Budgeting for Public Enterprises

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Budgeting in Local Government
Chapel Hill, NC

Participants will leave here …

… with an understanding of challenges in setting budgets for enterprises

… examples of budgeting approaches and practices that support enterprise services

Topics

• Overview
• Revenues
  – User fees
  – Taxes
• Expenses
  – Ignored or hidden costs
  – Indirect costs
  – Transfers

(1) **Electric** power generation, transmission, and distribution systems.
(2) **Water** supply and distribution systems.
(3) **Wastewater** collection, treatment, and disposal systems of all types, including septic tank systems or other on-site collection or disposal facilities or systems.
(4) **Gas** production.
(5) **Public transportation** systems.
(6) **Solid waste** collection and disposal systems and facilities.
(7) **Cable television** systems.
(8) **Off-street parking** facilities and systems.
(9) **Airports**.
(10) **Stormwater** management programs designed to protect water quality by controlling the level of pollutants in, and the quantity and flow of, stormwater and structural and natural stormwater and drainage systems of all types.

Characteristics of Municipal Enterprises?

- Capital intensive
- Diverse use charges, fees and pricing strategies
- Self-regulated monopolies
- Often impact public health and environmental protection — regulated requirements
- Service industries
- Production industries

$ of invested capital per one dollar of generated revenue

Source: Water Research Foundation
https://www.waterrf.org/publicreportlibrary/91257.pdf
The Role Budgets Play

- Appropriation/Allocation of funds
- Setting rates and fees
- Public education
- Measuring and promoting financial and operational performance

What does your mission say?

1. To provide a high level of services to our residents/customers at the lowest possible cost.
2. To be responsible to the community we serve while producing safe and pleasant drinking water.
3. To provide services to all retail and wholesale customers with full assurance of accountability, equity, reliability and reasonable cost.
4. To provide the kind of service that is so good, that if our customers had others to choose from, they would still choose us.

Start with the Mission
Two sides of the enterprise budget:
Revenues and Expenses

Revenue and Expenses for Charlotte Mecklenburg Utilities in a Given Year

Revenues
- User fees, 12%
- Regulatory fees, 12%
- Taxes, 12%
- Interest, 12%
- Other, 12%

Expenses
- Debt Service, 12%
- Operations, 12%
- Depreciation, 12%
- Other, 12%

Source: CMU Director Doug Bean's presentation to the Charlotte City Council on December 1, 2008.

Public Enterprise Revenues

- User fees
- Regulatory fees
- Taxes
- Interest
- Other

City of Durham 2018-2019 Solid Waste Revenues

<table>
<thead>
<tr>
<th>Revenues</th>
<th>FY 2018-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Property Taxes</td>
<td>$18,347,668</td>
</tr>
<tr>
<td>Interest and Rental Income</td>
<td>18,000</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>7,588,291</td>
</tr>
<tr>
<td>Intergovernmental Revenues</td>
<td>167,322</td>
</tr>
<tr>
<td>Landfill Gas</td>
<td>140,000</td>
</tr>
<tr>
<td>Other Financing Sources</td>
<td>300</td>
</tr>
<tr>
<td>Transfers From Other Funds</td>
<td>82,422</td>
</tr>
<tr>
<td>Appropriation From Fund Balance</td>
<td>50,371</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$26,403,374</td>
</tr>
</tbody>
</table>

Public Enterprise Revenue Examples

Solid Waste Fund

Revenues:
- Residential Solid Waste Fees $19,335,008
- From General Fund 6,400,009
- Recycling Revenues 6,304,474
- Yard Waste Center Revenues 400,000
- From Fund Balance 1,006,200
- Other Income 2,803,029
Total Solid Waste Fund Revenues $27,378,071

Stormwater Management Fund

Revenues:
- From Interest Income $16,000
- From Other Funds 407,007
- Stormwater Utility Fees 22,090,424
- Other Fees and Penalties 532,680
Total Stormwater Management Fund Revenues $25,863,737
(a) A city may establish and revise from time to time schedules of rents, rates, fees, charges, and penalties for the use of or the services furnished or to be furnished by any public enterprise. Schedules of rents, rates, fees, charges, and penalties may vary according to classes of service, and different schedules may be adopted for services provided outside the corporate limits of the city.

