



Budget – The Foundation of Rates

Your Presenter Today...

Dessa Wells

RCAC | Environmental
Programs

Rural Development Specialist

360-558-2150

dwells@rcac.org



WELCOME!

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Rural Community Assistance Partnership

RCAP National Office
1701 K St. NW, Suite 700
Washington, D.C. 20006
www.rcap.org

Western RCAP
Rural Community Assistance
Corporation
www.rcac.org

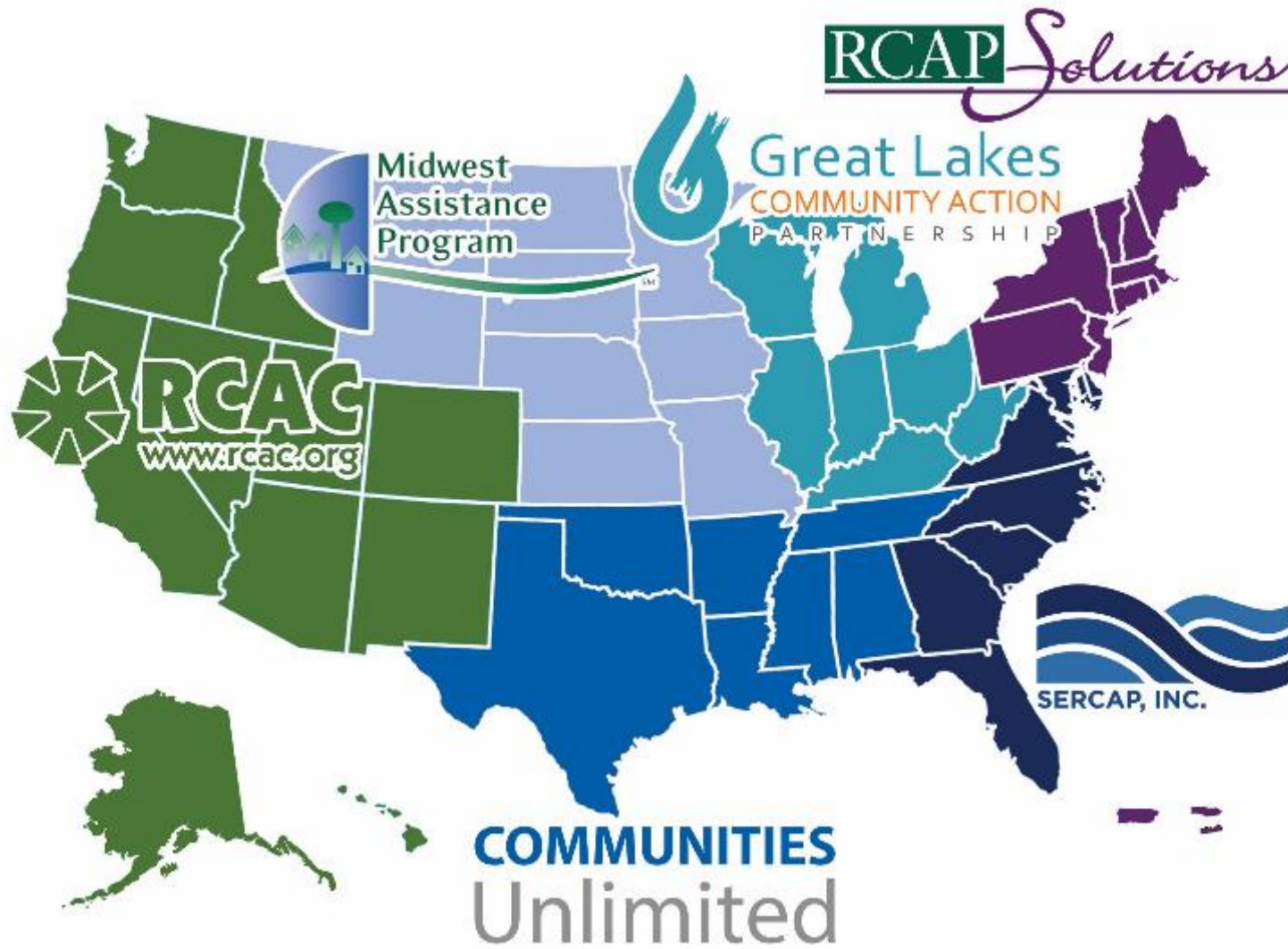
Midwestern RCAP
Midwest Assistance Program
www.map-inc.org

Southern RCAP
Communities Unlimited
www.communitiesu.org

Great Lakes RCAP
Great Lakes Community
Action Partnership
www.glcap.org

Southeastern RCAP
Southeast Rural Community
Assistance Project
www.sercap.org

Northeastern RCAP
RCAP Solutions
www.rcapsolutions.org



RCAC Programs

- Affordable housing
- Economic Development
- Loan Fund - water and wastewater infrastructure financing
- Classroom and online training
- On-site and remote technical assistance
- Income surveys and rate analysis

Today's Objectives

- Define the “True Cost” of Delivering Drinking Water and Wastewater Services
- Identify the Components of a Strong Budget
- Understanding the Importance of Financial Forecasting

What is the “True Cost” Water & Wastewater Service



Determining Expenses: Operating Expenses

The cost of operating your utility on a daily basis

Examples:

- Water/wastewater treatment
- Personnel wages
- Equipment maintenance
- Administration fees

Operating Expenses:		
	Bad Debt	-
	Insurance	367
	Miscellaneous Expense	350
	Office Costs	754
	Accounting & Legal	400
	Training Costs	125
	Auto Expenses	1,415
	Chemicals	398
	Materials & Supplies	712
	Repairs & Maintenance	3,233
	Depreciation	374
	Utilities	1,325
	Salaries & Benefits	3,997
	Total Operating Expenses	13,450
	Debt Service	
	Reserve Funding	
Total Expenses		13,450

Determining Expenses: Non-Operating Expenses

Expenses not directly related to operating your utility on a daily basis.

