

Setting Utility Rates for a Sustainable System

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Introductions

Shelley Roberts

Chief Executive Officer

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Kristina Gillespie

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Agenda

➤ The Problem

1. State of Our Infrastructure

➤ The Solution: Three-Prong

1. Collaboration in Rate Setting

2. Managing the Utility Like a Business

3. Setting Rates for a Sustainable Utility



The Problem: State of Our Infrastructure

State Level -Idaho



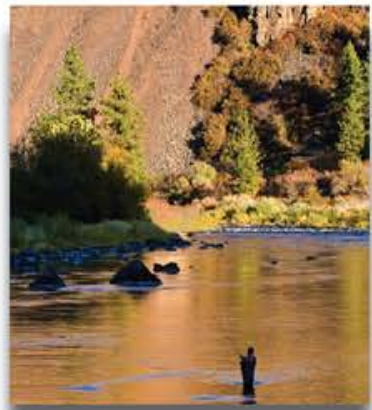
EXECUTIVE SUMMARY

Idaho's approximately 1,960 public water systems consists of work together to deliver clean water to the state's homes and and improve this infrastructure are paid by users and rates car has helped spur investment in new drinking water systems in s Environmental Protection Agency estimates Idaho will need \$ to maintain, repair and replace its existing drinking water infra larger population.



EXECUTIVE SUMMARY

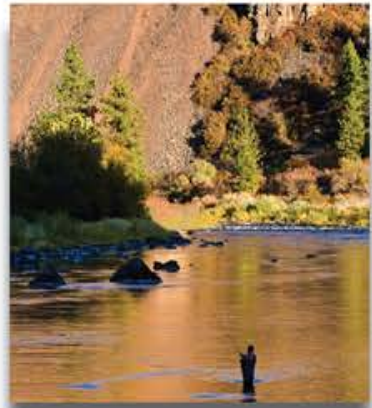
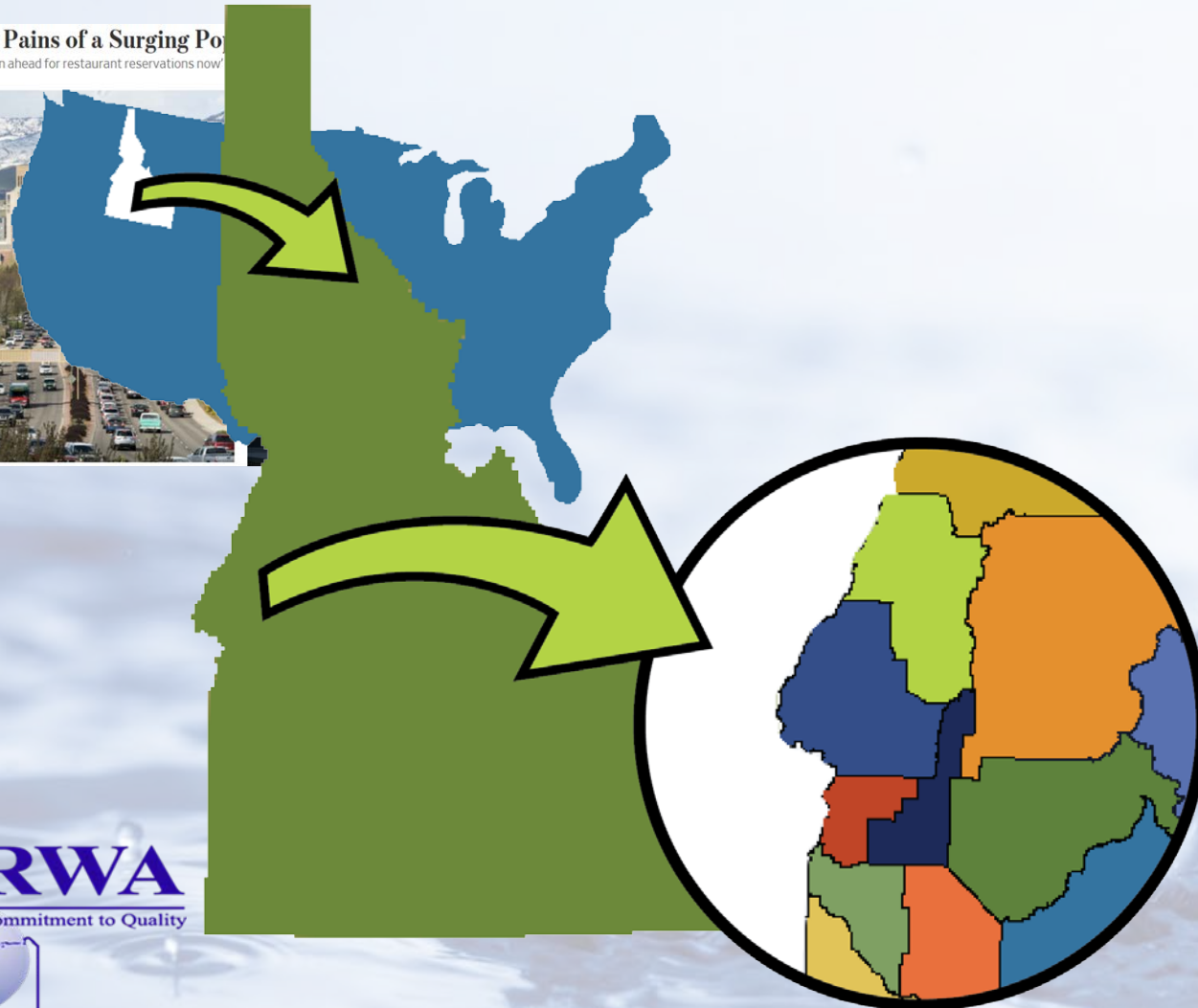
Idaho's 1.68 million residents rely on a variety of wastewater collection and treatment systems, including municipal wastewater treatment plants and septic systems. The state's population is growing rapidly, and Idahoans are benefiting from some new wastewater collection and treatment facilities built to accommodate the increased demand. However, Idaho's challenge will be to maintain and increase funding for ongoing maintenance requirements. The U.S. Environmental Protection Agency reports that over the next 20 years, Idaho will need \$1.38 billion in funding for wastewater infrastructure.



