Smart Management for Small Water Systems

Financial Management for Small Water Systems: How to Plan for the Next Five Years and Secure Funding

June 5, 2018 | Baton Rouge, Louisiana

www.efcnetwork.org

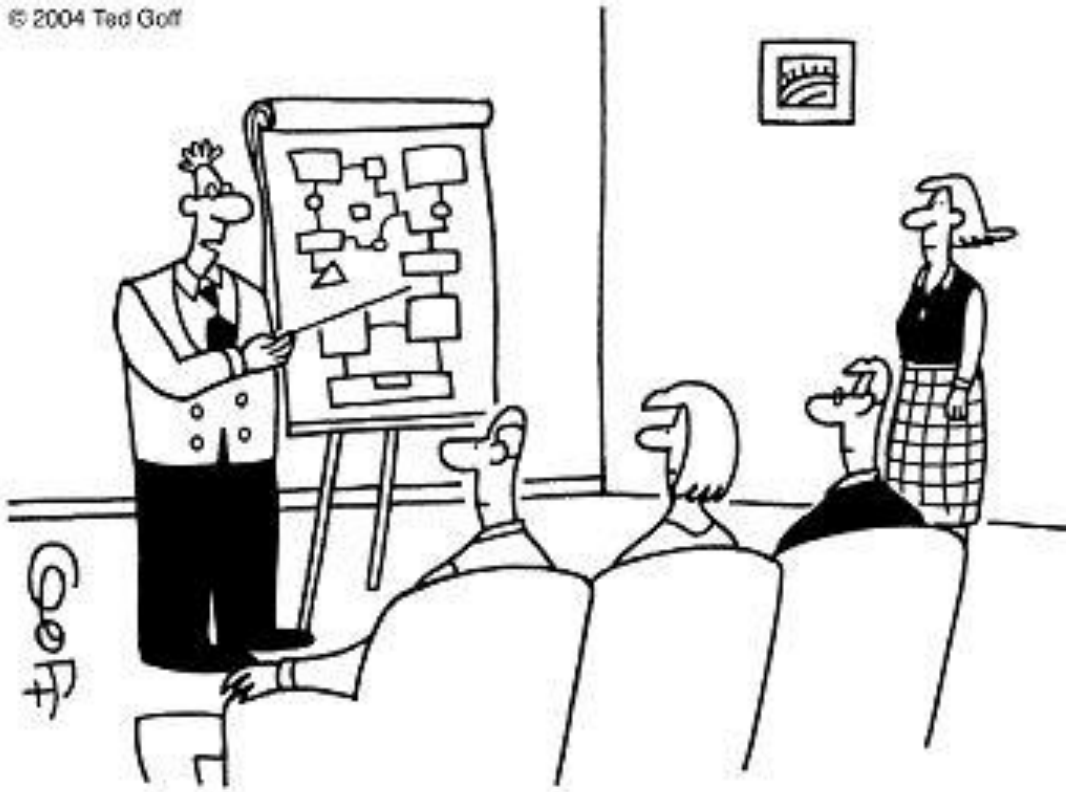
EFCN environmental finance center network

NADO National Association of Development Organizations Research Foundation

GFOA Government Finance Officers Association

This program is made possible under a cooperative agreement with the U.S. EPA.

Generating Needed Revenue – Rates



"This part of the plan will be funded with all the unused money we must have laying around someplace."

Session Objectives

- Understand how to pay for the costs of running your water system

- Look more closely at your rates

How much money do you need?

Will it provide sufficient cost recovery?

What exactly does this include?

Are we following the applicable laws?

Will revenues be resilient to changing water demands?

Are we allocating the costs to the right customers?

Do these rates send the right signals to our customers, based on our objectives?

Will our customers understand these rates?

Will our customers be able to pay these rates?

The Process of Setting Rates

Learn essential background information about rates

Determine critical characteristics of your utility and community

Design the most appropriate rate structure

Cost-of-Service Study

Compute the rates using projected costs and revenues

Re-evaluate/adjust rate structure to fit primary objectives

Basic Principles

- Aim at full cost pricing
- Set equitable rates
- Share rate structure with customers
- Rate should be easy to understand
- Rates should be examined annually
- Consider fixed costs vs. variable costs
- Allow for reserve account(s)
- *Promote water conservation?*
- *Promote economic development?*

“Full Cost Pricing”

- Operations & maintenance expenditures
- Taxes and accounting costs
- Contingencies for emergencies
- Principal and interest on long-term debt
- Reserves for capital improvement
- Source water protection

Ways To Pay

- Pay as you go (current receipts)
- Save in advance and pay
- Pay later (someone loans you money)
- Grants (let someone else pay)

