

Louisiana Drinking Water Revolving Loan Fund Loan Business Plan Packet

The Safe Drinking Water Act (SDWA) establishes rules and regulations to govern public water systems, the Office of Public Health- Environmental Health Services Division is the primacy agent in Louisiana to ensure that compliance with these rules and regulations is being achieved and maintained

The SDWA mandated Louisiana must develop and implement a capacity development strategy which provides criteria for evaluating technical, managerial, and financial capacity. We have developed this Business Plan packet which is attached, it requires specific information that will aid us in making evaluations of your financial and managerial capacity while technical capacity will be evaluated by the information you supply in the System Improvement Plan. Your system must meet capacity requirements in all three areas before this office can give final approval of your project for a loan.

Please provide all of the information that pertains to your system in the Business Plan. Some of the questions may not be applicable to your particular water system, if this is the case, please move to the next question. Also, please have the appropriate responsible party sign the Certification of Information and include it in your submitted package. There is no submission deadline but note that a loan cannot be made until the state determines that the system meets all capacity requirements.

Please forward the completed Business Plan to the following address:

Attn: Jennifer Meyer, Manager
Drinking Water Revolving Loan Fund
Office of Public Health
Center for Environmental Health Services
P.O. Box 4489
Baton Rouge, LA 70821-4489

If you have any questions relative to these documents attached hereto, feel free to contact me at (225) 342-8355

MANAGERIAL CAPACITY

The Management Plan is a key component of a Comprehensive Business Plan for any drinking water system. Such plan will be used in evaluating managerial capacity. A Management plan includes documentation that the applicant has the legal right and authority to construct, operate, and maintain the system, and a management and administrative plan. The purpose of the Management Plan is to provide assurances that both the ability and commitment to provide for effective management and operation of the proposed system are in place. Following is a checklist of items that must be included in the Management Plan.

CHECKLIST

Ownership

1. Identification of the type of organization which owns or will own the drinking water system. If current ownership will change in the future, please describe, including the proposed timeframe for the change of ownership. Ownership categories include:

*MUNICIPALITY FEDERAL UTILITY DISTRICT PARISH STATE
INVESTOR OWNED (Sole Proprietorship/Partnership/Corporation)*

2. If ownership category is **MUNICIPALITY**,
 1. If the municipality operates under a home rule charter, provide a description of the charter. Also, please provide the name of the incorporate municipality and the parish in which it is located
 2. If the municipal owner has any inter-municipal agreements relating to the provision of drinking water with other municipalities, include the names of the municipalities and the parishes in which they are located. Also, attach copies of any inter-municipal agreements.
 3. Provide names, mailing addresses, and phone numbers of Mayor/City Manager, council members, operator(s), etc.
3. If the ownership category is **UTILITY**,
 1. Provide names, mailing addresses, and phone numbers of applicable corporation names, board members, officers, and operator(s), and provide a copy of the incorporation papers and current annual report.
 2. Provide copy of authority to operate given by the Public Service Commission, if regulated by same.

4. If the ownership category is **DISTRICT**,
 1. Provide names, mailing addresses, and phone numbers of all board members/officers, operator(s) and provide copies of any charters, etc., giving the system authority to operate.
 2. Provide authority to operate given by the Public Service Commission, if regulated by same.

5. If the ownership category is **PARISH**,
 1. Provide name of government entity granting authority to operate and copies of any documents indicating same.
 2. Provide names, mailing addresses, and phone numbers of officials/board members and operator(s) responsible for the operation of the system.

6. If the ownership category is **STATE**,
 1. Provide name and address of governing state agency for the system.
 2. Provide name, mailing address and phone number of the head of the agency as well as for the chain of command down to the operator(s) of the specific system.