The Problem: State of Our Infrastructure

Local Level-Our Communities

Boise, Idaho, Feels the Growing Pains of a Surging Population
Locals cope with rising home prices, traffic; 'You have to plan ahead for restaurant reservations now'



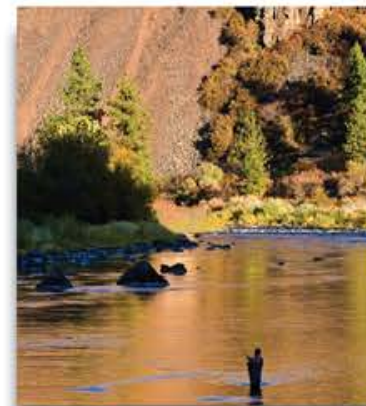
The Problem: State of Infrastructure

Local Level-Key Issues

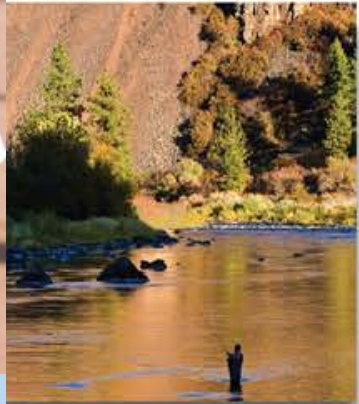
- Political Disputes
- Lack of Asset Management
- Inadequate Capacity (TFM)
 - Technical Capacity
 - Financial Capacity
 - Managerial Capacity
- Environmental Challenges
- Unfunded Regulatory Mandates



.....Aging Infrastructure



.....Waiting for Miracles?



