COVID-19
Financial Strategies To Help Small Systems

July 2020
Welcome!

Housekeeping and how to participate:

1. All participants will be muted by the host
2. Do not click off of the Webex screen during the class to check email, surf or use other applications. Webex monitors ‘active screen’ time. A participate with less than 90% active screen time during the full course will not be able to get credit for contact hours.
3. Find and open the “Q&A” tool to submit questions, or use the icon on your screen to open the “Chat”
   • Send a “Chat” to “all participants” or directly to the host and presenters.
4. Your participation will be monitored
   • Lack of participation could jeopardize contact hour credit
Let’s try this out with a poll…

How would you rate the impact of COVID-19 on your operations?

A. Very high
B. Moderate impact
C. Modest impact
D. Very small impact
E. None
F. Not applicable to me
Today’s Trainers

Todd Brandenburg
RCAP Operator

Misty Tolzda
Sr. Rural Development Specialist

Wayne Cannon
Sr. Rural Development Specialist
We thank the US Department of Health & Human Services for sponsoring this online training event.
Our Topics Today

- PRIORITIZING ACTIVITIES AND EXPENSES
- REDUCE OPERATIONAL COSTS
- FINANCIAL RESOURCES FOR YOU
- FINANCIAL RESOURCES FOR YOUR CUSTOMERS
- WHAT WE MIGHT LEARN FROM HISTORY
- FISCAL INTERVENTIONS AND BEST PRACTICES
With limited financial resources, this is when it becomes critical to…

**Prioritize!**

1. Safe & Sustainable Drinking Water
2. Level of Service
3. O & M
4. Capital Improvements
Safe and Sustainable Drinking Water

Evaluate minimum regulatory requirements
• Are current standards being met?
• Is there room to make adjustments and still meet current drinking water regulations?

Evaluate pending regulatory requirements
• Do these pending regulations apply to your system?
• Are these pending regulations currently being met?

Available funds should target meeting regulatory requirements.
Protecting Public Health on the Wastewater Side

Eliminating sanitary sewer overflows and back-ups has never been more critical.
Are there any potential water quality concerns based upon system adjustments?
Evaluate Your Level of Service

Temporarily develop a new level of service.

- What services do you provide above and beyond treatment and distribution or collection?
- Can you charge a fee for these services to cover your expenses?
- Can some of these services wait?
Evaluate Your Level of Service

Temporarily develop a new level of service.

Non-emergency weekend and holiday disconnection for plumbing repairs may need to wait until the next workday.

Response times may need to be extended to allow for other activities and/or staff shortages.
Communicate how and why your Level of Service will change prior to making those changes
Operations & Maintenance (O&M)

Evaluate where changes can be made in your operation and maintenance program

- It is an accepted practice to exercise all critical valves and 20% of your system valves annually. Systems facing financial distress may only be able to exercise their critical valves.

- Many systems flush fire hydrants two to three times a year, these systems may want to consider flushing once a year.

- Keep in mind that there are bare minimums for operations and maintenance requirements and systems should not lower their standards below such minimums.

Can you lower frequency without lowering standards?
Ohio Public Water Systems should already have a priority list of critical assets to maintain from their Asset Management Plan.

Make a plan to return your O&M program to the level it was pre-COVID-19.
Capital Improvements / Purchases

Evaluate what capital improvement projects are immediately necessary to ensure public health.

- Evaluate alternatives.
- Consider a phased approach.
- Consider the increased maintenance and/or operational costs associated with furloughing a capital project or purchase.
- Consider alternative financing options for equipment replacement including leasing.

Incorporate objective decision-making practices.
Communicate capital improvement project changes to staff and consumers alike.
Reduce Operational Costs

Minimize overtime. Cutting Utility Staff is usually not a good solution.

There are other areas to trim expenses.
Why Cutting Staff Hurts Your System

- Staff layoffs often lead to deferred maintenance because non-emergency maintenance is not completed.

- There may not be noticeable deficiencies in the short-term, BUT over-time deferred maintenance leads to poor asset reliability and higher ownership cost.

