



Week of October 19, 2020

Texas Rural Water Association (TRWA)
Fall Management and Districts Conference – Virtual
Ensuring Financial Stability for Your District

Presented by: David S. Yanke, Managing Director – Environmental Practice



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AGENDA

- What does Stability Mean?
- Financial Stability...
- Key Components of a Financial Plan
- How to Develop a Financial Plan
- Other Issues a Financial Plan Should Address
 - Funding
 - Policies
 - Rate Design
 - Billing/Accounting System
 - Operational Metrics
 - Reports and Monitoring Frequency
- Closing Comments
- Discussion



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INTRODUCTION



Dave Yanke, NewGen Strategies & Solutions, LLC

Basis for my comments...

- Conducting water/wastewater financial analyses since 1989
- First presented at TRWA Annual Conference in 1994 – “How to calculate your cost of service”

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DEFINITION OF STABILITY

Stability – the strength to stand or endure, firmness.

– *Merriam Webster*

(i.e. For a water district that means you need to recover all your costs through user fees, connection fees, etc.)

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TO ENSURE FINANCIAL STABILITY YOU NEED A FINANCIAL PLAN

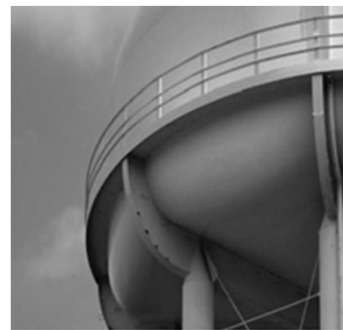


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WHY IS A FINANCIAL PLAN NEEDED?

You as a water district are responsible for:

1. Ensuring a safe, clean and reliable water supply
 - Do you have enough water?
2. Maintaining and upgrading infrastructure
 - Pumps
 - Storage
 - Water lines
 - Water treatment plant
 - Wastewater treatment plant
 - Wells



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WHY IS A FINANCIAL PLAN NEEDED? (CONT.)

3. Urban/rural issues
4. CCN issues
5. Regulations
6. Developing/growing your staff
7. Other?



The financial integrity of your utility is critical to achieving these responsibilities.

A GOOD FINANCIAL PLAN WILL:

- Forecast population growth
- Forecast water demand
- Incorporate a capital plan
*(*Coordination with district's engineer is critical!)*
- Project O&M costs



A GOOD FINANCIAL PLAN WILL: (CONT.)

- Evaluate / optimize capital financing
(debt service - cash - grant)
- Calculate the cost of service
- Design rates
 - Minimum bill
 - Volumetric rate structure (e.g. inclining block)
 - Capital recovery fee
 - Wholesale rates (if applicable)
 - Other



A GOOD FINANCIAL PLAN WILL: (CONT.)

Note: Time horizon may vary for different components of the financial plan:

- Rates – 5 years
- Capital improvement plan – 10 years
- Water supply – 20+ years



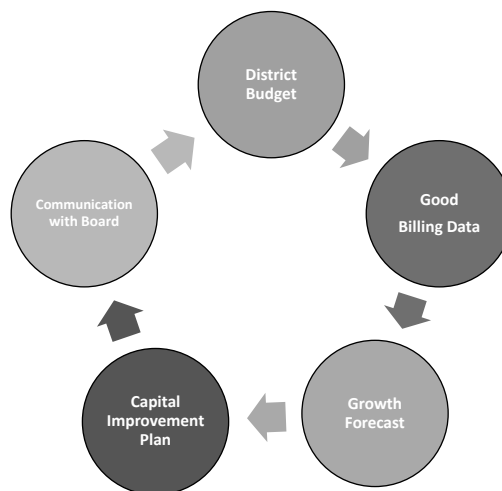
A GOOD FINANCIAL PLAN WILL: (CONT.)

“A financial plan will help you clarify where you are headed and how to get there.”



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KEY COMPONENTS OF A FINANCIAL PLAN



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HOW TO DEVELOP A FINANCIAL PLAN

Establish Your Project Team

- Staff, Engineer, Financial Consultant, Legal, Financial Advisor

Establish a Project Timeline, Tasks and Deliverables

Complete Key Tasks

- Request for Information (RFI)
- Review billing data
- Develop CIP
- Forecast revenue requirement (typically 5 years)
- Design rates
- Present draft report and recommendations to board
- Optional: Establish financial policies – days cash on hand, debt service coverage, reserve policy, etc.

