

City of Bishop

Project

The City of Bishop (pop. 3,800) is situated along scenic route S-395 at the base of the Seirria's on the plains. The City's sole source of drinking water consists of groundwater, groundwater is delivered to the main distribution system by groundwater pumps (3). The current water usage fee is a Flat Rate. The average per capita water use is 3,475 gallons, connections of 1,800, average daily water demand 6.22 mgd . The City received funding from USDA-RD (FY 2007) for water supply redundancy (new well) in addition, the City is seeking to join their west side distribution system to the adjoining Tribe for further water supply redundancy, Therefore;

Every four years the City of Bishop's Water Board mandates a review of water and wastewater rates that are multi focused on fair and equitable rates for their customers. Also, that appropriate revenue is being generated to provide adequate coverage for future water and wastewater projects, debt reserves, and debt ratio's.

Scope of Work

The City's Public Work Director and Water Superintendent asked Rural Community Assistance Corporation for assistance in performing the scope of work for the **Project**. The Scope of Work agreed upon by both mentioned parties will be to perform budget analysis on water and wastewater rates and that is multi-focused on fair and equitable rates for: customer(s), adequate revenue generation for coverage of Capital Improvement Projects. Additionally, perform a preliminary financial analyses review; return on sales, return on assets, return on investment, debt ratio parameters; receivable return's.

Note: Financial data provided to perform the scope of work will be provided by the City and the accuracy of the final analyses will be based upon the accuracy of financial data provided by the City.

Water Financial Review

The review is based upon the accuracy of financial data provided in performing water, wastewater analysis. (FY2005, 2006-2007)

Upon analyzing water financial statements: revenue actually collected (FY2006): Charges for sales \$967,511 cash received \$953,198, resulted in (\$14,313) unaccounted for water sales. Receivables (\$19, 606), Operating Expenses 67% of budget, Operating Ratio 1.5, Coverage Ratio 2.50: Working Capital \$309,023. Debt Ratio .57%. Asset Turnover Ratio .80. Return on Sales .04

Financial Review of Water Operations.

1. The operation is missing out on collecting unaccounted for water, those funds good be very beneficial in financing projects.
2. **Operation and Coverage Ratio's** meet recommended industry ratio's of 1.0 and 1.25 at the minimum (Utility Management 2nd Ed. College of Engineering and Computer Science Ca, State College). The ratio's are good indicators of operations financial integrity and can be used for securing future funding.
3. **Asset Turnover Ratio** is a measure of efficiency, therefore the higher the ratio the better the efficiency of the operations. This means it's the number of dollars of sales for each dollar of assets .80 cents is being generated. Another words how efficient are your assets working for every gallon / CCF of water sold? (**You decide the benchmark**).
4. **Return on Sales is .454 cents on the dollar.** This measures the amount of profit per dollar of sales. Another words how much profit are you making on every gallon or CCF. (**You decide the benchmark**).
5. **Full Cost of Producing water is assumed to be direct costs; the city is not on a metering system, therefore all costs are direct costs. (Flat Fee Rate)**

Water Rate Analysis

Financial information was taken from FY 2006 Statements and the estimated budget for 2007. Therefore the water rate analysis is based upon the best available information at the time of the analysis, therefore;

Using the current flat fee water rate the analysis assumes all costs are direct costs to operate and maintain the system for the production of drinking water. Therefore, the analysis indicates current water fee's (letter 5/07) should generate adequate monthly revenue for water operations of \$1,232,866.08. If the operation maintains current levels of budget control and CIP projects over the next couple of years, the rates might well be satisfactory for the duration. **See attached water rate analysis. (See attachment #1)**

Conclusion:

There are over 25 financial ratio's to be used in businesses but only a few are needed to give the manager a quick view of how well he is doing or not in running the business. I have listed out the ratio's I feel are sound financial indicators to assist in evaluating the efficiency and effectiveness of managing the operations, these are only suggestions, management should choose what is right for the operations.

The water operations has good debt coverage and operation ratio's. However, the debt ratio suggests operation assets are 57 % financed. The normal debt load for similar water operations runs around 30-45%. To stay away from further debt, management might consider fully extending their CIP funding,(FY 2006) only 50% of CIP funding approved was expended on projects.(FY 2006 Financial Statements) and or use funds on alternate years. **Save CIP reserves \$330,00 from year one until year two every other year expend 660,000 from reserves.**

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Wastewater Financial Analysis Review : 2006-2007

Note: This analysis looks at proven past practices not current; new rates have been implemented and in theory the rate increase should be sufficient to fulfill operations of the system. The final outcome will not be truly known until the Financial Statements have been audited . However, reasonable forecasting can be made based upon current rates. In order to develop financial benchmarks, its best to look at past operations, and formulate future financial benchmarks with any degree of certainty, Therefore;

Charges for services rendered totaled \$484,308 cash received \$477,658 unaccounted (\$6,650). Net cash from operations (\$63,751). Operating Expenses 88% of budget. Operating Ratio .93. Coverage Ratio .56 Working Capital (\$37,080). Return on Sales (.09)

Based upon the past performance of the wastewater operations there was signs of potential financial instability and that corrective action needed to be considered to avert short term failures (**new rates are in effect**). The financial ratio's that measure financial stability indicated: Operating Ratio .93 it should be 1.0 if below 1.0 it's an indication that expenses are outstripping the revenue. The Coverage Ratio 1.25 tells if the operation has sufficient revenue to pay debt service on loans and bonds and cover unexpected expenses. Lenders, and funder's look at this ratio to determine the financial stability of the operation. The coverage ratio in the analysis prior to the rate increase showed .56 This is evidenced by the negative revenue return for FY 2006 AND operating expenses exceeding operation revenue, resulting in a -.09 cents on the dollar.

Current Rate Increase Analysis

Wastewater Rate Analysis: Recent Rate Increase Analysis

The current wastewater rates were implemented at the same time that water rates went into affect. Therefore, the analysis (see attachment #2) indicates a monthly revenue \$66,736 and an Annual Revenue of \$ 798,895. The budget provided without personnel included for FY 2007-2008 is \$339,945. Buy using FY 2006-2007 financial statements, personnel costs were recorded as \$431,751.so making a adjustment for personnel wage and a 5% wage increase to personnel for pay raises the total budget for 2007-2008 would be roughly equal to \$793,328.55 The annual wastewater budget potentially would cover operational costs, if budgetary items are monitored that are associated with providing Wastewater services. Therefore;

When the new annual revenue is plugged into the operation coverage formula and if the old operational expenses are used, in theory, the outcome is an operational ratio of 1.0 which amounts to a satisfactory increase in the ratio. And the debt coverage ratio should be relatively close to a ratio of 1.13. The current rate increase should in theory provide enough revenue to cover the new budget expenses, if there are no dramatic increases for this year. However, due caution should be exercised in budget management to ensure expenses do not exceed revenue in order for rates to maintain enough operational coverage for the wastewater service department.