

OPERATIONS AND MAINTENANCE REVIEW OF EXISTING AND NEW WATER OR SEWER SYSTEMS

Recipients of LCDBG funds providing water and sewer assistance for a utility system must be able to demonstrate, prior to the release of funds, that the rate structure and cash flow are adequate to properly operate and maintain the system once it is in operation. This will be determined by examining each system's current cost of operations and actual or proposed method of financing operating expenses. It will also provide for the examination of financing related capital charges. The adequacy of the rate structure will be determined by the LCDBG staff. This information only needs to be provided for the utility system for which LCDBG funds were received. For example, if a recipient received funding for its sewer system, the information only needs to be submitted for the sewer system (if the utility systems are reported separately). **This information will not be required for water projects for fire protection which only involve fire trucks, firefighting equipment, and/or fire stations.**

The submittal of this information will be identified as a contract condition meaning that the information must be received and reviewed by the Office of Community Development prior to the release of funds. You should advise your engineer that this task needs to be performed as soon as possible.

The information which must be submitted upon request by the Office of Community Development is identified on the forms attached. If you or your engineer has any questions regarding these forms, please contact Margaret Bethea at 225-342-7412.

Recipients of grants for water and sewer systems will be required to provide detailed financial information on its most recent operating year and the projected operation of the utility system upon completion and operation. If the grantee normally reports both its sewer and water system as a combined entity, then the projections should be prepared the same way. Recipients with existing systems must also submit the most recent annual Statements of Revenues and Expenses, Balance Sheets, and Statements of Cash flows reported in its annual financial reports. In order to facilitate the States review the applicant must provide the information as explained below.

Revenue Data - For existing systems the applicant needs to break-out the revenue from its most recent fiscal year by current number of customers. *Operating Revenue* includes only charges for utility service. Other income items, such as ad valorem taxes dedicated to the utility system, should be identified as *Non-Operating Income* in the block provided.

Operating Expenses - Items from the current financial statements need to be allocated to the major expense factors on both the *Current* and *Projected Revenue and Operating Expenses Statements*. All changes in the projected operating costs need to be explained on the *Project Assumptions form*.

Capital Costs - The applicant needs to identify the historical cost by the fiscal year end of the reported year of its current plant and mechanical equipment, the accumulated depreciation, the net current plant and mechanical equipment assets and the annual depreciation expense. If the utility system has any long-term indebtedness the amount outstanding and the annual debt service (principal and interest) paid each year should be identified.

For the *Projected Capital Costs* the applicant needs to include the same information from the current revenue and expense and the additional plant and mechanical equipment costs that will be acquired as part of this project. Also if the project will include other funds that involve additional debt obligations, the projected borrowing amount should be entered on the line entitled *Additional Debt for the Project*.

Additional Debt for the Project. The estimated service life used for calculation of annual depreciation expense and terms and sources of additional debt obligation should be explained on the *Project Assumptions form*.

Other Income and Expenses - If the utility system has other income sources such as ad valorem or sales taxes dedicated to current operation expenses it should be entered as *Non-Operating Income*. Other non-operating expenses or transfers should be indicated as *Other Expenses or Transfers*.

Project Assumption Form – For (a) Revenue Assumptions - the recipient must explain any changes in prices and numbers of customers that are contemplated as part of this project. The recipient must explain the billing method and rate structure by type of customer (residential and non-residential) and the average monthly price per billing unit. For those communities that report their utility systems as combined entities in their annual financial report, you need to breakout the total revenue received by utility system; i.e. water and sewer. For (b) Operating Cost Assumptions – the recipient must explain any proposed changes such as higher power and chemical costs or lower maintenance costs. If the project is not going to change any operating costs (such as replacing water lines) the recipient needs to state NO CHANGE IN OPERATING COSTS.

New Systems

If the recipient is building a new system which has no prior financial history, it is only required to prepare the projected operations revenue and capital cost statements.

The TEN STATES STANDARDS

Part One – Submission of Plans

1.1.13 Financing

Detailed Estimated Cost of Operations

Proposed Method to Finance both Capital Charges and Operating Expenses