.22%	0.00%	0.99%	6.66%	3.44%	5.95%	9.03%	28.62%
Override 🕨		3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%		
Sewer Volume Rate Increases	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	15.88%	34.35%
Last Plan	0.00%	0.00%	0.64%	2.27%	1.73%	4.22%	0.00%	0.99%	6.66%	3.44%	5.95%	9.03%	28.62%
Parity Indebtedness	6.27	5.03	4.60	4.48	4.49	3.95	3.82	3.88	3.91	4.00	3.76	/S/Y18 ►	95%
Last Plan	3.90	3.15	2.91	2.85	2.81	2.50	2.27	2.20	2.11	2.07	1.97	OBM FY28 >	95%
Total Debt	1.73	1.63	1.69	1.73	1.78	1.76	1.93	1.97	1.96	1.98	1.90	1" Meter Match 5/8"?	Yes
Last Plan	1.72	1.54	1.50	1.50	1.50	1.50	1.55	1.50	1.50	1.50	1.50	Dev. Fee Off?	
CIP S Redistribution >	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	Optimize Approp.7	Yes
CIP Execution % >>	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	Optimize PY187	Yes
Operating Reserve Mo >	15	15	15	15	15	15	15	15	15	15	15	Optimize FY197	Yes
Water \$25.87	\$25,87	26.66	27.45	28,30	29.15	30.00	30.91	31.62	32.78	33.75	34.77	Optimize P(20)	No
Sewer \$51.82	\$51.82	53.36	54.95	56.60	58.30	60.05	61.86	63.72	65.63	67.60	69.62	Optimize CIP?	No
Average Bill (5,000 gals.)	\$77.69	80.02	82.40	84.90	87.45	90.05	92.77	95.54	98.41	101.35	104.39		
% Change in Current Plan Average Bill		3.00%	2.97%	3.03%	3.00%	2.97%	3.02%	2.99%	3.00%	2.99%	3.00%		
Last Plan	\$77.69	77.69	78.18	79.92	81.27	84.70	84.70	85.56	91.22	94.31	99.90		
% Change in Last Plan Average Bill		0.00%	0.63%	2.23%	1.69%	4.22%	0.00%	1.02%	6.62%	3.39%	5.93%	Check	8 -
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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





Benchmarks and Unit Assistance List (UAL)

- Poor showing on any of benchmarks will make a unit a <u>candidate</u> 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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