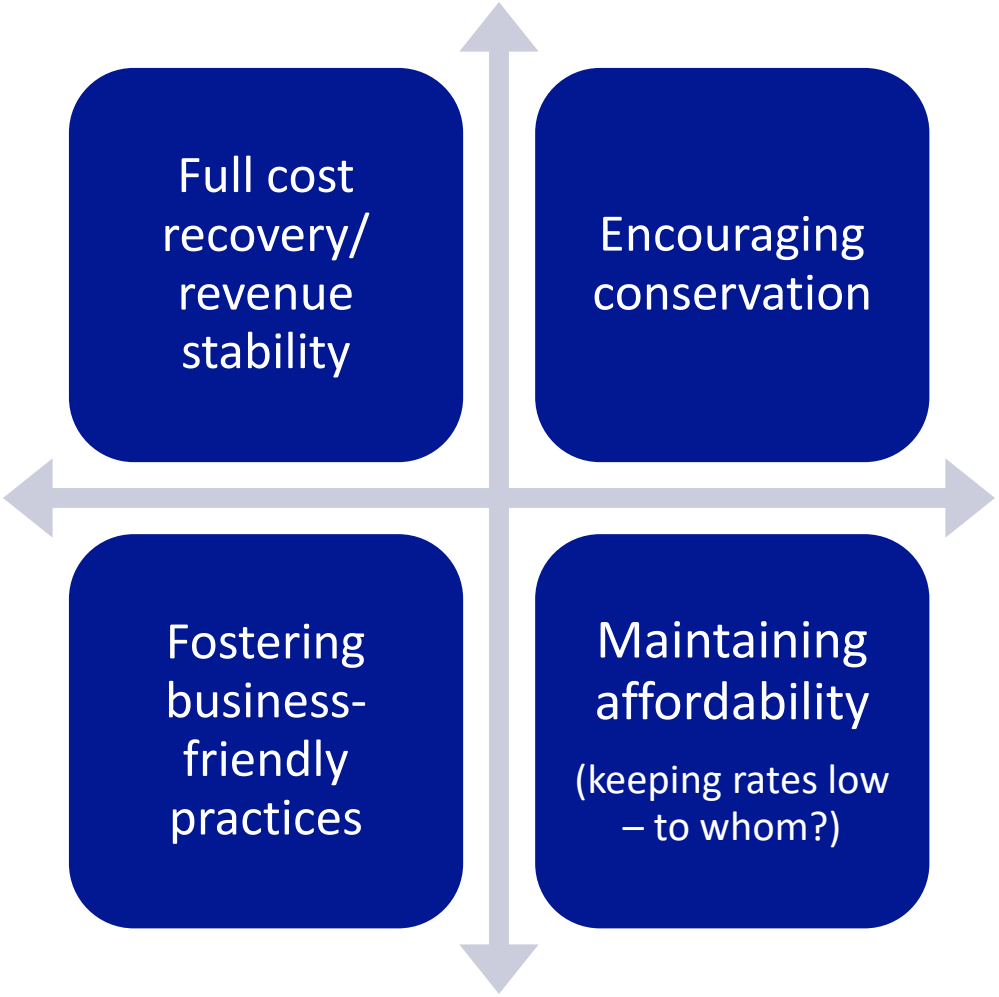
Grants Aren't Completely Free Money

- Application for the grant can be expensive – staff time and money
- Applications can take months to process
- Often lots of strings attached
- Often require a percentage match
- Lots of competition
- Difficult to sustain

Rates & Monthly Charges

- What type of rates and monthly charges do you levy?
  - Charges based on metered usage?
  - Flat monthly charges?
  - Something else?
  - Nothing?

Rank Your Rate Setting Objectives



1. _____
2. _____
3. _____
4. _____

Refer to this list and focus on the highest ranked objectives when following the guidelines for selecting the appropriate rate structure design.

What are your rate setting objectives?

Elements of Rate Structure Designs

1. Customer classes/distinction
2. Billing period
3. Base charge
4. Consumption allowance included with base charge
5. Volumetric rate structure
6. (If applicable) Number of blocks, block sizes and rate differentials
7. (Optional) Drought Rates
8. Frequency of rate changes

Customer Classes/Distinctions

- One rate structure for all
- Target: All are equal

Customer Classes/Distinctions

- Separate rate structure for residential, irrigation, commercial, industrial, governmental, or wholesale customers

- Target: Specific type of customer

Customer Classes/Distinctions

- One rate structure, but with different base charges based on meter size

- Target: Non-residential or multi-family housing

Customer Classes/Distinctions

- One rate structure for all, but with blocks that implicitly only target non-residential use

