

Attachment 8

Capacity Development - Business Plan (Financial Self-Assessment Manual)

The purpose of a business plan for a water system is to show that the proposed or continued operation of a water system will be viable from a financial standpoint. Business Plans can be/are a means of determining/assuring the viability of water systems from a financial standpoint. Operating a water system is like operating any business, and for any business to be successful, it needs to have a "business plan." The attached worksheet (or Financial Self-Assessment Manual) provides a framework to summarize and evaluate your business. Three columns are provided in order to show anticipated income and expenses over the next three years. "Year One" should cover the system's current business year. Columns are provided for listing "Income" and "Expenses" for the second and third years, if different, otherwise the figures shown in "Year One" will be assumed as intended. The "Total" or bottom line of the plan should combine "Total of all Expenses" and the "Total of all Income." If "Expenses" exceeds "Income" then rates, fees and/or other income must be increased or expenses must decrease in order for the system to be viable. If the cost of operating the water system is unacceptable, the water system may want to consider what alternatives are available. If drinking water, which meets Safe Drinking Water Act requirements is available or can be made available from another public water system at a reasonable cost it may be possible to deactivate the water system. Other options may exist if the water system is extremely small and water use is minimal. Your Environmental Assistance Center (EAC) must be consulted in this event (1-888-891-8332).

In addition, operating a water system requires two additional plans: a facility and specifications plan (technical), **and** an operation and maintenance plan (technical and managerial capacity), in addition to a business (financial) plan. In summary, a viable water system is "a public water system which has the commitment and the financial, managerial and technical capacity to consistently comply with the Tennessee Safe Drinking Water Act and these regulations." A water system is determined to be "non-viable" if it cannot meet state requirements.

Definitions:

Sales of Water (Conn x Rate x Min Mo Water Use) – The amount of income derived from water revenues. Such revenue typically is based on the number of connections, the rate or cost of water, and the minimum amount an account is allowed to be charged.

Tap Fees, Reconnect Fees and Bad Check Fees – Fees derived from setting new taps; fees collected after service is discontinued and there is a reconnection; and fees related to checks returned due to insufficient funds, etc.

Interest Earned – Revenue derived from interest accrued from system bank accounts, etc.

Other – Monies earned from rental or sale of equipment, services provided to other agencies or businesses, etc.

Cost of Water – If purchased from a PWS (Public Water System), royalties due to water rights holders, etc.

O&M – Expenses related to Operations and Maintenance. These would include the cost of chemicals (chlorine, lime, etc.), power, fuel (gas, gasoline and diesel fuel), transportation and communication expenses (vehicles and vehicle maintenance, repair equipment, mobile phones, etc.), monitoring costs (sample collection and lab costs), materials and supplies, normal repairs to lines and filters, and salaries and benefits of employees.

Administrative Costs – Insurance, office supplies, postage, legal, accounting, telephone, salaries and benefits for managers, and clerical workers.

Facility Maintenance Fee – Fee payable to the Division of Water Supply (DWS), Tennessee Department of Environment and Conservation (TDEC) on or about October 1 of each year.

A/E & Professional Services, Fees (including Billing Services) – Architectural and Engineering Fees, Professional Service Fees, including the cost of contracted billing services, etc.

Contracts – Backflow Prevention Testing, Certified Operators (on contract), etc.

Taxes or Payments in Lieu of Taxes – Payments of local, state and/or the federal government.

Debt Repayment – Loan Debt Service

Capital Improvements – The cost of physical improvements made to the facility. Capital improvements specifically related to a water system include the addition of filtration equipment, pumps to improve flows, the extension of the piping system.

Other Expenses - Public Notification (PN), public relations costs, employee training, civil penalties, etc.

Operating Cash Reserves – Funds available to meet expenses from a cash flow standpoint. Invariably there will be times when expenses will exceed anticipated revenues, whose obligations must be met prior to receiving additional income.

Emergency Reserves – Funds which are available to replace, repair, or meet unexpected new additional requirements, etc. which are unexpected due to a variety causes, including thief, fire, flood, vandalism, etc.

Business Plan Worksheet

Category	Specific Budget Items	Amount	Amount	Amount
INCOME		Year One	Year Two	Year Three
	Sales of Water (Conn X Rate X Min Mo Water Use)			
	Fees – Tap Fees			
	Fees – Reconnect Fees			
	Fees – Bad Check Fees			
	Interest Earned			
	Other (specify)			
Sub-Total	(Total Of All Income)			
EXPENSES				
	Cost of Water (if purchased from another PWS)			
	Operating and Maintenance Expenses			
	O&M – Chemicals			
	O&M – Electrical Power and other Fuel			
	O&M – Transp and Comm (Vehicle expense)			
	O&M – Monitoring			
	O&M – Materials, Supplies and Parts			
	O&M – Operator Salaries and Benefits			
	Administrative			
	Adm – Insurance			
	Adm – Ofc Supplies, Equipment and Postage			
	Adm – Legal and Accounting			
	Adm – Telephone			
	Adm – Salaries/Benefits - Managerial/Clerical			
	TDEC Facility Maintenance Fee			
	A/E & Prof Services/Fees (incl Billing Service)			
	Contracts (incl Backflow Prevention Testing, etc.)			
	Taxes or Payments in Lieu of Taxes			
	Debt Repayment (Bond/Loan Debt Service) Expense			
	Capital Improvements			
	Depreciation Expense			
	Other Expenses (PN, PR, Employee Training, etc.)			
	Operating Cash Reserves			
	Emergency Reserves			
Sub-Total	(Total Of All Expenses)			
TOTAL ¹	Net Income (or Loss)			

Signature: _____ Date: _____

¹ Note: Subtract “Total of All Expenses” from “Total of All Income.” If “Expenses” exceeds “Income” then Rates and Fees must increase and/or Expenses must decrease. If no “Expenses” and “Income” are shown for the second and third years, figures are the same as shown in “Year One.”