

# LeGIT: Rate Setting



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DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT

Local Government Informational Tutorial

01/16/2025

Why: Rate Setting?

What: Utility Rate Computing

How: Frequency & Process



## Utility Rate Setting

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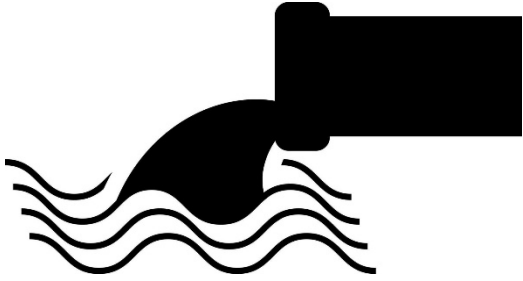
## Why Rate Setting?

- To ensure you have sufficient revenue to cover all expenses.
- To communicate to decision-makers & customers the actual cost of the service they're receiving.
- Failure to cover all costs results in failure of the utility.



## Utility Rate Setting

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## Why Rate Setting?

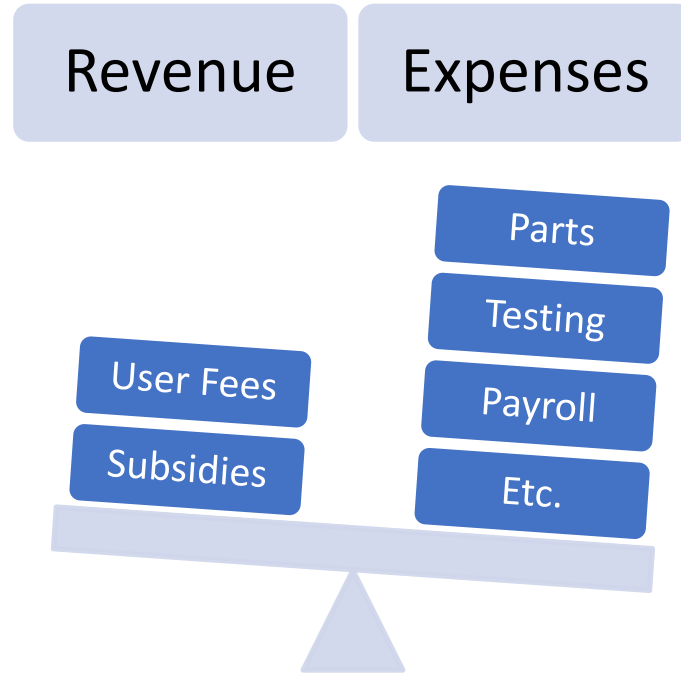
- What do I mean by “failure of the utility”?
- Utilities should be self-supporting
- Or subsidies should be explicit and intentional



# Utility Rate Setting

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# What: Utility Rate Computing



## Utility Rate Setting

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# What: Utility Rate Computing

## 1. Determine Annual Cost of Service

Operations &  
Maintenance

+

Repair &  
Replacement

+

Annual  
expenses

Longer-term  
expenses

Chlorine

Electricity

Fuel Oil

Insurance

Parts

Payroll

Phone

Training

Vehicles

Worker's  
Comp

Travel

Regula-  
tory  
Costs

Testing

Repairs

Major  
Repairs

Deferred  
Maintenance

Replacement



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# What: Utility Rate Computing

## 1. Determine Annual Cost of Service

Use totals from previous year's CFS or audit.

Operations and Maintenance (O&M) Costs (costs for FY12)	
Bank Charges	75.00
Building Materials	0
Chemicals & Testing	44,790.00
Computer/Internet	781.76
Contractual Labor	300.00
Copier Supplies	0
Dues & Subscriptions & Licenses	160.00
Electricity	12,987.97
Equipment	8,840.00
Freight & Postage	7,033.68
Fuel Oil	8,194.00
Insurance & Bonding	4,677.84
Interest on Loans	0
Professional Fees	45.25
Office Supplies	2,723.79
Parts & Supplies	0
Payroll Benefits	725.82
Payroll Wages	71,771.72
Payroll Taxes	1,643.76
Per Diem	0
Postage	0
Regulatory Costs	0
Rent	2,000.00
Repairs & Maintenance	0
Stipends	0
Telephone	0
Training	0
Travel	0
Vehicles	0
Workers' Comp. Insurance	4,703.00
Other: _____	
Other: _____	
Other: _____	
<b>Annual O&amp;M Costs Total:</b>	<b>\$171,453.59</b>