Consider sustainability before reducing staff.
Other Areas to Trim Expenses

- **Energy efficiency.** Put a focus on operational changes which reduce energy consumption without significant capital investment.

- **Negotiate better utility pricing** by managing peak demand.

- **Review chemical needs.** We sometimes use more chemicals than are really necessary out of an abundance of caution.

- **Examine labor efficiency.** Can steps be combined or technology be used to reduce labor needs?

- **Consider shared service agreements** for non-emergency maintenance, billing and administrative services.

Think more efficiently to save costs.
Weigh decisions carefully, and optimize your resources when cutting expenditures.
Administrative & Fiscal Operations

- **Cost-cutting.** The same principles would apply when considering cuts to staff, hours of operation, and services for administrative staff. Are there short-term expense to cut without jeopardizing public health and compliance?

- **Examine labor efficiency.** Can steps be combined or technology be used to reduce labor needs?

- **Consider shared service agreements** for billing and administrative services.

- **Don’t raid the enterprise funds to support other departments.** Water and sewer funds may be in better financial shape that others. Protect against having shared staff, equipment and building expenses inappropriately charged to water and sewer.
Questions
Poll

Have your delinquencies increased?

A. Yes – a lot!
B. Yes – some.
C. I don’t know.
D. No
E. Not applicable to me
Maintaining Revenue

Important for the system to continue to bring in as much revenue as possible to have the cash on hand to operate.

Consider how to continue billing customers and collect revenue during a pandemic, including flexibility in penalties and disconnect policies.

If your system has not installed remote read meters:
• Estimate billing based on the previous averages or
• Allow customers to submit 'temporary' readings
Maintaining Revenue

Continue to send out regular bills!

• It will be harder for customers to come up with two or more months of utility payments if billing is delayed.

• Set up online bill-pay and automatic withdrawal options.

• Make options available to pay on-line by credit card, Paypal, etc.

• If you send bills on a quarterly basis, consider switching to monthly billing. It may cost a little more in meter reading and administrative costs, but will help customers avoid getting too far behind and help maintain steadier revenue streams.
Resources for You

1. CARES Act Funds to Local Governments
   • $350 million in Coronavirus Relief Funds (aka HB 481)

2. Collecting on Delinquent Accounts
   • Tools to Use

3. Deferred Payments

4. Fiscal Intervention
CARES Act Funding - Eligibility Criteria

- Necessary expenditures due to COVID-19
- New expenses not accounted for in the most recently approved budget
- Expenses incurred between 3/1/20 to 12/31/20

You are essentially reimbursing yourself for unexpected expenditures!
The question to ask is:

“Is this an expense we would have had regardless of the pandemic?”
A Resolution must be passed regarding how the funds will be spent. Copies to be sent to the County Auditor and the Office of Budget & Management (OBM) at grants@obm.ohio.gov.

If you need a template for the Resolution, you can contact your County Auditor, the Ohio Municipal League or we have a link to a template included in later in this presentation.

Thoroughly review the Dept. of Treasury FAQ at https://home.treasury.gov/policy-issues/cares/state-and-local-governments.
Finance Director/Fiscal Officer/Clerks

- A separate Special Revenue Fund will need set up to track the receipt of funds and eligible expenditures.

- If you have Questions refer to AOS guidance: [https://www.ohioauditor.gov/resources/covid19/Coronavirus_new_FAQ_final.pdf](https://www.ohioauditor.gov/resources/covid19/Coronavirus_new_FAQ_final.pdf)

- Consult your Auditor or Legal Counsel if in doubt.

- Know that the fund and its activity will be audited and you will need to justify your use of funds.

- Document, Document, Document!!
Collecting on Delinquent Accounts

Know the past-due amount on each account and work from there. Set up an Installment Payment Plan with those customers, wherein a payment is made each month, in addition to their regular bill. Standardize the terms for all.

A suggested incentive is to forgive all late Fees for this amount if payment is made as agreed upon. Use signed agreements.

