



**38th Annual Conference &  
Membership Meeting**  
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# Utility Rate Studies

By: Adam Letera & Clay Matthews

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# Utility Rate Studies

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WHAT ARE THEY? WHAT ARE THEY FOR? HOW ARE THEY DONE?



# About the Presenter – Adam Letera

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Adam is an industry accounting professional based in Rea's Independence Office and has been with the firm since March 2025. At Rea, his focus is consulting for manufacturing and distribution clients across multiple industries. Adam holds a bachelor's degree in finance from Walsh University and an MBA from John Carroll University. Prior to joining Rea, Adam spent 12 years in the Fortune 500 world at The J.M. Smucker Company and then worked in smaller businesses within e-commerce, distribution, and business consulting. Outside of Rea, Adam is involved with the Fellowship of Christian Athletes and is actively pursuing non-profit board opportunities.



# About the Presenter – Clay Matthews

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Clay is an industry accounting professional based in Rea's Wooster office and has been with the firm since January 2022. At Rea, his focus is consulting for manufacturing and distribution clients across multiple industries and geographic regions. Clay holds a bachelor's degree in business administration with a specialization in accounting from Ashland University. Outside of Rea, Clay is involved with the Wayne County Humane Society, serving as the Treasurer on the Board, and the Young Professionals Group of Wayne County.



# Learning Objective

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- Charging a correct and reasonable rate for utility services can be a tall order, even for the most sophisticated Utility departments. One tool that can assist with this is a Utility Rate Study. In this session, we'll talk about what a Utility Rate Study is, the information needed to complete one, and how they can be used to support rate adjustments that may be required .
- We will also discuss a business mindset and how measuring the right key metrics, and strategic planning and forecasting can help us be the best possible stewards of our resources.

# AGENDA

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## 1. What is a Rate Study?

- COMPONENTS

## 2. What Are They Used For?

- EVALUATE OPERATIONAL ISSUES
- RATE ADJUSTMENT SUPPORT AND JUSTIFICATION

## 3. How Are They Done?

- DATA REQUIRED
- PROCESS

# What Is a Rate Study?

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# Poll Question #1

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Have you ever had any type of rate study or analysis done before?

- Yes
- No



# Poll Question #2

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In general, what level of financial analysis do you think is done within your finance and/or utility department(s)?

- None
- A little
- A fair amount
- A lot
- We analyze everything

# What is a Rate Study?

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## A study of rates applied for an entity

- An analysis of actual costs and actual operational data in order to compare to actual rates that are charged to customers and actual revenue generated.
- Are rates being charged sufficient to cover actual costs being incurred?
- Are rates “*too high*” in that excess cash is being built up with no stated purpose or use?



# What is a Rate Study?

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## Typical Components

- Financial Statement Review
- Prior year trend analysis
- Future year projections
  - Revenue
  - Expense
- Cash flow analysis and projection
  - Capital expenditures
  - Debt service

## Other Components

- Service offering review and feasibility
- Comparison to other locales or providers
- Allocation methodology review

# What Are They Used For?

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# What Are They Used For?

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## **EVALUATE OPERATIONAL ISSUES**

- **Determine cause of operating losses**
- **Investigate Cash flow issues**
- **Determine impact of future cost increases**
  - Adjust rates to get out ahead of?
- **Feasibility of desired capital expenditures and projects**
- **Understand impact of any changes in debt service obligations**
- **Uncover service offerings that are no longer relevant and practical**
  - Understand impact of potential elimination

# What Are They Used For?

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## RATE ADJUSTMENT SUPPORT & JUSTIFICATION



Support  
conclusion that  
an adjustment is  
needed



Drive decision on  
the degree of  
changes that need  
made



Assist with the  
communication of  
proposed  
adjustments

- Data driven  
approach as  
opposed to be  
being viewed as  
subjective



Provide “snapshot”  
view for future  
evaluation of the  
impact of any  
changes that are  
made

# Poll Question #3

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How often do you typically see various rates getting adjusted?