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OTHER ISSUES A FINANCIAL PLAN SHOULD ADDRESS

- Funding
- Policies
- Rate Design
- Billing/Accounting System
- Operational Metrics
- Reports and Monitoring



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FUNDING

- Evaluate Financing Options
 - Financing Sources
 - TWDB
 - Commercial Banks
 - CoBank
 - Internally Generated Cash
 - Contributed Capital
 - Other
 - Match Asset Life to Financing Term (when practical)



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POLICIES

- Debt Service Coverage
 - May be Dictated by Covenants
- Reserves
 - Operating
 - Typically 90 to 120 Days O&M
 - Dependent on the Nature of Costs and Revenues
 - Capital
 - Alignment with Capital Improvement Plan as well as Renewals and Replacements
 - Debt
 - May be Dictated by Covenants



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POLICIES (CONT.)

- Renewals and Replacements
 - Keep System from Aging or Manage Aging
 - Preventative Maintenance to Reduce Emergency Maintenance and Compliance Issues
 - Asset Replacement Analysis
 - What Would You Pay to Avoid Intangible Risks?
 - Consider Failure Consequences
- Meter Replacement Policies
 - Scheduled Testing and Replacement
- Line Extension Policies
 - Contributed Capital Requirements
- Fees for Miscellaneous Services
 - e.g., Tap Fees, Account Set-Up, Turn-On, etc.

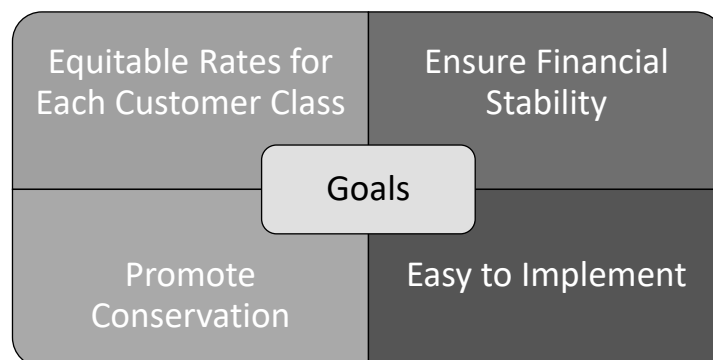
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WATER RATE DESIGN OPTIONS

General Rate Setting Goals



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WATER RATE DESIGN OPTIONS (CONT.)

- Fixed Charge
 - Recovers billing and collection costs
 - Recovers metering costs
 - Recovers fixed/costs debt service (??)
- Volumetric Charge
 - “Consumption” charge
 - Recovers cost due to amount of, and pattern of, customers’ water demand



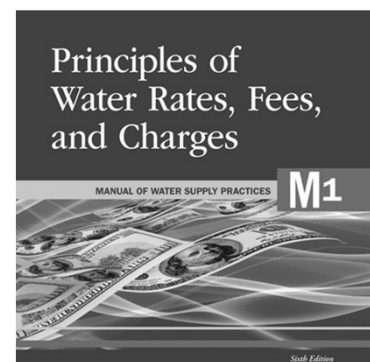
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BIG VERSUS SMALL CUSTOMER PRICING – WHAT DOES IT MEAN FOR TRWA MEMBERS?

- Conduct cost of service analysis
 - Use internal staff or a consultant
 - Adhere to AWWA – M1 manual principles
- Make conscious, reasonable, and defensible rate designs
- Quantify amount of the “subsidy”
- Do not operate in a vacuum!




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BILLING/ ACCOUNTING SYSTEMS

- Should Be Able to Support Budgeting and Rate Design
- Compile Consumption Data by Usage
 - e.g., 0 – 500 gallons, 501 – 1,000 gallons, etc.
- Flexibility to Change Consumption Included in Rate Blocks (if applicable)



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OPERATIONAL METRICS

- Operational Data
 - Average Day Demand, Max Day Demand, Lost and Unaccounted for
 - Needs to Be Able to Support Cost of Service Allocations and Rate Design
- Any Waivers to Minimum Capacity Requirements
 - Codified in 290.45 of Texas Administrative Code (e.g., 0.6 gpm/connection)

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REPORTS AND MONITORING FREQUENCY

- Annually
 - Budgets/CAFRs
 - Internal Review of Rates
 - Monitor Operational Metrics
 - Capital Funding Decisions
- 1 – 3 Years
 - Capital Improvement Plans
- 3 – 5 Years
 - Comprehensive Rate Study
 - More frequent if material changes in operations or finances (e.g., new wholesale customers or significant CIP)
 - Updated Master Plan
- First time is always the hardest



CLOSING COMMENTS

- A financial planning process will force the staff and board to “step back” and think about where their district is headed. (This is a good thing!)

Bottom line: A financial plan will help **minimize** surprises, but it won't **eliminate** them!

DISCUSSION



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