Return to your Policies & Procedures for disconnections and late Fees when customers do not attempt to pay. Effective July 10, the EPA order that halted disconnections due to COVID-19 was RESCINDED. Consult your legal counsel before acting.

Follow through on policies you put into place.
Communicate payment expectations to customers and ensure staff is educated on policy.
SMART TIPS

Accept returned, signed Agreements by fax, email or mail.

Ensure utility office staff are informed and held accountable. Properly document and use your “checks and balances”.

Require monthly reporting of past-due account recovery, arrearage balances, and disconnects to Board/Council.

Regularly review all delinquent accounts and ensure Policy is being followed.
Sample Forms & Templates to Use

- Coronavirus Relief Fund Resolution Template
- Sample Letter to All Customer Accounts
- Installment Payment Plan (IPP) Agreement
- Utility Delinquency Report (for Board)

Find these examples and templates in our Planning for Pandemics Toolkit on our website at [www.ohrcap.org](http://www.ohrcap.org).
Deferred Payment Options

Several agencies and organizations have deferred payments, wherein a scheduled payment can be delayed or even forgiven.

- Ohio Public Works
- Bureau of Workers Compensation
- Medical and Liability Insurance providers
- Supply vendors

If you have not received notification, contact your representative.
Take advantage of deferred payment options to preserve cash flow.
Fiscal Intervention

• The **Government Finance Officer’s Association (GFOA)** created a program to help local governments during the 2008 Great Recession. The popular program includes a 12-step process that includes a diagnostic model. [www.gfoa.org/fiscal-first-aid](http://www.gfoa.org/fiscal-first-aid)

• The **Auditor of State** has Fiscal Distress resources available at: [http://www.ohioauditor.gov/fiscaldistress.html](http://www.ohioauditor.gov/fiscaldistress.html)

• The AOS office also has the **Local Government Services (LGS) division** with a person assigned to each region of the State. You can reach them by calling **800-282-0370**.

  Don’t be afraid to seek guidance!
The sooner you ask for help, the easier it will be to recover.

Utilize the resources that are out there. If you are a Board member, make it a point to closely review your financials and communicate with your CFO. Ask for reports, offer assistance and avoid playing the “blame game”.
Resources for the Customer

1. LIHEAP Programs
2. DJFS and Other Agencies
3. Community Partnerships
4. CARES Act Sub-grants
“It’s not our problem!” … Oh, but it is!

According to an April 2020 study by the credit reporting agency TransUnion, 61% of U.S. consumers have been financially impacted by the global health crisis. The average affected consumer anticipates that he or she is just a little over 6 weeks away from not being able to pay bills or loans.

Forbes, April 29, 2020
Educate yourself and your Staff on services available in the community.

If you can help your customers find resources to cover their other living expenses, it will free up dollars to pay for their water and sewer utilities.
LIHEAP Programs

• The Low Income Home Energy Assistance Program (LIHEAP) assists eligible low-income households with their heating and cooling energy costs, bill payment assistance, weatherization and energy-related home repairs.

• Refer customers to your local intake office, normally the area Community Action Agency.

• Requires income-eligibility, and can be calculated on recent income rather than entire year. SNAP, TANF, or SSI clients may automatically qualify.

Call your local community action agency for information.
DJFS and Other Agency Support

The Department of Job & Family Services provides programs to assist families in need, such as:

- Supplemental Nutrition Assistance Program (SNAP) - to help with the cost of purchasing food
- Temporary Assistance to Needy Families (TANF) – these funds are used in a variety of ways by the local DJFS (clothing vouchers, school supplies, car repairs, work incentive programs, etc.)
- Workforce Investment Act (WIA) and employment assistance programs

- Local Health Departments often house (Women, Infants, Children) and have other programs, such as free health screenings
- Veteran’s Services offer a variety of programs for veterans to help them with food, housing, healthcare, and transportation

Research online and contact organizations by phone or email.
Community Partnerships

- Provide Community Assistance information to customers
- Partner with support organizations for an “Application Day” or provide them space to set up information tables
- Don’t forget to include civic organizations, food banks and churches as a resource for families needing help
- Demonstrating your Utility understands the hardship will create goodwill and hopefully encourage bill payment

Be a source of support for your customers.
CARES Act Sub-grants

The Coronavirus Relief Act allows local governments to administer their own grant program or to sub-grant funds to another government or non-profit organization.

