

Quick Financial Management Fact Sheet for NC Water Governing Boards

A water and sewer utility is fundamentally about public health and environmental protection, but it's also about business. Successfully running a water and sewer enterprise requires basic business and financial management expertise, yet these enterprises are often operated and governed by boards comprised of individuals with little or no business and financial experience. In many ways, the challenges of providing safe drinking water and environmentally sound wastewater have become as much about financial management as about treatment technologies.

In order for a utility to be able to assure the quality of its services, it must remain financially healthy. More than just keeping the books, good financial management means planning for the future, keeping records, accessing and if necessary, increasing rates, and monitoring and managing assets.

The governing board of a water/sewer utility is ultimately responsible for assuring that the utility is run in a financially sustainable manner. This document outlines several of the most important, and often ignored financial management issues and procedures behind running a financially sound water and sewer enterprise.

Know the financial legal framework that your enterprise operates within

Water and sewer enterprises in NC are owned and operated by a variety of different organizations including municipalities, counties, special units of government created solely to provide such services, nonprofit organizations and small, investor-owned companies. Although they may have similar responsibilities, their statutory authorities and governing board structures vary.

The Local Government Commission, operating as a division, within the Department of the State Treasurer provides financial oversight for all local government owned water and sewer enterprises. The Local Government Commission plays an active role in reviewing annual financial audits and approving debt. The Local Government Commission will encourage communities to raise rates and fees in the context of assuring that the unit can meet its debt obligations, but does not approve rates. Government owned utilities in NC are self-regulated monopolies when it comes to rate setting, in other words the governing board approves rates and rate structures. Private for-profit water and sewer enterprises operate under a very different financial regulatory framework where the NC Utilities Commission must approve all rate modifications.

In the past, the NC Division of Environment and Natural Resources (NCDENR) played a relatively minor role in regulating the financial aspects of an enterprise, instead focusing on the myriad of environmental regulations. In recent years, the line between environmental and financial regulation has blurred and several NCDENR programs address basic financial management measures. For example, the new NCDENR sewer collection system permits being issued to local governments require that they have an approved Capital Improvement Program.

Capital Finance

Some utility governing boards may view finding “grants” for their communities as their main capital finance responsibility. While still available, grants now play a much smaller role than they have in past, and few, if any systems, can rely on grants to meet all their capital needs. Smaller systems are increasingly turning to the tools once reserved primarily for larger urban systems such as establishing capital reserve funds and incurring commercial credit in the form of loans or bonds. Transitioning from a grant financing system to a debt based financing system requires that a board spend much more attention to projecting cash flow than they may have in the past.

A Capital Improvement Program/plan (also referred to as Capital Investment Plan (CIP) is the building block for enterprise business planning. In general, North Carolina does not have any legal requirements for what a CIP looks like, but at a minimum every CIP should include at 3-5 year projection of all capital needs including detailed information on the costs, annual debt service if applicable, and revenue that will be used to meet all capital obligations.

Rates and Charges

Choosing the combination and the structure of rates and fees that are appropriate for a community can be a difficult task. A commercial company selling a product continually reviews and compares their pricing with their costs in order to assure they can remain in business. Many government owned utilities, especially very small ones, are unwilling or unable to pay this amount of attention to their rates, regardless of the important impact this has on quality of service. Some of the key decisions that local government leaders need to make about rates and fees include:

- Determining the types of fees and charges that the utility will use and how much of their costs they expect to recover from the different fees and charges.
- Deciding on a rate structure
- Developing classes of customers
- Deciding whether to charge customers outside municipal boundaries more for their service (“outside rates”.)
- Addressing the impact of rates on people in need
- Deciding when to adjust rates
- Deciding when and how to involve citizens in these decisions

Asset management

Asset management is a planning process that ensures you get the most value from each of your assets and have the financial resources to rehabilitate and replace them when necessary. Asset management also includes developing a plan to reduce costs while increasing the efficiency and reliability of your assets.

- Inventory your assets – condition, age, service history, useful life
- Prioritize Assets to determine which assets will receive attention if resources are, as they always seem to be, tight. Criteria includes remaining useful life, impact on public health, essential role (can other assets do the same job?)
- Use your asset management plan to help you forecast financial needs into the future and develop a rehabilitation and replacement schedule appropriate for your systems priorities.

While asset management initiatives may save a community funds in the long term, implementing an asset management program may require making significant investments, especially in areas where maintenance on assets has been deferred. How much of your enterprise's CIP is devoted to rehabilitation or replacing existing assets in comparison to the acquisition of new assets. If the answer is, none or very little – your town probably does not have an effective asset management program.

Find the financial management resources in your community:

Don't go it alone, especially if your board lacks financial expertise. There are many local, regional, state and federal resources that assist small systems in North Carolina with financial management. The organizations below provide training and support opportunities for board members, and in some cases, are able to provide direct on-site counseling or assistance:

- The UNC School of Government/Institute of Government (www.sog.unc.edu) and its Environmental Finance Center (www.efc.unc.edu)
- The NC Rural Water Association (www.ncrwa.com)
- NC Rural Communities Assistance Program (www.ncrcap.org)
- NC Association of County Commissioners (www.ncacc.org)
- NC League of Municipalities (www.nclm.org)
- NC Section of American Water Works Association and Water Environment Association (www.ncawwa-wea.org)
- Regional Council of Governments – find a council in your region (www.ncregions.org)
- NC Rural Center (www.ncruralcenter.org)
- NC Local Government Commission (www.treasurer.state.nc.us/SLG/frslg.htm)
- NC Department of Environment and Natural Resources (www.enr.state.nc.us)