



There's More to a Rate Review Than Just Increasing Rates

Publicly-owned water systems generally strive to maintain the lowest water rates for their customers. That may not sound like a profound statement – but each system should strive to provide good quality water and service at the lowest “responsible” rate for its customers.

The Kansas Rural Water Association (KRWA) has worked with scores of cities and RWDs to help review their water rates. Several systems are in the habit of making that request an annual affair, as well it should be. Why should a water system review rates annually? Well, to make sure that the utility is providing water at a rate that is both adequate for the system’s needs and yet fair to the customers.

A reasonable rate can be described as one that allows the utility to have the necessary revenue to pay all expenses and have some funds remaining to set aside in an improvement fund or a depreciation account. Unless a system has set aside or reserved additional funds, small emergencies, such as replacing a pump, can devastate the water fund.

The economy of scale has a huge impact on water rates. It is much easier for a system with 1,000 meters to make an annual payment on a \$25,000 loan than it is for a system with 250 meters. The system with 1,000 meters would need to increase rates to their customers \$2.09 per meter per month or \$25.08 annually. The system with 250 meters would need to increase rates by \$8.34 per customer per month or \$100.08 annually. That’s basic math:

Example: $\$25,000 / 1,000 \text{ meters} / 12 \text{ months} = \2.09
 $\$25,000 / 250 \text{ meters} / 12 \text{ months} = \8.34

The same concept is true when calculating the cost of water; however, there are many more complexities. It is more expensive to treat surface water than it is to treat

groundwater. Most groundwater is only treated with chlorine for disinfection. Treatment of surface water requires complex facilities, additional chemicals, electricity and other utilities.

In conducting rate reviews, KRWA discourages cities from using other utilities to subsidize their water departments just to keep water rates low. Cities have the flexibility to transfer funds from one account or another to pay for services. In the long run the service is paid for. However, it may be from taxes or other sources. For customers who use a lot of water, this is good. However, those using 5,000 gallons or less may be paying more than their fair share. If the goal is to attract business to the area, then low water rates may be a big incentive. But, the single person household is subsidizing the rates.

Rural water districts must set rates that are adequate to cover all the expenses because they do not have the luxury of having other revenue generating funds to subsidize the water fund. Each utility should be treated as a business. It is the responsibility of each governing body to maintain adequate rates.

Campaign promises!

An election of new council members in one northeast Kansas community was very interesting. One potential council member was running for office and told voters that his goal was to reduce water rates. The person was elected and convinced the other council members to reduce the rates. In less than two years the water fund was almost down to a zero balance. The council member who advocated the reduction in rates was no longer on the council. The governing body then had to increase rates to a level even higher than before the unwise reduction that was made. It

Average Rates - Kansas Cities

Monthly Minimum: Base Charge	\$13.27
5,000 gallons with base charge	\$25.53
10,000 gallons with base charge	\$42.24
15,000 gallons with base charge	\$58.59
20,000 gallons with base charge	\$75.10
30,000 gallons with base charge	\$108.28

Average Rates - Kansas RWDs

Monthly Minimum (base charge)	\$19.72
5,000 gallons with base charge	\$39.67
10,000 gallons with base charge	\$62.07
20,000 gallons with base charge	\$84.01
20,000 gallons with base charge	\$105.83
30,000 gallons with base charge	\$148.71

required a lot of public relations efforts by city personnel to minimize the number of citizens complaining on the rate increase.

In September 2012, KRWA hosted three training sessions entitled “Getting Good Rates”. A total of 75 people attended; they represented 22 cities and 17 rural water districts or other public water supplies. The instructors were Carl Brown with Carl Brown Consulting and Pat McCool, consultant with Kansas Rural Water Association. The sessions were very informative and provided attendees with information on calculating water rates and assistance available to do so.

The Kansas RATES program was also introduced at the training sessions. RATES is the acronym for Rate Analysis & Training For Environmental Systems. KRWA has started this program to help cities and rural water districts set their rates properly and simply. KRWA provides basic rate reviews free of charge. There are other services that provide rate analysis, but the requests for rate reviews are frequent to KRWA.

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obtain additional water rights. Then after transferring the water rights to the RWD, the board planned to resell the 132-acre tract as dryland farming, hoping to realize one-half of the investment which was originally suggested at \$15,000 per acre. KRWA’s response was that if the district were to reduce its water loss from 25 percent to 15 percent, the district would have no need to obtain additional water rights as its pumping would be within its present permit limits.

Reviewing water rates is an interesting exercise; perhaps KRWA asks too many questions – such as, “Why are you doing this?” when it would be easier to just accept the expenses as they are. But neither the systems, nor the customers, gain from such an approach.

If your system is interested in discussing a rate review, give KRWA a call and we’ll try to help. If it’s too complex for us, we’ll refer you to Carl Brown Consulting who is very capable of tackling whatever situation may exist in a rate analysis.

Can costs be curbed?

Several recent reviews by KRWA didn’t focus on the revenue side but instead, KRWA suggested that the systems review refinancing outstanding debt to reduce costs, or in several cases, to bring more competition in to reduce other costs such as installation of services. The bottom line approach by KRWA on a rate review is not to just “increase rates” but to try to help the utility curb costs. High unaccounted for water loss can devastate a water system’s financial position. For example, if water is purchased at \$3.50 per thousand and the purchasing system loses 30 percent of its water, then the effective price is \$4.55 per thousand.

As another example, a RWD was considering the purchase of a tract of land at nearly \$2 million with the main intent to

The 2013 conference

KRWA is in the early planning stages for the 2013 Annual Conference & Exhibition. I hope you will mark your calendars for March 26 – 28 at the Century II Convention Center in Wichita. This is the 46th Annual Conference for KRWA; we’ll make it bigger and better than ever. Let’s pull together!

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