- Cleaning service
- Landscaping
- Debt interest

Operating revenues	\$ xxxx
Operating expenses	<u>xxx</u>
Operating income	xxx
Nonoperating revenues, expenses, gains, losses	<u>x</u>
Income before income tax expense	xxx
Income tax expense	<u>x</u>
Net income	<u><u>\$ xx</u></u>

Determining Expenses: Fixed & Variable Expenses

Fixed Expenses

Costs incurred by the utility system before service provided.

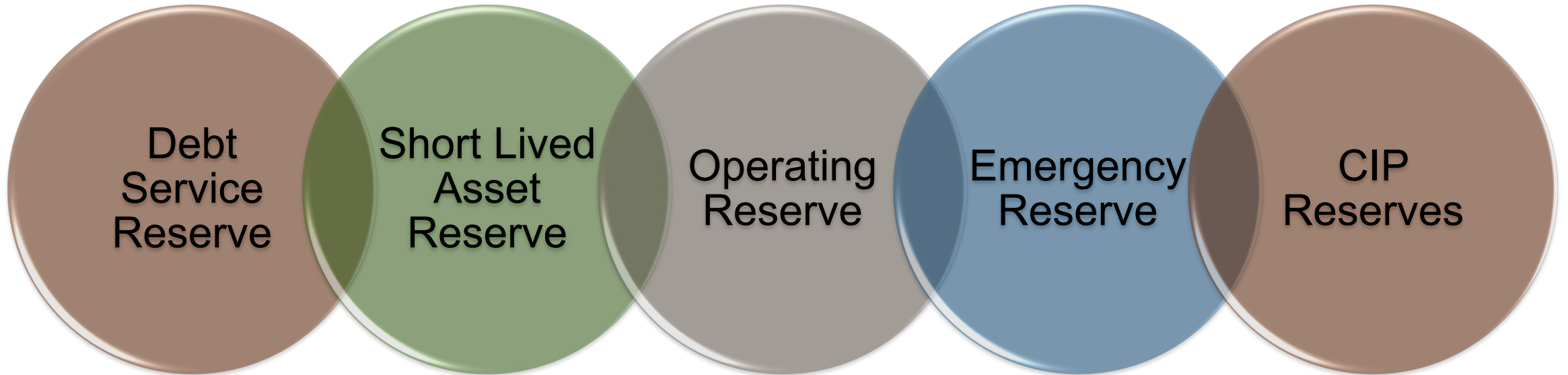
- Debt payments
- Rent / lease
- Personnel wages

Variable Expenses

Costs incurred in providing service to your customers.

- Utilities
- Maintenance
- Engineering fees

Determining Expenses: Reserves



Calculating the True Cost of Service

- Operating Expenses
- Non-Operating Expenses
Fixed & Variable Expenses
- Debt Service
- Reserves



TRUE Cost-of-Service

Budget: The Foundation of Rates



Budget Development Step 1: Gather Your Team

- Budgeting is a team activity with a lot of components.
- Various people may have the best information about individual components.
- Think about who will be needed to provide realistic projections.



Budget Development Step 2: Review Policies



What are some policies that might be relevant when developing the annual budget?

Budget Development Step 3: Review Historic Documents

- Balance Sheet / State of Financial Position
- Income Statement / Profit & Loss / Statement of Activities
- Budget Comparison Report