7. If the ownership category is **INVESTOR OWNED**,
 1. If a corporation, provide legal name of the corporation, copy of incorporation papers, copy of current annual report, and names, mailing addresses and phone numbers of all board members/officers/operator(s) for the corporation.
 2. If a corporation, indicate whether for profit or not for profit; closely held, publicly traded, or a wholly owned subsidiary; and if the corporation is owned by a parent company, describe the ownership of the parent, including related companies.
 3. If a corporation, provide information on initial capital structure.
 4. If a franchise is involved, provide copy of franchise indicating owner(s) terms of franchise, and length of time franchise runs.
 5. If sole proprietorship, provide name, mailing address, and phone number of the owner/operator.
 6. Provide a copy of the authority to operate given by the Public Service Commission, if regulated by same.

8. For all board members/council members/officers, provide the average number of years of experience or service per person, years of experience or service of the longest serving person and total number of water system-related training events attended by one or more board members/council members/officers in the last two (2) years.

9. Identify any other public water systems currently owned or operated by the applicant owner(s), parent organization, or affiliate of the organization.

Management and Administrative Plan

There are two purposes of the Management and Administrative Plan. First, is to catalogue the resources that will be needed to manage and administer the system so as to support budget cost estimates. The second purpose is to provide assurances that the applicant has in place an organization and people capable of managing the system and responding to unforeseen circumstances. Following is a checklist of information to be included.

1. A certified operator at the appropriate level is required to operate a water system in Louisiana.

Provide the following information and copies of certificates:

Name and mailings addresses of all certified operators
All classes and levels of certification
Is certificate regular one or temporary?
Time period certification covers
Are the certified operator(s) available on-site 24 hours or contracted (if contracted, include a copy of contract)
If contracted, what is estimated response time for contract operator upon notification?

If the system has only one operator, who provides the backup when that person is on leave?

2. Number of employees running the system, including operations, administration, and management. Identify the employees by number, job title, and designate as full or part time. Provide a copy of the organization chart, and a budget indicating the salary and benefits for each position along with the following information:
3. Number of years of experience for each employee noted in #2 and any formal education/training relative to same for each position.
4. Copies of the system general rules and standards, including connection policies, extension policies, standard specifications, record management plan, and emergency response plan
5. Copies of any financial management policies and standards already developed. If none, indicate same.

FINANCIAL CAPACITY

The Financial Plan consists of intended rate revenue projections and pro forma financial statements for a period of at least five (5) years, and a narrative description of assurances that the system will be able to meet its financial obligations and be able to maintain its viability. The pro forma statements should show a positive trend over the 5-year period.

The purpose of the Financial Plan is to assure that the system has the financial ability to support the project and operate for at least five years. In preparing your Financial Plan, you should be moderately conservatively. Be sure to plan for rate coverage (the generation of revenues above that necessary to cover expenses) and the establishment of reserve funds, even if not directly required by the capital provider. Coverage has proven to be a key indicator of the future viability of small drinking water systems. Your Business Plan should be strong enough to remain viable even under adverse changes in the operating environment.

The following information should be included in your Financial Plan:

Projected Rate Revenue

1. Projected rate revenue for both residential and commercial/industrial customers. (See Financial Plan Form I for an example of the requested information.)

The Total Projected Rate Revenue can be calculated in a number of ways. If you use Financial Plan Form I, include in the Commercial/Industrial category any institutional or other large users that might skew the Average Annual Residential User Rate.

The projected rate revenue information is important for two reasons. First, without adequate revenue, the system will eventually not be capable of self-support. The system needs sufficient revenue to cover operating and non-operating expenses, capital improvements, replacements, and emergencies. If there is not sufficient revenue to cover current expenses and fund reserve funds, it is likely that at some point the system will face an emergency or need for new or updated equipment that it cannot face without an extraordinary rate increase or outside assistance.

The second reason this information is important is to provide assurance that the projected user rates are reasonable and have a likelihood of being collectible. The rates also need to have some elasticity in case unforeseen events require an increase in revenue for the system. Research has shown that the strongest systems have rates that are neither too high nor too low. Also, water must be metered so that each user is paying for what they use. Loan monies can be used to install required meters. Those systems falling under the jurisdiction of the Public Service Commission need to work cooperatively with them and within their guidelines

for any necessary changes in rates.