<http://www.theonion.com/article/pope-francis-lays-hands-ailing-us-infrastructure-51388>

Why are Sustainable Rates Important?

- Protects Citizen's Largest Investment
 - Personal Real Property
- Complies with Current and Future Regulations
- Avoids Crisis-Type Situations
- Creates a Funding Base
 - Future Capital Improvement Projects (CIP)
- Fully Funds Operation and Maintenance Costs:
 - Present Day and Future



The Solution: (Three Prong Approach)

#1 – Collaboration in Rate Setting

- **What** is the Collaborative Approach?
- **Why** Use this Approach in Rate Setting?
- **How** Can We Collaborate?
- **Who** Should Collaborate in Rate Setting?



The Solution: Implementation of Collaborative Approach in Rate Setting



The Solution: (Three Prong Approach)

#2-Managing Utilities Like a Business

- Good Stewardship
- Customer Oriented
- Strategic Planning
- Develop Capacity (TFM)
 - Financial Capacity
 - Technical Capacity
 - Managerial Capacity



The Solution: (Three Prong Approach)

#3 -Setting Utility Rates: 6 Step Process

1. Evaluate Current Revenue
2. Evaluate True Costs of Service: **REVENUE REQUIREMENT**
3. Identify Reserve Requirements
4. Design Defensible Rate Structure
5. Implement Full Cost Utility Rates
6. Evaluate Annually and Modify, As Needed



The Solution: (Three Prong Approach)