- Target: Non-residential

Customer Classes/Distinctions

- Different rates for customers outside municipal limits/service area boundaries

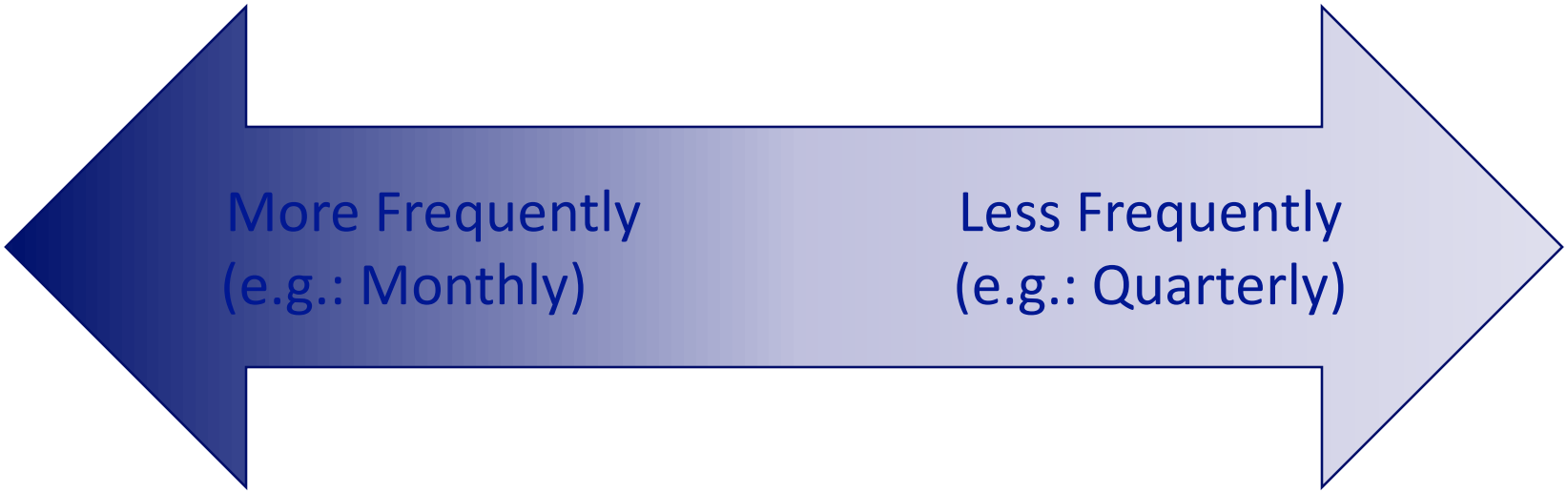
- Target: “Outside” customers

Customer Classes/Distinctions

- Negotiated rate structure with individual high-use customers (typically an industrial customer)