Pro Forma Financial Statements

1. Pro forma income, expense, and cash flow statement for at least five years. Financial Plan Form II is an example of a consolidated pro forma income, expense, and cash flow statement for five years of system operation. You may either use this form directly or provide the same information in your own format.
2. Pro forma balance sheet summary for at least five years. Financial Plan Form III is a sample five-year balance sheet summary which you may use or provide the same information on a separate sheet, but be sure to include all of the same information.

The purpose of the pro forma financial statements is to show projections of the finances of the system over the next five years. The statements should provide assurances that income will exceed expenses to such a degree as to allow for the creation and funding of reserve funds and for funding emergencies and equipment replacement. At a minimum, there should be positive cash flow every year, net income for most years, and positive equity. The pro forma statements will also allow many of the traditional financial analyses to be conducted on the system C including but not limited to determining the debt to equity ratio, the coverage ratio, the quick liquidity, etc. Projecting this information for at least five years will allow someone reviewing the plan to see trends and patterns. The level of the detail of the requested information will allow for anyone reviewing the plan to understand the basis for the assumptions used in your pro forma financial statements. Be sure to explain how the cost and income estimates were developed, and attach any narratives or worksheets that show the calculations. Please provide an explanation for any unusual estimates. If possible, provide a range of estimates for some of the items most difficult to project. Also, indicate how conservative or aggressive you believe your estimates to be.

If your projections show changes from year to year that are caused by more than inflation, please be sure to explain your assumptions(s) for the variance.

The Income, Expense, and Cash Flow Statement format provided combines the elements of the traditional income and expense statement with that of the traditional cash flow statement into a single form. This eliminates duplication. If, however, you do not use the provided form, be sure to include both traditional statements for at least five (5) years.

In the provided Income, Expense, and Cash Flow Statement, the terms Extraordinary Income and Extraordinary Expenses refer to cash flow items not normally on an income statement. These are generally non-recurring events and capital adjustments to cash flow rather than normal accrual-based income or expenses.

You do not have to use all of the categories provided; however, the more detail that is provided, the less likely that follow-up questions will be required. Specify and explain other entries. For any items not already covered in the SIP, include an explanation or supporting worksheets describing how the estimates were developed.

Following is an explanation by categories for items requested in the Income, Expense, and Cash

Flow Statement:

OPERATING REVENUES

Revenues are sources of income to your system.

Water Rates - The water rate line includes all money received for supplying water service. To forecast water rates, you must know the number of service connections and amount of consumption for your system. Once a water consumption forecast and number of service connections has been projected, a forecast of water rate revenues can be computed.

Fees and Services - Include all other miscellaneous fees and charges for service provided other than for water service (e.g., bad check fees, reconnect fees, meter testing fees, etc.). This includes all fees other than connection fees. Initial first time hookup charges (connection fees) should be included on Line 6 Aother@ and noted for same.

EXPENSES - Expenses include all those activities or purchases which incur cost for the system. Expenses can be estimated in various ways. One method bases the projections on historical expense. This can be accomplished by using historical costs and escalating them from known and projected changes. An example of a known change would be an increase in labor costs for the budget period due to known or anticipated salary increases. An example of a projected increase or escalation in costs would be a 5% annual inflation rate. Materials and Supplies expense, for instance, would be expected to increase with the projected inflation rate.

Operating and Maintenance Expense - These expense items refer to all expenses incurred by the system in the production and delivery of water to customers; for example, operator salaries, power to operate pumps, chemicals for treating water.

Salaries and Benefits (Operator) - Include all compensation to employees of your system when the work is related to the system=s O&M. This account should not include compensation of officers, directors, or general and administrative staff. For new water systems, O&M labor costs should be identified for each year of the 5-year budget. Volunteer labor cannot be applied. For existing water systems, it is advisable that professional certified operators are employed and O&M costs be identified in the budget for all five years. For existing systems currently utilizing volunteer labor, O&M labor costs for outside operational assistance must be identified for at least the first year of the budget. To calculate this amount, a new system or a system currently using volunteer labor should contact a qualified operator and obtain an annual cost estimate to operate the system (labor cost only).

