

# Ask me Anything: What is the Best Way to Calculate Rates? 5.6.2026

## Quick recap

This Ask Me Anything session focused on state revolving funds (SRF) and utility rate setting, led by Ashley Lucht from Quantified Ventures. Ashley provided an overview of SRF programs, explaining that there are 102 programs across the United States to fund drinking water, wastewater, and nature based infrastructure projects. The discussion covered detailed aspects of rate setting, including the importance of asset management, capital improvement plans, and reserve contributions. Ashley emphasized that rate setting should be viewed as a journey rather than just a destination, requiring communities to understand their expenses and revenue generation methods. The session addressed various rate structures, affordability concerns, and non-user revenue sources, with participants asking questions about bond financing, meter accuracy, and handling delinquent accounts. Ashley also promoted upcoming training opportunities, including in-person sessions in Maine and Wyoming, while noting that the current contract with the Environmental Finance Network would end in July.

## Summary

### State Revolving Funds Overview

Ashley provided an overview of state revolving funds (SRFs), explaining that there are 102 programs across the United States focused on drinking water and clean water infrastructure. She described how SRFs work, with funding coming from the EPA and being matched by state governments and outlined the eligible projects for both drinking water and clean water sides. When asked about bondholders, Ashley explained the leveraging process, where SRF programs can issue bonds on the municipal bond market to fund additional projects when demand exceeds available funds, though this is not used by all states and comes with interest costs that are typically paid by the borrowers.

### Funding Options for Small Utilities

Ashley discussed various funding options for small utilities, including SRF programs, state bond banks, and the National Rural Water Association loan program. She emphasized the importance of asset management and capital improvement planning in setting appropriate rates.

## Capital Improvement and Budget Planning

She presented an example of a sophisticated capital improvement plan from a large city, emphasizing the importance of planning and design phases and the distinction between capital improvement plans and asset management plans. Ashley outlined her budget philosophy, advocating for debt financing over saving for long-lived assets to ensure intergenerational equity, and suggested various methods for reserve contributions, including cash accrual and dedicated funds. She also highlighted the importance of policies and procedures related to rate structures, particularly regarding allocation and service fees.

## Utility Budget Planning Discussion

Ashley discussed budgeting for utilities, emphasizing the importance of having a transparent and honest budget. She highlighted the need to focus on expenses first, including operation and maintenance, before addressing revenues. Ashley recommended implementing regular rate increases tied to inflation and questioned the use of depreciation in budget planning. She also addressed issues like free water accounts, delinquent payments, and the importance of customer meters for revenue generation and system control. The discussion touched on affordability challenges, with Ashley noting that affordability is a local issue and that utilities should consider the impact of rate reductions on all customers.

## Rate Review Process Discussion

Ashley explained her process for conducting rate reviews, which involves analyzing customer usage data and applying different rate scenarios to help communities understand the impact on individual customers. She discussed the importance of having defensible user fees and mentioned that without proper justification, utilities could face public backlash or legal challenges. The conversation also touched on state policy conversations in Michigan regarding affordability and rate setting, with Ashley noting that municipal utilities often have flexibility in setting rates as long as they can defend their methodology.

## Utility Rate-Setting and Budgeting Discussion

Ashley discussed various aspects of utility rate-setting and budgeting, including the implementation of tiered rates, which she noted is dependent on the complexity and size of the system, as well as administrative capacity. She explained different methods of paying for infrastructure, such as pay-as-you-go (PAYGO), reserves, subsidies, and loans. Ashley also reviewed examples of real-world user rate structures and emphasized the importance of creating equitable, defensible, and sustainable rate structures. The session concluded

with information about upcoming training opportunities, including in-person trainings in Maine and Wyoming.

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

## From the Chat:

Q: Could you explain more about the bond holder aspect of the SRF, please?

*A: leveraging process, where SRF programs can issue bonds on the municipal bond market to fund additional projects when demand exceeds available funds, though this is not used by all states and comes with interest costs that are typically paid by the borrowers.*

Q: are banks involved in this market?

Q: Do you know if privately owned water supplies are eligible for the NRWA Rural Water Loan Fund?

*A: Maybe, USDA Rural Development technically allows lending to private systems, however it is my experience that state programs may interpret this differently. Asking NRWA would be best.*

Q: When the rates are higher than affordable, how do you handle that scenario....question for Q&A?

*A: My approach to user rate setting is solely driven by establishing realistic budgets that consider future infrastructure investment. And because affordability is quite subjective, I don't presume to build that into my analysis. Now, what I do as of the utility is what its equity goals are and take those into consideration when designing a rate structure.*

C: You can (it's a policy decision) fund a fund for disadvantaged account holders through your rates.

Q: Will these slides be available after the webinar.

*A: Yes, the slides and summary are posted to <https://efcnetwork.org/event/srfofficehours/> within a few weeks of the training.*

C: Customer meters are essential for right-sizing a water system and controlling massive waste (e.g. leaks).

Q: How do system development charges and connection fees tie into this. Why would connection fees raise a red flag?

*A: It is a red flag to me if a utility is using development charges and connection fees to meet its O&M expenses. Those charges/fees are payment to reserve future service, not to keep the lights on today. I would prefer those fees tracked as 'Restricted Funds'.*

C: You make very good points to communicate...thank you...

C: These are also overall state policy conversations. In Michigan this is a big topic and we have multiple groups working on it.

C: I was working with a water supply on a consolidation project and their engineer told me that they wanted to charge the MHC a lot of money because the township was going to need a new storage tank soon. 🙄 They were justifying their outrageous connection fee.

C: Without defensible rates, you can open yourself to a lawsuit.

Q: What are your thoughts on tiered rates?

*A: I think much depends on the size and the administrative capacity of the system. And I would certainly only advocate for increasing block rates, never declining.*

Q: Is it ok if we share out the in-person training?

*A: YES PLEASE. Wyoming registration link: <https://efcnetwork.org/event/wy-in-person-training-financial-management-for-water-and-wastewater-utilities/>*

C: Thank you so much Ashley, this was so insightful. I need to drop for another meeting.