

Better Planning for Short-lived Assets, Operations and Maintenance

By Randy Hellbusch, Circuit Rider

At almost every water seminar you attend anymore you hear the term “Capacity Development” mentioned. By now, we all know that pertains to the Financial, Technical, and Managerial aspects of maintaining a water system.

I want to focus on the financial end of the equation. I get involved in doing many water rate studies around the state for small water systems. One of the areas that we need to focus on more than we have in the past is figuring the true cost year in and year out of running a water system. We need to focus on making sure we have considered all expenses in determining needed revenue. This way we can fairly reflect the cost of providing service to all classes of users and be able to justify user rates and charges.

The planned revenue should be sufficient to provide for all debt service, debt reserve, operation and maintenance, and, if appropriate, additional revenue for facility replacement of short-lived assets without building a substantial surplus. Proper budgeting of annual, reoccurring items in the O&M budget should include such items as, meter replacement, leak detection, line repairs and routine maintenance necessary on an annual basis.

We also need to account for Depreciation. Proper budgeting for depreciation would allow you to pay cash for an asset to replace it at the end of its useful life. A reserve should be created through an annual budget for short-lived assets that include items not budgeted for in the annual O&M expenses, but are anticipated in the next 5-7 years. This helps to ensure continual operation of the system with a positive cash flow. Short-lived assets would include items, such as trucks, computers, testing equipment, storage tank painting, pump replacement, construction equipment, filter media, etc.

Capital Improvements is another item that needs to be considered. Capital Improvements should not be confused with depreciation. Capital Improvements is the process of budgeting for assets to be built or purchased in the future. Many times these items are not budgeted for, but systems seek financial assistance through loan and grant sources. We all need a banker from time to time.

Some useful information in trying to set a good budget could be prior year’s actual expense or similar system costs. Using professionals, such as an engineer or accountant, or utilizing technical assistance, such as provided by Nebraska Rural Water, can often prove to be very beneficial in this process.

Good records are an essential part of the budget process. They provide us the information we need to operate our utility in a cost-effective manner. Good records provide historical data in a format that can be used to facilitate projections. This helps

justify changes in modes of operations and can aid in supporting cost of service and rate-making calculations.

Items that need to be included in a good, small water system budget are included in the worksheet below. With this type of information we can then set a rate that will keep the water system viable and at the same time provide justification for our ratepayers. If the NeRWA can help your water system with budgeting and rate setting give us a call.

NEBRASKA RURAL WATER ASSOCIATION				
Rate Budget Worksheet				
EXPENSES				
Payroll tax/FICA				
Payroll tax/med				
Salaries				
Profit Sharing				
Office Supplies				
Gas and Oil				
Insurance/Bonds				
Dues Printing/Pub				
Materials/Supplies				
Utilities				
Garbage				
Group Ins.				
Telephone				
Mileage/Conv.				
Small Tools				
Postage/Freight				
Vehicle Maint.				
Equipment Rental				
Professional Fees				
Misc.				
Equipment Maint.				
Maintanance/office				
Uniforms				
Building Maint.				
Maint. Station Equip				
Maint. Wells				
Maint. Towers				
Maint. Dist.				
Maint. Services				
Maint. Meters				
Maint. Hydrants				
Chemicals				
Debt Service				
12% Operating Reserve				
TOTAL EXPENSE				
WATER INCOME:				
No. of users X min. bill=				
Gals. sold X price per M=				
TOTAL USER FEE REVENUE:				
DIFFERENCE				
BOLD ITEMS ARE POSSIBLE FIXED COST: to be included in minimum charge				