



The Kansas “RATES” Program – Ten Years and Counting

Perhaps instead of, “Ten Years and Counting”, I should have written, “\$80 million later”.

I was visiting with Carl Brown, owner of GettingGreatRates.com, recently about the KRWA “RATES” Program. It’s been well-received. Certainly, it’s not the only way a water or wastewater system can obtain a rate review. But, having been acquainted with Carl for decades and even earlier when he worked at the state regulatory agency in Missouri, I know that he pulls no punches and gives recommendations based on his decades of doing utility rate analyses even while working at the state. Carl knows and understands utilities!

First, some Kansas “RATES” Program background.

The Kansas “RATES” Program does what the acronym stands for – Rate Analysis and Training for Environmental Systems. It is a joint effort between KRWA and GettingGreatRates.com. KRWA has provided

basic rate-setting services for nearly 40 years; Carl has helped us get much better at it. And when the rate review demands a much more thorough analysis, for example residential, commercial, industrial, wholesale purchasers – that’s when we refer the city or RWD to Carl Brown and GettingGreatRates.com. Carl analyzes

utility rates, but RATES does not stop there. Carl has also trained Association staff how to improve doing basic rate calculations. He created a spreadsheet application and licensed it to the KRWA to help us do rate calculations more accurately and quickly. KRWA does those less complicated reviews for water and wastewater systems at no charge. Carl also advises us on rate-related issues and he is a featured presenter on rates at KRWA training sessions and conferences.

Why all this rate-setting stuff?

It takes more than technical know-how to make a utility run right. It takes money – a lot of it. Most of that money must come from your customers. That is where rate analysis, rate calculations and help with setting proper rates comes in.

Carl compiles data about his work and shares it with us periodically.

Yes, data can be a tad boring but it’s actually intriguing as KRWA staff are really interested in and care about helping the Association’s members.

Remember that \$80 million mentioned earlier? That is the estimated amount of extra revenue that Carl’s Kansas client utilities are projected to generate during the first five years after

For a full rundown on what the “RATES” Program does and how you can get rate analysis help, visit <https://krwa.net/TECHNICAL-ASSISTANCE/Rate-Reviews>.

\$80 million is a lot of money and that is not boring.

	Cost of Reviews	RATES 25% Discount	5-year Revenue Increase	ROI
Total	\$256,025	\$85,041	\$80,221,220	31333%
Average	\$6,401	\$22,126	\$2,005,531	31333%

their rate analysis and adoption of new rates. That is a lot of money and that is not boring.

Eighty million dollars is just one (big) data point in the latest data set we received from Carl. Here are some more:

- ◆ Since the inception of the RATES Program in 2012, Carl has completed 40 rate analyses in Kansas. (Seven other state rural water associations have this program, too.) Those utilities are projected to increase their rate revenues by an average of just more than \$2 million over the first five years after analysis. That is more than \$400,000 per year per utility. That will pay for a lot of system upkeep and improvement, maybe even a pay for some salary increases to keep good staff around.

- ◆ Reality check, the extra revenue does not stop coming in after five years. The “shelf-life” of a good rate analysis is about five years. Many utilities should repeat the analysis exercise about that often. Carl’s review quits the math at five years, but extra revenues keep pouring in whether the city or RWD analyzes again or not.

- ◆ What did it cost to get those analyses done? The average was \$8,416 per utility. But the RATES Program earns a 25 percent discount for KRWA member systems. All participants were KRWA members, so discounts averaging \$2,126 per utility brought the average net down to \$6,401.

- ◆ If you invest dollars and the investment returns in dollars, you can calculate the return on investment (ROI). The five-year ROI for these analyses averaged 31,333 percent. Unless you are a loan shark or an online ransom hacker, you probably cannot get that kind of return on any other investment.

- ◆ You can look at ROI in another way. That is, how quickly did the investment get paid back out of the increase in revenue that the analysis justified collecting? On average, these utilities earned back the fee they paid in 5.82 days of the extra revenue generated. After that, these utilities can use the excess for whatever they need it for. Depending on when you start counting, there are about 1,824 days in five years, so the cost of these analyses took about one of those days. I would give that to you in a percentage, but that makes my head hurt!

- ◆ Rate structure fairness is important. But let’s be honest, most utilities only do a rate analysis because they need more money!

Well, enough of averages. How did rate analysis and rate setting affect actual clients? For example, what town was

the high ROI earner? And what town was the low earner? Answer: It was the city of Ellsworth. Here is the rest of that story.

Ellsworth asked for a sewer rate analysis in 2014. Based on the town’s assumptions about needing almost no capital improvements over the

next ten years, the analysis showed that sewer rates should go down! That is quite unusual. But the math does not lie, so that is what the town did. The return on investment for that analysis was a negative 14,581 percent. Wow! Pay money to have someone tell you how to make less money. KRWA has seen something similar numerous times. Not always does a rate review result in increased rates. It’s important to first know that the expenses are reasonable – and in many cases,

some expenses could be reduced. The least painful was to find systems where debt could be refinanced at lower interest rates.

The other half of the story is that in 2017 Ellsworth “discovered” it needed to make expensive improvements to the sewer system. They came back to Carl for an analysis update that considered the newly discovered needs and, sure enough, rates needed to go up drastically. That led to a return on investment in 2017 of 117,742 percent.

No doubt, that about-face was embarrassing. But when you discover you went down a dead-end road, you need to turn around. Ellsworth turned around.

As you would expect, “big” utilities enjoyed a big ROI. Manhattan kind of blew the averages way up with water, sewer and stormwater analyses. But some smaller cities, like Atwood, got a 2,063 percent ROI on sewer and a 15,885 percent ROI on water. With a total revenue gain of \$766,000 over five years, Atwood can now do a lot of things it could not dream of before.

So the question is if your rates high enough to fund all that needs funding? Can you prove that the rates are fairly structured? If you cannot say yes, and yes, give us a call. If KRWA can help you with simple rate calculations, we will. If a simple review will not solve your problems, say hello to the “RATES” Program and Carl Brown with GetttingGreatRates.com is ready, able and willing to have more discussions with you. He’s part of the KRWA team that gets things done. So, give KRWA a call and let’s start the discussion.

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. He has testified on many legislative issues in Kansas and three times in Washington.



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