Water Board Basics: Keys for Success

Annual Budgets: Working Tools

There are four basic types of records that need to be kept by a water utility. They are financial, legal, managerial and operational records. While all four types of records are important, financial records, and in particular budgets, are often the most important.

Budget making involves deciding in advance how the utility will spend its income and anticipating problems and needs before they occur. The process of "making" the budget is the utility Board’s responsibility. The Board and its operator should all provide input to the budget. Once the budget is approved by the Board, the operator is responsible for staying within the budget.

Setting customer rates

Here is the most important concept about water utility budgets: customer rates should not be analyzed before setting a budget. Customer rates (and thereby the utility's income) have little bearing on the utility’s expenses. Small utilities have many expenses that are fixed costs. Utilities must examine and estimate all of their costs (both short- and long-term), before setting rates. This process is just the reverse of financial decisions made in everyday life, where people generally look at their income and then decide how to spend it.

A utility's first consideration is the fixed expenses, and which of these have variables. For example, the utility receives an electricity bill every month. Electricity is a fixed component in the utility’s budget. The fixed component is seen in the winter months when pumping costs are lowest. In the summer months, the electricity costs are higher because pumping needs are higher, therefore, more power is used. This seasonal variation should be detailed in the utility’s budget.

Keeping financial records

Financial records are needed to develop a sound budget. They create a history of the water utility’s expenditures and income and play a key part in the budget-setting process. Financial records can be as simple as a receipt for chlorine solution or an invoice for ten new meters. Finding that receipt in six months is the secret to good financial record keeping.

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Estimating anticipated expenses

A budget is a *working* document. That means that it can be changed or altered at any Board meeting. An annual budget is an estimate of anticipated expenses. For example, the annual budget may not have accounted for a rise in gasoline prices. A Board can revise its budget, reallocating funds from the electricity line item and adding it to the gasoline line item. It is that simple.

The Board needs to work with and review its budget often. It should be discussed at each Board meeting. Monthly line item expenses should be subtracted from the annual budget’s line item. From this, the Board can see how its budget is working, while noting if any modifications are needed and using the budget as a planning tool. By examining monthly financial statements, a Board will have an easier time setting next year’s annual budget.

Figuring the Operations & Maintenance budget

Budget setting involves deciding *in advance* what the utility’s needs are in the short- and long-term. A short-term budget is used to group annual costs and income that will be incurred or accrued. This is usually called an Operations & Maintenance (O&M) budget. The annual budget should list a well-thought-out estimate of the utility’s current expenses. The budget should also include the costs incurred for debt service, employee salaries, legal advice, insurance, utilities, supplies for repair and maintenance, chemicals, analytical testing, vehicle maintenance, office supplies and postage.

A long-range budget anticipates planned improvements, estimates future operational expenses, equipment replacement, funding for large-scale emergencies and funding to replace major system components. This budget is called a Capital Improvement budget. Realistic costs should be projected for these budget elements. Once cost estimates have been made, a feasible plan for meeting these costs should be developed.

Developing sound utility budgets

Sound utility budgets are a key for Water Board success. Boards should spend time making an annual budget and following it until changes are necessary; then make the changes. Boards should always set the utility’s expenses before considering the utility’s income from customer’s rates. After the Board has set the budget, it must scrutinize its rates. The rates must be reviewed annually. If utility expenses have risen above the utility’s income, the Board must raise customer rates. It is tempting to set the utility’s budget based on income. If Boards set budgets in this manner, the community will have to endure a much greater rate increase when the utility’s infrastructure is dilapidated and the water is unsafe to drink. Boards must decide to invest in their utilities on an ongoing basis, by developing budgets and rates to cover their short- and long-term expenses. The community’s customers will praise a Water Board for wise, effective money management.