

Rationales for Charging Higher Rates to Out-of-Town Customers

The following list includes reasons often cited nationally for charging out-of-town residents more than in-town residents for water/sewer service. The rationales were compiled from professional manuals that explain principles of water rate charges as well as from discussions with officials, such as attorneys, educators and utility professionals.

- Out-of-town customers often request municipal water/sewer service to make new developments, housing or business possible to build. Such requests usually occur where water/sewer service is unavailable or inadequate or where well and septic systems are cost-prohibitive or not practical in an area. Access to municipal water/sewer service increases property values because the property becomes more developable, including to a greater density. Developers and homeowners are willing to pay a premium over in-town rates for such benefits.
- Taxpayers inside a municipality pay higher taxes and own the water/sewer system. They assume additional risk when voter-approved general obligation bonds are used to finance large projects, such as a reservoir. When general obligation bonds are issued a municipality pledges its “full faith and credit” of its taxing power as collateral to insure the debt will be repaid.
- Since the taxpayers/citizens of a town own the system, they should derive some benefit through lower rates from their investment and leadership in building the water/sewer system.
- Outlying areas are generally less densely populated than a town, which involves a greater average expense in maintenance and serving the system per foot of pipe. Serving customers outside a town usually costs more.
- The operations, maintenance, pumping of water/sewer, and reading of meters are more costly in areas outside a town, primarily due to additional distance and travel time.
- Water and sewer service is a way of attracting the type of development and tax base desired by the residents of a town. When a town provides water/sewer service to developments outside of its limits at the request of developers and customers, it loses some of its capacity to attract the type of development that would improve its tax base, help improve the economies of scale in providing services, and potentially ease the tax burden on existing citizens. Charging a premium to out-of-town customers, via a higher rate than is paid by in-town customers, is a method of recouping some of the potential lost tax revenue that a municipality sacrifices by allocating part of its water/sewer resources to outside customers.
- Out-of-town customers often are willing to pay higher rates to be connected to a municipal water system because the service can lower their fire insurance ratings, lowering homeowners insurance rates.