



Financial Leadership for Water Utility Boards Training Guide

I. Introduction

Recent developments across the country have reinforced the importance of financial management in assuring the ability of utilities, especially small ones, to provide high quality and safe drinking water to their customers. Assessing and strengthening financial capacity is now a formal federal and state regulatory requirement after being introduced in the 1996 SDWA amendments as part of the capacity development program.

Assuring that utilities implement sustainable financial management is a shared responsibility between utility staff, those that provide them with technical assistance (consultants, professional associations etc.); and most importantly individuals on utility governing boards. In North Carolina, government owned utilities include municipal utilities managed by city council; county and county district utilities managed by county commissioners; and several regional institutional models (sanitary districts, authorities etc.). The individuals on these governing boards often have very little financial management experience yet regularly make incredibly important financial management systems.

In 2002, government water and wastewater utilities in North Carolina collected over 1.4 billion dollars in revenue. The financial planning and strategy decisions made in the coming years by governing boards will have major impacts on the capacity of small water utilities to provide services. The UNC Environmental Finance Center created the Financial Leadership for Water Utility Board Trainings because we believe that improving the ability of these boards to understand their financial management responsibilities and the impacts of their financial decisions regarding rates, capital investment strategies and asset management will have a major impact on the financial and managerial capacity of water utilities.

II. Training objectives

The overall objective of the Financial Leadership for Water Utilities Trainings was to create customized trainings for utility governing boards that concentrated on the financial topics the boards were most interested in. Each community's specific financial management challenges were identified before the training and UNC Environmental Finance Center staff and UNC School of Government Faculty provided information and literature on the current approaches for addressing those challenges. Each board member received a resource notebook similar to this one, customized with literature pertinent to their board's needs and interests.

Another objective of the trainings was to clarify the basic financial management expectations and perspectives of the individual boards. Each board member comes to the table with their own level of experience on financial management issues, as well as their own perspectives. The trainings were set up to clarify these issues for boards and expand their financial literacy.

The trainings provided an overview of the key elements of financial and regulatory framework governing water and sewer utilities in North Carolina. Since there are many different organizational structures for providing water and sewer in NC, the training materials, such as governing statutes, were customized to fit the type of utility.

Finally, an overall objective was to ensure that the boards left the training with several targeted financial management initiatives that the boards were interested in implementing.

III. Training Exercises

Value of Water Utility Exercise

Have three descriptions of the “ideal” utility on flip chart paper posted in the room. Hand out colored post-it notes and ask participants to write their name on the post-it note and choose one of the descriptions on the wall that most closely resembles the vision they have for their utility. Explain that choosing one type of utility does not mean that they disagree with the options not chosen.

1. Utility serves an important **environmental and health purpose** -- protecting community’s water resources and supplying community with highest quality drinking water.
2. Utility serves an important **public service** – providing community with basic services that everyone in the community can afford.
3. Utility serves as a **well managed public enterprise** – putting into practice forward-thinking sustainable business practices.

Participants are asked to stand up and place their post-it note next to their choice of one of the descriptions. Notice the differences and/or similarities of the values on the board.

Discussion points:

- It is often difficult balancing short term affordability with environmental and business objectives.
- No one has to choose only one, but it is possible that a board member might “lean” more towards one than another and that will have implications in many decisions and dialogue.
- Citizens/customers often have different values as well, which makes providing the services even more complex.

Mission Statement Exercise

Board member's values and perspectives should be reflected in the mission for the water utility. Present several examples of mission statements that show different approaches and views to providing water and sewer service. One small town may be most interested in providing the lowest rates possible. Another town is interested in high quality service and efficient use of resources. Discuss several different mission statements and how they reflect the values of the board.

Mission Statement Examples:

1. We will provide our customers with high quality water and wastewater services through responsible, sustainable, and creative stewardship of the resources and assets we manage.
2. The City's Public Works Department's goal is to provide a high level of services to our residents/customers at the lowest possible cost.
3. To provide the kind of service that is so good, that if our customers had others to choose from, they would still choose us.

Discussion Points:

- What are the priorities of these individual boards?
- Be careful what you say. What do you remember the most after you read the second mission statement above? Do you want the "lowest possible cost" to be the first thing your customers think of?

Local Financial Challenges Discussion

Ask participants to identify specific financial challenges facing their community. Write them up on flip chart paper. Link the issues to what will be covered in the rest of the session. Try to address as many of these issues as possible during the training or offer to find more information later for the board.

Other Board Exercises:

Strategies for Negotiating Regional Agreements

Situation:

City A borders your water service area. Neither you nor the city system currently provide water to a 450 acre area that is being considered for high density residential subdivision, a commercial center, and a 40 acre industrial site.

