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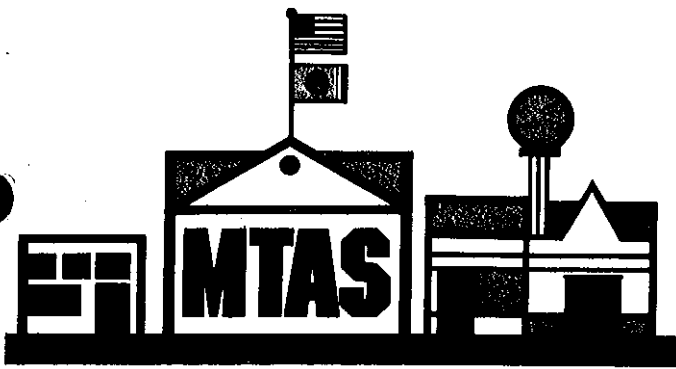
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HYDRANT RENTAL FEES - USE AND JUSTIFICATION

By Joseph Muscatello, Jr., Municipal Management Consultant

Most municipal utility systems are looking for ways to increase revenues and to reduce expenditures. One revenue-producing area that should be used by municipal water systems is what is commonly referred to as the "Hydrant Rental Fee."

According to data collected by the Municipal Technical Advisory Service, there are 219 municipally-owned water systems in Tennessee. Of these, only 57 systems charge a "Hydrant Rental Fee."

This is a charge made to recover a portion of the additional capital cost incurred by the water system in providing adequate fire flow requirements. This fee is justified because water systems are designed to include these additional facilities in order to meet insurance requirements. These capital costs include larger distribution lines, increased storage, and increased pumping capacity. The water system has to finance these extra capacity costs, designed primarily for fire protection, yet the benefits realized from the lower fire rating, in the form of reduced insurance premiums, are directly proportional to the value of the property protected. Therefore, the cost of this form of fire protection should be borne by the property protected.

One way to transfer this cost to those who benefit the most is for the municipality to pay the water utility an annual amount to approximate the cost of public fire protection provided by the water system. An equitable way to make this payment is to pay the amount out of the general fund. The amount paid out of the general fund should be calculated into an overall increase in the property tax rate.

Charges such as the hydrant fee are allowed by state law (T.C.A. 7-35-415, "Charges to Municipalities"), which provides: "The reasonable cost and value of any service rendered to such city or town by such waterworks system shall be charged against the city ... said city is authorized and required to levy a amount sufficient for this purpose."

The Tennessee municipal utility systems that do take advantage of this revenue source charge the fee one of two ways, a flat fee or a charge per hydrant. The per hydrant charges vary from \$15 to \$160 per hydrant; flat charges range from \$1,300 to \$43,400.

It is doubtful that the extra capacity costs are met by the hydrant charge in most of these cases. However, the additional revenue helps supplement the utility budget and to delay rate increases.

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