



## **Do You Have the Right Rate Structure For Your Utility? How Well Is It Understood?**

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## **Questions You Need To Ask and Answer**

- ◆ Are your rates recovering all current costs?
- ◆ Are your rates recovering the true costs of service?
- ◆ Do your rates result in stable revenues?
- ◆ Are your rates equitable?
- ◆ Are you planning for future renewal and replacement?
- ◆ What have you done to market your value and raise the transparency of your activities to justify your rates?

## At a minimum, you are . . .

- ◆ Annually creating a budget to cover:
  - ◆ Labor and benefits
  - ◆ Contractual obligations
  - ◆ Utilities/chemicals/supplies/fuel
  - ◆ Minor maintenance/repair
  - ◆ Mandatory capital needs
  - ◆ Inter-governmental transfers

## What else might you be doing?

- ◆ Looking at a multi-year timeframe:
  - ◆ Major capital repairs, upgrades
  - ◆ New development needs
  - ◆ Annual physical assessments
    - Flushing/televising
    - Smoke testing
    - Illegal Stormwater connections /FOG
    - Water main leak tests
    - Pressure pipe inspections

## How Do Your Rate Structures Compare?

Utility	Water Consumption Rates				Wastewater Rates	
	Inclining	Uniform	Declining	Lifeline	Inclining	Uniform
East Windsor MUA	x				x	
Raway Valley SA	x					x
Stony Brook RSA					x	
East Brunswick SA						x
Lower Municipal UA	x					x
Twp of Middletown SA					x (C)	x
Hazlet Twp Sewer Utility Dept.					x (C)	x
Washington Twp MUA		x				x
Long Branch SA					x	
Southeast Morris County MUA	x			x		
Monroe Township Utility Dept	x				x	
Western Monmouth UA						x
Camden County MUA						x
Atlantic City MUA	x					
Jackson Twp MUA	x				x	
Hackettstown MUA	x				x (I)	x (R)
Evesham MUA	x				x	
Willingboro MUA	x				x	

## Have You Updated Your Rate Structure(s) Lately?

- ◆ Challenges:
  - ◆ Justifying rate increases
  - ◆ Handling public outcry
  - ◆ Political risks
  - ◆ Supporting your multi-year plans
  - ◆ Listening and addressing concerns of your customers
  - ◆ Explaining what's driving the increase
  - ◆ Adequately preparing for a rate change

## It's Not Just About The Rate Structure

- ◆ The focus today is on financial reserves and how you justify their purpose
- ◆ Questions:
  - ◆ Is their purpose and function tied to your vision and mission statement?
  - ◆ Have you invested in the tools that exemplify a reason for these funds?
  - ◆ Have you invited key stakeholders into the discussion?
  - ◆ Do you keep those justifications front and center?
  - ◆ Why accumulate them in the first place?

## It's Not Just About The Rate Structure

- ◆ The newest problem is the Robert's bill, P.L. 2004, Chapter 87.
- ◆ It requires:
  - ◆ Single authorities created by a municipality or county may provide an appropriation to their creating entity of up to 5% of annual operating budget.
  - ◆ Restricted to: Undesignated fund balance or unreserved retained earnings
  - ◆ Creating entity needs to ask
  - ◆ Question: Are you required to provide appropriation? No

## So How do You Manage the Impact of these Questions?

- ◆ **Big Picture Issues Come First:**
  - ◆ Age and condition of infrastructure
  - ◆ Regulatory mandates
  - ◆ Existing shared services obligations
  - ◆ Development impacts
  - ◆ Capabilities of staff
  - ◆ Timing
  - ◆ Past history of use of unrestricted funds
  - ◆ Rate Impact