Budget Development Step 4: Create Expense Budget

Town of Anywhere, WA	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	Previous 4 yr. Average	2021
Operating Expense						
Salary/Wage	\$ 27,542.23	\$ 27,642.09	\$ 28,257.05	\$ 28,542.32	\$ 27,995.92	\$ 30,000.00
Overtime	\$ 1,065.86	\$ 945.73	\$ 1,116.44	\$ 1,098.56	\$ 1,056.65	\$ 1,200.00
Personnel Benefits	\$ -	\$ -	\$ 1,349.69	\$ 1,367.75	\$ 679.36	\$ 1,450.00
Operating Supplies	\$ 9,249.03	\$ 9,366.36	\$ 9,378.27	\$ 9,738.23	\$ 9,432.97	\$ 9,500.00
Lab Supplies	\$ 254.53	\$ 299.20	\$ 366.57	\$ 940.73	\$ 465.26	\$ 1,000.00
Equip Maint Supplies	\$ 7,546.65	\$ 5,286.84	\$ 8,827.86	\$ 5,726.76	\$ 6,847.03	\$ 10,000.00
Water Quality Oper Supplies	\$ 11,365.70	\$ 5,964.92	\$ 5,416.78	\$ 12,990.53	\$ 8,934.48	\$ 13,000.00
Cl2 System Supplies	\$ 792.00	\$ 1,308.32	\$ 1,942.87	\$ 2,732.47	\$ 1,693.92	\$ 2,500.00
Fuel Consumed	\$ 3,142.57	\$ 3,298.09	\$ 3,861.69	\$ 3,756.09	\$ 3,514.61	\$ 4,000.00
Small Tools & Equipment	\$ 2,674.34	\$ 2,709.90	\$ 9,901.39	\$ 3,245.78	\$ 4,632.85	\$ 3,000.00
Professional Services	\$ 876.00	\$ 422.00	\$ 15,718.20	\$ 18,766.78	\$ 8,945.75	\$ 20,000.00
Instrument Services	\$ 1,289.99	\$ 1,226.10	\$ 1,333.06	\$ 1,277.98	\$ 1,281.78	\$ 1,300.00
Combined Debt Service	\$ 631,291.43	\$ 630,224.31	\$ 629,156.13	\$ 628,089.14	\$ 629,690.25	\$ 627,022.11
Communications	\$ 3,022.11	\$ 3,101.49	\$ 3,985.89	\$ 3,508.02	\$ 3,404.38	\$ 3,500.00
Travel/Meals	\$ 2,941.09	\$ 2,765.56	\$ 1,859.53	\$ 1,587.14	\$ 2,288.33	\$ 2,000.00
Insurance	\$ 38,991.09	\$ 40,679.87	\$ 41,000.00	\$ 50,593.07	\$ 42,816.01	\$ 50,000.00
Utilities	\$ 8,709.00	\$ 8,678.99	\$ 8,871.08	\$ 9,498.08	\$ 8,939.29	\$ 10,500.00
Repair & Maintenance	\$ 2,287.01	\$ 2,687.33	\$ 2,743.10	\$ 2,336.87	\$ 2,513.58	\$ 2,500.00
Miscellaneous (Dues, Fees etc)	\$ 5,489.00	\$ 5,025.66	\$ 5,047.33	\$ 5,027.96	\$ 5,147.49	\$ 5,000.00
DOH Fees and Permits	\$ 4,300.00	\$ 4,300.00	\$ 4,300.00	\$ 4,300.00	\$ 4,300.00	\$ 5,500.00
Snow removal and building upkeep.	\$ -	\$ -	\$ 8,615.35	\$ -	\$ 2,153.84	\$ 6,000.00
State Excise Tax	\$ 1,942.88	\$ 1,760.09	\$ 2,034.99	\$ 1,989.77	\$ 1,931.93	\$ 1,800.00
	\$ 764,772.51	\$ 757,692.85	\$ 795,083.27	\$ 797,114.03	\$ 778,666	\$ 810,772

Budget Development Step 5: Inflation

CPI Inflation Calculator

\$ 200.00

in

has the same buying power as

in



Budget Development Step 6: Adding Assumptions

2021 Budget Assumptions		
1.	Salaries and Employee Benefit	5% increase assumed for all current employees; new hire operator trainee with salary & benefits of \$65,000
2.	Accounting	\$9,000 pursuant to new contract with bookkeeper
3.	Alarm	3% assumed inflationary increase over 2020 actual costs
4.	Audit	\$11,500 pursuant to auditor engagement contract
5.	Bank Charges	Assumed 2020 cost will not increase
6.	Communications	3% assumed inflationary increase over 2020 actual costs
7.	Computer Repairs/Maintenance	Assumes new software purchase for \$10,000 plus \$5,000 for maintenance contract
8.	Consumer Confidence Reports	Assumed 2020 cost will not increase
9.	Cross Connection Control Program Maintenance	Assumed 2020 cost will not increase
10.	Dept of Health Services	3% assumed inflationary increase over 2020 actual costs
11.	Dues & Subscriptions	3% assumed inflationary increase over 2020 actual costs
12.	Election Fee	Pursuant to current county fees
13.	Engineering - General	3% assumed inflationary increase over 2020 actual costs
14.	Equipment Maintenance	3% assumed inflationary increase over 2020 actual costs
15.	Fuel	3% assumed inflationary increase over 2020 actual costs
16.	Insurance - General	3% assumed inflationary increase over 2020 actual costs
17.	Legal Fees	3% assumed inflationary increase over 2020 actual costs
18.	Meetings/Travel Meal Exp	3% assumed inflationary increase over 2020 actual costs
19.	Office Expense	3% assumed inflationary increase over 2020 actual costs
20.	Office Ground Maintenance	3% assumed inflationary increase over 2020 actual costs
21.	Permits	3% assumed inflationary increase over 2020 actual costs
22.	Postage	3% assumed inflationary increase over 2020 actual costs
23.	Pump & System Maintenance	3% assumed inflationary increase over 2020 actual costs
24.	Pump & System Maintenance - Storage Tank	3% assumed inflationary increase over 2020 actual costs
25.	Rents & Leases	3% assumed inflationary increase over 2020 actual costs
26.	Repairs & Maintenance	3% assumed inflationary increase over 2020 actual costs
27.	Repairs & Maintenance - Building	Assumed 2020 cost will not increase
28.	Service Agreements	3% assumed inflationary increase over 2020 actual costs
29.	Small Tools	3% assumed inflationary increase over 2020 actual costs
30.	Supplies	3% assumed inflationary increase over 2020 actual costs
31.	Training	3% assumed inflationary increase over 2020 actual costs
32.	Uniforms & Janitorial	3% assumed inflationary increase over 2020 actual costs
33.	Utilities - Office	Contract with new utility guarantees 3% less than PG&E (assumed PG&E increase of 2.9% less 3% guarantee)
34.	Utilities - Pumps	Contract with new utility guarantees 3% less than PG&E (assumed PG&E increase of 2.9% less 3% guarantee)
35.	Vehicle Maintenance	3% assumed inflationary increase over 2020 actual costs
36.	Water Testing	3% assumed inflationary increase over 2020 actual costs