Utilities - Include the cost of electric power, water, telephone, and other system-related expenses incurred in producing and delivering water.

Chemicals & Treatment - Include the cost of all chemicals used in the treatment of water. Also include the cost of any chemicals manufactured by the system and used in providing system service.

Monitoring - Include all water monitoring costs incurred by the system. This includes both in-house monitoring and analysis costs, and outside laboratory costs.

Materials, Supplies, and Parts - Include all materials and supplies used in the O&M of the water system and in providing and delivering the water to the customer. Include any repairs or parts needed in producing and delivering water. This would include grease and oil, and minor repairs to equipment. This should not include materials for administrative purposes such as postage, copying, billing forms, or paper.

Transportation - Include all expenses related to trucks, automobiles, construction equipment, and other vehicle expense used in producing and delivering water to the customer.

ADMINISTRATION EXPENSES - These expenses are considered overhead and are not directly related to O&M of the daily production and delivery of water to the customer. This category includes billing and administrative costs incurred by the system. For example, all meter reading costs, secretarial costs, postage, publications, reference materials, uncollectible debts, insurance, accounting services, and all other overhead items belong in this subsection.

Salaries and Benefits - Include all compensation to employees of your system in which the work is related to the administration of the system, such as officers, directors, secretarial, and meter reading salaries and benefits. This account should not include compensation of operators. Estimates for non-volunteer labor should not be overlooked on smaller systems when outside assistance is anticipated.

Office Supplies and Postage - Includes all materials and supplies in administration of the water system. This includes office supplies, postage, copier charges, and paper.

Insurance (Vehicles, Liability, Workers= Compensation) - Include all insurance costs associated with the coverage for the vehicles, general liability, workers= compensation insurance, and other insurance costs related to the operation and administration of the system.

Legal and Accounting - Include all salaries and wages with legal and accounting functions for the system.

A/E & Professional Services - Include all engineering and other professional services expenses associated with the planning and design requirements of the water system.

Other Expenses - Such expenses as employee training and water certification requirements (classes, registration fees, travel, etc.), public relations campaigns and public notifications should be included in the Other category.

Depreciation Expense - Only applies to systems which are currently depreciating investments made in the past (recovery of previously invested funds). Water systems that are already charging a depreciation expense must identify the actual depreciation expense as a separate item. For a water system which is not currently charging an expense for depreciation for tax purposes, and would like to do so, the system may want to contact an accountant to generate a legally justifiable depreciation expense.

Taxes - Your system can incur a variety of taxes such as a state utility tax, business and occupation (B&O) tax, property tax or federal income

Debt Repayment (Loans/Bonds) - Debt repayments are the cost associated with the repayment of short-term and/or long-term borrowing. If desired, it can be further subdivided between interest and principal payments. These items can be tied directly to your loan note, bank statement, or bond papers.

Capital Improvements - This includes facility and non-facility costs related to: 1) Meeting growth requirements or improving your system's infrastructure to provide better service and reliability to existing customers, 2) replacing or renovating existing facilities, or 3) to ensure compliance with drinking water regulations. Non-water rate revenues from loans, grants, and special charges may act as direct offsets to these capital expenditures. The unfunded difference is the net capital costs which should come from water rates.

Operating Cash Reserve

The system must demonstrate its ability to withstand cash flow fluctuations. There can be a significant length of time between when a system provides a service and when a customer may pay for that service. A 45-day difference is the generally accepted industry norm. Because of this potential delay in payment, most systems attempt to keep at least 1/8 of their annual operating and maintenance (O&M) and general and administrative (G&A) expenses in an Operating Cash Reserve to prevent potential cash flow problems. The Operating Cash Reserve is essentially the A check-book balance @ a system should maintain to meet cash flow needs and provide contingency funds for unforeseen operating emergencies. This reserve can be funded initially with: 1) a one-time charge, 2) a transfer of funds from an existing reserve, or 3) funds accumulated in the first year of the budget in Operating Cash Reserve.