- Target: Only one customer

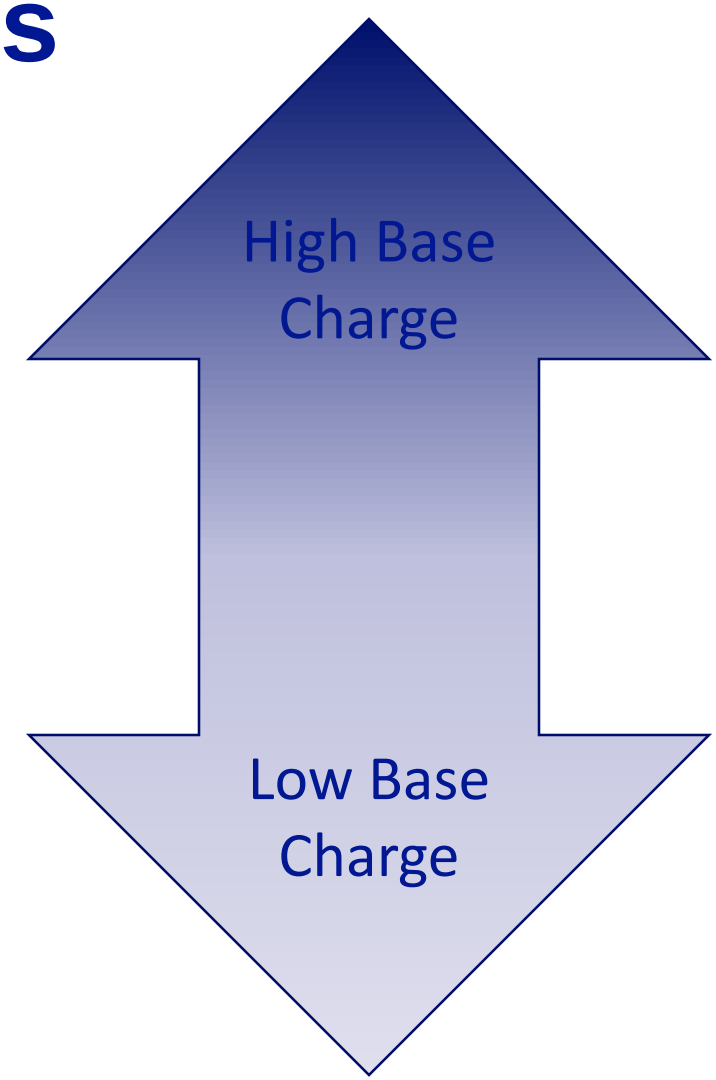
Billing Period



Suggestion: Use a monthly billing period if you can afford it

Base Charges

Suggestion: Smaller utilities should lean towards higher base charges



Consumption Allowance with Base Charge

Do not include any
(0 gallons)

Include some amount
(e.g. 1,000 gal/mo)

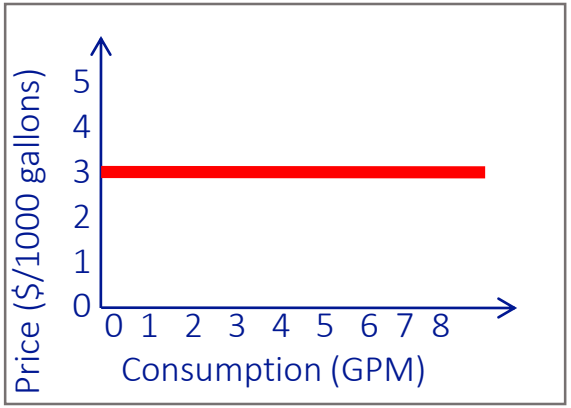
Include high amount
(e.g. 3,000 gal/mo)

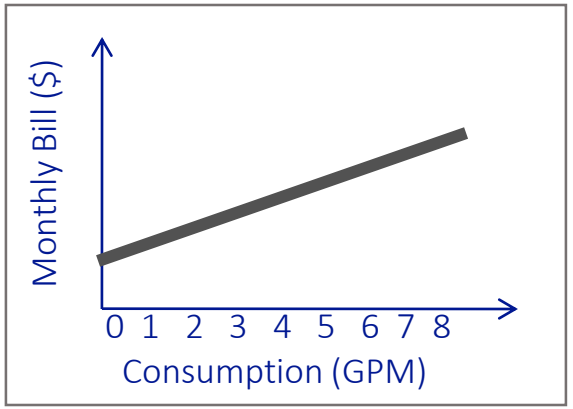
Suggestion: For systems with low base charges, do not include any consumption allowance. For systems with high base charges but wish to encourage conservation, keep consumption allowance low, if any.