Some fees have more precise statutory guidance

• Water/wastewater availability charge
• Solid waste availability fee
• Solid waste disposal fee
• Solid waste collection fee
• Stormwater fee
• Water/wastewater system development fee
• Electric fees

Relative Revenues for 64 municipalities reporting utility fees in 2017

Source: Analysis prepared by the EFC using self-reported information submitted to the Local Government Commission
Example of operating vs capital revenue

- Water tap fee
  - Covers expenses incurred making a connection. Appropriate to budget in year costs are incurred

- System development fee
  - Covers past or future investment in off-site facilities that have to be carefully tracked

Be Aware of Changing Conditions

Conservation Pricing Changes in 2002 and 2007

Source: Orange Water and Sewer Authority, North Carolina
Slow Moving Storm

Number of W01 water bills

12-month running average volume of water per W01 bill (1,000 gallons/month)

PRELIMINARY RESULTS

https://efc.sog.unc.edu/reslib/item/north-carolina-water-and-wastewater-rates-dashboard#
Basic Expenses

- Staff
- Utilities
- Supplies
-...
-...

Can you balance the budget and not cover your “costs”?

- Reimbursements for other services
- Capital improvement/depreciation

Is Revenue Sufficient

Source: UNC-EDC Results of the 2017-2018 North Carolina Water and Wastewater Utility Management Survey
What not including depreciation looks like

Figure 3: Local Government-Owned Water and Wastewater Utilities’ Cost Recovery in FY 2016 (n=456)
- Operating revenues - operating expenditures (30%)
- Operating revenues - operating expenditures + principal + interest on long-term debt (35%)
- Operating revenues - operating expenditures + principal + interest on long-term debt (65%)

Depreciation is not included in operating expenditures. Data obtained from the U.S. Environmental Protection Agency’s Urban Water Division. Data analyzed by the State Government Finance Center at UNC.

What not including depreciation looks like

What not including depreciation looks like
Multiple Faces of Transfers

• Cost reimbursements
  – Part of city managers time
  – Fraction of fleet maintenance costs
  – Percentage of shared building operating costs
• Procedural transfers
  – Moving funds from operating to capital project fund
• General Transfers
  – No documentation at all
  – Plug a hole in general fund
  – Reduce need for property tax increase
  – Paying a dividend or profit

Transfers – Stormwater Funds to Capital Project Fund

DIRECT EXPENDITURES BY TYPE
Personnel 6,144,409
Employee Benefits 2,270,139
Operating Expenditures 3,934,580
Special Programs and Projects 282,312
Interfund Transfers 13,130,560
Capital Project Expense 101,738
TOTAL $28,863,737

Reimbursements

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reimbursements from Utility Fund</td>
<td>$19,902,469</td>
</tr>
</tbody>
</table>

The Utility Fund reimburses the General Fund for direct and indirect charges that are expensed in the General Fund for the Utilities enterprise. These include reimbursement of amounts calculated in the City’s indirect cost allocation plan for the Public Utilities Department and water and sewer service cuts. The estimated amount reimbursable in FY 19 is $19,902,469.
General Transfers

VI. Electric Fund

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric System</td>
<td>$12,739,304</td>
</tr>
<tr>
<td>Meter Reading</td>
<td>$58,879</td>
</tr>
<tr>
<td>Total</td>
<td>$13,228,183</td>
</tr>
<tr>
<td>Transfers to General Fund</td>
<td>$2,129,797</td>
</tr>
<tr>
<td>Transfers to Health Insurance Fund</td>
<td>$400,000</td>
</tr>
</tbody>
</table>

§ 159B-39. Permitted uses of revenue from electric power rates.
(a) A municipality as authorized in this Chapter shall use revenue derived from rates for electric service to (i) pay the direct and indirect costs of operating the electric system and (ii) transfer to other funds of the municipality a sum that reflects a rate of return on the investment in the electric system to the extent allowed in subsection (d) of this section. Any remaining

unit if the municipality was not the owner of the electric system.
(c) The total amount transferred to other funds of the municipality authorized as a rate of return on the investment of the municipality in the electric system shall be calculated using amounts reported in the municipality’s audited financial statements for the preceding fiscal year. The amount transferred may be less than the following:

(1) Three percent (3%) of the gross capital assets of the electric system at the end of the preceding fiscal year.
(2) Five percent (5%) of the gross annual revenues of the electric system for the preceding fiscal year.

Applies to members of NC Easter Municipal Power Agency

Budgets and Performance

- How does your budget promote efficiency and innovation?
- Does an individual or team have control of a section of your budget?
- Is your budget set up so that it can be used easily for performance measures?
- Can you use the budget to predict the effects of changing conditions on financial performance?
- Does your budget prioritize what’s most important in your mission/strategic goals?
School of Government resources on Enterprise Funds

http://www.sog.unc.edu/, click on Publications

(Kara Millonzi)

“The Painful Art of Setting Water and Sewer Rates”
(Jeff Hughes)

http://www.efc.sog.unc.edu/
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