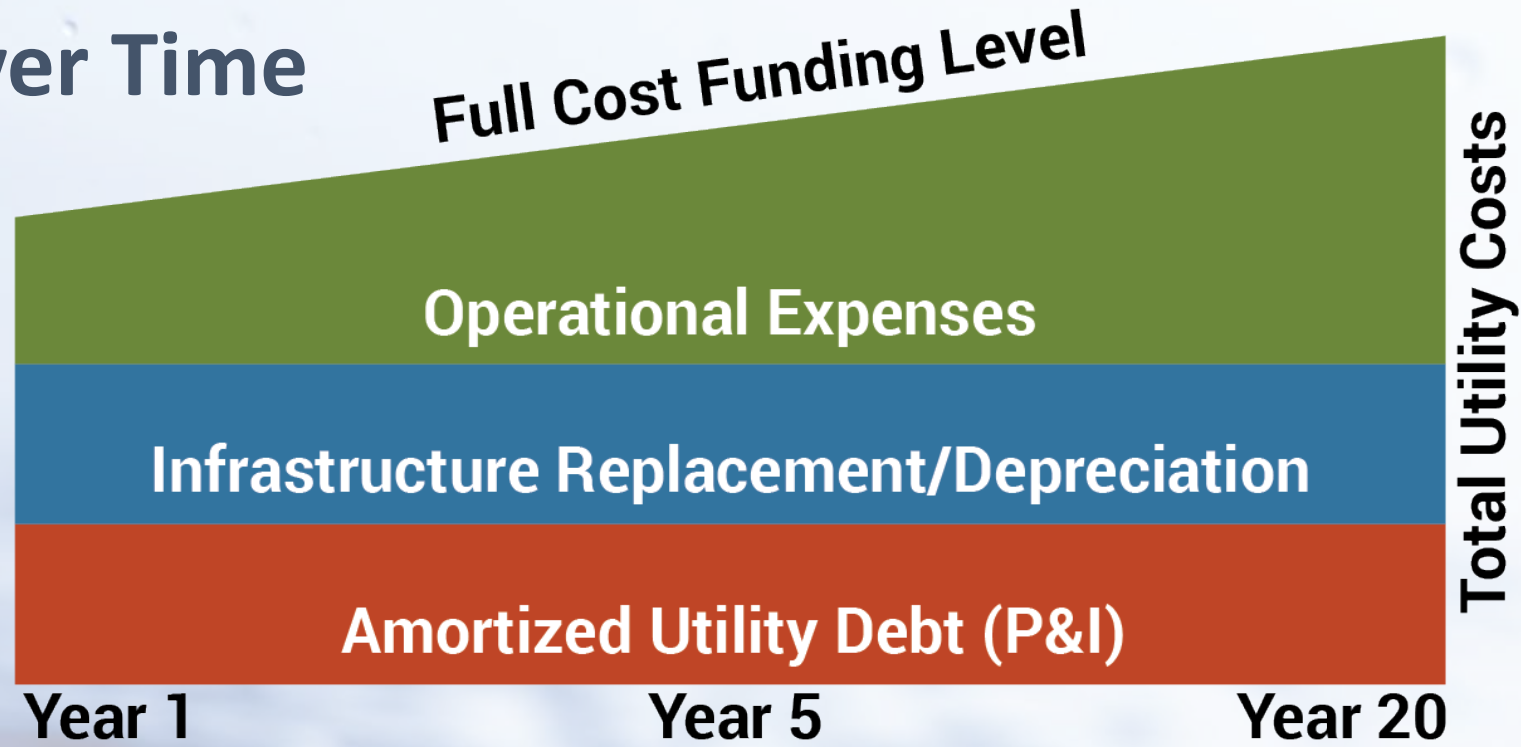
#3 -Setting Utility Rates

.....Sustainable Rates Should....

- Meet Revenue Requirements of Utility
- Meet All Financial/Operating/Legal/Regulatory Requirements
- Include Average Cost Pricing
- Be Equitable
- Be Predictable from Year-to-Year
- Be Easy to Understand and Administer



Revenue Requirement: ...Changes Over Time



Remember: Financial needs should be reviewed annually to keep up with the full costs of the system



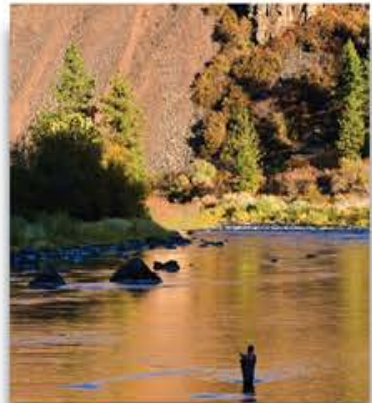
O&M Costs Fully Funded

- **Daily Operations**
 - Chemicals
 - Electricity
- **Routine Maintenance**
- **Training and Education**
- **Security Upgrades**
- **Inflation – *Gradual Rate Increases***



Where Do I Obtain O&M Costs?

- **Historical Expenses**
- **Current Year Expenses**
- **Projected Expenses**



The Solution: (Three Prong Approach) #3 -Setting Utility Rates: Capital Plan

➤ Development of....

- Revisit Annually

➤ Funding of....

- Low Interest Loans, Grants, Public/Private Partnerships

- Customer Rates



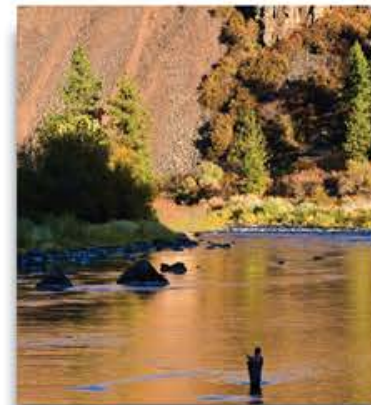
Develop a Comprehensive Capital Plan

- **Historical (i.e. 3 – 5 Years)**
- **Annual Capital Plan**
- **Strategic Plan (i.e. 5 Years)**
- **Master Plan (Facility Plan-20 Years)**



