Budgeting for Public Enterprises Jeff Hughes Environmental Finance Center at UNC School of Government Budgeting in Local Government Chapel Hill, NC www.sog.unc.edu	
Participants will leave here	
with an understanding of challenges in setting budgets for enterprises	
examples of budgeting approaches and practices that support enterprise services	
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Topics	
Overview Revenues	
– User fees – Taxes	
Expenses Ignored or hidden costs	
Indirect costsTransfers	
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§ 160A-311. Public enterprise defined. $\label{eq:continuous} \textbf{Electric} \ power \ generation, \ transmission, \ and \ distribution \ systems.$

Water supply and distribution systems.

- Wastewater collection, treatment, and disposal systems of all types, including septic tank systems or other on-site collection or disposal facilities or systems.
- Gas production...
- Public transportation systems.
- Solid waste collection and disposal systems and facilities.
- Cable television systems.

 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.

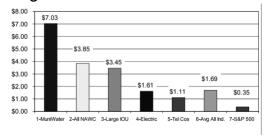
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Characteristics of Municipal **Enterprises?**

- · 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

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\$ 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

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What does your mission say?

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Start with the Mission

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



Two sides of the enterprise budget:				
Revenues and Expenses				
Revenue and Expenses for Charlotte-Mecklenburg Utilities in a Given Year				
	Connection Fees, 296 Fixed Fees, 496 Miscellaneous, 596	Power and Chemicals, 6% PAY-GO, 7%		
	Capacity Fees, 7%	Billing Costs, 10%		
		Operations, 25%		
	Usage Rates, 82%	Debt Service, 52%		
	Revenues	Expenses		
	Source: CMU Director Doug Bean's presentation to the Charlotte City Council on December 1, 2008.			
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Public Enterprise Revenues City of Durham 2018-2019 Solid • User fees Waste Revenues Regulatory FY 2018-19 Revenues General Property Taxes fees \$ 18,347,668 \$ 18,347,668 18,000 7,588,291 167,322 140,000 300 82,422 59,371 \$ 26,403,374 Interest and Rental Income Charges for Services Intergovernmental Revenues Landfill Gas Taxes Interest Landfill Gas Other Financing Sources Transfers From Other Funds Appropriation From Fund Balance Total Revenues · Other 0000000000000000

Public Enterprise Revenue Examples				
Solid Waste Fund Revenues: Residential Solid Waste Fees From General Fund Recycling Revenues Yard Waste Center Revenues From Fund Balance Other Income Solid Waste Fund Revenue Total	\$	19,293,608 6,400,000 6,384,474 400,000 1,996,260 2,803,929	\$	37,278,271
Stormwater Management Fund Revenues: From Interest Income From Other Funds Stormwater Utility Fees Other Fees and Penalties From Fund Balance Stormwater Management Fund Revenue Total	\$	25,000 467,957 22,590,424 535,460 2,244,896	\$	25,863,737
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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.

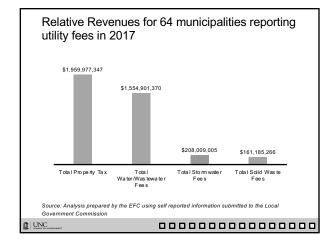
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Some fees have more precise statutory guidance

- · 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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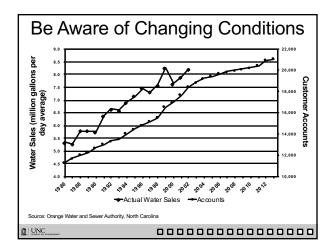


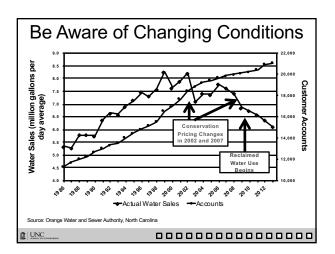


Example of operating vs capital revenue

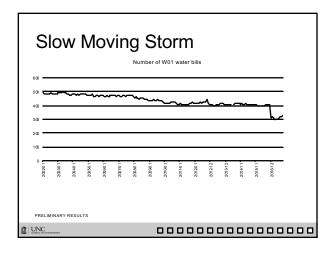
- · Water tap fee
 - Covers expenses incurred making a connection. Appropriate to budget in year costs are incurred
- · System development fee
 - Covers past or future investment in off-site facilities that have to be carefully tracked

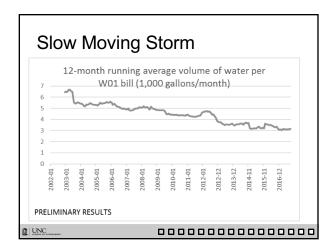
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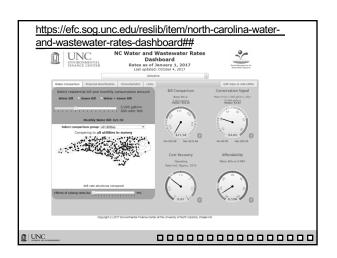














Basic Expenses

- Staff
- Utilities

Supplies

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DIRECT EXPENDITURES BY DIVISION Administration Administration Residential Collection Residential Collection Yardwaste Center TOTAL

12,281,787 4,843,142 18,130,998 2,022,344 \$37,278,271

DIRECT EXPENDITURES BY TYPE
Personnel

DIRECT EXPENDITIONES BY I Personnel Employee Benefits Operating Expenditures Interfund Expenditures Interfund Expenditure Special Programs and Projects Capital Equipment TOTAL 9,581,140 3,962,867 14,074,371 7,349,321 363,512 1,947,060 \$37,278,271

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

- · Reimbursements for other services
- Capital improvement/depreciation

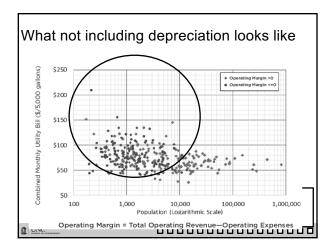
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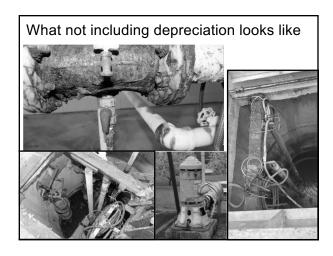
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Percent of willilities Sufficient for Sufficient to basic poperating operating operating needs, but condition needs, but condition prevent not capital and meet most current capital needs with most current capital needs. Source: UNC-EFC: Results of the 2017-2018 North Carolina Water and Wastewater Utility Management Survey



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.







Multiple Faces of Trar

- · 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

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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
 \$25,863,737

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Reimbursements

N. Reimbursements from Utility Fund \$10,932,469

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 street cuts. The estimated amount reimbursable in FY18 s \$10,332,469.

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Canaral Transfers	
General Transfers	
VI. Electric Fund	
Electric System \$ 12,739,104	
Meter Reading 58,879 12,797,983 12,797,983 Transfers to the General Fund 2,129,757	
Transfers to Health Insurance Fund 400,000 Total \$ 15,327,740	
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§ 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.	
 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	-
<u>UNC</u>	
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? 	-
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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) DELECTION OF THE PRINT OF SETTING WATER AND SEWER RATES (Jeff Hughes)



