



CITY OF LA CROSSE UTILITIES

WATER ~ SEWER ~ STORM

400 La Crosse St

La Crosse WI 54601-3396

Phone (608) 789-7536

utilities@cityoflacrosse.org

MEMORANDUM

To: **Board of Public Works**

From: **Tina Erickson – Utilities Finance & Compliance Manager**

Derek Greebon – Water Superintendent

Date: **02/02/2026**

Subject: **Water Utility Rate Case: Rate of Return and Phased-In Rate Increase Options**

Background

The Wisconsin Public Service Commission (PSC) regulates public water utilities to ensure customers receive safe, reliable, and affordable drinking water. Water utilities cannot set or change their own rates. All rate changes must be reviewed and approved by the PSC.

The PSC makes sure water rates reflect the true cost of providing service while allowing utilities to maintain infrastructure, make repairs, and plan for the future. To support long-term financial sustainability, the PSC reviews utilities' annual financial reports, reviews and approves major capital projects, and recommends full rate reviews every 5-7 years for utilities the size of La Crosse. Between full rate reviews, utilities may be eligible for limited PSC- approved adjustments similar to a cost-of-living increase. The La Crosse Water Utility's last rate increase occurred in 2019.

Today, utilities face many challenges that may affect rates, including rising operation and maintenance expenses, inflation, aging infrastructure, and water-quality requirements. The PSC stresses the importance of utilities filing rate increase applications regularly to attempt to keep up with operational and capital costs and try to limit rate increases to reasonable amounts for customers.

Water Utility staff have completed the required rate application and, with guidance from the Board, will submit it to the PSC for review. The PSC review process typically takes 6-7 months and includes a public hearing for customer participation. At the conclusion of the process, the PSC will issue a Final Order that sets the approved rates and how they will be implemented.

For further information on the PSC and the rate making process, you can visit www.psc.wi.gov and find water regulations under the Service Type header.

The Purpose of this Memorandum

The memorandum is intended to:

1. Explain, two important options related to the upcoming water utility rate case; and
2. Request the Board's recommendation on how staff should proceed when filing with the PSC.

The two items needing Board input are:

1. Whether the Utility should implement the benchmark rate-of-return recommended by the PSC; and
2. Whether the Utility should request a phased-in rate increase.

Big Picture: Why Rates Need to Increase

The water utility operates like a business, not a tax-supported service. State law requires the Utility to collect enough revenue to:

- Pay day-to-day expenses
- Pay debt on past infrastructure investments
- Replace aging pipes, mains, and facilities
- Earn a reasonable return on the investment into infrastructure so that the Utility maintains financially healthy.

The PSC sets the rules for how this is calculated. This total amount is called the revenue requirement.

Think of it like household budgeting: If your roof, furnace, and plumbing all need replacement, you have to have the money to pay for it.

What Customers Pay Today (Putting Costs in Context)

To help put the proposed increase in perspective:

- The current average residential water bill for someone using about 5,000 gallons of water per month, is about \$18 per month, or about \$.003 per gallon of water.
- Depending on the percentage increase, the water bill could be anywhere from \$25 to \$30 per month, or between \$.005 to \$.007 per gallon of water.

Once the PSC application is completed, it will give an estimated percentage increase to the rates. While a percentage increase can sound large, the actual dollar amounts based on our current rates remain relatively small compared to many other household expenses.

In comparison, consider that:

- A gallon of milk is \$2.50-\$4.00
- A 20 oz. bottle of soda is \$1.50-\$3.00
- A 20 oz bottle of water is \$1.50-\$4.00
- A gallon of clean, safe drinking water is under \$0.01

Item 1: Rate of Return; What It Is and Why It Matters

What is the Rate of Return?

The rate of return (ROR) is similar to interest earned on savings. It represents the return the Utility earns on infrastructure investments already made on behalf of customers.

This return helps the Utility:

- Pay interest on debt
- Maintain financial stability
- Be able to borrow money at reasonable interest rates for future projects

PSC Benchmark vs. Utility Request

- 2019 Utility ROR requested: 5.00%
- 2019 PSC benchmark ROR: 5.70%
- 2019 PSC Authorized ROR: 5.70%
- Current Estimated PSC benchmark ROR: ~6.6%

The Utility may request a lower rate of return, but:

- The PSC has the final authority
- The PSC may deny a lower request and apply its benchmark anyway

Why a Lower ROR Is Risky Long-Term

- Requesting a lower rate of return can reduce rates in the short term, but it also:
- Reduces cash flow
- Makes it harder to fund future infrastructure
- Can weaken the Utility's financial position over time
- Lower rates mean less money for infrastructure replacements which leads to emergency fixes, increased borrowing, and higher costs later

The PSC has stated that consistently earning less than the benchmark can delay needed investment and harm long-term reliability.

Board Input Requested

Staff is seeking the Board's recommendation on whether to:

- Align with the PSC's recommended benchmark to support long-term financial stability; or
- Request a lower-than-benchmark rate of return to reduce immediate rate impacts, understanding the PSC may deny it.

Item 2: Phased-In Rate Increases: Smoothing the Impact

What Is a Phased-In Rate Increase?

A phased-in rate increase allows the total increase to be split into two steps instead of taking effect all at once.

Think of it like easing into a cold pool instead of jumping in.

When the PSC Allows Phased-In Rates

The PSC considers phased-in rates case-by-case, but generally looks for:

- Overall rate increases of 50% or more
- Evidence of customer affordability concerns
- Assurance the Utility can still meet minimum debt obligations

Important limitations:

- The Utility must still collect enough revenue in Phase 1 to pay its bills
- Phasing delays full revenue needed for operations
- The PSC may deny phased-in rates if minimum revenue levels cannot be met

Typical PSC Parameters:

- Two phases, usually split evenly
- Minimum 6 months and maximum 1 year between phases
- Phase 1 often must collect up to 70% of total needed revenue just to meet debt requirements

Board Input Requested

Staff is seeking guidance on whether the Board would like staff to:

- Proceed with a single-step increase as determined by the PSC to support the Utility's financial stability; or
- Request phased-in rates to reduce immediate customer impact, knowing approval is not guaranteed.

Key Takeaways

- The PSC ultimately decides both the allowed rate of return and whether phased-in rates are approved
- Lower rates today can create bigger problems tomorrow
- Large percentages sound scary, but dollar impacts remain modest
- Even after the increase, water remains one of the least expensive essential services customers receive
- The Utility's goal is to balance affordability today with reliability tomorrow

Next Steps

Following Board discussion and direction, staff will proceed with filing the rate case application with the PSC consistent with the Board's recommendations.