



State of North Carolina

Department of State Treasurer

RICHARD H. MOORE
TREASURER

*State and Local Government Finance Division
and the Local Government Commission*

T. VANCE HOLLOMAN
DEPUTY TREASURER

Memorandum #1090

November 1, 2007

TO: Local Government Officials and Certified Public Accountants

FROM: Sharon Edmundson, Director, Fiscal Management

SUBJECT: Financial Impact of Drought-Related Issues

North Carolina continues to suffer the effects of a prolonged drought, prompting Governor Mike Easley to call for strong conservation measures. While the physical effects of the drought are evident, the financial effects on local governments also could be serious. The following discussion will describe some of the financial areas that governments should monitor closely and offer some possible alternatives to counteract that impact.

With water supplies dwindling, users have been asked, and in many cases mandated, to use less water. While conservation efforts are necessary in order to preserve the water supply, these measures also will likely decrease water revenues for local governments. Some operating costs may decrease as fewer gallons of water are pumped and treated on a daily basis, but revenue losses will likely exceed costs savings. Units should be mindful of the need for sufficient operating margins to cover debt service as well as other fixed costs.

In addition to making true rate changes, units can consider adding flat-rate surcharges or increasing base charges to their accounts. Also, rate structures can be changed in such a manner as to provide more incentives for customers to reduce their usage especially for units that have negative operating margins or below average rates. The appropriateness of different rate structures depends on local conditions; however, decreasing block rate structures generally provide the least incentives for reductions. Amendments to rate schedules and budgets should be adopted by the Board to account for any rate changes and for any changes in appropriations. Units also should ensure that interim financial data on the Water and Sewer fund, as well as the General Fund, are current and as accurate as possible. Good financial records help keep management and the Board informed and provide them needed information to make good decisions.

In spite of the decreased consumption by users, units may experience increased operating costs during the drought. If units move to alternative sources for water, there may be increased pumping costs, and there may be additional maintenance or capital needs in order to make that move. Treatment costs are also likely to increase as providers reach the lower levels of lakes and reservoirs for their supply. Again, units should carefully monitor the changes in their operating costs and margins and make any necessary changes to maintain financial stability in the Water and Sewer fund.

Units should be monitoring their loss ratio to be sure that unmetered water loss/usage is kept to a minimum. Most units experience a loss ratio of about 10%. You should reconcile the number of gallons pumped to the number billed on a regular basis to determine if you are experiencing above-average loss, or to determine if your loss ratio fluctuates materially during the year. If you are experiencing high loss ratios or sudden changes in your loss ratios, your system could be losing water through leaks or unauthorized use.

While we realize that providers are concentrating their efforts on maintaining supply and service to users, the drought does present units with an opportunity to establish baseline numbers for monitoring inflow and infiltration. Since there is little groundwater, the volume being processed by your wastewater treatment systems should be materially free of inflow and infiltration.

Local governments also are encouraged to develop long-term plans to deal with future drought conditions. Those units that made changes after the 2002 drought are generally in better positions today. Long-term plans may include alternate water sources, interconnectivity with nearby systems to access alternate sources, emergency/crisis management plans and criteria for implementation of various levels of mandatory conservation measures. Units that have not yet updated their Water Shortage Response Plan should do so as soon as is practicable.

If your unit of government has emergency capital needs, there are limited funds available from various sources. Attached to this memorandum is a brochure containing a list of funding sources for water capital needs of local governments in North Carolina. The contact information for each agency or source is included on the brochure, as well as a brief summary of the type of funding available. Please remember that any construction debt financing and certain equipment financing has to be approved by the Local Government Commission. The Commission will work with local units to approve financings as quickly as possible in emergency situations.

If your unit of government is experiencing financial difficulties due to the drought or other issues, please contact us at your earliest convenience. If you have any questions or concerns regarding this memorandum, please contact Sharon Edmundson at (919)807-2381 or sharon.edmundson@nctreasurer.com.



NC Clean Water Funders

• Working together for clean water •

Participants

Appalachian Regional Commission (ARC)

Supplements to Other Federal Grants

www.arc.gov



Olivia Collier, Appalachian Program Manager
ocollier@nccommerce.com
(919) 733-2853 ext. 222

Clean Water Management Trust Fund (CWMTF) Grants

www.cwmtf.net



Larry Horton, Wastewater Infrastructure
Project Manager
larry.horton@ncmail.net
(919) 715-4172

Economic Development Administration

Department of Commerce

Public Works and Development Facilities Grant Program
www.eda.gov



Philip Trader
ptrader@eda.doc.gov
(404) 730-3017

Golden LEAF Foundation

Public Infrastructure Grants for Job Creation

www.goldenleaf.org



Pat Cabe
(252) 442-7474
pcabe@goldenleaf.org

NC Department of Commerce

Community Development Block Grants
(CDBG) (HUD funds)

www.nccommerce.com



Division of Community Assistance

Gloria Nance-Sims, Director
gnance-sims@nccommerce.com
(919) 733-2850; (919) 733-5262 (fax)

Commerce Finance Center

George Sherrill
gsherrill@nccommerce.com
(919) 715-6559

NC Division of Environmental Health

Public Water Supply Section

Drinking Water SRF Loan Program
www.deh.enr.state.nc.us/pws/srf/index.htm



Sid Harrell
sid.harrell@ncmail.net
(919) 715-3216

NC Division of Water Quality

Clean Water Act Section 319(h) Grants
http://h2o.enr.state.nc.us/nps/Section_319_Grant_Program.htm



Kim Nimmer, Grant Program Coordinator
kimberly.nimmer@ncmail.net
(919) 733-5083 ext. 582

NC Division of Water Quality

NC Construction Grants and Loans Section

Clean Water State Revolving Fund
www.nccgl.net/fap/cwsrf/index.html



John Blowe, Chief
bobby.blowe@ncmail.net
(919) 715-6212

NC Rural Economic Development Center

Supplemental Grants Program
Capacity Building Grants Program
www.ncruralcenter.org/grants/water.htm

Economic Infrastructure Grants

www.ncruralcenter.org/infrastructure/



Julie Haigler Cubeta, Senior Director, Physical
Infrastructure Office
jhaiglercubeta@ncruralcenter.org
(919) 250-4314; (919) 250-4325 (fax)

USDA Rural Development

Water and Wastewater Loans and Grants
Emergency Community Water Assistance Grants
www.rurdev.usda.gov/nc/wwwd.htm



Roger Davis, Program Director
roger.davis@nc.usda.gov
(919) 873-2061

Brochure prepared by



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