

Questions Concerning Legislation and Rate Adjustments



The Kansas Rural Water Association receives many phone calls and many more emails every day from cities, water districts, associates, even legislators, with questions or concerns on a wide variety of issues that are of concern. Most of these questions can be answered fairly quickly. At other times, KRWA staff need to visit the utility to gather more information and then provide the answer or give other referrals. This article discusses questions that many people have asked.

HB 2080

A bill was passed in the 2018 Kansas Legislature that affected rural water districts. It was HB 2080. This legislation allows the reinstatement of a benefit unit (meter or membership) in a rural water district by paying the past due amount instead of paying a new benefit unit cost if the back charges are less than the cost of a new benefit unit. The scenario is this: A RWD has had a customer not pay the water bill for more than six months. By the provisions of the district's bylaws, the membership could be forfeited. Four years later another person purchases the property and wants to have service by the local RWD. The question that is asked is, "How far back must we go before the district is not required to abide by HB 2080?" The quick answer is that there is no time limit. Obviously at some point paying the back charges would be greater than the customer just paying for a new service.

The quick answer is that there is no time limit.

Take the example above. Four years later a customer purchases the home where a RWD benefit unit was forfeited. To purchase a new benefit unit the cost is \$3,000. Suppose that the past due amount is \$525. Now, add the monthly fee that should have been collected for four years after the forfeiture at \$40 per month times 48 months (4 years) equals another \$1,920. Add the two together and the total is \$2,445. Plus the district can impose a reinstatement fee not to exceed 20 percent of the cost of a new benefit. If the full amount allowed was imposed then another \$600

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would be added to the \$2,445 for a total of \$3,045. For this scenario the price of a new benefit unit is less than paying the past due amount by \$45.

Gary Hanson, JD with Stumbo Hanson, LLP wrote about this legislation in the July 2017 issue of *The Kansas Lifeline*. The link is at the following location. <https://krwa.net/portals/krwa/lifeline/1707/LegallyRelevant.pdf>. I'd suggest that RWDs print the article for each of the board members and to also have it available for review at their offices when reinstatement of membership or forfeitures are involved.

How do we adjust rates?

Other questions we receive deal with rates. Many times boards and councils delay adjusting rates to the point where the water fund is operating on a very thin and tight budget. Some systems are barely generating enough revenue to pay expenses. We hear a lot of times from system personnel that we are "non-profit". But being non-profit doesn't mean that the utility cannot show a gain at the end of the year. Being non-profit means that no one person shares in the profits or receives a commission because of profits.

Yes, water and wastewater systems are non-profit, but the system is allowed and must generate enough revenue to pay for operations and improvements. By operating with a very small surplus revenue or a negative revenue is a recipe for disaster when major problems arise. Another bad recipe is to set rates based on neighboring systems. Having the lowest rates in a geographic area will likely be more problematic financially to the system. Board and council members should adjust rates based on their needs alone. Making a profit of 20 to 50 percent allows for more effective operations and improvements when needed. All things are relative.

Frequently, KRWA staff are approached by systems with this question: "We are looking at making some significant improvements to our system and need to know how much we are going to have to raise rates?"

I can't answer this question. If pressed I will say I don't know and neither will anyone else. There are too many variables that must be answered first. What are the improvements? Has there been a study conducted? Is there an estimated cost? How long a

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time period for paying back a loan is considered, e.g., 20 years, 40 years or any other time frame? When is the projected completion date? When are payments required to begin? These questions must be answered before an informed answer can be formulated.

Kansas Rural Water Association works with water systems on determining costs to deliver water. At times these can become very complicated very quickly. We may suggest that you contact a company that performs rate reviews. One such company is GettingGreatRate.com. Carl Brown has worked with numerous utilities in Kansas and many in other states to help systems get onto solid financial footing. Although there will be costs with other companies the Return on Investment (ROI) can usually be paid back very quickly.

As with any of these questions there are resources available to help obtain the best answers possible for your water and wastewater utilities. These come from KRWA, state agencies and associate members. The wheel does not need to be re-invented. You just need to find out where it has already turned and use it to suit your needs and the needs of the ratepayers.

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