



Analysis for a Rate Increase

Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](https://www.mtas.tennessee.edu)). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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Once the staff completed the projections of income and cash flow, it was evident that without a revenue increase, the utility would run out of cash in a few years. By state law, water/sewer funds must produce an income. More importantly no water/sewer system can function for a long period of time while continually losing money. As Any City's staff looked over the numbers it was quickly apparent that the city would have to increase rates. What size increase would be needed?

The staff considered several options:

1. Implement a minimum increase sufficient to fund the current costs; determine the amount of and implement larger increase(s) later once the actual costs of capital improvements are known.

Advantages:

- Lessens the immediate impact to customers; and
- Rates set after the costs have been incurred obviously are based on better data than projections.

Disadvantage:

Enacting rate changes several times within a short period means customers' attention will be directed to higher rates over and over again. This is likely to lead to repeated customer complaints.

2. Look at the largest year's financial requirement and increase the rates enough to cover that year.

Advantages:

- City leaders have to significantly raise rates only once and answer all questions and complaints then;
- Revenues in the near term years will be greater before the new debt begins so there is an opportunity to set monies aside for future use.

Disadvantages:

- Larger increases generally upset customers more;
- If the projections turn out not to be as accurate as hoped, additional rate increases may be needed.

3. Cut operating and maintenance costs and/or reduce the capital improvement schedule.

Advantage:

Rate increases may be delayed and/or reduced.

Disadvantages:

- Needed projects likely will be postponed;
- Customer service may suffer;
- State and federal regulators may impose fines and other penalties for failure to make improvements.

Option three was quickly discarded since water/sewer rate increases were needed. Now they had to determine the size and timing of rate increases and communication strategies.

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