



# Setting Rates – It's More Than Deciding What to Charge

**T**he financial needs of cities and rural water districts are constantly changing. This makes financial management and capital finance planning more difficult and more important than ever. Water utilities particularly are faced with escalating costs of operations. Many have needs for infrastructure improvements. There are increasing costs of compliance with regulatory issues. There is a constant demand by the public for quality water at an affordable cost. Councils and boards are challenged to provide utility services at the most reasonable cost possible – and that's what the public deserves. Attendance at rate setting training is one way for local officials to better learn how to address these issues.

When someone hears about a “rate setting seminar” the first opinion might be that it will be an opportunity to attend and take home some magic spreadsheet that will provide all the right, (and politically correct) answers. As for templates or spreadsheets, those can often result in “garbage in – garbage out”. Instead people need to first better understand if costs to operate the system are appropriate. For example, it's one thing to suggest to customers to conserve water, but that is completely unfair to customers if the system has high water loss and does little to correct it. Maybe a rate increase is not what is needed. Rate setting should begin with making sure expenses are in line and that the system is operating efficiently.

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KRWA is presently facilitating rate setting seminars that are especially designed for cities and rural water districts. The training includes topics to help those attending learn how to evaluate financial policies and their impact on rates. Here are some topics that are included:

- Rate analysis and rate setting – where to begin;
- The basics of setting water rates;
- Different rate structures to consider;
- Key steps in setting rates;
- Creating “buy-in” by the public.

## The presenters

The rate setting sessions that KRWA is facilitating were structured under the guidance of Angela Buzard, Director of the Environmental Finance Center (EFC) based at Wichita State University. The EFC, with KRWA, worked to create a training event to be as effective and beneficial as possible. Angela shares Kansas' and national statistics regarding rates. Other points that she discusses include:

1. Are the unencumbered cash balances of the utility fund and/or reserve funds increasing or decreasing?
2. Does the system fund a reserve account?
3. Do the rates cover current and future operating costs?
4. Is there capacity to fund improvement projects?

Good discussions take place among those attending. People learn from each other by sharing their system's circumstances.

Pat McCool, KRWA Consultant, has thirty years of experience working for the Kansas Department of Health and Environment and seven years with KRWA. Pat's participation in the rate setting sessions is as much technical as financial – as he discusses fixed vs. variable costs. His presentation on the cost of unbilled water and the frequently inadequate recordkeeping associated with calculating water loss is a thought-provoking presentation. KRWA provides a template that systems can use to not only help them determine the percentage of unaccounted for water monthly, but to also consolidate the information so that the preparation of the annual Water Use Report is not a struggle at the end of the year for the city clerk or bookkeeper. The topics of metering, allowable loss, etc. are all reviewed.

John Haas, President of Ranson Financial Consultants, reviews various rate formats and the effects of an example rate increase depending on the type of rate structure that a system might use. Meeting financial ratios, especially the debt service coverage ratio, is among the many subjects that are discussed during this section of the training.

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board and council members, operators and other staff to upcoming rate setting sessions. The same goes for the KanCap board/council training program. Utilities are better served when boards and councils and staff members can learn together. Everyone has some involvement in the decision-making process – and if they don't, they ought to have.

## Who should attend?

Attend if you are:

- A decision maker – Mayor or council member, rural water district board member, city clerk or administrative staff;
- A manager – public works director, RWD manager or operator;
- A finance person – City or RWD manager, finance director, clerk, or office staff;
- A local government funding or technical assistance provider – like an employee or a state agency or planning commission;
- An engineering firm or other professionals.

It is about five hours of learning and sharing. It's not a lecture. It's not a video screen filled with columns of numbers. It's a new format that as one attendee commented, "If this is the new format, it is definitely better than any before!" A participant at a session at Park City in early January commented: "This session was more than adequate."

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If you want help understanding how to set a necessary and proper water rate or maybe you want to improve the financial health of your water utility, whether your system is large or small, I hope that you will bring the team – that's



## Web site updates, legislative news and conference

KRWA has benefitted from the services of Jen Sharp on Web site development. Additional tweaks were recently made to www.krwa.net. One addition is a small monthly calendar in the upper left-hand corner of the homepage to show the various training events scheduled for that month. KRWA has actively supported various legislative measures in the Kansas Legislature; a summary is posted under "Online Services". The 2012 conference and exhibition is set for March 27 – 29 at Century II Convention Center. The conference offers another full slate of training sessions, 304 exhibit spaces filled with products, services and agencies; there are special guest speakers at the Wednesday and Thursday luncheons, more than \$10,000 in prizes at the Tuesday night Carnival Roundup, and lots of down-home hospitality. It's a good investment of time – bring the whole team.

*Elmer Ronnebaum is KRWA General Manager; he has been employed by KRWA since 1983. He served seven years on the KRWA board of directors prior to that. He also helped develop a large RWD and served for fourteen years on a water district board of directors.*

