



Is it an Art, Science or Just Politics: What to Look for in Reviewing Water Rates

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Reviewing water rates still seems to be one of the most onerous duties for rural water district board members and city council members. Many governing body members comment that they want to keep rates as reasonable as possible. That is a reasonable goal. The difficult part is trying to determine what is reasonable. As with everything in life, what may be reasonable to one certainly may not be reasonable to another. I think that keeping rates to what are necessary is the better way to phrase it.

Here's an example. A family of five, consisting of parents and three teenage children use close to 10,000 gallons of water per month. Both parents work; their salaries pay utility bills, food, shelter, send the children to school plus, etc. At the end of the month very little excess money remains to set aside for the inevitable rainy day. We all know what an unexpected purchase such as a refrigerator can do to a budget. Even the low-end units are expensive, costing several hundred dollars. Eating out is a luxury because it's expensive.

Now in the adjacent home to the family of five is where a retired couple lives. They have done decently well financially in life and have plenty of discretionary money; they even have a sprinkler system for their lawn. This retired couple as a customer of the water system uses anywhere from 20,000 to 100,000 gallons of water each month; they typically mow the lawn three times each week. It does not matter if it is an extremely dry year, the lawn will be watered to maintain a nice green looking lawn. The cost of water is not an issue to this user.

Now the governing body is having to adjust rates due to the fact that the water fund has been depleting each year and is projected to be operating in the red next year. The issue with this example is that the governing body took reasonable too far to the extreme. The present rates are a

declining block rate. In other words, the more water that is used, the less it costs per thousand gallons. To compound the problem, the cost to deliver water was actually more than the amount charged to the customer.

The governing body could take the position, "Okay, everyone's bill will increase \$10 per person per month to allow the water fund to

recover." Does anyone see a problem with this? The barely getting-by, family of five will pay an additional \$50 per month or \$600 per year where the retired couple that is using more water will only pay an additional \$20 per month or \$240 per year. That ends up being a completely unfair way to adjust the rates to support the water department fund. The customer who can most afford an increase and uses more water is not penalized because there are only two people in the house.

A slightly better rate would be to determine the amount needed to replenish the water fund and then divide by the number of customers or services. The fund will be replenished with everyone paying the same amount of increase each month. Basically the monthly minimum is the only adjustment made. Still this is not a very good solution to the problem.

Readers of this article may by this point be wondering what is wrong with the governing body. Crazy things have happened.

When adjusting water rates, smaller and medium-sized systems should determine separate expenses based on at least two principles. These are: 1) expenses that can be recovered through the monthly minimum, (fixed costs); and, 2) expenses that vary (variable) which can be used to determine the cost per thousand gallons. What if the expenses are not strictly 100 percent fixed or variable? Really there is another part that goes along with this. That would be those expenses that can be either fixed or variable. The best thing to do is to determine how much of the expense can be fixed and how much can be variable. This

can be a bit tricky and will vary from system to system but mixing these costs also allows some flexibility in keeping the minimums at more reasonable levels or the cost per thousand more reasonable.

In order to determine whether the expense should be allocated to either fixed or variable, the water system needs to have a detailed listing of the expenses. It is best to have this information on an annual basis, when reviewing rate adjustments. Fixed expenses can be insurance, rent, permits, license and fees, administrative salary, office supplies, etc. Variable expenses can be cost of water purchased, chemicals, utilities, etc.

Expenses that can be both may include operator wages assigned to the water fund, vehicle expense, repairs and supplies, maintenance repairs, contract labor, etc. The water utility needs to determine how much to assign to either category.

A simple computation will then give the governing body a better understanding of a more fair rate for the customers. Using the example at the beginning both customers will pay more for water. The monthly minimum will increase by \$2 per month and the cost of water charged will be a flat rate of \$5.50 per thousand. The family of five will see an increase of \$9.50 per month. The owner of the nice lawn will have the same \$2 monthly increase on the minimum but will notice a much more significant increase on the charge for water. Going from a declining rate to a flat rate removes the break this customer had been receiving for using more water. This customer is better able to absorb the rate increase and really not worry too much about it. Keeping a nice green lawn in a drought is the focus. It's not what it costs to keep the lawn green.

Kansas Rural Water Association has assisted many small and medium sized systems with rate reviews. None have been in the situation the example system has, but nearly every one has experienced unique situations that necessitated an adjustment of rates.

More complex reviews, having multiple rate structures are much more difficult to determine. Systems can find themselves confused. Some large water utilities generally have staff in-house to calculate costs and determine what the rates should be. However, significant number of systems do not have that capacity.

Kansas Rural Water Association has teamed up with Carl Brown with GettingGreatRates.com. Carl has assisted

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numerous utilities in Kansas with getting their rates where they should be. Rate reviews constitute the sole business that Carl provides – and he takes that work seriously. Carl and Kansas Rural Water Association want your water (or wastewater system to operate efficiently and have the best rates possible for the system and the customers.

Annual Conference coming up soon

The 53rd Kansas Rural Water Association Conference and Exhibition is fast approaching. The dates for 2020 are March 24 – 26. KRWA staff have been working on organizing the conference almost since the 2019 conference ended. Plans are again to have ten per-conference sessions on Tuesday and 48 one-hour concurrent sessions on Wednesday and Thursday. The Expo Hall will again have 365 booth spaces available for Associate Members and state and federal agencies to showcase products and services for water and wastewater systems. NOW is the time to mark your calendars – and plan to attend. It's a real down-home event and an excellent opportunity to visit with other peers and to make new acquaintances.

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