

# StreamLine



## THE 2016 VRWA EXPO

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# Coming Back from the Edge

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**NO MATTER HOW** daunting the financial side of your utility seems, you can come back from the edge one step at a time.

I will never forget the day that a former boss and I visited a tax client whose wife had called and asked us to come out and help get the business finances in order. They had received a second letter from the IRS. She was worried about her husband, a general contractor, who was severely depressed by the financial side of his business. They didn't know if they had enough money each month to buy groceries and pay the mortgage. We were warmly welcomed into their magnificent home where, on the outside, everything looked fantastic. On the inside, things were different. We couldn't see the top of the kitchen table because it was covered in household bills. Our client opened the door to his mahogany-paneled home office, gestured at it and said, "Here's the office. Good luck." He walked away, shoulders slumped. The desk was stacked with piles of papers, the lamp was shoved to a back corner, the leather desk chair was dusty, there was no computer, and the telephone was hidden by papers. There were unopened bills in boxes scattered around the floor.

Don't let your utility business get this way. For our client, it all started with one bill that he dreaded opening. Then it became two, then three and more, and then calls from subcontractors and collections agencies. They even added caller-ID to their phone service to screen their calls. After a while, he just gave up.

If you find yourself in this situation, look in the phone book or ask friends for the name of a good accountant. Call

and ask for help sorting through your business finances. Once they get your books straightened out, then it will be time to start putting the pieces in place to keep the chaos from encroaching again.

The first place to start is with basic income and expenses. What were your revenues for each of the last three years and what did you spend to keep the utility operational? This includes everything from postage and printing to chemical samples and emergency repairs. Purchase a software package that is easy to use and one that you can enter this information directly into. Many software packages will download transactions directly from your bank account, saving hours of manual data entry. Once it's in, then you can start making reports that will show exactly what your business finances are like.


After this, it's time to set a budget. A starting budget will be very basic and will look at your historical income and expenses and then predict how much you expect to bring in and spend in the next year. If you're collecting less in water bills than you are paying out to run the utility, then you must either reduce expenses or increase income, or both.

Expenses can often be trimmed, so they are worth looking at closely. When was the last time you reviewed existing contracts with operators, laboratories, chemical suppliers or grounds crews? If it has been more than three years, it is worth taking a look. First, make sure they are providing the services covered in the contract. The next step is to get

quotes from competitors for the same work to see if you can get better service at a better price from a different company or individual. Comb through your receipts and see what expenses can be cut. A word of caution: As a regulated public utility, you are required to meet all Virginia state regulations. So be careful what you cut.

Rates are a sensitive subject. Utility owners are often reluctant to raise rates because they know their customers. Often their customers are friends or even family and they don't want to make these folks pay any more than is absolutely necessary. However, a utility can get into financial trouble if they resist building reserves for needed upgrades and repairs only to keep the water or sewer bills low. When the emergency repairs are required, who will pay for them? If the answer is that the owner will dig into his or her own pocket to pay, then the business is being run as a charity funded by the owner. If the utility needs postage or printer ink but there is not enough money in the account and the owner pays out of pocket, then he or she is subsidizing every one of the customers. Rates must capture all of the fixed and variable expenses of the utility, and need to be at a level which will help build savings or a "rainy day fund." If you need to raise your rates, go ahead and take the necessary steps to do so.

Another area where small utilities get into trouble is with collections and shut-offs. For the same reasons they don't want to raise rates, owners are



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reluctant to either shut off service for non-payment or turn accounts over to a collection agency. Both are perceived as the “ugly part of doing business” and are typically completely avoided. But what are the long-term costs to the waterworks? One of the utilities I worked with had about a 50 percent collection rate on water bills and none had been turned over to collections nor the service shut off. This means that one half of the residents were subsidizing the other half. This is not a good situation. If your utility has problems with collecting past-due

amounts, develop a plan and then alert your customers in writing of the procedures. Then do it.

After you’ve gotten things under control, you can start to look to the future and begin planning for what needs to be done at the utility and what improvements you want to see happen there.

Getting back to my former tax client: It took a lot of time, but we got the business squared away, set them up with computer accounting software to track their income and expenses, filed past-due taxes, and found enough money

to pay past-due sales and employment taxes. They started clearing off their dining room table and began eating meals together as a family. Last I heard, they had sold their business and made a fresh start in South Carolina where the building market was better. You can’t pack up your utility and move to another location, but you can start taking steps to turn it around. The Office of Drinking Water Capacity Development Team is ready to help you, as are other technical assistance providers around the state. Be willing to take the first step. ●