By Carl Brown, President, GettingGreatRates.com

Beyond the Binge of the Debt-Fueled Bender

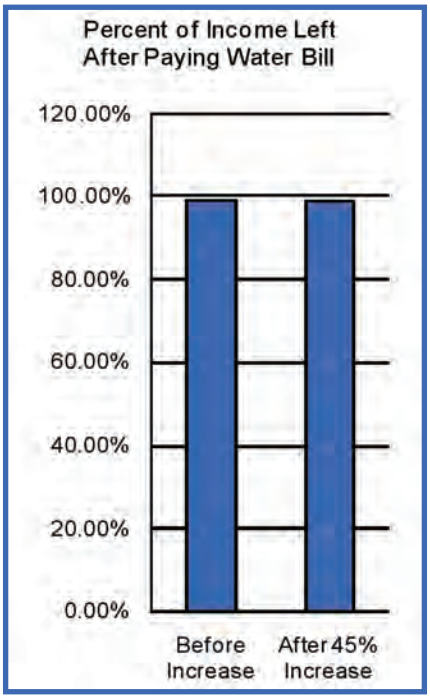
The day after the big "bender" one college frat rat says to his buddy, "I'll never do that again." His buddy says, "Next weekend… is that before or after never?" And, he's not joking; he really needs clarification.

Millions of citizens, taxpayers, business owners and homeowners are waking up from the most prolific debt-fueled bender they have ever known. They are thinking, "We will never let that happen again." Now, you may be thinking, "That's national politics. I just run this nice little water system or this fine little town. This larger crisis won't impact what I do."

Wrong! This will impact you. If you don't deal with it you may become a casualty of the larger crisis. Here's why and how you can avoid that.

The larger crisis makes many taxpayers and ratepayers say, "Stop spending my money, period." Being pressed to spend more on debt payments and other obligations, taxpayers and ratepayers are looking to spend less elsewhere. If that means lower water rates, they'll take it.

Taxpayers and ratepayers still have money to spend but they want to spend it on cheeseburgers, sodas, CDs and other things. Not water. Not sewer. You have some teachable moments ahead.



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All utilities must get their financial houses in order. For most water and sewer systems that means rates need to go up right now on the order of 20 to 45 percent. That sounds awful – but it's not.

In most communities water rates are in the $25 to $40/month range. Sewer rates are usually a bit more. Household incomes run from $50,000 to $70,000/year in most of the states. Let's be conservative and use $40/month rates and $50,000/year incomes as our basis. The affordability index of such rates is 0.96 percent ($40 * 12 months / $50,000). That means the "average" family illustrated here must spend just less than one percent of their income to pay their water bills. That situation is represented by the first bar in the bar chart. Considering the life and job-supporting properties of water, that's a good deal.

If this system needs to raise rates by 45 percent, the affordability index will rise to 1.39 percent. The income left over after such an increase is represented by the second bar in the chart. As a result of such an increase, this family's "after paying the water bill" income will go from 99.04 percent to 98.61 percent. On a spendable income basis, even this worst case rate increase doesn't amount to much and the "picture" makes that pretty clear.

Your key to getting and keeping adequate rates will be capturing teachable moments like this. Do not highlight the fact that rates need to go up 45 percent. That is an ugly picture. Focus on the fact their spendable income will hardly change. In exchange the value of their homes and businesses will hold steady or go up. Jobs will be retained or created in the community because investors and home buyers want to invest where the water system is sound, not weak or failing.

Distrustful ratepayers will reply with, "Well, you only need an extra $18/month so just cut it out of the budget." This is another teachable moment. Using your rate calculations or a comprehensive rate analysis you can show ratepayers where the money goes. You can show them the improvements and investments that are needed to keep their water service coming. For the utility that $18/month increase works out to $18/month times 12 times the number of users on the system. That's a lot of "waste" to cut each year and your calculations will show that it just is not there.

Up to this point we have been considering the "good cop" side of the equation – leading and teaching ratepayers using only the positive. You might also need to work the "bad cop" side. Why? Your ratepayers are wondering if water will

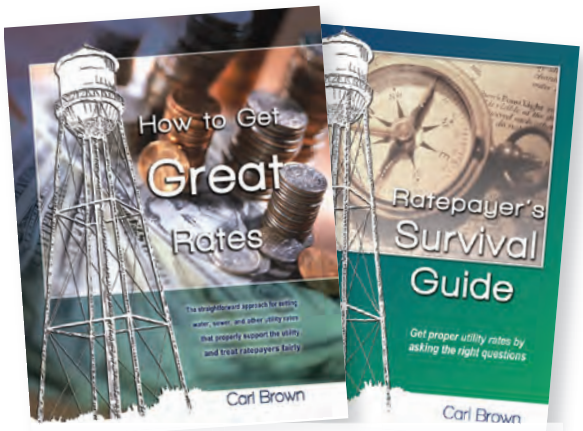
really stop coming out of the tap if they don't pay an extra $18/month. They are wondering if it will really be untrustworthy to drink without the higher investment.

The bad cop technique includes showing your ratepayers all their options, even the ugly ones. The ugliest is the "not having drinking water delivered to their homes 24/7, always pure" option. Help your ratepayers compare $18 worth of water to $18 worth of CDs, cheeseburgers or whatever they like. Let them decide where investing their $18 makes sense. Be clear, if they don't invest in water, the service will be poor. If funding is woefully inadequate the system may be shut down someday. Make it clear that your personal wishes are not in play. You are just trying to serve them as well as their funding choices will allow.

In reality, water in the U.S. would be dirt cheap at twice the price but such rates are unnecessary almost everywhere. Here is the real question. Will you, the manager or a decision-maker for your water system be believed and respected by your ratepayers for the information you give them about the rates you propose to charge them?

It all boils down to this. You need to determine how high rates should be and how they should be structured in order to provide service fairly and sustainably. Tell ratepayers the truth and back it up with the facts. Be kind – but be firm. Teach them what they need to know to understand the impact rate increases will have on them, and the system. Be sober in all your dealings with them.

While your ratepayers may not invite you to their next party, they will believe and respect you. They won't love paying higher rates but they will understand why it must be so. As a result the system will be well funded and it will serve the ratepayers well for as long as they desire. Then they can focus their attention on solving the larger crisis while they let you run their nice little water system or fine little town.



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