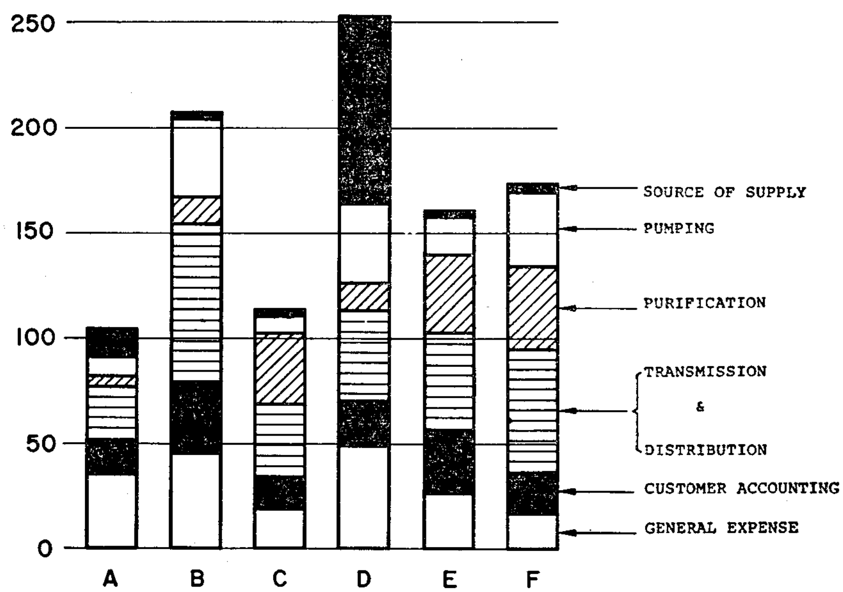

FIGURE 4. ANNUAL EXPENSE, OPERATIONS AND MAINTENANCE

Hazen, Richard. Water Is Not Free. Proceeding, 8th Sanitary Engineering Conference on Cost Aspects of Water Supply, Univ. of Illinois Experiment Station, Urbana, Ill. (1966).

2. WATER UTILITY FINANCING AND USER CHARGES

The following conditions prescribe a test for self-sustaining water utility operations:

To furnish good service, a water utility, whether municipally or investor-owned, should receive sufficient revenue through water sales and other charges to—

(1) cover operation and maintenance expenses, taxes or payments in lieu of taxes, depreciation, fixed charges or return on investment, and

(2) provide sufficient surplus to pay for ordinary capital additions and attract the necessary capital for major expansion.

Investor-owned utilities in all but two States and municipally owned utilities in at least seven States are under the jurisdiction of State regulatory commissions. Under such control, water utilities formulate rate schedules to provide gross revenues approved by the commissions.

Of the total number of utilities, 65 to 75 percent are unregulated. Most of these are municipally owned. Most are supported out of revenue from rates, a few by a combination of rates and taxes. Generally, municipally owned utilities may be classified according to two general types of financial operation:

1. *Self-supporting enterprises.*—Such utilities receive sufficient revenue through rates, charges, and fire protection tax levies to meet all expenses, maintain and expand the system, and contribute funds to the municipality in lieu of taxes. They maintain a separate identity