***What impact would each of the following have on potential regional agreements?
What might your ideal partnership/agreement model look like for each circumstance?***

1. The city charges water customers outside their city limits 200% as part of their strategy to encourage residents and corporations to support annexation. This strategy is very important to them.
2. The development is in an environmentally sensitive area of the county that has recently been targeted for preservation.
3. Your rates are 50% higher than the city's rates, but you calculate that you could afford to charge considerably less for the new customers and still have a positive cash flow.
4. A major industry is considering locating at the site, but is unwilling to pay the estimated \$800,000 capital cost of running water lines. The city is at its capacity and it would cost \$2,000,000 for the city to expand its system to serve the industry. The city desperately wants the jobs associated with the industry to replace the jobs lost by two major plant closings.
5. The city's cost of providing water is 50% higher than your current rates.
6. An industry is considering locating on the site, but requires fire protection to make it feasible. Due to the amount of jobs that the industry would bring, the city would qualify for a \$700,000 Economic Development grant to cover most of the cost of providing the industry with water and fire protection.
7. Due to grant eligibility requirements, only the county could qualify for the \$700,000 grant, yet the county does not have an existing water system in the area.
8. Your lines serving the area are not sufficient to provide fire protection.
9. The city has pressure problems. You have adequate pressure and flow in the area already.
10. The capital cost of the project is \$1,000,000 and the developers have vowed to fight city annexation but are willing to work with the county.

Board Disagreement Exercise:

General Objective: Dealing productively with disagreement

- Understanding different viewpoints
- Seeking alternatives and combining ideas to bridge differences

1. What's going on?

A. Review possible sources of misunderstanding and disagreement

- Socialization – unconscious influences about likes/ dislikes, expectations, sensibilities
 - **M&M activity:** give each board member a handful of m&m's. Ask them all to arrange their m&m's in a pattern that is visually pleasing to them. Look at all the different ways people arrange their m&m's and ask them to comment on what they did. Notice how everyone has a different view of what is visually pleasing.
- Individual experiences shaping viewpoints: Knowledge, work preferences for kinds of thinking, specific expectations

- Different values, goals or policies
- What board members' behavior means
- Problem-solving skills

B. Discussion with the board and comments from workshop leaders about what's going on

2. How can things be improved?

- A. Summarizing and clarifying views before offering a different perspective
- B. Seeking common interests when there is a clash of positions
- C. Try using a scale of consensus before taking a Yes-No vote such as the Gradients of Agreement below.

Gradients of Agreement

1. Endorsement...*I like it.*
2. Endorsement with a minor point of contention – *Basically I like it.*
3. Agreement with reservations – *I can live with it.*
4. Abstain – *I have no opinion.*
5. Stand aside – *I don't like this, but I don't want to hold up the group.*
6. Formal disagreement, but willing to go with majority – *I want my disagreement noted in writing, but I'll support the decision.*
7. Formal disagreement, with request to be absolved of responsibility for implementation – *I don't want to stop anyone else, but I don't want to be involved in implementing it.*
8. Block – *I veto this proposal.*

(Source: Sam Kaner et al., *Facilitator's Guide to Participatory Decision-Making*, Philadelphia, PA: New Society Publishers, 1996, p. 212)

D. Create ways to maintain/build positive relationships separate from board positions

(Dr. John Stephens, Coordinator, Dispute Resolution Program, UNC School of Government, University of NC at Chapel Hill) 3/05

IV. Financial and Regulatory Overview

The goal of this section of the training is to educate board members about their financial and legal roles and responsibilities. The board member's resource notebook includes a one page guide listing organizations that have financial and regulatory responsibilities in NC. Each resource notebook is also customized with the NC Statutes that govern the particular type of utility in the training.

The objective of this session is to answer these questions:

- Who does what? Which organizations have planning resources, regulatory powers, or funds?
- What do you have to do?

- What should you do?
- What can't you do?

Compare the responsibilities of a board with the responsibilities of external agencies. Boards have significant power and responsibility for planning and finance. Refer to responsibilities in statutes.

Examples of Board Financial Planning Responsibilities:

- Annual Budgets
- Capital Improvement Plans
- Rate Structure – how much revenue is generated and who pays what
- Financial policies related to how to address:
 - cutting off customers
 - new developments
 - fund balance targets
 - capital reserve targets
 - capital strategies (debt vs. capital reserve)
 - rehabilitation vs. new construction
 - inside vs. outside rates

V. Financial Management Topics

During this portion of the training, attention is focused on a few of the financial management topics that the board was interested in learning about. The resource notebook contains information on all of the financial topics below; however, not all of the topics were necessarily covered in each of the individual trainings.

- **Session on Rates and Charges**
 - How should your customers pay?
 - What kinds of charges can/should you have?
 - Deciding on a rate structure
 - Developing classes of customers
 - Recovering up-front costs from new customers
 - Deciding whether to vary rates on the basis of location
 - Addressing the impact of rates on people in need
 - Deciding when to adjust rates
 - Involving the public
- **Session on Capital Finance**
 - Capital improvement plans (CIP)
 - Using debt for financing water and sewer projects
 - Capital reserve funds
 - Look at examples of CIPs, Capital reserve funds balance sheets

- **Session on Asset management**
 - Understanding your assets – condition, age, service history, useful life
 - Prioritizing your assets
 - The different places where your asset management plan is located – asset inventory and priority sheet, budget, capital improvement plan, and capital reserve fund

- **Session on Institutional Framework**
 - Describe the different types of water and sewer organizational arrangements in NC
 - Discuss the specifics of your type of organization - what powers does your type of organization have?

VI. Next Steps – Targeting Financial Management Initiatives

Leave some time at the end of the training for board members to draft an action plan. Consider giving participants time alone to identify a key change they would like to see and then discuss as a group. Identify a few reasonable and attainable objectives that board members would like to complete. List the tasks they will have to take on, where they will get the support they need to do this, and a timeline.

VII. Evaluations

Solicit feedback through an evaluation form that will document the participants' assessment of the training and the impact they expect the programs will have on their utility.