Budget Development Step 7: Fixed & Variable Costs

Sample Utility District	Budget 2020/2021	Estimated % Fixed Costs	Fixed costs	Variable costs
Operating Expenses:				
Salaries & Employee Benefits	\$ 350,281	100%	\$350,281	\$0
Accounting	\$ 8,000	100%	\$8,000	\$0
Alarm	\$ 1,236	100%	\$1,236	\$0
Audit	\$ 11,500	100%	\$11,500	\$0
Bank Charges	\$ 2,000	100%	\$2,000	\$0
Communications	\$ 5,665	100%	\$5,665	\$0
Computer Repairs/Maintenance	\$ 15,000	100%	\$15,000	\$0
Consumer Confidence Reports	\$ 1,000	100%	\$1,000	\$0
Cross Connection Control Program Maintenance	\$ 5,000	100%	\$5,000	\$0
Dept of Health Services	\$ 3,090	100%	\$3,090	\$0
Dues & Subscriptions	\$ 10,300	100%	\$10,300	\$0
Election Fee	\$ 250	100%	\$250	\$0
Engineering - General	\$ 50,000	75%	\$37,500	\$12,500
Equipment Maintenance	\$ 20,600	65%	\$13,390	\$7,210
Fuel	\$ 6,180	100%	\$6,180	\$0
Insurance - General	\$ 6,000	100%	\$6,000	\$0
Legal Fees	\$ 50,000	100%	\$50,000	\$0
Meetings/Travel/Meal Exp	\$ 1,030	100%	\$1,030	\$0
Office Expense	\$ 2,884	100%	\$2,884	\$0
Office Ground Maintenance	\$ 4,120	100%	\$4,120	\$0
Permits	\$ 3,296	100%	\$3,296	\$0
Postage	\$ 5,814	100%	\$5,814	\$0
Pump & System Maintenance	\$ 16,500	50%	\$8,250	\$8,250
Pump & System Maintenance - Storage Tank	\$ 17,832	75%	\$13,374	\$4,458
Rents & Leases	\$ 47,300	100%	\$47,300	\$0
Repairs & Maintenance	\$ 15,450	75%	\$11,588	\$3,863
Repairs & Maintenance - Building	\$ 9,785	100%	\$9,785	\$0
Service Agreements	\$ 1,050	100%	\$1,050	\$0
Small Tools	\$ 2,000	100%	\$2,000	\$0
Supplies	\$ 1,545	75%	\$1,159	\$386
Training	\$ 618	100%	\$618	\$0
Uniforms & Janitorial	\$ 2,420	100%	\$2,420	\$0
Utilities - Office	\$ 4,196	100%	\$4,196	\$0
Utilities - Pumps	\$ 109,901	0%	\$0	\$109,901
Vehicle Maintenance	\$ 6,180	100%	\$6,180	\$0
Water Testing	\$ 20,652	100%	\$20,652	\$0
Total Operating Costs	\$ 819,714		\$ 675,147	\$ 146,568
Debt Service	\$ 26,000			
Total Operating Costs Plus Debt Service	\$ 844,714			
Debt Reserves	\$ 2,500			
Emergency Reserves	\$ 20,000			
Reserves-Operating	\$ 20,493			
Reserves-CIP	\$ 102,400			
Total Reserves	\$ 145,493			
Total Budget	\$ 990,167			

			Fixed Costs	Variable Costs
Engineering - General	\$ 50,000	75%	\$37,500	\$12,500
Equipment Maintenance	\$ 20,600	65%	\$13,390	\$7,210
Fuel	\$ 6,180	100%	\$6,180	\$0
Insurance - General	\$ 6,000	100%	\$6,000	\$0
Legal Fees	\$ 50,000	100%	\$50,000	\$0
Meetings/Travel/Meal Exp	\$ 1,030	100%	\$1,030	\$0
Office Expense	\$ 2,884	100%	\$2,884	\$0
Office Ground Maintenance	\$ 4,120	100%	\$4,120	\$0
Permits	\$ 3,296	100%	\$3,296	\$0
Postage	\$ 5,814	100%	\$5,814	\$0
Pump & System Maintenance	\$ 16,500	50%	\$8,250	\$8,250
Pump & System Maintenance - Storage Tank	\$ 17,832	75%	\$13,374	\$4,458
Rents & Leases	\$ 47,300	100%	\$47,300	\$0
Repairs & Maintenance	\$ 15,450	75%	\$11,588	\$3,863

Budget Development Step 8: Identify Reserves Needed

Board Designated Reserves:

- Operating Reserves
- Emergency Reserves
- CIP Reserves

Funder Required Reserves

- Debt Service Reserve
- Short Lived Asset Reserve



Asset Management



Equipment starts to wear the day it is turned on

Asset Inventory : What do we own?

