



Lake Whatcom Water & Sewer District

Water & Sewer Utility Rate Study

2027-2031

July 29, 2026

INTRODUCTION

Utility Background

The Lake Whatcom Water and Sewer District (District) provides essential water and wastewater services to customers throughout approximately 18 square miles surrounding Lake Whatcom with approximately 3,800 water service connections and 4,200 sewer service connections. The District's service area encompasses residential areas surrounding Lake Whatcom, including Sudden Valley, Geneva, Agate Heights, Eagleridge, and neighboring properties within the watershed. The District owns, operates, and maintains a diverse network of utility infrastructure necessary to provide safe and reliable services to its customers. Water system assets include treatment facilities, reservoirs, pump stations, transmission mains, and distribution infrastructure. Wastewater services consist primarily of the collection and conveyance of sewage flows through the District's collection system to the City of Bellingham's Post Point Wastewater Treatment Facility for regional treatment and disposal.

Providing utility service within the Lake Whatcom Watershed presents unique operational, environmental, and financial challenges. Aging infrastructure, regulatory requirements, environmental stewardship responsibilities, topography, and ongoing capital reinvestment needs require thoughtful planning to ensure utility systems remain reliable and financially sustainable for current and future customers. The District's mission is to provide the best possible water and sewer services in a safe and cost-efficient manner while contributing to the protection of Lake Whatcom's water quality. This mission serves as the foundation for utility planning, operational decision-making, and long-term financial management. The District recognizes that utility rates are more than a revenue source, they are a critical tool for maintaining infrastructure, protecting public health, preserving environmental resources, and ensuring reliable service delivery. The District's financial planning process is guided by principles of service, financial responsibility, environmental stewardship, leadership, and teamwork. These principles support the District's commitment to responsibly managing public resources while maintaining high quality service for customers.

Rate Study

The purpose of this Rate Study and Cash Forecasting Model (Study) is to evaluate the financial needs of the District's water and sewer utilities and develop a sustainable funding strategy for future operations, maintenance, and capital reinvestment while meeting debt obligations and financial reserve requirements. The rate setting period evaluated in this study covers fiscal years 2027 through 2031. However, because utility infrastructure investments often extend well beyond a single rate cycle, the financial forecast evaluates revenues, expenses, capital improvements, reserve levels, and debt obligations over a 20-year horizon. This long-range perspective allows the District to assess the affordability and sustainability of funding strategies while identifying future financial challenges before they occur. The financial forecast uses a revenue-driven planning framework that begins with identifying the District's financial obligations, including operating expenses, capital improvement needs, debt service requirements, and reserve funding objectives. These obligations collectively establish the utility's revenue requirement, which in turn forms the basis for developing rates that support reliable service, infrastructure sustainability, and long-term financial resiliency while minimizing abrupt impacts to customers.

FINANCIAL POLICIES

The financial policies reflected in this Study provide the framework used to evaluate the District's long-term revenue requirements and financial health. These policies are intended to promote financial stability, support prudent asset management practices, maintain adequate liquidity, and ensure resources are available to meet both planned and unplanned obligations. The District's financial planning approach recognizes that utility infrastructure requires ongoing investment and that utility revenues must be sufficient not only to support current operations, but also maintain, repair, and replace critical infrastructure over time. The financial forecast incorporates reserve policies, debt management requirements, and cash balance targets designed to support long-term resiliency.

Operating Reserves

Operating reserves provide a liquidity cushion that protects the utility from short-term fluctuations in revenues and expenses. Maintaining adequate operating reserves allows the District to continue normal operations during periods of unexpected revenue reductions, emergency expenses, seasonal cash flow variations, or other unforeseen events. Consistent with the District's Administrative Code and utility industry best practices, the financial forecast maintains minimum operating reserve levels equivalent to approximately 90 days of operating expenses within the Water Utility Fund and 60 days of operating expenses within the Sewer Utility Fund. These reserve levels are intended to provide sufficient working capital while allowing excess funds to be directed toward infrastructure investment and other utility needs.

