


The Source

UTILITY ENTERPRISE MANAGEMENT

1st Quarter 2010

 **AES** Think Big. Go Beyond.

Minnesota Revolving Fund Deadlines in February

For projects included in the 2010 Minnesota Clean Water Revolving Fund (CWRF) and Drinking Water Revolving Fund (DWRF) Intended Use Plans, the following deadlines have been set by the Minnesota Public Facilities Authority (PFA):

- Submit DWRF loan applications to the PFA by February 22, 2010
- Submit Drinking Water Project Plans and Specifications to the Department of Health by February 22, 2010
- Submit CWRF loan applications to the PFA by February 26, 2010
- Submit Wastewater and Stormwater Project Plans and Specifications to the Pollution Control Agency by February 26, 2010

Applications, forms, and detailed instructions can be accessed at the following website:

http://www.positivelyminnesota.com/Government/Public_Facilities_Authority/PFA_Infrastructure_Funds_Programs/Drinking_Water_Revolving_Fund_2.aspx. ■

2010 AE2S Regional Utility Rate Surveys Underway Soon

Each year, AE2S conducts surveys of water, wastewater, stormwater, and solid waste utility rates for cities throughout the region and regional water systems. The information is compiled in an easy to read report with graphs for quick comparison. The report is distributed to survey participants to use in (continued on back)

When it comes to operating utility enterprises, it goes without saying that financial sustainability is important. Utility managers, finance managers, and City administrators are skilled at juggling operational and capital needs with financial/economic objectives. Financial viability and infrastructure sustainability are two of the 10 attributes of effectively managed water utilities identified under the Effective Utility Management (EUM) Initiative launched by the major six national water sector associations.^[1] A primer on the EUM, published in June 2008, is available at <http://watereum.org/> and outlines measures for each of the identified attributes.

Financial Sustainability: Indicators and Aids

To help in meeting the challenges of financial sustainability, the following summary is provided as a refresher of some of the common measurements used to generally indicate the financial position of a utility. You are probably familiar with many, if not all, and may review them regularly. If not, this will serve as a reminder of each measure. Future editions of *The Source* will address these indicators and discuss recommended target values.

Affordability Index = Annual Water and Wastewater Bill for Average Household/Median Household Income: The Affordability Index measures the burden of cost for residential water and wastewater service as a percentage of the local Median Household Income.

Asset Lifecycle Renewal Period = Total Replacement Value of Assets in Service/Average Annual Investment in Asset Replacement: The Asset Lifecycle Renewal Period is the estimated number of years for total replacement of all assets in service. This figure is important in demonstrating/promoting prudent capital investment to policy makers.

Debt Ratio = Total Liabilities/Total Assets: Debt Ratio measures the amount of debt being used by a utility. Very high levels of debt (greater than 60 percent), can negatively affect the credit rating of the organization.

Debt Service Coverage Ratio = (Total Annual Revenues minus Total Annual Expense)/Annual Debt Service: Covenant agreements associated with debt normally require utilities to maintain a minimum Debt Service Coverage Ratio in the range of 1.1 to 1.25.

Expense Ratio = Operating Expense/Total Expense: The expense ratio measures the amount of operating expenses compared to total expenses. A high ratio indicates that most expenditures are for operations—leaving the remaining balance for non-operating costs (such as debt service, capital improvements, and such). If the non-operating balance is small, the utility is not likely to meet all of its capital-related expenses, which could cause the system to deteriorate more rapidly.

Operating Ratio = Operating Revenue/Operating Expense: The Operating Ratio is an indication of the relationship between operating revenues and expenses. The ratio is calculated as the annual operating revenues divided by

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(Rate Survey continued from first page)
 their rate planning. Rate survey participants have indicated that the survey report is an invaluable tool for utility and finance managers to use when discussing rates with government decision makers and constituents. All survey participants receive a complimentary copy. The survey questionnaires are due out in February. Watch your mailbox for your copy, or check our website, www.ae2s.com. Completed questionnaires may also be emailed to Sheryl.Smith@ae2s.com. ■

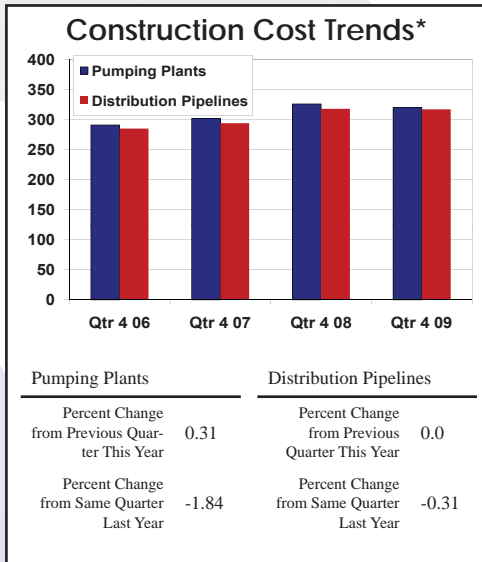
(Financial Sustainability: Indicators and Aids continued from first page)
 total operating expense. A ratio of 1.0 or greater indicates a self-supporting utility with operational efficiency that keeps expenses low relative to revenue, and a ratio less than 1.0 indicates that operation of the utility is funded in part by revenue from outside of the utility fund. ■

⁽¹⁾ EUM is comprised of the US Environmental Protection Agency, Water Environment Federation, American Water Works Association, National Association of Clean Water Agencies, American Public Works Association, National Association of Water Companies, and Association of Metropolitan Water Agencies.

The Outlook for Municipal Bonds

According to *The Bond Buyer*, an online newspaper covering public finance issues, 2009 brought near record-setting debt issuance for municipalities in this country, with a five percent increase in volume from 2008. This has been largely credited to the Build America Bonds program, which authorized municipalities to sell taxable debt, instead of traditional tax exempt bonds, and receive a federal subsidy equal to 35 percent of the interest costs. While municipalities have sold taxable debt since the mid-1980s, the highest share of the municipal market prior to 2009 was 10.7 percent. In 2009, taxable municipal debt equated to 20.7 percent of total municipal debt issuance.

According to a survey conducted in November 2009 by the Securities Industry and Financial Markets Association, large and regional municipal bond underwriters and dealers are forecasting an increase of 14 percent in total taxable and tax exempt municipal issuance, and a 7.9 percent increase in tax-exempt municipal securities alone in 2010. Survey respondents predicted growth in the issuance of Build America Bonds by 45 percent from 2009. Survey results also indicated that interest rates are expected to rise gradually in 2010. Two-year Treasury note yields were predicted to be 1.05 percent at the end of the first quarter and 2.0 percent by the end of the fourth quarter, and the ten-year Treasury note yields are forecast to be 3.75 percent by the end of the first quarter and 4.38 percent by year-end. ■



*Based on information from the Bureau of Reclamation

www.ae2s.com
 Kallispell, MT
 Great Falls, MT
 Minneapolis, MN
 Moorhead, MN
 Fargo, ND
 Williston, ND
 Bismarck, ND
 Grand Forks, ND
Offices in:

Grand Forks, ND 58201
 2016 Washington Street South
 Environmental Services, Inc. (AE2S)
 Advanced Engineering and