## Maybe your looking at . . .

- ◆ **Sustainability initiatives:**
  - ◆ LEED building design
  - ◆ Carbon footprint reductions
  - ◆ Lighting/electrical savings
  - ◆ Solar systems
  - ◆ SCADA efficiencies
  - ◆ Asset management program
  - ◆ CMMS – structural systems
  - ◆ GIS – linear systems
  - ◆ Wireless alternatives
  - ◆ Restraining growth in labor costs
  - ◆ Creating performance measures

## What Are You Doing to Justify All of These Activities? Have you . . .

- ◆ Adopted a Vision statement
- ◆ Adopted policy initiatives
- ◆ Prepared a Strategic Plan
- ◆ Held regular conversations with City staff, leadership
- ◆ Included language in latest bond prospectus to secure and protect capital reserves
- ◆ Maintained a website to explain your vision and long-term plans

## Have you explained your primary purpose?

- ◆ Customer service delivery
- ◆ Clean, refreshing potable water
- ◆ Odor and backup free service
- ◆ Seasonal guidelines to protect services
- ◆ Local community partner
- ◆ Regional solutions partner
- ◆ Shared service provider
- ◆ Environmental educator

## Have you trained your staff effectively?

- ◆ Minimum safety training
- ◆ Minimum credits to maintain licensure
- ◆ Training to raise licensure levels
- ◆ Maintaining capabilities of Administrative staff

## How About Team Development Training?

- ◆ Understanding the role and purpose of budgeting
- ◆ Using your front line staff as a marketing tool
- ◆ Understanding the vision and mission of a progressive utility
- ◆ Understanding your rate structure
- ◆ Purpose of performance management
- ◆ Maintenance vs capital repair
- ◆ Effective use of GIS systems
- ◆ Communication 101 – mgmt and labor

## **Now that you've identified . . .**

- ◆ Vision statement
- ◆ Mission philosophy
- ◆ Your next steps
- ◆ Tools to achieve long-term goal
- ◆ Communication links with key stakeholders
- ◆ Performance targets
- ◆ Training needs of your staff
- ◆ Authority wide marketing team

## **Next Step: Build a Program Budget**

- ◆ Vision
- ◆ Mission
- ◆ Goals & Objectives by Service Area (Admin, Treatment, Conveyance, CIP)
- ◆ Performance Measures by Critical Activity
- ◆ Explain baseline needs based on historical spending patterns
- ◆ Explain new activities/programs/demands
- ◆ Define revenue sources available
- ◆ Explain expenditure plan

## Now Look at Rate Structure

- ◆ Questions:
  - ◆ Are current rates/structure appropriate?
  - ◆ Are fees for specific services appropriate?
  - ◆ Will it adequately fund your long-term vision?
  - ◆ Do they encourage conservation?
  - ◆ Are the services you provide sustainable?
  - ◆ Are you effectively funding preventive maintenance of existing assets?
  - ◆ Do your policies explain your service philosophy?
  - ◆ Does it allow for the Robert's bill?

## Words of Advice

- ◆ Communicate
- ◆ Anticipate
- ◆ Update
- ◆ Delegate
- ◆ Designate
- ◆ Mandate



Questions?

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CITY	Water Consumption Rates				Wastewater Rates	
	Inclining	Uniform	Declining	Lifeline	Inclining	Uniform
Atlanta	X				X	
Baltimore			X			X
Boston	X				X	
Chicago		X				X
Cleveland		X		X		X
Columbus		X (R.)	X (C/I.)	X		X
Dallas	X					X
Detroit			X			X
Honolulu	X (R.)	X (C/I.)		X		X
Houston	X (R.)	X (C/I.)				X
Indianapolis			X			X
Jacksonville			X			X
Los Angeles	X					X
Milwaukee			X			X
New Orleans			X	X		X
New York		X				X
Newark			X			X
Philadelphia			X			X
San Antonio	X					X
San Diego	X (R.)	X (C/I.)				X
San Francisco	X (R.)	X			X (R.)	X (C/I.)
San Jose	X					X
St. Louis			X			X
Washington, DC		X				X