Capital Contingency Reserve

The Capital Contingency Reserve provides a dedicated funding source for emergency capital expenses, significant equipment failures, and other unforeseen infrastructure needs that can't reasonably be anticipated through the biennial budgeting process. Utility systems contain critical assets whose failure may require immediate repair or replacement to maintain service reliability and protect public health. Historically, the District's contingency reserve target was established at approximately one percent of utility asset values. As part of this study, the District evaluated alternative contingency reserve funding strategies to better align reserve levels with current replacement costs, system complexity, and long-term financial risks. The reserve levels reflected in this forecast are intended to improve the District's ability to respond to unexpected infrastructure failures while reducing reliance on emergency borrowing or abrupt rate adjustments while keeping pace with inflation.

Total Days Cash on Hand

In addition to specific reserve categories, the District monitors unrestricted cash balances through the measurement of *total days cash on hand*. This metric evaluates the utility's overall financial flexibility by measuring the number of days the utility could continue operating using available cash reserves. Credit rating agencies, lenders, and utility industry organizations commonly use days cash on hand as a key indicator of financial strength and liquidity. Consistent with prior financial planning efforts and recommendations, this forecast targets approximately 180 days cash on hand within each utility fund. Maintaining this level of liquidity provides additional financial flexibility to address changing economic conditions, infrastructure needs, and future capital investment requirements.

Debt Management Policies

Debt financing remains an important component of the District's long-term capital funding strategy. While the District seeks to maximize the use of available cash resources and grants wherever possible, certain infrastructure investments may require debt financing to equitably distribute costs among current and future customers. The financial forecast assumes debt financing may be used when sufficient funding isn't available through reserves, rate funded capital, grants, developer contributions, or other resources. The use of debt funding allows the District to complete necessary infrastructure improvements while maintaining rate stability and preserving financial flexibility.

Debt Reserve

The District maintains a debt reserve fund consistent with requirements of existing debt agreements. Debt reserves provide an additional level of protection for bondholders and lenders by ensuring resources are available to meet debt service obligations in the event of unexpected financial challenges. The debt reserve fund also contributes to the District's overall financial strength and supports favorable borrowing terms by demonstrating prudent financial management and a commitment to long-term obligations. The current debt reserve fund maintains a balance equivalent to the maximum amount due over the remaining life of the bonds.

Debt Service Coverage

Debt service coverage is a key measure of a utility's financial capacity to meet its debt obligations. The ratio compares available revenues to annual debt service requirements and serves as an indicator of financial stability and creditworthiness. The District's existing bond covenants require a minimum debt service coverage ratio of 1.25. However, consistent with the District's Administrative Code, this forecast uses a more conservative planning target of 1.75 or greater. Maintaining coverage levels above minimum contractual requirements provides an additional financial cushion, strengthens the District's financial position, and enhances future borrowing flexibility.

System Reinvestment Funding

A fundamental component of long-term utility financial planning is ensuring that sufficient resources are available to repair, rehabilitate and replace infrastructure assets as they reach the end of their useful lives. Rate funded system reinvestment provides a dedicated source of funding for these ongoing capital needs and helps reduce reliance on debt financing for routine infrastructure replacement. Historically, the District's financial planning models included annual system reinvestment targets increased by a fixed amount each year. While this approach provided a reasonable planning framework at the time, it was developed when limited information was available regarding the age, condition, and replacement value of many utility assets.

Since completion of prior rate studies, the District has made significant progress toward the development of a comprehensive asset management program. Through this effort, the District has improved its understanding of system infrastructure, asset condition, replacement costs, and long-term capital needs. This work has demonstrated that future capital funding requirements are greater than previously reflected in historical planning assumptions and that a more robust and sustainable reinvestment strategy is necessary to maintain utility reliability and service levels. As a result, this rate study incorporates increased annual capital funding targets that more closely align with the District's evolving asset management practices and long-term capital needs. The financial forecast reflects these higher levels of reinvestment and incorporates inflationary adjustments throughout the planning horizon rather than a fixed amount. Table 1 provides a summary of the District's financial policies for the water and sewer utilities over the subsequent five-year planning window.