Volumetric Rate Structure

Uniform ("Flat") Rates

- Fair and simple

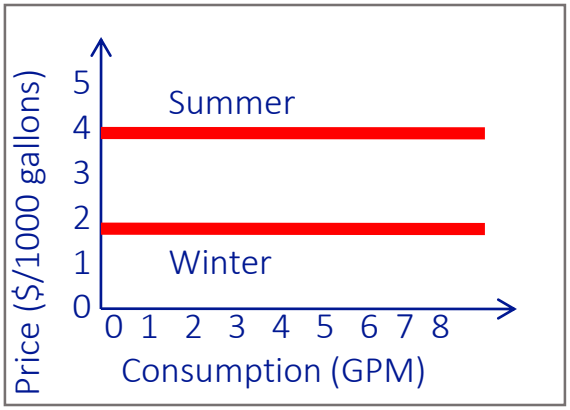


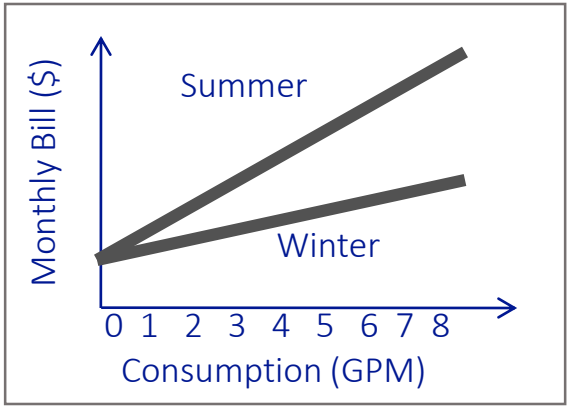


Volumetric Rate Structure

Seasonal (Uniform) Rates

- Conservation-oriented, good for seasonal communities

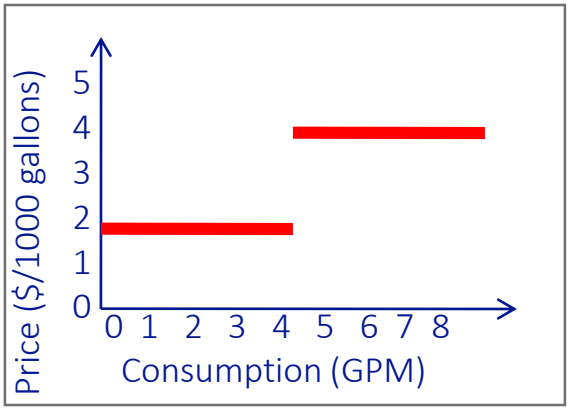


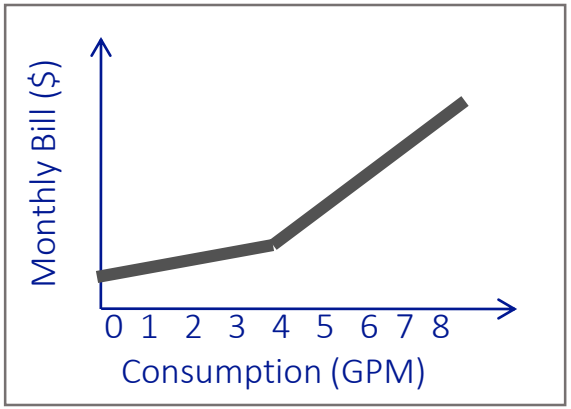


Volumetric Rate Structure

Increasing Block Rates

- Conservation-oriented
- Consider large families

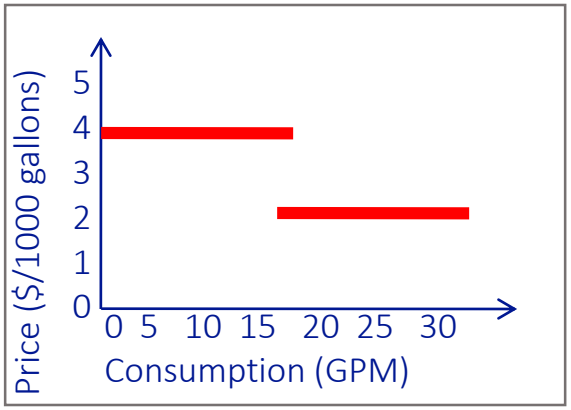


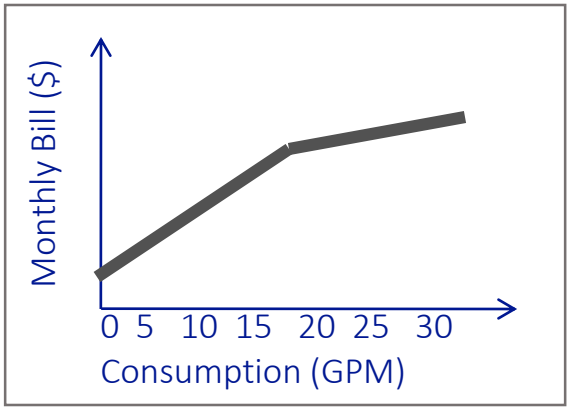


Volumetric Rate Structure

Decreasing Block Rates

- Provide price break for large users (e.g.: commercial)
- Do not use for residential





(If Applicable) Block Designs

For block rate structures to be effective:

- Decide on the correct number of blocks
- Decide on where the blocks should end/start
- Set significant rate differentials between blocks

(If Applicable) Block Designs

For block rate structures to be effective:

- Keep in mind your base charge and consumption allowance
- Meter reading must be punctual, and meters must be replaced frequently
- Think about large families

(Optional) Drought Rates

- Prepare for drought in advance: create an ordinance *in advance* to give the utility the ability to raise rates temporarily during a water shortage scenario (sometimes called “drought surcharges”).

