Small Community Managers Have a New Tool

Financial Benchmarking Provides Valuable Information

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Raising sufficient money to cover operating costs and promptly paying off debts are important financial activities for most water systems. This idea sounds simple enough and is obviously the right thing to do. But, the real-life practice of sound management for community water systems requires a lot more than good intentions.

The Midwest Technical Assistance Center (MTAC) sponsored a study to evaluate financial benchmarking as a management tool for small community drinking water systems. The results of the study are published in *Benchmark Investigation of Small Public Water System Economics*, an extensive collection of observations and data relating to financial management of small systems in the Midwest.

"Benchmarking is an ongoing, systematic means for measuring and comparing the work processes of an organization," says Duke Ebert, financial management analyst at West Virginia University. "Benchmarks are indicators of the performance of an organization in comparison to its goals, customer expectations, competitors, and other organizations performing similar tasks at a high level of quality and efficiency."

In a nutshell, the purpose of benchmarking is to provide managers with an external point of reference or standard for evaluating the quality and costs of the processes they manage. According to Ebert, benchmarking helps to identity opportunities for improvement, quantify the magnitude of those opportunities, find other institutions that operate particularly well, and illuminate areas or practices elsewhere that are worth considering.

For the *Benchmark Investigation of Small Public Water System Economics*, researchers Ben Dziegielewski, Tom Bik, and Roger Beck from Southern Illinois University at Carbondale used various methods to identify and gather information from small drinking water systems. They consulted more than 70 small system economics and benchmarking literature resources and spoke with acknowledged experts on the study and management of small systems.

The team met with small system professionals (managers, state and federal agency officials, and technical assistance providers) and got their opinions on the potential of financial benchmarking during focus group sessions and small water systems site visits. They also acquired economic and operations data from 350 randomly selected small public water systems in 10 Midwest states.

The following is a summary of the researchers' conclusions regarding benchmarking needs and practices:

Benchmarking is a pervasive management tool that is effective in improving operation and management, even though researchers found few programs to develop benchmark measures and practices in the existing literature. Additionaly, the capacity development provisions of the 1996 Safe Drinking Water Act have created an urgency for state primacy agencies to find ways to evaluate financial conditions of small systems.

Most members of the small drinking water system community who participated in the study were not familiar with financial benchmarking, and those who had heard of benchmarking were unsure of its role in improving management of small systems.

Financial Indicators for Benchmarking

Water systems undergoing a benchmarking study typically begin with the following information:

- Gross revenue per 1,000 gallons delivered
- Net revenue per 1,000 gallons delivered
- Total expense per 1,000 gallons delivered
- Operating expense per 1,000 gallons delivered
- Gross revenue per person served
- Net revenue per person served
- Total expense per person served
- Operating expense per person served
- Gross revenue per total connections
- Total expense per total connections
- Net revenue per total connections
- Operating expense per total connections
- Gross revenue per total connections
- Operating ratio
- Debt service coverage ratio
- Population served per residential connection
- Gallons per person per day
- Maximum daily pumpage/average daily pumpage