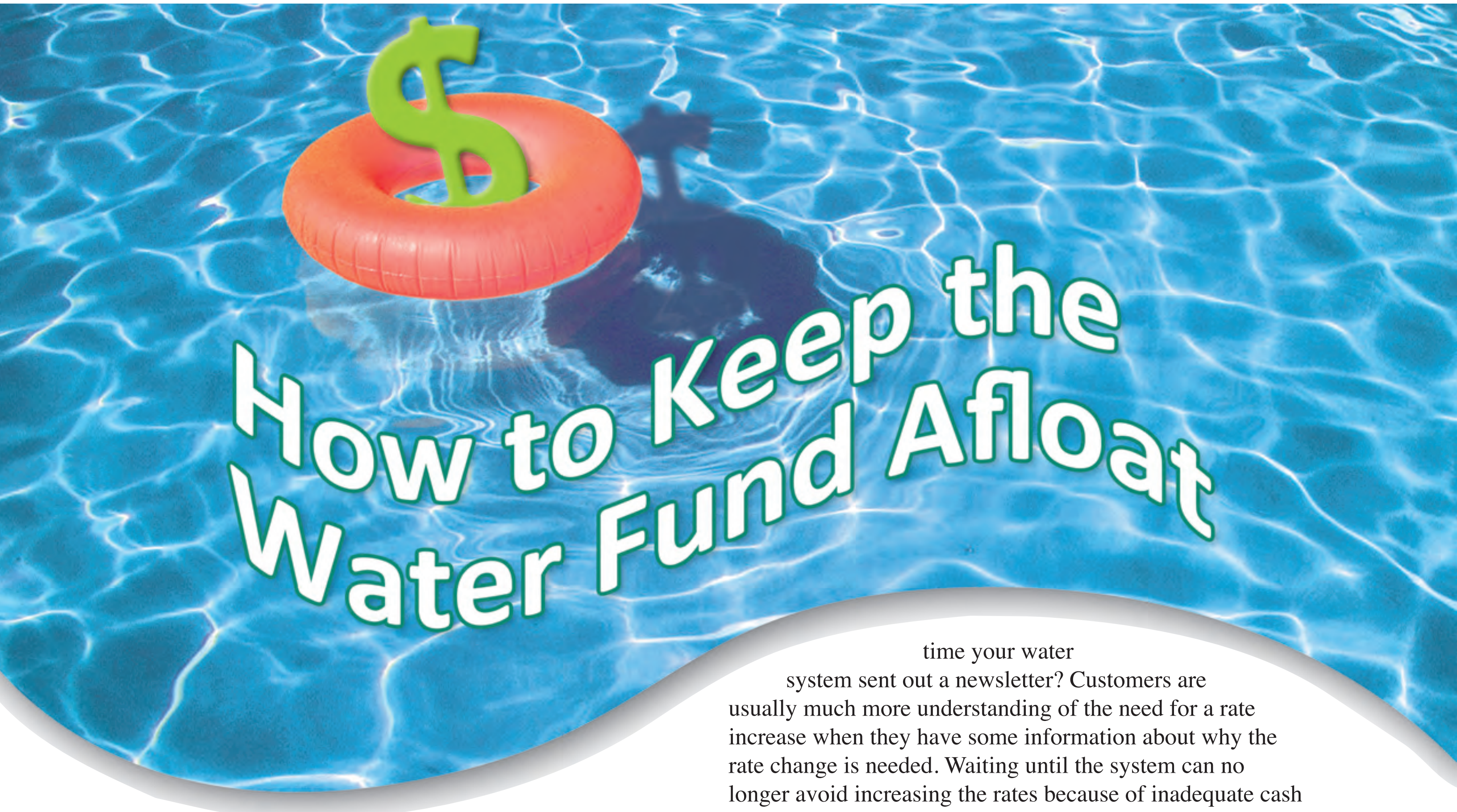
By Greg Duryea, Assistant General Manager



How to Keep the Water Fund Afloat

Any time people hear about a "water rate review", their immediate thought is likely that the rates are going to be increased. Increasing water rates is never a popular subject for rural water district board members or city council members. Customers are affected and they often do not hesitant to express their displeasure with increasing rates. Never mind that those same customers will continue to purchase cigarettes, soda or other non-essentials including spending time in casinos as just their way of life.

Often, a governing body will adjust rates so their rate is less than a neighboring city or rural water district. KRWA receives frequent requests from systems wanting to know what the average rate is or what the rates are in a geographic area. Each system should set rates that reflect their own operations and not be based on rates in neighboring systems.

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Whether the system reviews the rates in-house or hires an outside consultant, gathering all the information needed will make the process easier. A must do in my opinion is to keep the public informed throughout the year on plans that the utility is considering. It's not difficult to provide concise, accurate information to the customers. When was the last time your water system sent out a newsletter? Customers are usually much more understanding of the need for a rate increase when they have some information about why the rate change is needed. Waiting until the system can no longer avoid increasing the rates because of inadequate cash flow is and should be unacceptable to the customers. The ire of customers is raised when utility rates are increased in one large step versus small adjustments year to year.

