

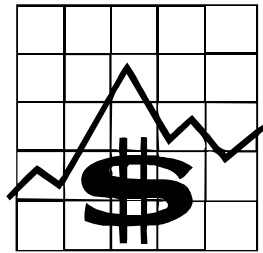
Water Board Basics: Keys for Success

Capital Improvement Budgets

Budget setting involves deciding a utility's short- and long-term financial needs *in advance*. A short-term budget, usually called an Operations & Maintenance (O&M) budget, is used to group costs that will be incurred over an annual period. A long-term budget, most often called the Capital Improvement Budget, is designed to estimate and address costs over a longer period.

What is a Capital Improvement? It is any project that consists of the purchase, construction or major rehabilitation of capital assets. An asset is any piece of equipment or facility that is not consumed by the utility's yearly operation. Examples of assets include: groundwater well pumps, transmission mains, storage tanks, and vehicles. In contrast, liquid bleach solution, rebuild kits for chemical dose pumps, and repair clamps are not assets, and therefore, are included in the O&M budget as operational supplies.

Just how many years a Capital Improvement Budget covers is a Board decision. In large utilities, Capital Improvement Budgets are planned over 10 to 20 years.



For small utilities, a three-year Capital Improvement Budget is more the norm. Although making the budget is the utility Board's responsibility, the operator also should provide input.

Capital Improvement Funds

To plan for the future, every utility, even small rural utilities, must have Capital Improvement Funds.

The purpose of the budget, and resulting funds, is to generate revenue to pay for repair and replacement of capital equipment as it wears out. The Board should make an asset list — a list of all capital equipment, which should include the expected lifespan of the piece of equipment and the cost to replace it. From this list, a Board can better predict the amount of money it should set aside each year to repair and replace each piece of capital. The utility should also put away money to pay for initial planning and pre-engineering costs.

Establishing a Capital Improvement Budget must be part of the annual budgeting process. Understand that Capital Improvement Funds are not profit for the utility, but funds to ensure that the utility will function in the future. In addition to setting aside funds to re-

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- Meter Replacement Program
- Operational Record Keeping

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Support for this project was provided by the Nevada Drinking Water State Revolving Fund — A federal program administered by the Nevada Bureau of Health Protection Services to provide technical assistance and to loan funds to Nevada private and public water systems to ensure federal Safe Drinking Water Act regulation compliance.

Keys for Success: Capital Improvements

pair and replace capital assets, the Capital Improvement Budget should reflect future needs of the community — population growth/decline and anticipated changes in the community's industrial and commercial sectors. After examining these changes, a Board should look at the existing structure and identify weak areas in service. Make a priority list; construct a timetable; and estimate the cost needs.

A Capital Improvement Budget is a *working* document. That means that it can be changed or altered at any Board meeting. This budget is an estimate of anticipated needs and expenses. For example, the Capital Improvement Budget may not have accounted for a price increase in PVC pipe. A board can revise its budget and allocate more funds to replace a section of transmission main over the three-year period. It's that simple.

The money in Capital Improvement Funds comes from several sources. Most importantly,

a portion of the monthly customer payment is set aside for capital improvements. Another source is contributions made by public and private developers to pay for line extensions. Finally, a portion of the residential connection charge for water service should be set aside to build this fund.

Long-term, costly Capital Improvements, such as a new well or storage tank are usually anticipated over a 10- to 20-year projection. These improvements usually require some additional financing. Often a utility finances these larger Capital Improvements with loans and grants from the State of Nevada and the U. S. Department of Agriculture-Rural Development.

Perhaps the hardest job for the board is to maintain a positive balance in this account with the understanding that it is not meant to generate a profit, but instead to prepare for future equipment needs.

Operations and Maintenance versus Capital Improvements

	Operations and Maintenance Budget	Capital Improvement
Well Rehabilitation		X
Planned Well Pump Replacement		X
Repair Well Pump	X	
Upgrade Transmission Pipeline		X
Obtain Additional Water Source		X
Upgrade Spring Collection System		X
Paint Storage Tank		X
Build Additional Storage Tank		X
Clean Storage Tank	X	
Replace Customer Meters	X	
Repair Master Meters	X	
Repair Leaks in Distribution System	X	
Build New Distribution Main		X
Rebuild Chemical Feed Pumps	X	
Pay for Water Sample Analysis	X	
Replace Pickup Truck		X