5 Year Strategic Plan

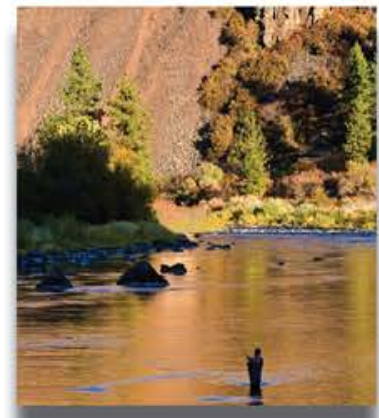
Capital Outlays	Year 1	Year 2	Year 3	Year 4	Year 5
<u>Water Supply</u>					
New Well		\$200,000		\$200,000	
Water Treatment	\$500,000	\$100,000	\$50,000		\$200,000
<u>Water Storage</u>					
300,000 gallon		\$400,000			
20,000 gallon				\$50,000	
<u>Trans. and Distr.</u>					
New Mains	\$100,000	\$100,000	100,000	\$100,000	\$100,000
Replacement Mains	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Total Capital	\$650,000	\$850,000	\$200,000	\$400,000	\$350,000



5 Year Strategic Plan

Debt Service Annualized

Annual Debt	Year 1	Year 2	Year 3	Year 4	Year 5
Existing Debt	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
New Loans		\$30,000	\$30,000	\$30,000	\$30,000
Total Annual Debt	\$100,000	\$130,000	\$130,000	\$130,000	\$130,000



The Solution: (Three Prong Approach)

#3 -Setting Utility Rates: Customer Oriented

- Deliver Fairly Priced
- High Quality Service
- Affordable and Comparable Rates



The Solution: (Three Prong Approach)

#3 -Setting Utility Rates: Troubling Practices:

- Fail to Review/Revise Rates Annually
- Set Rates Based Solely on Past Year's Performance
- Ignore Necessary Repairs or Replacements
- Fail to Validate/Support Rates
- Decline to Offer Supporting Data to the Public
- Charge Higher Rates for One Class of Customer Without Sound Engineering or Financial Basis for the Distinction
- Provide Free Water or Special Deals
- Ignore Depreciation
- Ignore Reserve Allowances
- Gouge Out-of-Town Customers



Closing Remarks

Q&A Session

➤ The Problem

1. State of Our Infrastructure

➤ The Solution: Three-Prong

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Contact Us

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Additional Resources:



Financing Sustainable Water – Rates

<http://www.financingsustainablewater.org/>

Idaho Rural Water Association (IRWA)-Rate Studies, Asset Management, Technical Assistance, Training

<https://www.idahoruralwater.com>

Rural Community Assistance Corporation (RCAC) – Technical and Financial Resources

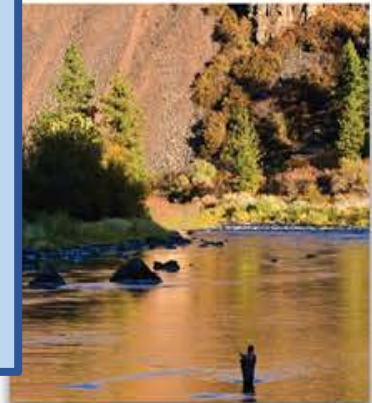
<https://www.rcac.org>

Clearwater Economic Development Council (CEDA)- Economic Development and Grant Administration

<http://www.clearwater-eda.org/>

USDA Rural Development (USDA-RD) – Sustainable Management Tools

<https://www.rd.usda.gov/programs-services/services/sustainable-management-tools>



Additional Resources:



American Society for Civil Engineers (ASCE)-Public Education Resources

<http://www.asce.org/>

Environmental Finance Center UNC (EFC-UNC)Water/Wastewater Utility Training

<https://efc.sog.unc.edu/content/about-environmental-finance-center-unc>

American Water Works Association (AWWA)-Water/Wastewater Utility Resources

<https://www.awwa.org/resources-tools/water-and-wastewater-utility-management/finance-and-rates.aspx>

Environmental Protection Agency (EPA)- Sustainable Water Infrastructure

<https://www.epa.gov/sustainable-water-infrastructure/pricing-and-affordability-water-services>

Alliance for Water Efficiency – Water Conservation Education

<http://www.allianceforwaterefficiency.org/>