Assets

- Buildings
- Tools
- Equipment
- Pipes
- Machinery
- Vehicles



Budget Reserves

	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5	Yr. 6
Operating Reserve - Target Balance \$7,326 – Year 7						
Operating reserve beginning balance		\$0	\$0	\$1,221	\$2,442	\$3,663
Contribution to operating reserve			\$1,221	\$1,221	\$1,221	\$1,221
Operating reserve ending balance	\$0	\$0	\$1,221	\$2,442	\$3,663	\$4,884
Emergency Reserve - Target Balance \$50,000 – Year 13						
Emergency reserve beginning balance		\$0	\$0	\$0	\$5,000	\$10,000
Contribution to emergency reserve				\$5,000	\$5,000	\$5,000
Withdrawal from emergency reserve						
Emergency reserve ending balance	\$0	\$0	\$0	\$5,000	\$10,000	\$15,000
Short-lived Asset Reserve - Target Balance \$13,500 – Year 7						
Short-lived asset reserve beginning balance		\$0	\$0	\$2,700	\$5,400	\$8,100
Contribution to short-lived asset reserve			\$2,700	\$2,700	\$2,700	\$2,700
Withdrawal from short-lived asset reserve	\$0	\$0				
Short-lived asset reserve ending balance	\$0	\$0	\$2,700	\$5,400	\$8,100	\$10,800
Long-lived Asset Reserve – Target Balance \$90,000 – Year 13						
Long-lived asset reserve beginning balance		\$0	\$0	\$0	\$9,000	\$18,000
Contribution to long-lived asset reserve				\$9,000	\$9,000	\$9,000
Withdrawal from long-lived asset reserve	\$0	\$0	\$0	\$0	\$0	\$0
Long-lived asset reserve ending balance	\$0	\$0	\$0	\$9,000	\$18,000	\$27,000
Long-lived Asset Replacement Funding - Target Balance \$350,000 – Year 4						
Lost Creek Loan				\$175,000		
Lost Creek Grant				\$175,000		
Long-lived asset reserve						
Special capital improvement assessment						
Total funding for long-lived asset replacement	\$0	\$0	\$0	\$350,000	\$0	\$0
Ending Cash Balance for Current Year Does not include reserve account balances.						
	\$118,487	\$221,924	\$355,810	\$473,514	\$588,970	\$702,112

Budget Development Step 9: Project Out Five Years



5 Year Projection

Town of Anywhere, WA	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	Previous 4 yr. Average	2021	Annual Inflation Factor	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Operating Expense												
Salary/Wage	\$ 27,542.23	\$ 27,642.09	\$ 28,257.05	\$ 28,542.32	\$ 27,995.92	\$ 30,000.00	1.00%	\$ 30,300	\$ 30,603	\$ 30,909	\$ 31,218	\$ 31,530
Overtime	\$ 1,065.86	\$ 945.73	\$ 1,116.44	\$ 1,098.56	\$ 1,056.65	\$ 1,200.00	1.00%	\$ 1,212	\$ 1,224	\$ 1,236	\$ 1,249	\$ 1,261
Personnel Benefits	\$ -	\$ -	\$ 1,349.69	\$ 1,367.75	\$ 679.36	\$ 1,450.00	2.00%	\$ 1,479	\$ 1,509	\$ 1,539	\$ 1,570	\$ 1,601
Operating Supplies	\$ 9,249.03	\$ 9,366.36	\$ 9,378.27	\$ 9,738.23	\$ 9,432.97	\$ 9,500.00	0.00%	\$ 9,500	\$ 9,500	\$ 9,500	\$ 9,500	\$ 9,500
Lab Supplies	\$ 254.53	\$ 299.20	\$ 366.57	\$ 940.73	\$ 465.26	\$ 1,000.00	0.00%	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Equip Maint Supplies	\$ 7,546.65	\$ 5,286.84	\$ 8,827.86	\$ 5,726.76	\$ 6,847.03	\$ 10,000.00	0.00%	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Water Quality Oper Supplies	\$ 11,365.70	\$ 5,964.92	\$ 5,416.78	\$ 12,990.53	\$ 8,934.48	\$ 13,000.00	0.00%	\$ 13,000	\$ 13,000	\$ 13,000	\$ 13,000	\$ 13,000
Cl2 System Supplies	\$ 792.00	\$ 1,308.32	\$ 1,942.87	\$ 2,732.47	\$ 1,693.92	\$ 2,500.00	1.00%	\$ 2,525	\$ 2,550	\$ 2,576	\$ 2,602	\$ 2,628
Fuel Consumed	\$ 3,142.57	\$ 3,298.09	\$ 3,861.69	\$ 3,756.09	\$ 3,514.61	\$ 4,000.00	0.00%	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000
Small Tools & Equipment	\$ 2,674.34	\$ 2,709.90	\$ 9,901.39	\$ 3,245.78	\$ 4,632.85	\$ 3,000.00	0.00%	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
Professional Services	\$ 876.00	\$ 422.00	\$ 15,718.20	\$ 18,766.78	\$ 8,945.75	\$ 20,000.00	1.00%	\$ 20,200	\$ 20,402	\$ 20,606	\$ 20,812	\$ 21,020
Instrument Services	\$ 1,289.99	\$ 1,226.10	\$ 1,333.06	\$ 1,277.98	\$ 1,281.78	\$ 1,300.00	0.00%	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300
Combined Debt Service	\$ 631,291.43	\$ 630,224.31	\$ 629,156.13	\$ 628,089.14	\$ 629,690.25	\$ 627,022.11	-1.00%	\$ 620,752	\$ 614,544	\$ 608,399	\$ 602,315	\$ 596,292
Communications	\$ 3,022.11	\$ 3,101.49	\$ 3,985.89	\$ 3,508.02	\$ 3,404.38	\$ 3,500.00	0.00%	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500
Travel/Meals	\$ 2,941.09	\$ 2,765.56	\$ 1,859.53	\$ 1,587.14	\$ 2,288.33	\$ 2,000.00	0.00%	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
Insurance	\$ 38,991.09	\$ 40,679.87	\$ 41,000.00	\$ 50,593.07	\$ 42,816.01	\$ 50,000.00	1.00%	\$ 50,500	\$ 51,005	\$ 51,515	\$ 52,030	\$ 52,551
Utilities	\$ 8,709.00	\$ 8,678.99	\$ 8,871.08	\$ 9,498.08	\$ 8,939.29	\$ 10,500.00	1.00%	\$ 10,605	\$ 10,711	\$ 10,818	\$ 10,926	\$ 11,036
Repair & Maintenance	\$ 2,287.01	\$ 2,687.33	\$ 2,743.10	\$ 2,336.87	\$ 2,513.58	\$ 2,500.00	0.00%	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500
Miscellaneous (Dues, Fees etc)	\$ 5,489.00	\$ 5,025.66	\$ 5,047.33	\$ 5,027.96	\$ 5,147.49	\$ 5,000.00	0.00%	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
DOH Fees and Permits	\$ 4,300.00	\$ 4,300.00	\$ 4,300.00	\$ 4,300.00	\$ 4,300.00	\$ 5,500.00	0.00%	\$ 4,500	\$ 5,500	\$ 4,500	\$ 4,500	\$ 4,500
Snow removal and building upkeep.	\$ -	\$ -	\$ 8,615.35	\$ -	\$ 2,153.84	\$ 6,000.00	0.00%	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000
State Excise Tax	\$ 1,942.88	\$ 1,760.09	\$ 2,034.99	\$ 1,989.77	\$ 1,931.93	\$ 1,800.00	0.00%	\$ 1,800	\$ 1,800	\$ 1,800	\$ 1,800	\$ 1,800
	\$ 764,772.51	\$ 757,692.85	\$ 795,083.27	\$ 797,114.03	\$ 778,666	\$ 810,772		\$ 792,373	\$ 787,348	\$ 782,398	\$ 777,521	\$ 772,718