Each member of the governing body should have an awareness of the financial position of the utility they represent. If not then they are not doing the job they were elected to do. Does your city or water district governing body really understand the financial condition and trends?

Rates should be reviewed on an annual basis. It is preferable to compare the most recent three years' financial information and water use information for the same period. Frequently, a reviewer can readily identify significant changes in expenses, revenue, water produced and water sold. Knowing that there are fluctuations also helps the reviewer to provide a better report. The reviewer needs to know something about how water and wastewater systems operate. Doing a rate review requires something more than a computer and a spreadsheet program to enter numbers and have it calculate some result.

Each system should have funds set aside to pay for some improvements. No matter what each situation might be, it's never to late to start looking to the future needs of the

Expense or Capital Improvement?

Table 1 lists expenses for System XYZ. This system has only 200 customers. In 2012 the Utility Repairs were $17,000 more than in 2013. The expense in 2013 is close to the historical average. The increase was because the system installed a new pump and expensed the cost in that one year. But the pump has a life expectancy of at least five years. The cost should have been amortized over that period of time. A capital improvement is not an operating expense.

So if a water rate reviewer doesn't ask questions about the expenses, it might be recommended that System XYZ increase its monthly minimum to cover the expense of the new pump in one year. The additional cost to the customers would be as follows: ($17,000 / 200 customers / 12 months = $7.08). Each water user would pay an additional $7.08 monthly for one year. If the system takes that approach it means that all customers pay the same regardless. Another option that may be recommended is to increase the charge per 1,000 gallons for water sold. The system sold 10,386,000 gallons during the time period. The charge per thousand would increase $1.64 per thousand gallons. ($17,000 / 10,386 thousand gallons = $1.64). Customers who use more water will pay a higher percentage of the costs.

Are either of these two options or even a combination of the two completely equitable or fair? No, neither is. Simply trying to recover the $17,000 in one year is not fair to the customers. That is why a system should amortize the large expenses that occur rarely. If a system increased the rates to pay for the pump, then would that system reduce rates after the $17,000 was received? That would be very unlikely. But, when reviewing rates, the review should have information to distinguish what costs should be considered as expenses or if the costs should be capitalized.

Small Water System XYZ

Expenses	2,012	2,013
Salaries	$24,439	$25,602
KPERS	$1,334	$1,375
KPERS Insurance	$143	$114
SSI	$1,515	$1,587
Medicare	$354	$371
SUTA	$348	$421
Insurance	$2,927	$2,610
Electric	$5,074	$5,437
Gas	$1,162	$1,325
Telephone	$586	$655
Testing	$1,345	$1,448
Clean Water Fee	$316	$200
Miscellaneous	$293	$739
Fuel	$2,302	$3,307
Office Supplies	$235	$1,176
Equipment Repair	$552	$2,306
Utility Repair	$25,131	$8,131
Vehicle Repair	$508	$370
Chemicals	$1,545	$1,749
Postage Expense	$867	$933
Shop Expense	$535	$5,796
Equipment Expense	$662	$690
Total Expenses	**$72,173**	**$66,342**

Table 1 demonstrates that the expenses "Utility Repair" increased $17,000 from historical averages for this small system. The cost should have been amortized over at least a five-year period.

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system. Every system should be reviewing and updating their Capital Improvement Plan (CIP) annually. Keeping in mind what is needed in the next year, or five or ten years to help reduce the sticker shock when improvements are made and how they are funded. Loan and grant programs are available to cities and rural water districts. Instead of trying to cash flow improvements, consider obtaining financing to make the improvements. Consider for example, that rural water districts borrowed money to construct their original systems; making improvements is no different.

When setting rates a system must also decide which expenses will be recovered through the monthly minimum and which will be recovered through the charge for water. There is no consistency among water systems in Kansas as to which costs are charged where. Generally, principal and interest payments to the water utility should be charged to the monthly minimum. There are other expenses that may also be charged to the monthly minimum or a portion of those charges. This is where things can get very confusing.

Any disproportional assignment of costs either to the monthly minimum or to the charge for water can create imbalances in the structure. For example, the customer who has only Social Security for income is going to be impacted much more dramatically than a family of four that may have two wage earners. Keeping customers informed throughout the year is not only the right thing to do; it's politically necessary to maintain confidence and support for the utility. I think the most important issue that boards and councils and others should decide on is to review rates on an annual basis and make small adjustments as necessary. Some systems wait 15 or more years before they review rates.

The Kansas Rural Water Association provides rate reviews. KRWA does not charge for those services. Generally, once we have three years of financial reports, a review can be conducted and a report written in a short time. Any system that is interested in such a review is encouraged to call KRWA at 785-336-3760 or email to me at greg@krwa.net. Also, if your city or RWD wishes to have a discussion about projects, regulations or other matters, KRWA staff members are willing to attend a board or council meeting. Systems will benefit from a frank and open exchange by people who have experience in the daily operation and maintenance of water and wastewater systems. Again, just give a call or send an email.

Greg Duryea has worked for KRWA since 1993 as Technical Assistant. He holds a Class I water certification and is the certified operator for Sycamore Springs Resort in Brown County.