

Public Water, Wastewater & Electric Utilities: Financial Management and Rate Setting

Common Utility Challenges

Publicly owned and operated utilities provide significant benefits to the communities they serve. They can also be a source of uncertainty when local leaders must manage utility finances or set appropriate rates to recover the true cost of services. As a result, it is not uncommon for a public utility to go five, ten or more years without a thorough review of rates.

For many utilities, revenue shortfalls may be just one indicator of a larger problem with utility financial management. Other indicators might include:

- Long periods between rate adjustments
- Large rate fluctuations from year to year
- Outdated capital improvement plan
- Vague or non-existent utility financial policies
- Resistance from policymakers to revise rates and charges
- Uncertainty of customer data
- Utility cash reserves are very low or high
- The basis for existing rates is unknown
- System development charges (“tap fees” or “impact fees”) are too low
- Debt coverage ratios are not being met

Typically, these issues can be resolved during the course of a comprehensive cost of service rate study.

Due to the complexities involved in analyzing and communicating utility finances, most local utility authorities, boards or councils find it beneficial to utilize an outside consultant to assist with developing a utility financial plan and establishing electric, water and sewer rates.

Comprehensive Utility Services

Municipal Analytics offers comprehensive utility financial services, including rate setting, long-term capital expenditure planning, cash flow balancing, reserve analysis and rate modeling.

Our services involve an in-depth review of operational and financial documents, analysis of customer usage and bills, discussions with utility employees and engineers, estimations of future capacity needs, policy review in conjunction with the governing board, and development of single- or multi-year rate recommendations. Additionally, we provide a spreadsheet-based rate calculator that allows rates to be re-evaluated by in-house staff each year, depending on anticipated future financial conditions. Rates are structured to meet all bond covenants and ensure on-going financial stability of the municipal utility funds.

Benefits of a properly developed utility financial plan and rate structure include:

- Greater financial stability
- Fewer complaints from customers
- Better capital planning and funding
- Improved bond ratings
- Sufficient cash reserves

Contact Us

For more information, please contact:

John Kaczor
734.277.4454
johnk@municipalanalytics.com
www.municipalanalytics.com