Budget Development Step 10: Calculate Revenue



Revenue

Factors Affecting Revenues

- Number of customers served
- Customer's water-use trends
- Rate changes
- Nonrecurring sales
- Weather
- Conservation
- Use restrictions
- Price elasticity
- Wholesale contractual terms

Factors Affecting Revenue Requirements

- Number of customers served
- Customer's water use trends
- Nonrecurring sales
- Weather Conservation
- Use restrictions
- Inflation
- Interest rates
- Wholesale contractual terms
- Capital finance needs
- Changes in tax laws
- Other changes in operating and economic conditions

Operating Revenue

Income generated from providing service.

- Water base rates
- Water usage rates
- Late fees



Non- Operating Revenue

Income generated indirectly from providing service.

- Interest income
- Cell tower rental income
- Grants



Deposits & Connection Fees

Deposits

- Collected to ensure that if a customer does not pay their bill, the system has money in reserve to cover expenses.
- Deposits should be set aside in an account so that the money can be refunded to customers if they discontinue service.

Connection Fees

- Fees that are charged to a customer or group of customers to help the system cover the costs of capital improvements that have already been paid for or are being paid for, or to cover the costs for additional connections.
- These fees are not refundable.

Budget Time Bomb

RCAC recommends:

- **Only count on Operating Revenues** to cover operating expenses
- **Ignore** Non-Operating Revenues



Budget Revenue

Line No.		Year 1	Year 2	Year 3	Year 4	Year 5
REVENUE						
Operating Revenues						
1	Service revenue—water sales*	\$813,000	\$826,000	\$839,000	\$852,000	\$864,000
2	Miscellaneous fees	2,000	2,000	2,000	2,000	2,000
3	Total operating revenues	815,000	828,000	841,000	854,000	866,000
Nonoperating revenues						
4	Tap/connection fees	10,000	10,000	10,000	10,000	10,000
5	Interest income	10,000	10,000	10,000	10,000	10,000
6	Other revenue	5,000	5,000	5,000	5,000	5,000
7	Total nonoperating revenues	25,000	25,000	25,000	25,000	25,000
8	Total revenue	840,000	853,000	866,000	879,000	891,000

AWWA Rates for Small Water Systems

Projected Revenues & Expenses

Line No.		Year 1	Year 2	Year 3	Year 4	Year 5
REVENUE						
Operating Revenues						
1	Service revenue—water sales*	\$813,000	\$826,000	\$839,000	\$852,000	\$864,000
2	Miscellaneous fees	2,000	2,000	2,000	2,000	2,000
3	Total operating revenues	815,000	828,000	841,000	854,000	866,000
Nonoperating revenues						
4	Tap/connection fees	10,000	10,000	10,000	10,000	10,000
5	Interest income	10,000	10,000	10,000	10,000	10,000
6	Other revenue	5,000	5,000	5,000	5,000	5,000
7	Total nonoperating revenues	25,000	25,000	25,000	25,000	25,000
8	Total revenue	840,000	853,000	866,000	879,000	891,000
EXPENDITURES						
9	Total O&M Expenses	459,000	473,000	537,000	555,000	570,000
10	Subtotal: Net operating income	381,000	380,000	329,000	324,000	321,000
Debt Service						
11	Debt service—existing	150,000	150,000	150,000	150,000	150,000
12	Debt service—new	0	0	9,000	87,000	101,000
13	Total debt service	150,000	150,000	159,000	237,000	251,000
14	Rate financed capital costs	175,000	180,000	177,000	172,000	177,000
15	NET INCOME (LOSS) FROM OPERATIONS	56,000	50,000	(7,000)	(85,000)	(107,000)
16	Plus: Beginning cash balance	200,000	256,000	306,000	299,000	214,000
17	Ending cash balance before reserves	256,000	306,000	299,000	214,000	107,000
RESERVES						
18	O&M reserve	115,000	118,000	134,000	139,000	143,000
19	Capital reserve	456,000	456,000	456,000	456,000	456,000
20	Total reserves	571,000	574,000	590,000	595,000	599,000
21	ENDING CASH BALANCE AFTER RESERVES	(\$315,000)	(\$268,000)	(\$291,000)	(\$381,000)	(\$492,000)
22	CUMULATIVE REVENUE AND RESERVE DEFICIENCY (line 21 divided by line 9)	-39%	-32%	-35%	-45%	-57%
23	DEBT SERVICE COVERAGE (line 10 divided by line 13)	2.54	2.53	2.07	1.37	1.28