Table 1 – Key Financial Policies

Financial Policy	2027	2028	2029	2030	2031
Operating Reserve – Day to Day Operations					
Water (90 Days)	\$780,900	\$810,000	\$840,400	\$871,900	\$904,600
Sewer (60 Days)	\$603,800	\$627,700	\$652,500	\$678,300	\$705,200
Capital Contingency Reserve – 1% Asset Replacement Value					
Water	\$1,210,500	\$1,234,700	\$1,259,400	\$1,284,600	\$1,310,300
Sewer	\$1,689,400	\$1,723,200	\$1,757,700	\$1,792,800	\$1,828,700
System Reinvestment Funding – Annual Capital Budget					
Water	\$639,000	\$651,800	\$664,800	\$678,100	\$691,700
Sewer	\$996,400	\$1,016,300	\$1,036,700	\$1,057,400	\$1,078,500
Debt Service Coverage – 1.75					
Water	1.72	1.87	2.02	2.19	2.29
Sewer	2.85	2.65	2.43	5.98	5.37
Combined	2.29	2.26	2.23	4.09	3.83

STUDY ASSUMPTIONS

The financial forecast presented in this rate study is based upon information available at the time of analysis and reflects current operating conditions, capital planning efforts, reserve funding objectives, and economic assumptions. Long-term financial planning requires use of assumptions regarding future events and conditions that are not known with certainty. As a result, actual financial performance may vary from the projections presented in this report. The assumptions used in this study are intended to provide a reasonable and conservative basis for evaluating future revenue requirements and supporting long-term financial sustainability. These assumptions will continue to be reviewed and refined as additional information becomes available and future rate studies are conducted.

Economic and Inflation Assumptions

The operating expense forecast is based upon the District's 2025-2026 Biennial Budget and historical operating trends. Future expenses are projected using inflationary assumptions that reflect current economic conditions, anticipated market trends, and the District's experience with labor, materials, services, and utility-related costs. While inflation levels experienced in recent years have moderated from historic highs, utility providers throughout the region continue to experience cost pressures associated with labor, construction materials, contracted services, insurance, regulatory compliance, and infrastructure replacement. Accordingly, this study uses inflation assumptions intended to reflect long-term planning conditions rather than short-term economic fluctuations.

Capital Improvement Planning & Asset Management

The capital improvement program reflected in this study is based on the District's most current capital planning information and ongoing asset management efforts. Significant progress has been made in developing a comprehensive understanding of utility assets, their condition, and long-term replacement needs. As a result, the

forecast reflects increased annual capital funding targets compared to previous studies and incorporates inflationary adjustments to better align with anticipated infrastructure replacement costs.

Debt Financing

The forecast assumes debt financing may be used when appropriate to fund major capital improvements that can't be reasonably financed through available cash reserves, utility revenues, grants, or developer contributions. Any future debt reflected in the model is intended for planning purposes only.

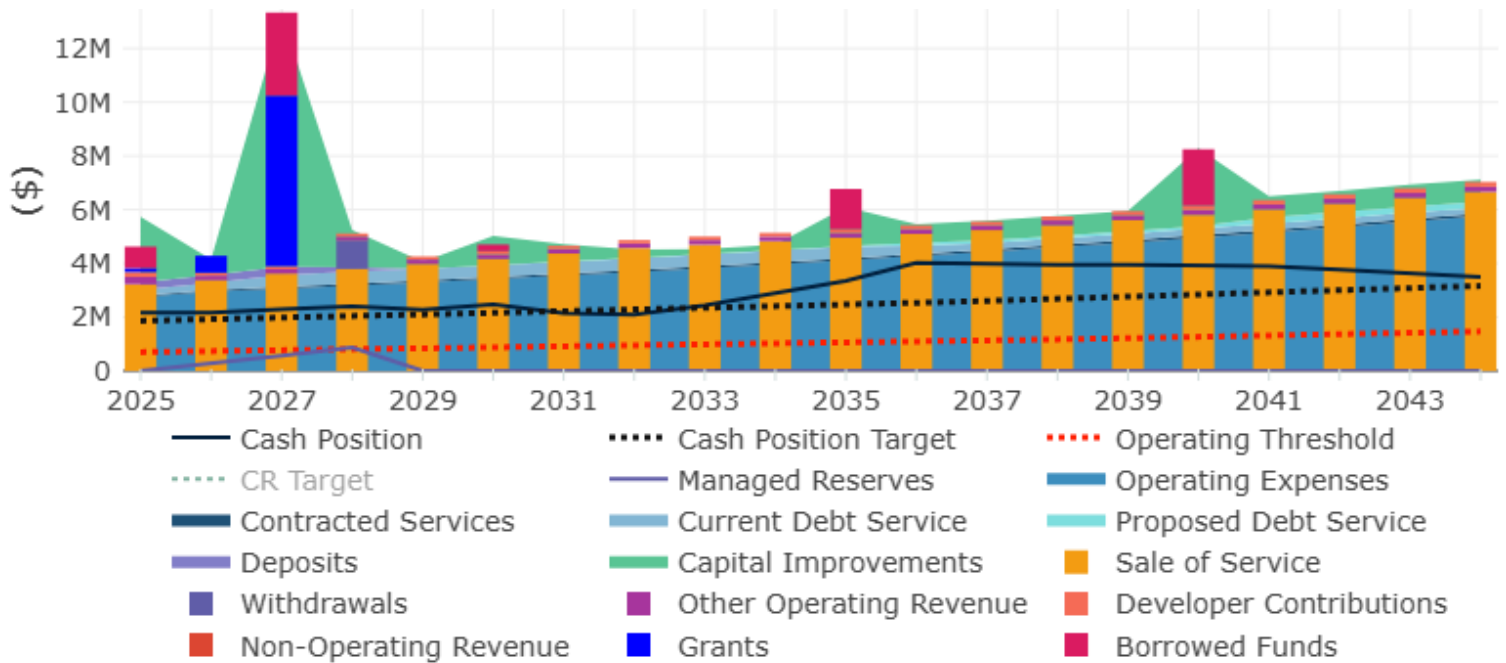
WATER UTILITY FUND & REVENUE REQUIREMENTS

