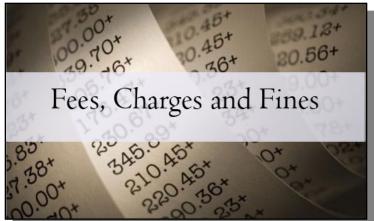
REVENUES



financial workshop #4

This is the first in a series of 3 workshops scheduled to review the city's revenues.

The purpose of this report is to identify, quantify and evaluate the revenues created through user fees, charges and fines.

The goal is to better understand the growth potential of this category of revenues to contribute to correcting the city's financial imbalance.

The City of Kent has three general sources of revenue:

- 1) Taxes (income and property)
- 2) State/Federal ("intergovernmental" funds)
- 3) Fees, Charges and Fines

In total, fees, charges and fines contribute approximately 24% of incoming revenues. However, the 24% figure is deceiving as it includes the two large enterprise funds (water and wastewater) which are fully funded through user fees. If these are funds are backed out, fees/charges/fines contribute only 8% of the revenues to the General Government fund, which is the fund in deficit.

The materials included in this report list the fees currently in use in by each department in Kent, and where data was available, those fees were also compared to regional peer cities rates. This comparative data is important as it provides insight into the relative market position of Kent from a cost of living and cost of business basis.

The mobility of residents and employees in today's economy requires cities to compete not only on quality of life and services but also on cost. To that end, this report tries to provide the data needed to consider price sensitivity, price stability and elasticity of demand as it relates to the city's pricing of fees, charges and fines.

Nationally, more and more cities are trying to increase the transparency of public service costs and introduce user fees as much as possible rather than having residents pay for services in a one-lump sum general tax base. User fees are generally considered a more equitable method of allocating service costs to those that actually consume the service and as a result they provide a price signal that typically allows more efficient consumption. In other words, if you pay based on how much you use a service you are more inclined to be more frugal in your use of that service; whereas if you pay one lump sum a year you are more inclined to apply an "all you can eat" mentality and actually use more of the service than you need which drives up service costs higher than perhaps is necessary.

When it comes to the protecting the "public good" there are limits to the market based pricing model but it has been used for years in public utilities and as evidenced in this report has relevant application in many areas. How much those fees can be used to make up the \$2 million budget gap will require some discussion of pricing philosophy and whether the city leans towards a "cost led pricing" model (where you add up all your costs to deliver the service and set your price accordingly) or a "price led costing" approach (where you look at market prices and set your prices accordingly).

Utilities

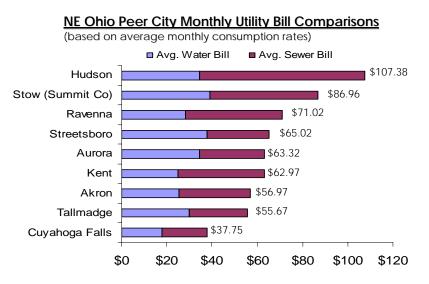
In Kent the water and wastewater (sanitary sewer) budgets are enterprise funds which are designed to be financially self-sufficient from the revenues generated from water and sewer use metering. The use and consumption charges are set to cover operating, capital and debt payments.

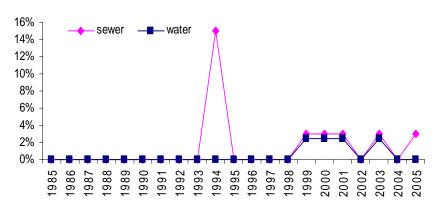
Water and sewer rate comparisons are useful indicators of competitiveness but it is important to remember that different cities use different methodologies to set rates. Some cities may choose to cross-subsidize or supplement the funds with general taxes to hold the consumption rates down. Some cities have old plants that have high capital needs and carry high debt. Some cities use volume discounts or volume premiums on consumption. All of these types of variables need to be considered when trying to make rate comparisons.

As evidenced in the chart to the right, Kent's water and sewer rates are competitive with the region. Overall, Kent's water bill is the second lowest in the region and the sewer is right about at the average. The "effective" utility burden on the Kent average family is approximately \$5 less per household than the regional average.

The history of rate increases for Kent Water and Sewer shows relatively little change over the last 20 years with the exception of a large sewer increase in 1994. Over a 20 year period when inflation rose annually around 2% to 3%, the city's rates averaged an annualized 1.5% rise in sewer and .5% rise in water; well below the consumer price index.

Water and Sewer trade research indicates that 65% of utilities use minimum charges even when no consumption occurs. Cities defend minimum charges to cover the "availability" costs of water and sewer from а capital perspective and to cover the meter reading and billing which occurs regardless of actual use.







NE Ohio Minimum Water and Sewer Fees

