



Iowa

Water and wastewater utilities in Iowa fall under several rate setting regulatory systems.

Commission-regulated utilities	
Noncommission-regulated utilities	

Commission-Regulated Utilities

The **Iowa Utilities Board** (IUB) regulates the rates and services of private water companies serving more than 2,000 customers and private wastewater companies.¹³³ The IUB does not regulate government-owned water or wastewater utilities.

Pursuant to **Iowa Code § 476.3** and **§ 476.8**, the rates of commission-regulated utilities must be reasonable, just, and nondiscriminatory.¹³⁴ **Iowa Code § 476.18** lists the costs that commission-regulated utilities cannot recover through rates and charges: lobbying costs, advertising costs, and certain legal costs. Additionally, **Iowa Code § 476.5** states that no regulated utility “shall make or grant any unreasonable preferences or advantages as to rates or services to any person or subject any person to any unreasonable prejudice or disadvantage.” Finally, under **Iowa Code § 476.5**, commission-regulated utilities cannot “directly or indirectly charge a greater or less compensation for its services than that prescribed in its tariffs.”

With respect to commission-regulated utilities, low-income customer assistance programs (CAPs) funded by rate revenues would likely be subject to IUB interpretation, or subsequent legal challenge, as to whether they constitute an unreasonable prejudice or advantage or are unjustly discriminatory. In addition, such programs would need to be approved by the IUB as part of the rate approval process.¹³⁵

Noncommission-Regulated Utilities

Many municipalities in Iowa operate under home rule. Government-owned water and wastewater

133. According to the IUB website, only one private water company currently meets this criteria: the Iowa-American Water Company, which serves approximately 63,000 customers. Additionally, the IUB only gained regulatory authority over private wastewater companies beginning in March 2016, however, no such entities currently operate in Iowa.

134. **Iowa Code § 476.8** also states that “in determining reasonable and just rates, the board [IUB] shall consider all factors relating to value and shall not be bound by rate base decisions or rulings made prior to the adoption of this chapter.”

135. See **Iowa Code § 476.5**.

State Population (2016):	3,134,693
Median Annual Household Income (2015):	\$53,183
Poverty Rate (2015):	12.5%
Typical Annual Household Water and Wastewater Expenditures (2015):	\$388
Iowa has 1,092 community water systems (CWS), of which 324 are privately owned and 1,046 serve populations of 10,000 or fewer people.	
Iowa has 768 publicly owned treatment works facilities (POTWs), of which 702 treat 1 MGD or less.	
469,066 people are served by privately owned CWS; 2,316,202 are served by government-owned CWS; and 2,592,369 are served by POTWs.	
Estimated Long-Term Water and Wastewater Infrastructure Needs:	\$8.3 billion

Sources: U.S. Census Bureau, 2016 Population Estimate & 2011–2015 American Community Survey 5-Year Estimates; 2016 EFC Rates Survey; U.S. Environmental Protection Agency, 2016 Safe Drinking Water Information System, 2011 Drinking Water Infrastructure Needs Survey, and 2012 Clean Watersheds Needs Survey. See Appendix C for more details.

utilities¹³⁶ are generally governed by local city councils, a county board of supervisors, or by a board of trustees. Although **Iowa Code § 384.81** provides municipalities with authority to establish rates for city utility systems by ordinance of the city council, **Iowa Code § 388.6** prohibits a city utility from providing service at a *discriminatory* rate, except to the city itself.¹³⁷ With respect to wastewater districts, **Iowa Code § 358.20** provides that rates must be “just and equitable” and, further, that rates shall be “in proportion to the services rendered and the cost of the services.”

136. Including municipal- and county-owned water and/or sanitary districts, rural water districts, and cooperative water associations.

137. **Iowa Code § 384.91** provides that a city utility may provide free or reduced water to the city itself.

Despite these potentially limiting clauses, in *State v. City of Iowa City*,¹³⁸ the Supreme Court of Iowa confirmed that government-owned utilities have broad authority to implement reasonable rates and, further, that the cost of supplying municipal wastewater services is not the only factor that a city may consider in setting rates. In reviewing the legality of a flat per unit rate for wastewater services, which was based on water use, the court stated that “the rates charged by a municipal utility must be fair, reasonable, just, uniform and nondiscriminatory, and the same rules in regard to the reasonableness of private utility companies apply.”¹³⁹ However, the court also agreed with the general rule that “reasonable discretion must abide in the officers whose duty it is to fix rates. Their determination should not be disturbed if there is any reasonable basis for that determination, or unless it is proved that the rates are excessive and the action of the rate-fixing officers illegal and arbitrary. . . . A rate lawfully established is assumed to be reasonable in the absence of a showing to the contrary, or a showing of mismanagement, fraud, or bad faith, or that the rate is capricious, arbitrary, or unreasonable.”¹⁴⁰

In summary, local government entities in Iowa have relatively broad authority to establish utility rates; however, potentially limiting language included in state statutes may provide a basis for legal challenges of low-income CAPs funded by rate revenues.¹⁴¹ At least one government-owned utility in Iowa, the City of Cedar Rapids, currently offers a [bill discount program](#) for elderly and disabled customers who meet certain income requirements.

138. *State v. City of Iowa City*, 490 N.W.2d 825, 831-33 (Iowa 1992).

139. *Id.* at 829.

140. *Id.* Additionally, the court held that “[t]he burden of proof is on the party claiming unreasonableness or discrimination. A city has no duty to justify or explain its actions in setting rates until the party contesting their validity shows their invalidity by competent evidence.” *Id.*

141. However, based on findings from *State v. City of Iowa City*, the rate determinations of government-owned utilities can only be overturned under specific circumstances.