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Financial sustainability: Is your utility prepared for future funding challenges?

1. Cost-of-service and rate sufficiency

Rates must accurately reflect the true cost of operating, maintaining, and upgrading utility systems.

- Have you conducted a comprehensive cost-of-service study within the last three to five years to ensure your rates equitably recover costs across all customer classes?
- Does your current rate structure generate sufficient revenue to meet debt service coverage ratios and fund necessary capital reserves?

THINK: **Are your rates keeping pace with the rising costs of construction materials, chemical treatments, and labor, or are you experiencing a slow erosion of your operating margin?**

2. Capital funding and grant optimization

Replacing aging infrastructure requires a strategic, multi-tiered funding approach.

- Do you have a structured process for identifying and pursuing low-interest loans (e.g., SRF, WIFIA) and federal/state grant opportunities before pursuing revenue bonds?
- Is your capital improvement program (CIP) strictly prioritized based on condition assessments and risk of failure to ensure funds are deployed where they are needed most?

THINK: How are you balancing cash-funded capital projects with debt issuance to maintain healthy financial metrics while addressing your infrastructure backlog?

3. Affordability and customer assistance

Financial resilience must be balanced with the economic realities of your most vulnerable customers.

- Do you measure the affordability of your rates using localized demographic data rather than relying solely on the traditional metric of median household income (MHI)?
- Does your utility offer a well-structured, legally compliant Customer Assistance Program (CAP) to help low-income residents maintain essential services?

THINK: As rates inevitably rise to fund infrastructure and compliance, what specific mechanisms do you have in place to prevent a corresponding spike in shutoffs and bad debt?

4. Reserve management and financial metrics

Strong financial metrics dictate your utility's ability to weather emergencies and secure cheap capital.

- Do you maintain established targets for days' cash on hand, operating reserves, and capital repair/replacement funds?
- Are your financial policies formally documented and regularly reviewed with your governing board to ensure alignment and discipline?

THINK: How do your current reserve levels and debt service coverage ratios compare to the benchmarks required by credit rating agencies to secure an upgrade?

5. Adapting to regulatory financial impacts

Evolving environmental regulations often carry significant, unfunded mandates.

- Does your long-range financial plan explicitly model the anticipated capital and operating costs of upcoming regulatory requirements (e.g., PFAS treatment, Lead and Copper Rule Improvements (LCRI))?
- Are you proactively communicating the financial impact of these regulatory mandates to your governing board and your customers to build support for necessary rate adjustments?

THINK: How do your current reserve levels and debt service coverage ratios compare to the benchmarks required by credit rating agencies to secure an upgrade?

By proactively addressing these areas, your utility can ensure revenue stability, optimize capital funding, and maintain the financial health required to deliver reliable service. This assessment can serve as the foundation for a more robust financial planning strategy.

Contact John Mastracchio for a deeper dive into assessing or strengthening your utility's financial program.

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