

## Bogue Banks Water Corporation

Community: Emerald Isle, NC

Population: 3,716

Number of Accounts: 6,035

Annual Revenues: \$1,400,000

Sustainable Finance Problem: *Tying together financial information to measure financial sustainability*

### Background

The Bogue Banks Water Corporation, BBWC, is a non-profit water corporation that serves the barrier island communities of Emerald Isle, Salter Path and Indian Beach, NC. The system is, in many ways, a typical small-to-medium sized utility which faces many of the same financial management challenges as any other utility however there are some critical differences. The system is run by an Administrator and has a full time ORC and financial policies and rate making are the responsibility of a utility board.

Unlike municipal or county boards, members of the non-profit board are appointees representing each of the three communities that are served. Nevertheless, board members must balance pressure to keep rates low while at the same time fully funding assets and maintaining infrastructure. As a non-profit corporation, the BBWC's rates would typically be regulated by the State Utilities Commission. However, the BBWC was granted a waiver from regulatory oversight based on a track record of good financial management. If a customer ever felt that rates were too high or system finances were being mismanaged they could appeal to the Utilities Commission to renew regulatory oversight.

An advantage of the board arrangement is that members are invited based on their level of engagement within each community and their business and financial acumen, so the board is made up of individuals well suited to balance the business and community service goals of the corporation.

One particular operational challenge for the BBWC is that much of the water supply on the barrier islands where the utility operates is saline. In order to expand the water system capacity, BBWC must rely on relatively expensive reverse osmosis technologies. Adding a RO plant and purchasing island property for installing new wells are expensive propositions for a utility the size of BBWC. While financial management practices were historically sound, the BBWC was preparing to assume a relatively large amount of debt for water system expansion and needed to ensure that their current revenue stream could support the debt.

### Solution

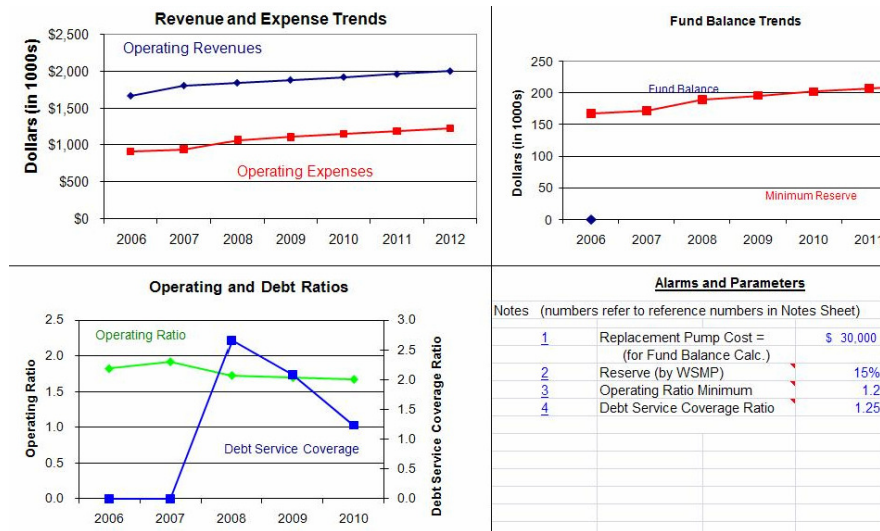
The UNC EFC helped design a comprehensive financial sustainability tool similar to the Utility Budget Workbook designed by the Boise State EFC<sup>1</sup> but which includes also includes a mechanism for scheduling new personnel and additions to the CIP, multi-year profit and loss projections and a financial sustainability dashboard which includes key financial sustainability indicators. This model is unique in

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<sup>1</sup> <http://efc.boisestate.edu/efc/Tools/UtilityBudgetingwithUtilityBudgetingWorksheet/tabid/86/Default.aspx>

that it ties together the detail and specificity a single year budget projection with the long range forecasting power of a multi-year model.

The centerpiece of the model developed for the BBWC is the financial sustainability dashboard. The dashboard brings together key indicators to readily convey important financial information to decision makers. The graphs are designed to be simple and engaging. Key indicators are displayed over a seven year planning period and they include operating revenues and expenses, total fund balances and, key for BBWC as it prepares to assume a large amount of debt, the debt service coverage ratio. The BBWC charter specifies that the debt service coverage ratio, a measure of the amount of cash available to pay debt service after other operating expenditures, never fall below 1.25. Thus, a benchmark of 1.25 was entered into the model and adjustments to rate structures or the scheduling of new expenses could be adjusted to ensure that the benchmark never falls below the minimum.



## Outcome

The tool has provided the BBWC with a simple and effective way to monitor the financial sustainability of future investment and rate setting decisions. After all of the pertinent data was first entered into the tool, it was clear that BBWC’s recently approved rate structure and its proposed debt load were both fully sustainable. The BBWC Administrator was greatly impressed and reported that she intends to use the model will be useful for many years to come. One of the most anticipated functions of the tool is that the Board will be able to review the impact of scheduling of major capital projects over a multi-year planning period and review the impact of changes instantaneously thereby facilitating decision making during board meetings.