If the system does not presently have an existing Operating Cash Reserve equal to or greater than 1/8 its annual operating budget (O&M and G&A), it must demonstrate how this reserve will be funded or demonstrate its ability to

withstand cash flow fluctuations. Please complete Financial Plan Form IV.

Emergency Reserve

The system must demonstrate its ability to cover the costs of an emergency or failure of its most vulnerable system component. This can be accomplished either by

1) developing and funding an Emergency Reserve

or

2) obtaining an alternative financing arrangement. Generally, replacement of a production well, a source of supply, the largest pumping equipment, or key transmission lines represent the most vulnerable components and are used to estimate the minimum Emergency Reserve amount.

Determining the emergency reserve level of a system is also a function of management objectives and overall system reliability. This reserve can be funded initially with: 1) a one-time charge, 2) a transfer of funds from existing reserves, 3) funds accumulated in the 5-year budget, or 4) an alternative financing arrangement. Please complete Financial Plan Form V.

Assurances

Identify any other appropriate financial assurance, including those being offered to capital providers. Examples of such additional assurances are:

Evidence that the customers are fully informed of the costs and benefits, and support the project;

Ordinance requiring disconnection of existing wells when the system is replacing existing private drinking water wells;

Mandatory tap in ordinance; *and*

Appointment of a trustee, etc.

Some of these assurances may be those offered to capital providers. Some may be in addition to any loan collateral.

Financial Forms (Please note-the forms provided are only a template, you do not have to use these exact forms but can provide the information requested in another form.)

**FINANCIAL PLAN FORM I
RATE REVENUE SUMMARY**

		LAST YR.	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
1.	Number of Residential Customers	19____	19____	_____	_____	_____	_____
2.	Average Annual Residential Bill						
3.	Total Residential Bills Levied (Line 1 times 2)						
4.	Amount Uncollected						
5.	Total Residential Rates Collected (Line 3 less 4)						
6.	Total Commercial/Industrial Bills Collected						
7.	Total Projected Rate Revenue						

PROJECTIONS OF WATER RATE REVENUES

FORECASTED

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
1. Forecasted number of Service Connections	_____	_____	_____	_____	_____
2. Meter Charges @ \$/meter	_____	_____	_____	_____	_____
3. Projected Water Sales (Gallons)	_____	_____	_____	_____	_____
4. Commodity Charge @ \$/1,000 Gallon	_____	_____	_____	_____	_____
5. Total Projected Revenue	_____	_____	_____	_____	_____
6. Rate Revenue Per Connection	_____	_____	_____	_____	_____

FINANCIAL PLAN FORM II

INCOME, EXPENSES, AND CASH FLOW STATEMENT

(For Systems Charging for Water)

INCOME, EXPENSE, AND CASH FLOW		LAST YR.	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
STATEMENT		19 ____	19 ____	_____	_____	_____	_____
1	OPERATING REVENUES						
2	Water Rates						
3	Bulk Water Rates						
4	Fire Protection						
5	Fees and Services						
6	Other						
7	Total (Lines 2 - 6)						
8							
9	OPERATING EXPENSES						
10	OPERATION AND MAINTENANCE						
11	Salaries (Operators)						
12	Benefits						
13	Utilities						
14	Chemicals & Treatment						
15	Monitoring						
16	Materials, Supplies & Parts						
17	Transportation						
18	Purchased Water Costs						
18	Outside Services						
20	Other						
21	Total (Lines 11 - 20)						
22	Administrative						
23	Salaries						
24	Benefits						
25	Building Overhead						
26	Office Supplies & Postage						