One example of this would be offering grants up to a certain dollar amount for schools to install touchless entry doors on their restrooms or classrooms.

Sub-grantees must adhere to the same CRF guidelines.
Look beyond existing as a “Utility” and become known as a community partner.
Questions for Misty?

Misty Tolzda
Sr. Rural Development Specialist
Financial Management
Haven’t we been here before?
Spanish Flu of 1918

- The Spanish Flu occurred during WWI. Due to World War I, many countries engaged in wartime censorship, and suppressed reporting of the pandemic.
- The virus actually originated in the US and was spread by solders as they invaded Europe.
- Spain was not involved with the war and kept better medical records resulting in the name Spanish Flu.
- Overlap of the pandemic with WWI makes analysis of disease impacts difficult.
Spanish Flu Pandemic Interventions

- Control efforts were limited to non-pharmaceutical interventions such as isolation, quarantine, good personal hygiene, use of disinfectants, and limitations of public gatherings, which were applied unevenly. Similar to today’s public health recommendations for the COVID virus.

- Estimated 550,000-675,000 deaths in the United States representing 0.66% of the US population. Duration if the pandemic was relatively short. (Approximately 2-years from February 1918 to April 1920).
Economic Impact of Spanish Flu

- The interventions used in 1918 resemble the policies being used for COVID-19.
- In general, areas severely affected by the pandemic saw a sharp and persistent decline in real economic activity driven by a reduction in workforce.
- Communities that were less impacted by the flu suffered little to no lasting economic effects. Damaged caused by business shutdowns weren’t lasting although many small business failed (particularly hospitality and entertainment).
- Duration if the pandemic was relatively short. (Approximately 2-years from January 1918 to December 1920).
The COVID shutdown produced a large contraction in economic activity. Duration of the impact has yet to be determined. Success of the restart will be critical.

The size of the federal stimulus packages enacted so far is an indication of the anticipated scope of the COVID financial crisis.
Lessons from the Great Depression & 2008 Recession

1. Unemployed people can’t pay their bills
2. Recovery takes time
3. Economic activity requires water

It's a recession when your neighbor loses his job; it's a depression when you lose yours.

—Harry S. Truman—
Focus on Unemployment

• We have already exceeded the 10% unemployment level seen during a typical recession.

• Unemployment during the Great Depression peaked at 25.5% in August of 1932.

• Employment didn’t recover until WWII. The war effort shortened the period of economic recovery (Again).
Unemployed people don’t pay taxes.

• Municipal income taxes will take the largest hit, but other tax revenue will also decline. (Example: Hillsboro’s tax revenue dropped by approximately 1/3. Highland County sales tax receipts dropped by nearly 30% as a result of the 2008 recession).

• Rainy day funds dry up quickly. Communities will need to reduce expenses. The biggest expense item for most communities is labor.

• General fund money is impossible to replace. Do not use tax dollars to pay utility department shortfalls.

• **Utilities should be self supporting. Your rates may need to go up.**
Recovery takes time!

- The Great Recession of 2008 lasted 18 months.
- Unemployment rose throughout the recession reaching a peak of 10.1% in Oct. of 2009.
- Job recovery took more almost 10 years.
Water usage is an indicator of economic activity.

Monitor customer count and water usage for each customer type and meter size.

- Commercial water usage is dependent upon business activity. Water usage will decline as sales decline. The effect is almost immediate.

- Residential water usage is a factor of housing occupancy. Cash strapped individuals will go to great lengths to conserve water and thereby reduce cost. Vacant homes don’t need water.