How Rates and Usage Interact

Set rates based on projected water use

Raising rates lowers water use

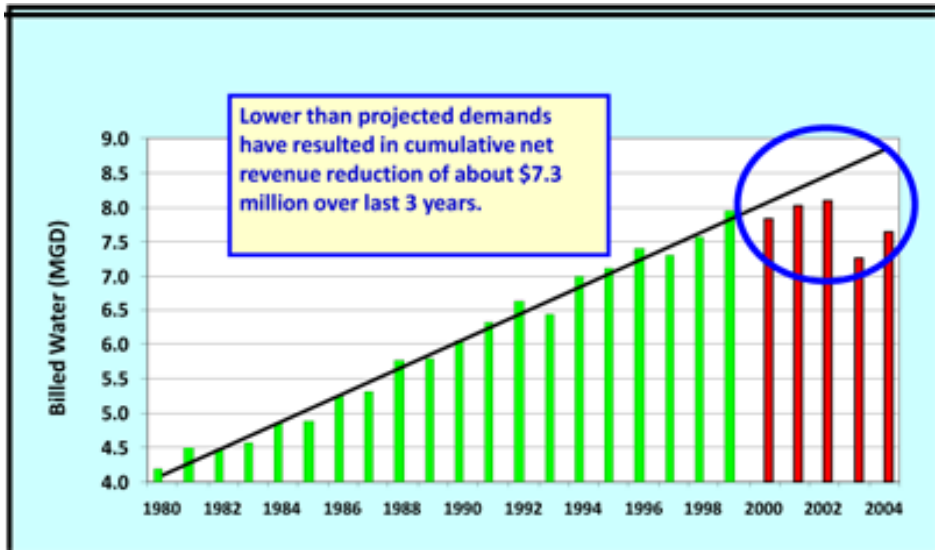
Rule of thumb: water use declines ~2-6% as rates increase 10%

Background Information: How Rates and Usage Interact

Public Perception:

Source: Fayetteville Observer 2/6/2004

Utility Reality:

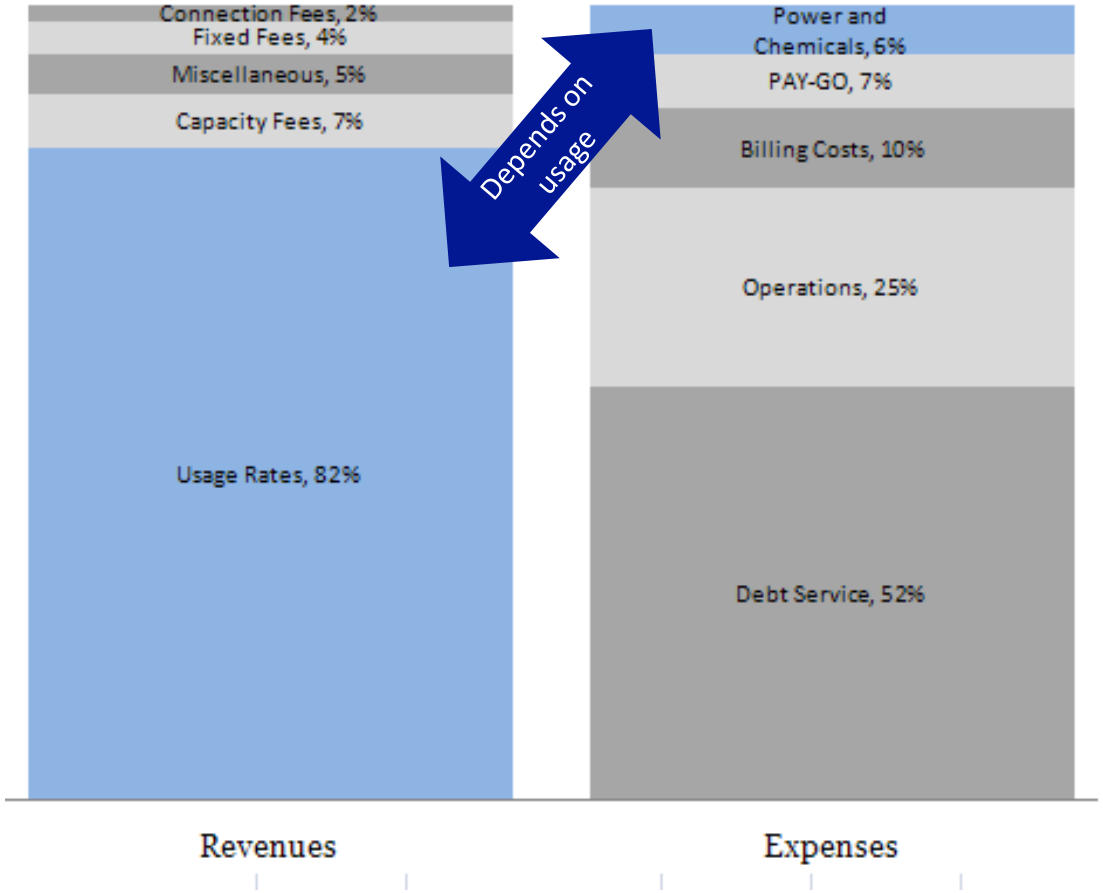


Source: Orange Water & Sewer Authority

Why Does this Happen?

Utilities' costs are mostly *fixed*, not dependent on the amount of water sold/used by the customers. But the majority of revenues come from the amount of water sold. If customers conserve, revenues drop significantly but not costs.