Ending Balance Before Reserves

Ending Balance After Reserves



Purpose of a 5 Year Budget

- A plan
- Data driven decisions
- Creates community awareness
- Necessary revenue requirements will be clearly shown

Budget Comparison

Z Water Company Budget Comparison Report For the Period Ended 12/31/20XX						
	Current Month 12/31/20XX	Year-to-Date 7/01 - 12/31/XY	Annual Budget	YTD % of Budget	Remaining Balance	
Operating Revenue						
Water Base Rates	\$ 6,000.00	\$ 36,000.00	\$ 72,000.00	50%	\$ 36,000.00	
Water Usage Rates	\$ 3,750.00	\$ 22,500.00	\$ 45,000.00	50%	\$ 22,500.00	
Total Operating Revenues	\$ 9,750.00	\$ 58,500.00	\$ 117,000.00		\$ 58,500.00	
Operating Expenses						
Bad Debt	-	\$ 1,412.00	\$ 1,412.00	100%	-	
Insurance	\$ 367.00	\$ 2,200.00	\$ 4,350.00	51%	\$ 2,150.00	
Misc. Expenses	\$ 350.00	\$ 350.00	\$ 1,000.00	35%	\$ 650.00	
Office Costs	\$ 754.00	\$ 4,000.00	\$ 8,200.00	49%	\$ 4,200.00	
Accounting & Legal	\$ 400.00	\$ 600.00	\$ 5,000.00	12%	\$ 4,400.00	
Training Costs	\$ 125.00	\$ 700.00	\$ 3,000.00	23%	\$ 2,300.00	
Auto Expenses	\$ 1,415.00	\$ 6,341.00	\$ 4,600.00	138%	\$ (1,741.00)	
Chemicals	\$ 398.00	\$ 2,000.00	\$ 4,300.00	47%	\$ 2,300.00	
Materials & Supplies	\$ 712.00	\$ 2,500.00	\$ 7,500.00	33%	\$ 5,000.00	
Repairs & Maintenance	\$ 3,233.00	\$ 5,500.00	\$ 5,700.00	96%	\$ 200.00	
Depreciation	\$ 374.00	\$ 2,237.00	\$ 4,475.00	50%	\$ 2,237.00	
Utilities	\$ 1,325.00	\$ 10,500.00	\$ 14,000.00	75%	\$ 3,500.00	
Salaries & Benefits	\$ 3,997.00	\$ 23,982.00	\$ 47,000.00	51%	\$ 23,018.00	
Total Operating Expenses	\$ 13,450.00	\$ 62,322.00	\$ 110,537.00	56%	\$ 48,214.00	
Debt Service		\$ 5,225.00	\$ 5,225.00	100%	-	
Reserve Funding			\$ 1,000.00	0%	\$ 1,000.00	
Total Expenses	\$ 13,450.00	\$ 67,547.00	\$ 116,762.00		\$ 49,214.00	
Non-Operating Income (Expense)						
Interest Income	\$ 15.00	\$ 195.00	\$ 500.00	39%	\$ 305.00	
Hook-Up Fees	\$ 125.00	\$ 500.00	\$ 350.00	143%	\$ (150.00)	
Rent - Cellphone Tower	-	-	-		-	
Total Non-Operating Income	\$ 140.00	\$ 695.00	\$ 850.00		\$ 155.00	
Total Net Income	\$ (3,420.00)	\$ (7,657.00)	\$ 1,938.00		\$ 9,896.00	



Balancing the Budget

Increase Revenues or Reduce Expenses

Balancing the Budget in the Short Term

- Customer Billing
- Accounts Receivable
- Paying Bills
- Put Money to Work

Balancing the Budget in the Long-Term

- Leak Detection
- Meters
- Fee Review
- Bulk Purchasing
- Energy Audit
- Consolidation

Examine Current Rate Structure

Did revenue exceed expenses in each of the last three years?

All scheduled debt payments made?

Reserve accounts fully funded?

Emergency and preventative maintenance costs covered?

Compliance with state drinking water standards and regulations?

Rate increased in the last three years?

Rates Should

- Cover all the costs associated with delivering water
- Fair & equitable
- Be used to support water utility only
- Transparent
- Easily understood
- Based on sound financial information
- Easy to administer

Base Rates and Flow Rates



Determining Base Rate

\$ 7,246.33	Divided by	200	=	\$ 36.23
Average Monthly Fixed Costs		Average # of Customers		Fixed Costs Per Customer

Determining Flow / Usage Rate

\$ 6,258	Divided by	1,000	=	\$ 6.30
Variable Costs		Average Total Water Usage (GALLONS)		Variable Cost Per 1,000 Gallons

Equitability



If your proposed rate structure spreads the cost of utility service equitably, then the percentage of revenue and percentage of usage will be approximately equal.