+

Repair and Replacement (R&R) Costs			
Name of Part	Cost of Part	Expected Life (Years)	Yearly Amount
Streaming Current Detector	15,000.00 ÷	15 =	1,000
Chlorine Analyzer	2,500.00 ÷	15 =	167
Honeywell Muty QX	5,000.00 ÷	20 =	250
LMI Pumps – Chlorine	500.00 ÷	20 =	25
Gundfos Pumps	700.00 ÷	10 =	70
Sewer Pumps – Lift Station	1,800.00 x 6 ÷	8 =	1,350
Distribution Line Parts	Various ÷	Varies =	500
<b>Total amount to be set aside for R&amp;R costs each year:</b>			<b>\$3,362</b>

Meet with operators/RMWs.

Annual O&M Costs:	<u>\$171,453.59</u>
+ Annual R&R Costs:	<u>\$3,362.00</u>
<b>Total Cost of Sanitation Services:</b>	<b><u>\$174,815.59</u></b>



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# What: Utility Rate Computing

## 2. Determine customer classifications



Residential



Commercial



School



Health Clinic



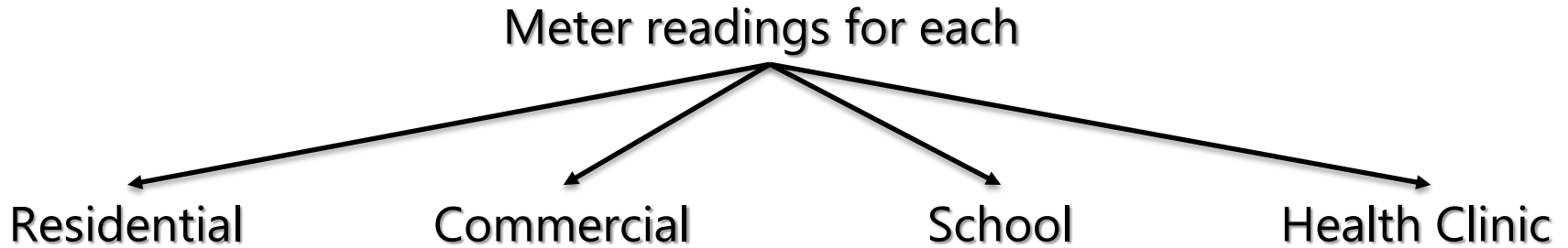
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# What: Utility Rate Computing

## 3. Determine usage by customer classification



Total water produced – water used by customers =  
Calculated Line Loss.

**Then you can get your % use per class!**



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# What: Utility Rate Computing

4. Do the math (flat rate, residential)

$$\frac{\left( \frac{\$240,800}{75\%} \right) \left( 55\% \right)}{12} \div 200$$

R = monthly flat rate per customer

COS = cost of service

CR = collection rate

%U = percent used by class

N = number of customers in the class

**\$73/month**

**for this customer class**

Attend 1/30/25 LeGIT for more on collection rates!



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## How: Frequency & Process

Frequency: Annually (or as close to that as possible)

- Look at \$\$'s for the previous year.
- Should be completed prior to budgeting for the next year.
- Budget should incorporate changes including anticipated expenses & revenue.

Process:

- Staff complete the rate study.
- Recommend rate changes to the decision-making body.
- Decision-making body adopts changes following local procedures (via ordinance, resolution, or otherwise).
- Customers are informed via public notice posting, insert with utility bill, etc.



## Utility Rate Setting

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# What: Utility Rate Computing

## 5. Update your utility customer rates

1. Introduce sustainable options to the decision-making body (council, assembly, board...).

**Scenario 1:**

	Present rates	1st year	2nd year	3rd year	4th year
Residential	\$36.00	\$43.20	\$54.00	\$67.50	\$84.38
Businesses	<b>\$40.00</b>	<b>\$54.00</b>	<b>\$72.90</b>	<b>\$98.42</b>	<b>\$132.86</b>

residential increases by 20% in Year 1, 25% in following years  
businesses increase by 35% each year

