



BUT, *It's Not in the Budget*

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If you make decisions for a water, sewer, stormwater, or other utility service, you need to be focused on making money—probably more than you are making right now, even if you think you are well funded. You must make more money than just enough to cover your operating costs because your operating costs are going up. And that doesn't even count the unexpected costs that are going to pop up and surprise you.

Let's put some numbers to this situation.

Say you have a water system with an annual operating budget of \$75,000. (I'll get to you big guys later.) You're breaking even—code for “you have no money in the checking account after you pay this month's bills.” Picture taking all of your ratepayers with you up on a high wire with no safety net. That's what breaking even is. You need a safety net of approximately \$26,000. Your ratepayers might say they don't want a safety net, but trust me, they do. You probably need even more cushion than that to cover equipment replacement costs, and you need to make sure your rates are fair to all your customers. But let's keep it simple and only consider the \$26,000.

You have about 315 customers paying an average bill of \$20 per month. To raise the \$26,000 in one year would require a rate increase of about \$7 per customer per month. That won't be popular, and it may not be advisable depending on your situation. But it is do-able if you sell it right. After all, the ratepayers' affordability index will only go from about 0.8 percent now to 1.1 percent after the increase. That's close to the national average.

To successfully clear the \$26,000 in a year your system needs to invest about \$3,000 in a good rate study. What do you do? If your system is like most, you forgo the \$26,000 net cash increase because you don't want to spend \$3,000 to get it. As you view it, you are losing \$3,000, not setting yourself up to gain \$26,000.

Let's personalize this. Assuming there was no risk, would you give your stock broker \$3,000 of your own money now if she would give you back \$6,000 (your \$3,000 plus \$3,000 more) in one year? You probably would, because you would be doubling your money in a year. What if she would give you back \$29,000 (your \$3,000 plus \$26,000 more)? Almost certainly. You would be multiplying your investment about nine times in one year—a remarkable rate of return. What if you didn't even have to give her the \$3,000 to get started? If you could just wait for the results of her work to earn the first \$3,000 for you, then would you pay her \$3,000 after the fact to net the \$26,000? Surely you said, “Yes.” Well, you can have it that way with your rate analyst.

Back to your water system. You would spend about one-and-one-third months worth of your additional first-year revenues to pay your analyst, then you would pocket the rest. Saying that another way, every month you procrastinate in raising your rates costs you about \$2,000 in lost revenues. A good rate analysis will carry you for about three years, and you will net about 96 percent of the new revenues after paying your analyst.

Now, to state the obvious: you're not giving your analyst \$3,000 that he will invest in the market to earn your return. He's going to get it from your customers. Thus, what you pay him, in all fairness to your customers, should only be a small part of the increase in their rates. Otherwise, you should just figure out your funding shortfall percentage, boost everyone's bill by that percentage and hope that nothing bad happens. Keep it simple and cheap.

Now, back to you large-system guys. If your annual operating budget is five to 10 times that of the small system above, your return on investment is in the thousands of percent the first year. You spend maybe a quarter-of-a-month's worth of your additional revenue to pay your analyst, and then you pocket the rest. Every month you procrastinate and don't raise your rates costs you \$10,000 to \$20,000. You will net about 99 to 99.5 percent of the new revenues over three years after paying your analyst.

The early adopter in you says, “Let's go,” but the timid side of you is looking for stop signs. You think first of the standard, “We can't fund a rate study because it's not in the budget.” Remember that \$26,000 gain waiting for you? You think, “We're too busy to mess with a rate study right now.” Then, you are too busy! You think, “Let's save the \$3,000 to \$6,000 investment in having a specialist do a rate study, do it ourselves and net all the money.” That is good thinking. Run the numbers, all the numbers, on doing it in-house versus having a specialist do it. Doing your own rate studies may be your best option. Even if it is, you may need the help of a specialist to get you started. You think, “Let's get a cheaper analyst.” Yes, your analyst's fee is a cost. However, it is also an investment toward great rates for your system. Quality takes time and it costs money. Invest wisely.



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