

ASSESSING FINANCIAL CONDITION TO PREPARE FOR SRF APPLICATION

June 15, 2023
12-1 PM ET
Virtual Webinar

Presented by
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[UNC Environmental Finance Center](#)



ABOUT US



The UNC EFC is dedicated to enhancing the ability of governments and other organizations to provide environmental programs and services in fair, effective, and financially sustainable ways.

CWSRF SERIES

- January 19, 2023 | What is the CWSRF and why should you care?
- February 16, 2023 | Changes to the SRF with additional BIL money
- March 16, 2023 | Why Small Communities Should Consider CWSRF Funding
- April 20, 2023 | Economics and affordability of low-interest rate loans
- May 18, 2023 | What Types of Projects Are Eligible for CWSRF Funding?
- **June 15, 2023 | Assessing Financial Condition to Prepare for SRF Application**
- July 20, 2023 | Applying for SRF Funding
- August 17, 2023 | Documents needed to apply for SRF Funding (PER, EID, etc.)
- September 21, 2023 | What happens after the application is submitted?
- October 19, 2023 | Analyzing and Adjusting Rates to Manage SRF Debt Service
- November 16, 2023 | Navigating Federal Regulations
- *Tuesday, December 19, 2023 | How do I manage my grant after award?

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HAVE YOU ATTENDED ANY OF THE CWSRF WEBINARS?

- Yes, I have attended them all
- Yes, I have attended at least one
- No, I haven't attended any of the webinars



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✓ Overview of Past Sessions

Financial Benchmarks

Financial Health Checkup (FHCU) Tool

Resources & Support

Questions and Wrap up

AGENDA

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HIGHLIGHTS FROM PAST SESSIONS

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OVERVIEW OF CWSRF

“The Clean Water State Revolving Fund (CWSRF) program is a federal-state partnership that provides communities low-cost financing for a wide range of water quality infrastructure projects, including:

- Municipal wastewater facilities,
- Nonpoint source pollution control,
- Decentralized wastewater treatment systems,
- Stormwater runoff mitigation,
- Green infrastructure,
- Estuary protection, and
- Water reuse”

<https://www.epa.gov/cwsrf>

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BENEFITS OF CWSRF

- Improved Water Quality
- Public Health Protection
- Economic Stimulus
- Cost Savings
- Flexibility and Local Control
- Collaboration and Partnerships
- Environmental Sustainability
- Compliance with Regulatory Requirements



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CWSRF AND THE ADDITION OF BIL: CWSRF BY THE NUMBERS

Base Funding

- \$153.6B in base SRF funding
- 44,555 loan agreements thru 2021

Additional BIL Funding

- \$11.7B in additional “general” funding through BIL over 5 years
- \$1B for emerging contaminants
- 4.9% of state capitalization grants set aside for small and disadvantaged communities

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SRF FOR SMALL COMMUNITIES

Pros

- Simple application processes
- City does not have to issue bonds
- Low interest rates
- Potential for additional subsidies
- Potential planning/design grants
- Generally, no minimum limit
 - If leveraging – can loan large amounts
- State SRF agencies often work with other funders to minimize costs

Cons

- Some strings attached
 - Davis-Bacon wages
 - Buy American provisions
- Term of loan may be shorter than other options, thus higher periodic payments
 - Some states allow 20-yr max SRF loans, others 30-yr
 - Some other loan programs (e.g., RD) offer 40-yr loans
 - Lower periodic payment*
 - Does your infrastructure last 40 yr?

*total cost of loan may be greater than shorter term loan

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WHO IS ELIGIBLE?

Eligibility for DWSRF + CWSRF

- Water/Wastewater Systems:
 - Public
 - Private
 - Non-profit non-community, and
 - New community
- Local Government Units (counties, cities, towns, sanitary districts, etc.

Additional CWSRF Eligibility*

- Intermunicipal/ interstate/ state agencies
- Non-profit entities
- Private/ for-profit entities
- Watershed groups
- HOA's
- Individuals

*depends on the project

check with your state

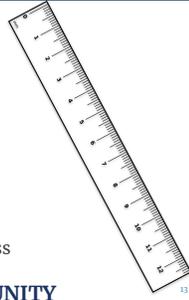
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FINANCIAL BENCHMARKS

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WHAT ARE FINANCIAL BENCHMARKS?