INCOME, EXPENSE, AND CASH FLOW STATEMENT		LAST YR.	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
		19 ____	19 ____	_____	_____	_____	_____
27	Insurance						
28	Customer Billing & Collection						
29	Accounting						
30	Legal						
31	A/E & Professional Services						
32	Other						
33	Total (Lines 23 - 32)						
34	Depreciation Expenses						
35	Other						
36	TOTAL (Line 21 plus 33 plus 34 plus 35)						
37	Operating Income (Line 7 less Line 36)						
38	Non-Operating Revenues						
39	Interest Income						
40	Interfund Transfer						
41	Proceeds from the Sale of Assets						
42	Leases and Extraction Fees						
43	Other						
44	TOTAL (Lines 39 - 43)						
45							
46	Non-Operating Expenses						
47	Interest Expense						
48	Interfund Transfers						
49	To General Fund						
50	To Replacement Fund						
51	To Emergency Fund						
52	To Other						
53	TOTAL (Lines 49 - 52)						

INCOME, EXPENSE, AND CASH FLOW STATEMENT		LAST YR.	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
		19 ____	19 ____	_____	_____	_____	_____
54	Other						
55	TOTAL (Line 47 plus 53 plus 54)						
56	Net Income Before Taxes (Line 37 plus 44 less 55)						
57							
58	Taxes						
59	Income Taxes						
60	Other than Income Taxes						
61	TOTAL (Line 59 plus 60)						
62	Net Income After Taxes (Line 56 less 61)						
63							
64	Extraordinary Revenues						
65	Construction Grants						
66	Proceeds from Borrowing						
67	Equity Contribution						
68	Other						
69	TOTAL (Lines 65 - 68)						
70							
71	Extraordinary Expenses						
72	Debt-Repayment - Principal						
73	Capital Improvements Acquisition of Plant Equipment						
74	Other						
75	TOTAL (Lines 72 - 74)						
76	Cash Flow (Line 62 plus 34 plus 69 less 75)						

**FINANCIAL PLAN FORM III
BALANCE SHEET I
(For Systems Charging for Water)**

BALANCE SHEET		LAST YR.	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
		19__	_____	_____	_____	_____	_____
1	ASSETS						
2	PLANT						
3	Water Plant						
4	Construction in Progress						
5	Other						
6	Less Accumulated Depreciation						
7	Total Plant (lines 2 -4 less line 5)						
8	CURRENT ASSETS						
9	Cash						
10	Investments						
11	Accounts Receivable						
12	Inventory						
13	Total Current Assets (lines 9 - 12)						
14	OTHER ASSETS						
15	Emergency Reserves						
16	Operating Reserves						
17	Replacement Fund						
18	Total Other Assets (lines 15 - 17)						
19	TOTAL ASSETS (lines 7, 13, 18)						
20							
21	CAPITALIZATION & LIABILITIES						
22	CAPITALIZATION						
23	Proprietary Capital						
24	Retained Earnings						
25	Other Capital Items						
26	Total Capitalization (lines 23 - 25)						
27	LONG-TERM DEBT						
28	CURRENT LIABILITIES						
29	Accounts Payable						
30	Accrued Expenses						
31	Current Portion of Long-Term Debt						
32	Short-Term Debt						
33	Other						
34	Total Current Liabilities (lines 28-33)						
35	TOTAL CAPITALIZATION & LIABILITIES (lines 26, 27, 34)						

FINANCIAL PLAN FORM IV

OPERATING CASH RESERVE DISCLOSURE FORM

TYPE OF ACCOUNT:

_____ Bank checking/savings _____ escrow account
_____ Trustee account _____ other (specify) _____

Name and address of bank or institution _____

FINANCIAL PLAN FORM V

EMERGENCY RESERVE DISCLOSURE FORM

TYPE OF ACCOUNT:

_____ Bank checking/savings _____ escrow account
_____ Trustee account _____ other (specify) _____

Name and address of bank or institution _____

OR

TYPE OF COMMITMENT:

_____ Surety bond _____ guarantor letter of credit _____
_____ Other (specify) _____

Name and address of bank or name, address, and relationship of guarantor

CERTIFICATION OF INFORMATION

Under penalty of law, I hereby certify that the foregoing information provided in the Business Plan is true and correct.

Date
Owner/Mayor/Board President

_____ Title:

Date: