


Budgeting for Public Enterprises

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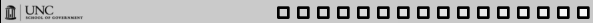
Budgeting in Local Government
Chapel Hill, NC



Participants will leave here ...

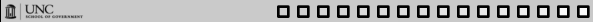
... with an understanding of challenges in setting budgets for enterprises

... examples of budgeting approaches and practices that support enterprise services



Topics

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





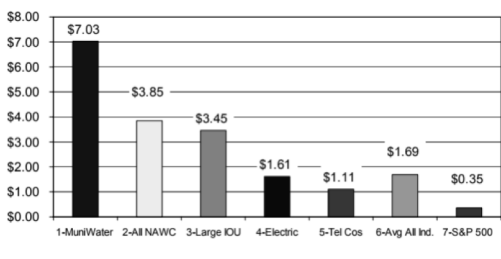
§ 160A-311. Public enterprise defined.

- (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?



Start with the Mission

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.





General Authority Behind User Fees
 § 160A-314. Authority to fix and enforce rates

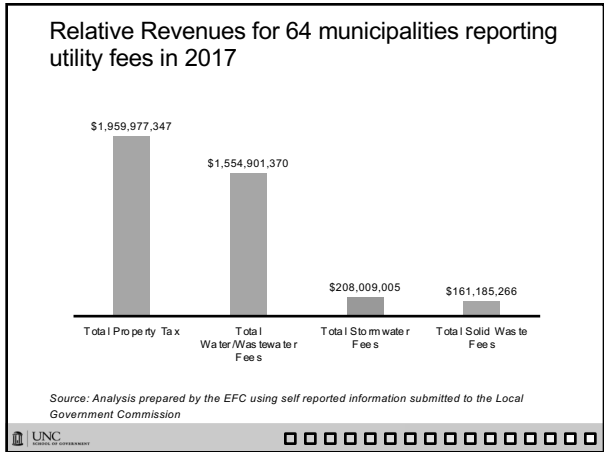
(a) A city may establish and revise from time to time schedules of rents, rates, fees, charges, and penalties for the use of or the services furnished or to be furnished by any public enterprise. Schedules of rents, rates, fees, charges, and penalties may vary according to classes of service, and different schedules may be adopted for services provided outside the corporate limits of the city.

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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

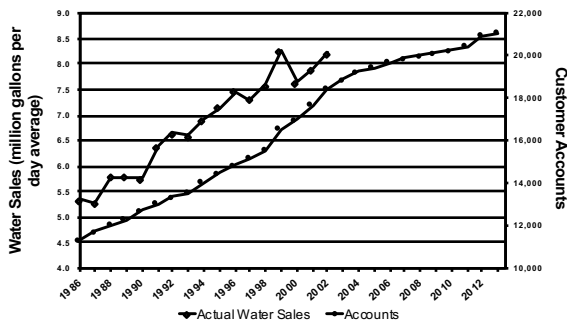
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Example of operating vs capital revenue

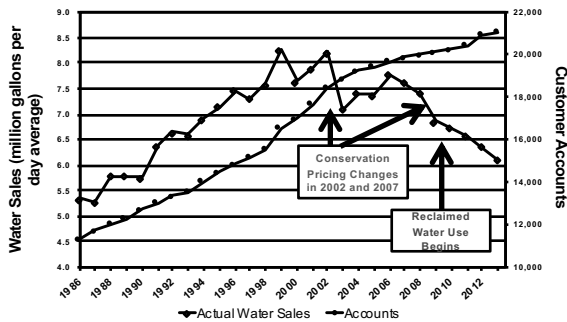
- Water tap fee
 - Covers expenses incurred making a connection. Appropriate to budget in year costs are incurred
- System development fee
 - Covers past or future investment in off-site facilities that have to be carefully tracked

Be Aware of Changing Conditions



Source: Orange Water and Sewer Authority, North Carolina

Be Aware of Changing Conditions



Source: Orange Water and Sewer Authority, North Carolina

Basic Expenses

- Staff
- Utilities
- Supplies
-
-

DIRECT EXPENDITURES BY DIVISION	
Administration	12,281,787
Recycling Collection	4,843,142
Residential Collection	18,130,998
Yardwaste Center	2,022,344
TOTAL	\$37,278,271

DIRECT EXPENDITURES BY TYPE	
Personnel	9,581,140
Employee Benefits	3,962,867
Operating Expenditures	14,074,371
Interfund Expenditure	7,349,321
Special Programs and Projects	383,512
Capital Equipment	1,947,060
TOTAL	\$37,278,271

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Can you balance the budget and not cover your "costs"?

- Reimbursements for other services
- Capital improvement/depreciation

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Is Revenue Sufficient

Category	Percent of utilities
Insufficient for basic operating needs	8%
Sufficient for basic operating needs, but not capital needs	34%
Sufficient to maintain a strong fiscal condition and meet most current capital needs	54%
Beyond immediate needs, to prevent future rate increase	9%
Other	1%

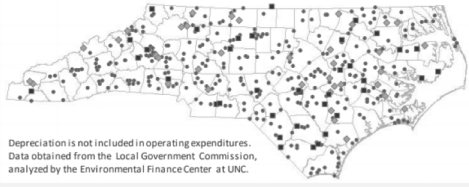
Source: UNC-EFC, Results of the 2017-2018 North Carolina Water and Wastewater Utility Management Survey

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What not including depreciation looks like

Figure 30: Local Government-Owned Water and Wastewater Utilities' Cost Recovery in FY 2016 (n=386)

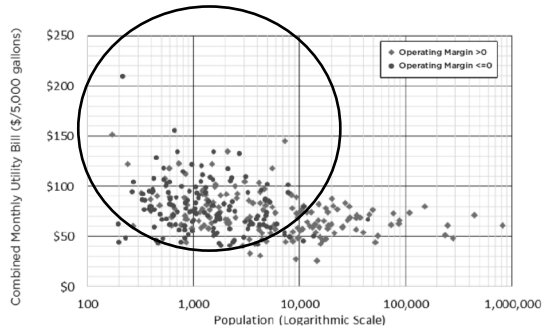
- Operating revenues < operating expenditures (10%)
- ◊ Operating revenues < operating expenditures + principal + interest on long-term debt (10%)
- Operating revenues > operating expenditures + principal + interest on long-term debt (81%)



Depreciation is not included in operating expenditures.
Data obtained from the Local Government Commission,
analyzed by the Environmental Finance Center at UNC.



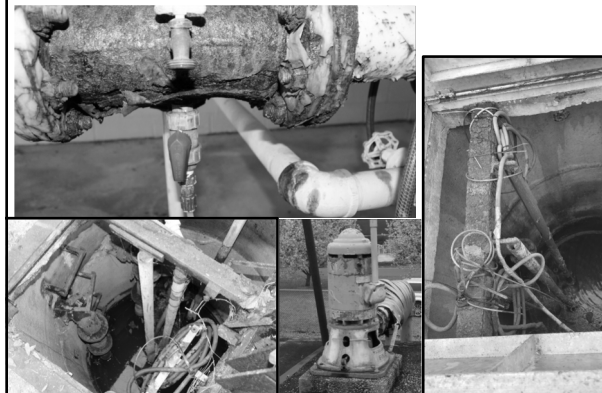
What not including depreciation looks like



Operating Margin = Total Operating Revenue—Operating Expenses



What not including depreciation looks like



General Transfers

VI. Electric Fund

Electric System	\$ 12,739,104
Meter Reading	<u>58,879</u>
	12,797,983
Transfers to the General Fund	2,129,757
Transfers to Health Insurance Fund	<u>400,000</u>
Total	\$ 15,327,740



§ 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 (c) of this section. Any remaining

unit if the municipality were not the owner of the electric system.

(8) Making transfers to the general fund or other funds of the municipality to reimburse the general fund or other funds for costs paid from the fund that are reasonably allocable to 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, but in no event may the amount transferred exceed the greater of 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



A Guide to Billing and Collecting Public Enterprise Utility Fees for Water, Wastewater, and Solid Waste Services
(Kara Millonzi)

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