**Scenario 2:**

	Present rates	1st year	2nd year	3rd year	4th year
Residential	\$36.00	\$45.00	\$56.25	\$70.31	\$87.89
Businesses	<b>\$40.00</b>	<b>\$54.00</b>	<b>\$72.90</b>	<b>\$98.42</b>	<b>\$132.86</b>

residential increases by 25% per year  
businesses increase by 35% each year

**Scenario 3:**

	Present rates	1st year	2nd year	3rd year	4th year
Residential	\$36.00	\$46.80	\$60.84	\$79.09	\$102.82
Businesses	<b>\$40.00</b>	<b>\$54.00</b>	<b>\$72.90</b>	<b>\$98.42</b>	<b>\$132.86</b>

residential increases by 30% per year  
businesses increase by 35% each year

**Scenario 4:**

	Present rates	1st year
Residential	\$36.00	\$72.00
Businesses	<b>\$40.00</b>	<b>\$120.00</b>

residential increase is doubled  
businesses increase is tripled



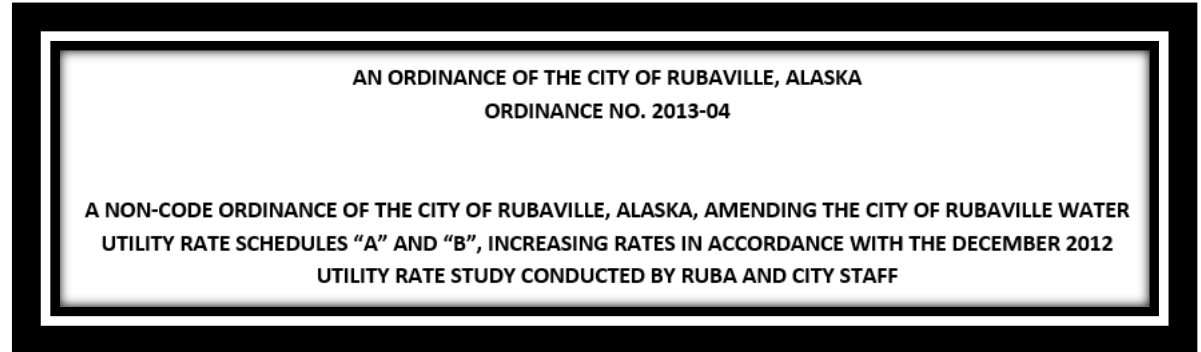
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# What: Utility Rate Computing

## 5. Update your utility customer rates

1. Introduce sustainable options to the decision-making body (council, assembly, board...).
2. Decision-making body adopts the changes in accordance with local procedures (resolution, ordinance, motion...).



## Utility Rate Setting

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# What: Utility Rate Computing

## 5. Update your utility customer rates

1. Introduce sustainable options to the decision-making body (council, assembly, board...).
2. Decision-making body adopts the changes in accordance with local procedures (resolution, ordinance, motion...).
3. Inform customers of upcoming increases to rates.

Rubaville Water Utility Customer  
Important Notification: Rate Increase  
Effective July 1, 2013



## Utility Rate Setting

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# What: Utility Rate Computing

## 5. Update your utility customer rates

1. Introduce sustainable options to the decision-making body (council, assembly, board...).
2. Decision-making body adopts the changes in accordance with local procedures (resolution, ordinance, motion...).
3. Inform customers of upcoming increases to rates.
4. Implement the new rates.

City of Rubaville	
Water Utility Rate Schedule	
Effective July 1, 2013	
<b>A. Non-Recurring Fees</b>	
a. First & Last Month Fees	
i. Residential	\$0
ii. School	\$0
iii. Commercial	\$0
iv. Special Contracts	\$0
b. Disconnection	\$0
c. Reconnection	\$0
d. Late Payment Penalty	\$10.00 or 10% of past-due
e. Unauthorized Usage Fee	\$0
f. Wasteful Usage	\$100.00
g. Returned Check or Failed Bank Draft	\$0
<b>B. Service Rates</b>	
a. Residential	\$87.89/month
b. School	\$0
c. Commercial	\$132.86/month
d. Special Contract	(as per contract)



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# Utility Rate Computing Resources



## The Water Rate Calculator Guidebook



State of Alaska  
Michael Dunleavy,  
Governor  
Department of Commerce, Community, and Economic Development  
Liz Anderson, Commissioner



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Questions/Comments?

Find your LGS:

<https://experience.arcgis.com/experience/31fa8f111aca4b5499167fb63762a3d9/>

But what if not everyone is paying their share??

**Join us January 30 for  
Utility Collections Tools!**



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