

Effective Rate Setting and Communication

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Kansas Rural Water Association

Step 1

- Internally, clearly define what is happening to expenses.
- Are operating expenses going up due to inflation or growth?
- Is there a capital project that requires money to be set aside from annual revenue or principal and interest payments on a debt borrowing?
- Identify services that could be cut or required services that may be overstaffed.
- Identify innovations that would have a positive net cost-benefit.

Step 2

- Are there expenses that are not directly or indirectly associated with the water utility fund?
- If yes, identify and defend that practice. It is acceptable to do this as long as this expense is not hidden.
- It is acceptable to support the general fund with water revenues as long as it is in the sunshine.

Step 3

- Forecast operating and non-operating expenses for 3 years.
- Review expenses for the past 5 years as the basis for the forecast.
- Identify material changes in the system that may cause a deviation from a linear increase in cost.

Step 4

- Forecast water demand for 3 years.
 - Review water demand for the past 5 years as the basis for the forecast.
- Identify if changing water demand is due to weather patterns, inherent changes in consumers' demand or changes in the community (such as the addition or loss of a business).

Step 5

- Forecast water rates to meet expenses and margins for 3 years.
- Create different scenarios demonstrating the impact on various types of water consumer for each scenario.

Step 6

- Present options to the elected officials during a work session.
- Build a consensus on the best of preferred option.

Step 7

- At a following Board Meeting, set a date and time to hold a public hearing.
- Send out notices of the public hearing in monthly water bills or community newsletter.
- Publish a notice of public hearing in the local newspaper.
- Have the Mayor or the Board President write a letter to the editor of the local newspaper about the challenges facing the water utility, and invite the citizens to the public hearing.
- Publicize the public hearing on the local cable channel, if available.

Step 8

At the Public Hearing:

- If there is a new project, have the City's engineer explain the need for the project.
- No matter how relatively expensive or inexpensive the project, the project will not be supported by the Public if it cannot be properly justified.
- If operating expenses are increasing, provide supporting materials that demonstrate this.
- Review each of the water rate options and delineate the impact of every option for each class of water user.
- Explain why the elected officials support one particular option.
- Ask for feedback from the community.

Step 9

At a following Board Meeting:

- Review the water options once again with the elected officials.
- Provide feedback from the Public Hearing or other information received from the Public.
- Formally adopt new water rates.
- If a particularly large increase, do not implement in high user months.
- My preference is to get the pain over all at once, rather than increasing rates in steps.
- After the initial increase, consider an annual escalation in water rates.

Step 10

- Annually, review if additional changes need to be made in water rates.
- The Division of Water Resources recommends that water rates are reviewed in March when water usage reports are due at its office.

Step 11

Tools:

- **Rate Checkup:** a software program provided to local units of government (free of charge by KDHE - Water Section). The program is designed for local units of government to run its own water rate analysis.
- One year of free technical support is provided by Ranson Financial Consultants, L.L.C.
 - Contact Beth or Laura at 316 264 3400 to request a copy and documentation.
- **KanCap:** a training seminar provided to local units of government on managerial, technical and financial issues facing elected officials.
 - KanCap is provided free of charge to local units of government (usually done together with surrounding units).

Real World Results

- For one city, people attended the meetings and understood the necessity of raising water rates.
- For another city, nobody attended the meetings and during the next election all of the incumbents were voted out of office.
- At the latter city, we had to go back and make the newly elected officials aware of why the rates had to go up.
- Do you think the rates went down?