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To: Campbell, Andy <Andy.Campbell@bakertilly.com>
Subject: Spring Newsletter
Hello,

Hope you are enjoying the warmer weather the past few days. For this quarter's newsletter, I wanted to concentrate on a topic that I cover in every conference speaking session that I present at, inflationary water and sewer user rate increases. If you have heard one of my presentations before, you will know my passion and the financial importance behind this approach.

With the rising costs of inflation, salaries and wages, chemicals, utilities and a variety of other line items in the budget, it is very important that water and sewer systems keep up with these costs. We are seeing more and more communities having to implement double digit (and even some doing triple digit) increases to make up for these cost increases. In addition, although engineers do a great job putting together project cost estimates and giving everyone as much information as possible related to capital improvement plans, the construction market volatility is presenting many communities with challenges as well.

The easiest way to implement this approach is to have a discussion with your council/board in the next budget cycle. Some of the most successful and financially stable communities we work with have adopted multi-year rate plans all at one time and/or adopt a resolution that implements a continual yearly increase to the rates that is effective until a future council/board rescinds the action. It is important to have an internal or external rate study plan that shows the need for the increases, but it is very unusual for a water or sewer to not warrant inflationary increases.

One of the major questions we get asked is how to set the inflationary rate increase. While it works for some of our clients, we typically don't recommend tying the increase to an index (such as CPI) as this number can greatly fluctuate, and most likely doesn't track well with the needs of the system. Here are some aspects to keep in mind to get you closer to the answer:

If you are on a supplier system (buying water or sending sewer to another government or authority), matching the increase that they do might be a good approach

Cash funding capital improvements usually requires a more aggressive inflationary rate increase assumptions to weather the project bid prices and cash reserve ups and downs better

4-5% increases/year will get most communities in the right ballpark and limit the large increases as much as possible

Keep this in mind when you are going through your next budget session. I have yet to hear a community say that they wish they didn't implement an inflationary increase program, it's always the regret that one wasn't implemented sooner. No one likes to implement rate increases, but a steady approach to increases could help your users and council/board have a more realistic and known funding approach that everyone can get behind. Don't hesitate to reach out if you want to talk through your particular situation.

Have a great week.

Andy