

Target Rate Information

Target Rate Analysis for Water, Wastewater, and Solid Waste Projects

Target rate analysis is a key part of the financial assessment for water, wastewater and solid waste projects. It is used by Commerce to help determine the amount of grant funds a community needs to keep its user rates, resulting from a proposed improvement to a water, wastewater, or solid waste project, at a reasonably affordable level for its citizens relative to other communities. The idea of target rates is based on the concept that the ability of a community, as a whole, to pay a particular user rate is related to the overall median household income level in the community, and that communities with higher median household incomes can afford higher rates than those with lower median household incomes. **MCEP will utilize American Community Survey 2019-2023 data for median household income.**

Commerce utilizes the combined rates for both water and wastewater systems in its target rate analysis. This helps to ensure that an applicant's need for financial assistance is not understated if either of the systems have high rates, even though the other system may have relatively low rates. For communities with only a water system, or a wastewater system, but not both, only the target rate for that single system will be used. Storm drain projects are computed as if they were a part of the wastewater system. Target rate analysis of solid waste systems will consider rates for solid waste plus, where applicable, water and wastewater.

A community's target rate is computed by multiplying the community's median household income by the combined target percentage, 2.3%, to measure residential households' ability to pay combined water and wastewater rates, 1.4% for water systems plus 0.9% for wastewater systems equals 2.3%. For communities with only one system, 1.4% will be used for water systems and 0.9% will be used for wastewater systems.

A community's target rate for a solid waste system is computed by multiplying the community's median household income by the target percentage, 0.3%, to measure residential household's ability to pay solid waste rates. The combined target rate for a solid waste project would then be equal to 2.6% and would consider solid waste, water and wastewater rates. The target rate for a county applying for a solid waste project may necessarily revert to the solid waste rate only since there might not be an applicable water and wastewater rate to use.

For example, if a community has an annual median household income of \$30,000, this figure is multiplied by 2.3%. The sum is then divided by 12 months to determine the community's combined monthly target rate, for water and wastewater, of \$57.50 per month, $\$30,000 \times 2.3\% = \690.00 divided by 12 months = \$57.50 per month. If a community only has a water system and no wastewater system, the target rate would be \$35.00 per month, $\$30,000 \times 1.4\% = \420.00 divided by 12 months. If a community only has a wastewater system and no water system, the target rate would be \$22.50 per month, $\$30,000 \times 0.9\% = \270.00 divided by 12 months.

An equivalent amount to a user fee will be used in the target rate analysis for tribal governments applying to MCEP if individual users are not assessed fees. Subsidization by the tribe is viewed as equal to user fees paid by individuals in typical municipal systems. The equivalent amount will be based on the tribe's cost to finance the improvements, repay any existing system debt, and operate and maintain the system divided by the number of households that are served by the system. The equivalent amount will then be compared to the applicant's target rate. Other appropriate methodologies as determined by the Commerce may be used as needed by the MCEP staff to determine financial need for tribal governments.



Under some conditions, an applicant may use census tract data, block group data or conduct an income survey to establish income figures that more accurately reflect the area benefitted by MCEP funds. Maps of boundaries and areas must be submitted for determination and to provide documentation. Contact Commerce staff for guidance if an alternative data source is to be used to establish median household income.

Because of the importance of target rate analysis in the ranking of MCEP applications for water, wastewater and solid waste projects, applicants should contact the MCEP staff to have their target rates calculated or verified to ensure that the correct target rate is being used.

If the proposed user rates would be below the target rate, after preparing a preliminary financial package to construct the proposed project, applicants should discuss their proposed projects with Commerce staff. Grant funding will not be recommended for projects that would result in user charges below the target rate.

Additional guidance on target rates can be obtained by contacting Commerce staff.