Example: Water usage in Wilmington, Ohio declined month after month for nearly 5-years leading up to and following the 2008 Recession. The water system operator warned of the economic decline and helped to identify the subsequent recovery.
Fiscal Intervention & Best Practices

1. Resume Collections
2. Certify Delinquent Accounts to Property Taxes
3. Adjust Capital Improvement Plans
4. Short-Term Loans
5. Loan Restructuring
6. Rate Adjustments for Survival
7. Set and Maintain Sustainable Rates
Resume Collections ASAP!

• Allowing delinquency to persist doesn’t help anyone. The bigger the hole the more difficult it will be to fill.

• 30/60 /90 day past due accounts can usually be brought current with workout agreements. (Discussed previously)

• Payment agreements longer than 6 months are difficult to keep.

• Accounts more that 120 days past due will be difficult (almost impossible) to collect using payment agreements.

• Collect what you can and certify the balance to property taxes.
Certify Unpaid Delinquent Accounts to Taxes

- Delinquent accounts can be certified to the County Auditor for assessment to property taxes. Typically, auditors will permit this one time per year, usually early September. Some will accept them more frequently.

- Once a delinquency is assessed to property taxes it is treated by the courts as a secured debt. Any assessments to property taxes are collected from customers when and if they pay Real Estate taxes. Delinquencies collected in this manner takes a great deal of time in many cases. Large delinquencies can take years to collect upon.

- Only true delinquency can be assessed to taxes. A customer who is current on a supplemental repayment agreement cannot be certified to property taxes. Plan accordingly!

Collection in this manner takes time, but can be effective.
Adjust Capital Improvement Plans

- **Cash reserves or savings** set aside for Capital Improvements could instead be **used to cover operating losses**.

- Non-critical portions of Capital Improvement **projects can be postponed**.

- **Projects which cannot be postponed could be financed** using either private or public money. OWDA financing can be obtained for most projects within 30 to 45 days.

You may have to redirect your Financial Resources.
Short-term Loans

• Commercial Banks are often willing to provide short-term financing at Tax-Exempt interest rates to Municipalities and Districts. In fact, bank regulators look favorably upon these loans because they help the financial institution comply with the Community Reinvestment Act.

• These short-term loans can be used to bridge gaps in cash flow until a more permanent solution can be developed. Short-term bank loans should be viewed only as an “emergency measure”, not a permanent solution.
Loan Restructuring

• USDA/RD has refinanced other lenders when the refinance portion of the Credit Request was less than 50% of the total amount. However, the party to be refinanced must be willing to provide pay-off without pre-payment penalties.

• Pending HB 264, which allows OWDA to refinance loans made with other lenders, passed unanimously by the Senate and was sent back to the House for concurrence. **HB 264 will allow for a much lower interest rate**, reducing the overall debt and possibly lowering payments.

• Refinancing is typically limited to private debt. **OWDA, and EPA loans managed by OWDA, are not eligible for refinancing due to pre-payment restrictions.**

Examine current interest-rates on loans.
Rate Adjustments for Survival

- With sales declining and collection time increasing, Utility Systems may need to enact rate increases to make ends meet.

- Utilities, like any other business, requires working capital. You should endeavor to maintain 45 days of operating expenses in the Operating Fund, with another 45 days in a dedicated Emergency Fund.

- Ninety days of working capital is half the amount that Financial Managers recommend for personal finances and most business customers. If depleted, working capital funds should be replenished over 5 years.

Rate increases must be enacted timely to preserve as much critical working capital as possible.
Sustainable Water Rates

- We also recommend that utilities establish a Debt Service Reserve Fund, which is the amount of at least one Annual payment (Rainy Day Fund). If depleted, Debt Service Reserve escrow should be replenished over 10 years.

- Emergency actions taken now to save money should later be re-evaluated. For sustainability, deferred maintenance must be included in the Annual Budget and made a consideration in your rate-setting.

- Money should be escrowed for Short-Lived Asset replacement, aka Predictive Maintenance needs (asset management).

- Sustainable rates must cover all business needs, including: ongoing operations, working capital, debt service reserve and capital replacement.

Preserve your assets, and plan for the future.
Open Discussion and Questions

Please type questions into Q&A or chat boxes.

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Pandemic Toolkit
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Access other great resources
Thank you for joining us!

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