

# Ask Me Anything! State Revolving Fund (SRF) Technical Assistance & Open Office Hours Setting Utility User Rates

## 6/16/2025

### Quick recap

Ashley conducted a comprehensive training session on calculating user rates for State Revolving Funds, covering topics such as asset management, capital improvement planning, budgeting, and rate structures for utilities. She emphasized the importance of transparent communication with the public regarding rate increases and discussed various revenue sources and strategies for effective utility management. The session also included discussions on depreciation, reserve funding, and the complexities of rate structures, with Ashley providing guidance on educating communities about the broader goals of utility management.

### Next steps

- Utilities to consider implementing regular rate increases tied to the Consumer Price Index (CPI) to smooth out future rate hikes.
- Utilities to explore public education initiatives, such as attending community events or using interactive budget exercises, to help residents understand the costs associated with providing drinking water.
- Utilities to review their current rate structures and ensure they are equitable, sustainable, and defensible.
- Utilities to evaluate their meter replacement and calibration schedules to ensure accurate billing and revenue collection.

### Summary

#### SRF User Rate Calculation Training

Ashley conducted a training session on calculating user rates for the State Revolving Funds (SRFs), emphasizing the importance of asset management, capital improvement planning, and reserves in budget building. She explained the progression from big-picture asset management to specific budget decisions, highlighting the role of reserves for medium-lived infrastructure assets. Ashley also discussed the benefits of debt financing for large infrastructure projects, emphasizing the concept of intergenerational equity. The session

included a review of reserve funding options, with Ashley encouraging participants to consider these tools for managing infrastructure costs effectively.

## Utility Budgeting and Revenue Management

Ashley discussed the importance of policies and procedures in utilities, explaining how they affect revenue and budgeting. She emphasized that decisions made about new connections and infrastructure can impact a utility's financial health in the long term. Ashley also highlighted the need to carefully consider how revenue from new connections is used, advocating for it to be treated as below-the-line revenue rather than a main revenue source. She concluded by stressing the importance of starting budgeting with expenses, as many are the non-negotiable costs of running a utility, before considering revenue needs. She concluded by urging communities to consider factors like delinquent accounts and leaking pipes, which can significantly impact budgeting and capital improvement planning.

## Depreciation in Community Budget Planning

Ashley discussed the use of depreciation in community budgets, emphasizing the importance of understanding its purpose and whether it is being funded. She highlighted that many communities use depreciation as a forced reserve account but often do not have the cash to cover it, indicating overspending or under-collecting, and warned against relying solely on it for reserve contributions. Ashley also acknowledged that some communities use depreciation as a proxy for debt payment.

## Utility Budgeting and Rate Strategies

Ashley discussed the importance of comprehensive budgeting for utilities, emphasizing the need to consider all aspects, including asset management, capital improvements, and reserves. She highlighted the necessity of reviewing end-of-year surpluses and making informed decisions about their use. Ashley also addressed rate-setting questions, encouraging communities to consider their goals and the impact of rate increases. She introduced the concept of full cost pricing and discussed various elements of user rate structures, including customer classes and billing methods.

## Water Rate Structures and Revenue

Ashley presented on water utility rate structures and revenue sources, explaining how, in her experience, 80-90% of public water system budgets come from fixed charges while variable charges only account for 10-20%. She discussed various rate structures including flat rates, seasonal rates, and increasing block rates, and shared real-world examples from Vermont utilities. Ashley emphasized that while meters are useful for tracking usage, they

may not be necessary for revenue generation when fixed charges are sufficient. She also highlighted alternative revenue sources like cell tower rentals, penalties, and septage treatment fees, recommending that these non-user revenues should go into reserves rather than general revenue in case they underperform, which would result in additional rate increases.

## Rate Structure and Revenue Planning

Ashley discussed the complexities of rate structures, emphasizing the importance of consistent and accurate meter readings for revenue projections. She highlighted the benefits of regular rate increases tied to the consumer price index to avoid sudden, large increases. Ashley also mentioned upcoming trainings and provided information on obtaining rate evaluations for communities, suggesting contacting local or state rural water associations and environmental finance centers for assistance.

## Water Rate Communication Strategies

Ashley discussed strategies for educating the public about water rate increases, emphasizing the importance of transparent communication and involving communities in the budget process. She shared examples of successful public engagement methods, including community meetings and interactive budget exercises. An infographic from a Michigan water supplier was shared that visualizes how rates are set across municipalities. The group agreed on the value of explaining the broader goals of utility management, such as protecting public health and supporting economic development, to help soften the impact of rate increases.

Disclaimer: this summary was generated using AI but was reviewed and edited by a Human.

## From the Chat:

Q: You mentioned that you have done rate evaluations in Vermont in the past. How can I get one of those?

A: I recommend contacting your state's Rural Water Association or the Environmental Finance Center (<https://www.epa.gov/waterfinancecenter/efcn>) that serves your region. The state SRF program may also be a resource for assistance, either themselves or they may be able to connect with TA providers they have on contract.

Q: Public education is such an important piece in the process for raising rates. Can you recommend any educational resources to help the public understand the complexity and costs associated with provided [sic] drinking water?

A: Transparency is the name of the game. I acknowledge that most do not attend public meetings, however, don't let that stop you from going into the boring details are meetings. Oh, and don't forget to actually have meetings.

Another tool you could consider using is to create an interactive activity that involves asking the public to allocate limited resources to general budget categories. For example, set up a booth at the town's Farmers' Market or live music event or the like, using \$100 in 'Monopoly' money ask people divide the funds into 'buckets' of spending. A bit of primer might be useful, like '\$50 of your \$100 must go to debt, there's no choice there.' Then discuss why the people chose to fund the buckets they chose and then discuss what the utility actually does with the money.

C: Great advice, Ashley. I have highlighted those points in my notes.

C: This water supplier in Michigan has a nice infographic about how they set rates: <https://www.glwater.org/our-system/water-system/> . They are an Authority, so it is focused on how the rates differ by municipality, but I thought it was a good example as well!