Revenue and Expenses for Charlotte-Mecklenburg Utilities in a Given Year



Source: CMU Director Doug Bean's presentation to the Charlotte City Council on December 1, 2008.

Frequency of Rate Changes

- Always review your rates annually (recommended)
- Review your financial health indicators annually, and then review your rates if any of the indicators reflect poor financing
- Perhaps less politically charged option: Raise rates each year automatically based on inflation

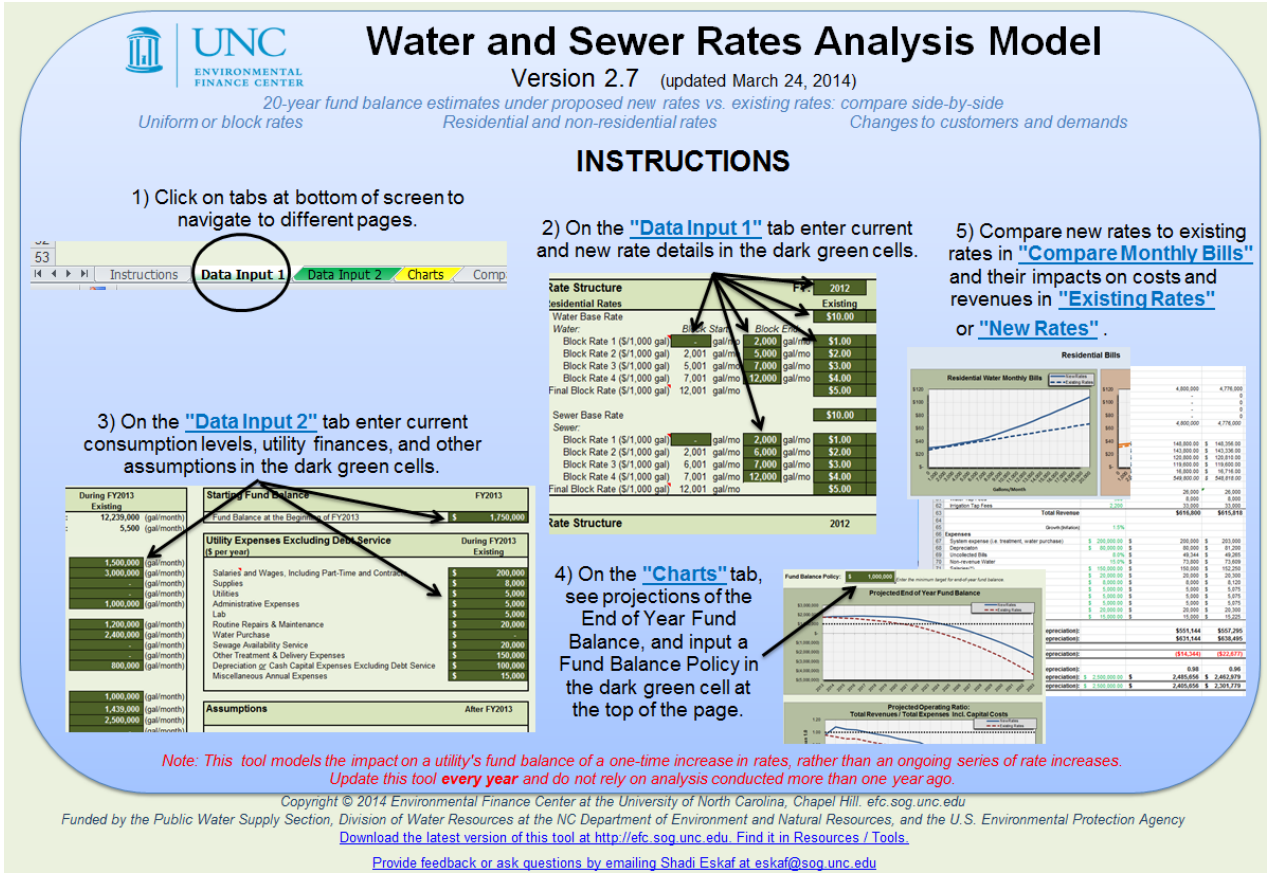
Frequency of Rate Changes

- *Important: Avoid maintaining low rates at the expense of your utility's financial health. It will either lead to a sudden, massive rate increase in the future or to failing systems and endangering public health.*

Look at your rate setting objectives. Look at your rate structure. Do they line up? What changes do you want to consider?

Water and Sewer Rates Analysis Model

Free, rate-setting tool using only MS Excel,
developed by the Environmental Finance Center at UNC.



Download the latest version at http://efc.sog.unc.edu. Find it in Resources / Tools.