- Every year
- 2-3 years
- 5-10 years
- 10+ years

# How Are They Done?

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# How are they done? | DATA REQUIRED - FINANCIAL

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- **Financial Statements**

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Fund Net Position
- Statement of Cash Flows

- **General ledger detail**, including transactional detail

- **Known future cost increases**

- If not known, will need to determine how to project

- **Capital asset and debt service detail**

- Both current and future

- **Local economic data and projections**

# How are they done? | DATA REQUIRED - OPERATIONAL

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- **Customer counts**
- **Activity volume levels**
  - Examples: gallons of water processed, tons of trash disposed of, etc.
- **Work/Operational schedules**
- **Employee counts and information**
- **Relevant contract information**
- **Capital asset information**
  - Physical counts, useful lives, etc.
- **Whatever is relevant to the operation of the department**
  - Dependent on specific study and what all is in scope and being analyzed

# Poll Question #4

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Do you think you would have the data needed to support a Rate Study?

- Yes
- No

# How are they done? | PROCESS

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- **Discussions with management and employees**

- Department Director, Finance Director, Department Employees, etc.
- “What are we trying to accomplish and what questions do we want answered?”

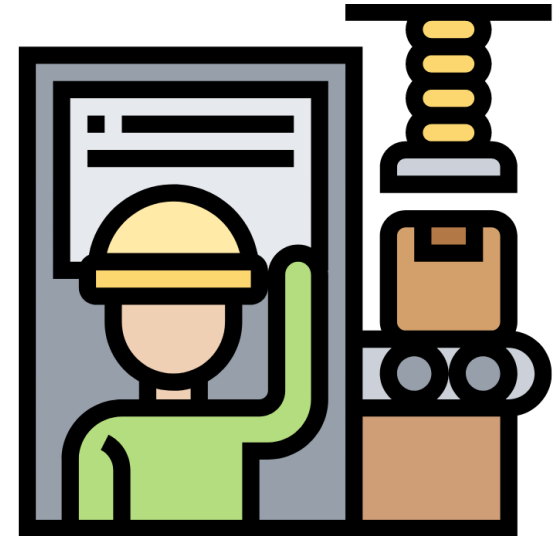
- **Tour of facilities to understand operations**

- **Prior year financial review**

- Both financial statements and general ledger detail
- Trend analysis

- **Prior year operational review**

- **Current rate comparison to actual results**



# How are they done? | PROCESS

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- **Financial projections**

- Known increases/decreases
- Detailed analyses or Year-over-Year inflationary increases
- Often at general ledger account level

- **Operational projections**

- Change in activity levels
- New/discontinued activities

- **Rate analysis**

- Where do we need to be at in order to cover normal operations?



# Poll Question #5

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Over the next 3-5 years are you expecting the revenue levels in your department(s) to

- Drop significantly
- Drop slightly
- Stay the same
- Increase slightly
- Increase significantly

# Poll Question #6

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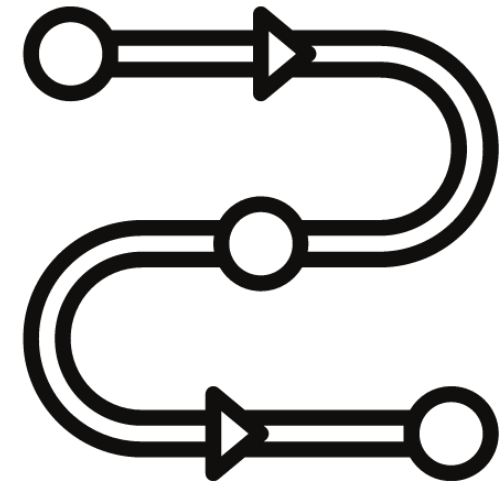
Over the next 3-5 years are you expecting costs in your department(s) to

- Drop significantly
- Drop slightly
- Stay the same
- Increase slightly
- Increase significantly

# How are they done? | PROCESS

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- Cash flow projection and analysis
  - Non-cash expenses
  - Capital assets
  - Debt service
  - Investing activities, Grants, etc.
- Analyze Rate Analysis and Cash Flow projection together
  - “What-if” scenarios
- “Where do we need to be at to support normal operations and ensure long term sustainability of the department?”





# How are they done? | PROCESS

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- **Service offering review**

- Detailed operational discussion to determine specific question
- Gather data needed to support analysis – financial and operational
- Many times will involve analyzing costs for fixed vs. variable

- **Other locale/provider comparison**

- Gather information on what is being compared

- **Allocation methodology review**

- Understand current methodology
- Determine if appropriate based on the way actual costs incurred
- Adjust cost driver(s) if needed

- **In general**

- Define the question, determine data required, gather data, convert data to information, use information to make decision

# Further Follow-Up

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# Thank you!

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