

MINTURN NEWSLETTER

SPECIAL EDITION; WATER SERIES

Issue 2: Water Rates



WATER RATES —HOW ARE THEY CALCULATED?

Minturn conducts a water rate study annually. The town continues to look for ways to provide a more equitable system to all rate payers.

To determine water rates, first, you must establish the anticipated costs that you are trying to recover (operations, maintenance, debt payments, future capital improvements, etc.). Second, you then divide that gross number by the number of users you have on the system to determine how you are going to recover those costs through the user rates. Sounds simple, but rate setting gets more complicated when you consider how best to allocate costs to the users (Minturn's goal is to have an equitable rate structure). If you simply divide the amount of revenues needed to be recovered by the number of users (a flat rate) you penalize those that don't use a lot of water. If you base your rates on the volumetric (usage) side of the equation, you run a greater risk that during usage fluctuations (a wet summer for example, where users tend to not consume as much water) then you run the risk of not generating enough revenues to meet the expenditure demands of the system. So, determining the right mix of a base fixed rate and a volumetric (usage) rate is a key consideration.

Minturn has established a conservation rate structure. The first components are charges to recover costs associated with making sure the water is there when you turn the tap on (base rate) and a capital/debt charge to ensure adequate funds are available to make debt payments on an annual basis – these are fixed monthly charges, or base fees, that you pay regardless of whether you use any water. The second component is based on the recovery of system operations to continually produce additional water for usage – these charges are volumetric charges based on a rate per 1,000 gallons, or any part thereof, consumed by the user. Some water utilities charge a “tiered” rate system for water use. An example of this would be ERWSD's billing system. This process encourages water conservation. Currently, Minturn utilizes a flat rate system whereby regardless of whether you use 1000 gallons or 100,000 gallons, you pay the same price per 1000 gallons.

COSTS TO RUN A WATER SYSTEM—IT'S NOT DIRECTLY PROPORTIONAL TO SIZE

There is a certain economy of scale when operating any utility, and a water system is no different. The capital costs associated with construction of treatment and storage facilities carry a cost that is not necessarily proportional. For instance, construction of a 250,000-gallon storage facility may be X, but a 500,000-gallon storage facility will not necessarily be 2X. The same would apply to water treatment facilities. Similarly, distribution systems in densely populated areas are more cost efficient than areas that are spread out. As an example, if you have an 8” water main in the street, that main can easily serve single family residences along the street, but it could also serve a denser multi-family development on that same block.

This also applies to operational costs – operational costs for a system that serves 1,000 customers are not going to be appreciably different than a system that serves 1,200 customers. The management and operational costs are going to be virtually the same (it likely would not need additional personnel or resources), while production costs may increase slightly with the added customer base. Costs will go up as you get larger, however the rate that those costs increase is not a 1:1 ratio once you attain a certain size.

MINTURN VALUES SMALL-TOWN CHARACTER

In the Town of Minturn's Strategic Plan mission statement, the Council commits to the following: “In collaboration with our community, foster the authentic small-town character that is Minturn.” The Council, and Minturn community, have identified “small-town character” as a value and lifestyle worth maintaining. With this in mind, quality of life is considered to be directly related to the small-town character of Minturn and extensive growth to cover infrastructure costs is not an option.

SHOULD WATER RATES INCLUDE SAVING FOR FUTURE INFRASTRUCTURE COSTS?

Owning and operating a public water utility is different than a traditional governmental function. This is generally referred to as an enterprise or business function. One component of an enterprise is that when you look at the audited financial statements of an enterprise, like Minturn's Water Utility, you note a line item called depreciation. Depreciation assigns a portion of a property unit's net cost to each year of its life. Over the life of the property unit, the utility will recover its full net cost. Depreciation rates express, for each utility plant account, the percentage of value lost through wear and tear in an average year during the life of the property unit.

Depreciation is a non-cash outlay item, which means that you are not “writing a check” for the depreciation expense recorded in any given year. Generally, depreciation is used to a) pay for all or a portion of the asset that is being depreciated and/or b) placed in reserve to be used to replace components or all the assets being depreciated.

Typically, depreciation is looked at as a reinvestment number that should be made on an annual basis to maintain the assets in good working condition. In some cases, the depreciation is used to offset the debt expense of an asset and in others it can be treated as a “savings” account that will be used when an asset needs to be replaced.

QUESTIONS

For questions regarding Minturn's annual water rate study and the costs assumed when calculating water rates, please contact Michelle Metteer, Town Manager at 970-445-2418 or manager@minturn.org.



Minturn - In it Together

Communities increase opportunities to thrive when working through issues together. These efforts start with communication and accurate information. I encourage residents to reach out for further discussion or questions about your water bill. There are staff members available to help. Thanks for caring about Minturn!