Tool development was funded by the Public Water Supply Section of DWR/ NCDENR and partly by the USEPA.

http://efc.sog.unc.edu/reslib/item/water-sewer-rates-analysis-model

Data Input 1

Rate_Analysis-version2 - Microsoft Excel

Water and Sewer Rates Analysis Model. Version 2.0

Data Input Color Explanation:

White:	Data to be entered, can be changed
Black:	Automatically calucated data; do not change!
Red:	Important Results

cubic feet to gallons converter

100 cubic feet = 748 gallons

$/ccf to $/1000 gallons converter

$ 1.00 /hundred cubic feet = $1.34 /1,000 gallons

Inputs: Rates and Rate Structures

Input current rate and account information in the dark green cells to analyze projected cashflows from rate changes.

Input block sizes (state and end) in gallons/month
Input rates in $/1000 gallons
Use the converters above for converting from cubic feet units

Rate Structure — Residential Rates	FY: 2012 Existing	2013 New
Water Base Rate	$10.00	$12.00
Water:		
Block Rate 1 ($/1,000 gal)	$1.00	$1.25
Block Rate 2 ($/1,000 gal)	$2.00	$2.25
Block Rate 3 ($/1,000 gal)	$3.00	$3.25
Block Rate 4 ($/1,000 gal)	$4.00	$4.25
Final Block Rate ($/1,000 gal)	$5.00	$5.25
Sewer Base Rate	$10.00	$12.00
Sewer:		
Block Rate 1 ($/1,000 gal)	$1.00	$1.25
Block Rate 2 ($/1,000 gal)	$2.00	$2.25
Block Rate 3 ($/1,000 gal)	$3.00	$3.25
Block Rate 4 ($/1,000 gal)	$4.00	$4.25
Final Block Rate ($/1,000 gal)	$5.00	$5.25

EFC: If your utility has uniform rates, use the input box for "Block Rate 1"

EFC: Input Final Block Rate here regardless of the number of blocks your utility uses.

Rate Structure — Commercial Rates	2012 Existing	2013 New
Water Base Rate	$10.00	$12.00
Water:		
Block Rate 1 ($/1,000 gal)	$1.00	$1.25
Block Rate 2 ($/1,000 gal)	$2.00	$2.25
Block Rate 3 ($/1,000 gal)	$3.00	$3.25
Block Rate 4 ($/1,000 gal)	$4.00	$4.25
Final Block Rate ($/1,000 gal)	$5.00	$5.25
Sewer Base Rate	$10.00	$12.00
Sewer:		
Block Rate 1 ($/1,000 gal)	$1.00	$1.25
Block Rate 2 ($/1,000 gal)	$2.00	$2.25
Block Rate 3 ($/1,000 gal)	$3.00	$3.25
Block Rate 4 ($/1,000 gal)	$4.00	$4.25
Final Block Rate ($/1,000 gal)	$5.00	$5.25

EFC: If your utility has uniform rates, use the input box for "Block Rate 1"

EFC: Input Final Block Rate here regardless of the number of blocks your utility uses.

Rate Structure — Irrigation Rates	2012 Existing	2013 New
Irrigation Base Rate	$0.00	$0.00
Irrigation:		
Block Rate 1 ($/1,000 gal)	$3.50	$3.50
Block Rate 2 ($/1,000 gal)		
Block Rate 3 ($/1,000 gal)		
Block Rate 4 ($/1,000 gal)		
Final Block Rate ($/1,000 gal)		

EFC: If your utility has uniform rates, use the input box for "Block Rate 1"

EFC: Input Final Block Rate here regardless of the number of blocks your utility uses.

Number of Accounts	2012 Existing	Growth Rate:
Residential Water	3000	0.50%
Residential Sewer	2500	0.50%
Commercial Water	200	0.50%
Commerical Sewer	80	0.50%
Irrigation Water	3000	0.50%

Tap Fees	2012 Existing	2013 New
Average Sewer Tap Fee	$2,000.00	$2,400.00
Average Water Tap Fee	$500.00	$600.00
Average Irrigation Tap Fee	$2,200.00	$2,500.00

Miscellaneous	2012 Existing
Uncollected Bills	8.0%
Non-revenue Water	15.0%

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Funded by the NC Department of Environment and Natural Resources and the U.S. Environmental Protection Agency

Instructions | Data Input 1 | Data Input 2 | Charts | Fund Balance - Existing Rates | Fund Balance - New Rates

Water and Sewer Rates Analysis Model - Results

- Results are Excel Spreadsheet with:
  - The Fund Balance Under **Existing** Rates
  - The Fund Balance Under **Proposed** Rates

…Projected for the next 20 years

LUNCH

PRESENTATIONS FROM INDIVIDUAL FUNDERS

BREAK