

## **Nature's Little Warning**

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If you have ever wondered about the importance of having a realistic budget that includes cash reserves and contingency funds, this winter should be a good example of what can happen if you are not adequately prepared. The severe snow storms hitting the eastern part of the state one after another have put a strain on many municipal budgets. The City of Omaha reported that they had spent more than they budgeted for snow removal for the entire year by the first part of January, with more snow likely before winter is over. Some systems have had water towers freeze and controls stop working due to the extreme cold. Although these types of situations may be extreme and very rare, they do happen. Systems need to plan for and be prepared for these situations.

A realistic municipal budget should be based on past experience, not only for the municipality in question, but also looking at other municipalities and the challenges they have had to face. Some of these challenges, such as population or industrial growth or loss can be planned for in advance, and infrastructure needs can be scheduled in advance. Weather emergencies tend to “sneak up” on a system, and that is why they are called “emergencies”. Just because a system has never had losses due to ice storms or blizzards does not insure that this will not happen in the future, especially in a state with such severe climate changes.

Having open discussions with other municipalities that have suffered losses due to weather emergencies or other occurrences can assist a system in determining what the cost might be to them in a similar situation. Budgeting for these situations can alleviate the immediate financial effects on the community, but it is very important to include the public during this process so they understand the need for funding reserves. It is often hard for the average citizen to understand the need for a rate increase when the system has tens or even hundreds of thousands of dollars in the bank. Being able to show your customers what different types of emergencies can cost the system can often help them understand the need for having reserve funds.

Systems that have strictly been budgeting based on last year's expenditures with a slight “cost of living” increase could easily find themselves in a financial bind in the event of an emergency. It would be wise to at least begin a reserve fund for emergencies based on a small percentage of the operation and maintenance costs of the system. The board or council should then determine a goal for a fully funded reserve, and make additions to this fund annually until that goal is reached. This would allow the system to implement a small increase in the event of an emergency with the intent of rebuilding the reserve fund rather than being forced to implement a large rate increase just to pay the bills.