- **QUANTIFIABLE MEASURES OF PERFORMANCE**
 - Things we can measure
 - Things that people care about
 - Data is helpful
- **MEASURE PROGRESS**
 - Assess operational performance
 - Set goals and understand growth
- **IMPACTS INVESTMENT CAPACITY**
 - Investors, particularly institutional investors, use to assess financial health
- **INDICATIVE OF FINANCIAL HEALTH OF A COMMUNITY**



WHY CARE ABOUT FINANCIAL BENCHMARKS?

- Get a holistic picture of utility performance and needs
- Set future goals and understand growth
- Inform capital planning
- Understand affordability
- Financing options

FINANCIAL PERFORMANCE METRICS

Is your system self-sufficient?	Operating Ratio
Are you able to cover your debt service after paying for your day-to-day operations?	Debt Service Coverage Ratio
If your customers stop paying their bills, how long can you maintain operations?	Days Cash on Hand
Can your system meet its short-term obligations?	Quick / Current Ratio
How much of your utility's expected life has already run out (and how much is left)?	Asset Depreciation

OPERATING RATIO

- A measure of self-sufficiency
- The revenue you get from daily operations, divided by the expenditures or expenses you make to keep operations running

$$= \frac{\text{Operating Revenues}}{\text{Operating Expenses}}$$

including (or excluding) depreciation



OPERATING RATIO

Operating Revenues

- Income from:
- Rates
 - Late Fees
 - Penalties
 - Connection Fees
 - Tap Fees

Operating Expenses

- O&M Costs:
- Supplies
 - Salaries and Benefits
 - Overtime
 - Taxes
 - Insurance
 - Depreciation
 - **DOES NOT** include debt service or reserves

THIS FUNNY THING CALLED DEPRECIATION

- An accounting solution for a physical problem: aging infrastructure
- You have a "cost" every year of your infrastructure wearing out, a percentage of its value



What is Depreciation?

Loss of value over time of an asset not restored by current maintenance

An economic fact for any water or wastewater system

Value lost from both declining physical factors and functional or non-physical factors (obsolescence)

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OPERATING RATIO AND DEPRECIATION

- Including depreciation in your operating ratio
 - “Fully funding” depreciation allows you to have saved for replacement at the time replacement is needed
 - (This isn’t as good as doing asset management and capital planning, but it is better than nothing)
- Less necessary if you have a comprehensive capital improvement plan and are actively budgeting for future infrastructure

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DEBT SERVICE COVERAGE RATIO

- A measure of the ability to pay debt service
- Often calculated by funders and debtors

$$= \frac{\text{Operating Revenues} - \text{Operating Expenditures (excludes depreciation)}}{\text{Principal} + \text{Interest Payments on Long Term Debt}}$$

>1.2

DAYS CASH ON HAND

- How long you can continue to pay for O&M without any additional revenues?
- Unrestricted Cash and cash equivalents are monies can be used for anything

$$= \frac{\text{Unrestricted cash and cash equivalents} \times 365}{\text{Operating Expenses} - \text{Depreciation}}$$

>180 days

EXAMPLE DEBT SERVICE COVERAGE REQUIREMENTS: GEORGIA

10. LOAN SECURITY

GEFA requires a revenue and full-faith-and-credit pledge of each borrower and any other special loan condition GEFA may deem necessary, e.g., debt service reserve, etc.

For borrowers, such as authorities, that lack taxation powers or lack adequate taxation capacity to provide a full-faith-and-credit pledge equal to the value of the loan, the following requirements will need to be fulfilled prior to execution of loan:

- A debt service coverage ratio of 1.25x or greater
- A debt service coverage ratio of less than 1.25x, but equal to or greater than 1.05x – a reserve in the amount of one year’s debt service on the proposed debt must be deposited into a separate bank account that names GEFA as the beneficiary, prohibits the borrower from withdrawing funds without GEFA’s written consent, and requires the bank to submit quarterly statements of activity and account balance information directly to GEFA.
- A debt service coverage ratio of less than 1.05x – Additional security through an agreement with the authority’s local government that is willing and able to provide a full-faith-and-credit pledge to back the loan.