Inflationary Impact of Delaying Rate Adjustment

Assume \$1.00 Base rate with an annual 3% Compounded Increase								
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Accumulated Dollars Collected
Implementing Rate Increase Immediately - 19% Increase From Year 1 to Year 7								
Rate	\$ 1.00	\$ 1.03	\$ 1.06	\$ 1.09	\$ 1.13	\$ 1.16	\$ 1.19	\$ 7.66
Waiting 4 Years to Increase Rates - 26% From Year 1 to Year 7								
Rate	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.19	\$ 1.22	\$ 1.26	\$ 7.66
Waiting 5 Years to Increase Rates - 35% From Year 1 to Year 7								
Rate	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.31	\$ 1.35	\$ 7.66
Waiting 6 Years to Increase Rates - 66% From Year 1 to Year 7								
Rate	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.66	\$ 7.66

Water Rate Life Expectancy

Current rate structure should be reviewed annually.



The Bottom Line

Annual revenues must cover your total:

- ✓ Operating & Non- Operating expenses
- ✓ Debt payments
- ✓ Taxes
- ✓ Fees
- ✓ Funding reserve accounts

ANY
QUESTIONS
?

We Appreciate You!

*Thank
you*



WA Dept. of Health



<https://www.doh.wa.gov/communityandenvironment/drinkingwater>



Empowering local governments

<https://mrsc.org/Home.aspx>

<https://mrsc.org/Home/Explore-Topics/Finance/Budgets/Budgeting.aspx>



Office of the Washington State Auditor

Pat McCarthy

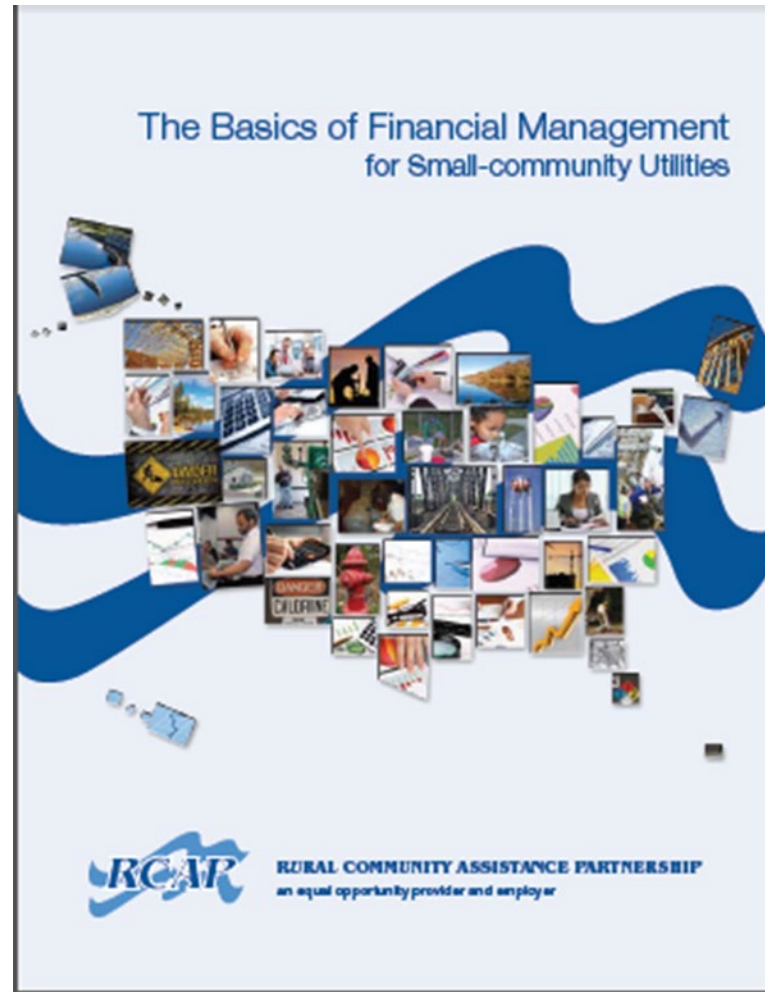
<https://sao.wa.gov/>



American Water Works Association

Dedicated to the World's Most Important Resource®

<https://www.awwa.org/Resources-Tools/Resource-Topics/Affordability#9773397-related-resources>



<https://www.rcap.org/managerial-financial/basics-of-financial-management-guidebook/>

Formulate Great Rates

The Guide to Conducting a Rate Study
for a Small System



RURAL COMMUNITY ASSISTANCE PARTNERSHIP
an equal opportunity provider and employer

https://rcap.org/wp-content/uploads/2021/11/RCAP_RatesGuide-2021-FIN-LO-1.pdf



<https://wacities.org/news/2022/08/23/the-top-10-things-we-learned-at-awc-s-2022-budget-workshop>

- Asset Management
- Fundamentals of Finances
- Cost-of-Service Analysis
- GIS Mapping
- Board Succession Planning



<https://www.events.rcac.org/assnfe/SearchCourses.asp>



Lending

Environmental

Housing

Native Communities

Community & Economic Development

Programs & Services



RCAC's programs and services deliver solutions to complex community needs. Our local presence allows us to develop partnerships with communities to identify needs, set goals, and select the best options to meet those goals. RCAC and our partners provide the tools to create change and growth, but the communities chart their own course. Collaboration, plus community effort will equal community change. How can we help you?

<https://www.rcac.org/programs-services/>

Dessa Wells

dwells@rcac.org

Lori Blau

lblau@rcac.org

Karen Klocke

Karen.Klocke@DOH.WA.GOV