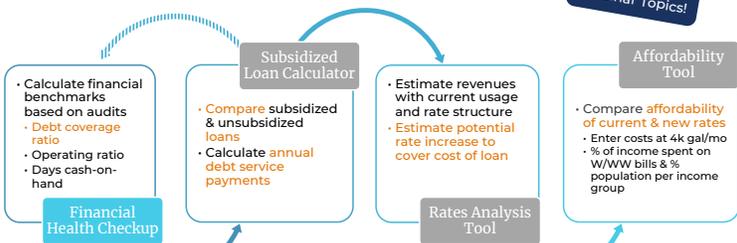
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For nongovernmental entity borrowers, a deed to secure debt will be required.

FINANCIAL HEALTH CHECKUP TOOL

CREATED BY THE ENVIRONMENTAL FINANCE CENTER
AT THE UNIVERSITY OF NORTH CAROLINA, CHAPEL HILL

What is the projected debt coverage ratio with a loan? Do rates need to increase to cover the debt service?



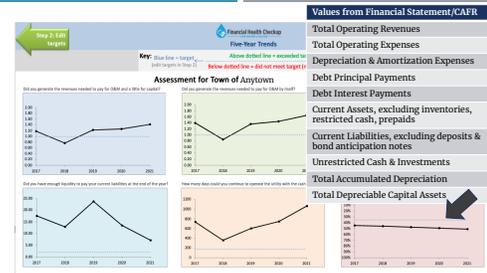
What is the current debt coverage ratio?

How much would monthly household (HH) bills increase?

Tools available at: <https://efc.sog.unc.edu/dashboards/>

FINANCIAL HEALTH CHECKUP TOOL

5 years of Financial Audits



Created by the Environmental Finance Center at the University of North Carolina, Chapel Hill

<http://efc.sog.unc.edu> or <http://efcnetwork.org>
Find the most up-to-date version in Resources / Tools

FINANCIAL HEALTH CHECKUP

Access the Tool using the link below:

Online version (brand new!)

<https://efc-at-unc.shinyapps.io/fhcu/>

Excel version (alternative):

<https://efc.sog.unc.edu/resource/financial-health-checkup-water-utilities/>

Values from Financial Statement/CAFR
Total Operating Revenues
Total Operating Expenses
Depreciation & Amortization Expenses
Debt Principal Payments
Debt Interest Payments
Current Assets, excluding inventories, restricted cash, prepaids
Current Liabilities, excluding deposits & bond anticipation notes
Unrestricted Cash & Investments
Total Accumulated Depreciation
Total Depreciable Capital Assets

//VIDEO//

CWSRF RESOURCES

- EPA's CWSRF Factsheets
 - <https://www.epa.gov/cwsrf/clean-water-state-revolving-fund-cwsrf-factsheets>
- SW EFC SRF Switchboard: <https://swefcsrfswhboard.unm.edu/srf/>
- EFC Network Funding Tables: <https://efcnetwork.org/resources/funding-tables/>



EFC TOOLS

- EFC Network Tools: <https://efcnetwork.org/resources/tools-and-publications/>
- UNC EFC Tools: <https://efc.sog.unc.edu/dashboards/>
 - Financial Health Checkup (FHCU)
 - Subsidized Loan Calculator
 - Plan-to-pay tool
 - Rates Analysis tool
 - Affordability Assessment tool

Future Webinar Topics!



NEED HELP? REQUEST EFC NETWORK TECHNICAL ASSISTANCE

- Technical assistance available for small water and wastewater systems
 - Particularly for **small wastewater systems (<1 MGD)**
- Contact the **UNC EFC** (efc@sog.unc.edu) or the **EFC Network** <https://efcnetwork.org/get-help/>



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THANK YOU!

General Contact Information

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