The District provides water utility services to approximately 3,800 connections throughout the District's service area. The District owns and operates treatment, storage, pumping, transmission, and distribution infrastructure necessary to provide safe and reliable drinking water to customers through the Lake Whatcom Watershed. This section evaluates the financial condition of the Water Utility Fund and identifies the revenues necessary to support utility operations, capital investment, debt obligations, reserve funding requirements, and long-term financial sustainability. The financial forecast incorporates actual financial performance through fiscal year 2025, the adopted budget for fiscal year 2026, and projected financial activity throughout the planning horizon.

Consistent with the revenue-driven planning framework discussed earlier, the forecast begins by evaluating the utility's anticipated financial obligations. These obligations collectively establish the utility's revenue requirement and form the basis for developing rates that support the District's needs. In addition to evaluating future revenue requirements, this rate study also evaluated the rate structure used to recover revenues from customers. As part of the rate study process, the Board evaluated several rate design alternatives and directed staff to further analyze modifications to the District's existing tiered rate structure. Historically, the District's water rates have consisted of a 600 cubic foot base allowance, a Tier 1 usage block extending from 601 to 2,500 cubic feet, and a Tier 2 usage block for all consumption exceeding 2,500 cubic feet (over a two-month billing cycle). Consumption exceeding the 600 cubic foot base, is billed at the Tier 1 set rate for each 100 cubic feet; consumption exceeding 2,500 cubic feet is billed at the Tier 2 rate for each 100 cubic feet, which is a 25% increase from the Tier 1 rate. Following the review of customer consumption patterns and rate design alternatives, the Board directed a rate design consisting of a 600 cubic foot base allowance, a Tier 1 usage block extending from 601 to 1,800 cubic feet, and a Tier 2 usage block for all consumption exceeding 1,800 cubic feet. The revised tier structure maintains the District's long-standing objective of providing stable and predictable revenues while improving alignment between customer consumption characteristics and encouraging water conservation. The rate impacts associated with the revised structure are discussed later in this report.

The financial forecast presented in this section illustrates the relationship between operating expenses, capital expenses, debt service obligation, reserve funding objectives, utility revenues, and projected cash balances. Collectively, these factors establish the funding necessary to maintain the long-term financial sustainability of the Water Utility Fund while continuing to provide reliable service to customers. Figure 1 below illustrates the overall forecast for the Water Utility Fund.

Figure 1 – Financial Model Overview



Operations & Maintenance

Operating expenses represent the ongoing costs necessary to operate, maintain, administer, and support the District's water utility system. These expenses include personnel costs, purchased services, utilities, chemicals, maintenance and repairs, insurance, regulatory compliance, professional services, and administrative support functions required to provide reliable drinking water service to customers. A significant portion of the Water Utility Fund's operating expenses are fixed and don't fluctuate based on water consumption. These costs include staffing, insurance, regulatory compliance, routine system maintenance, information technology, administrative support, and operation of critical infrastructure such as reservoirs, pump stations, and water treatment facilities. Regardless of whether water demand increases or decreases in a given year, the District must continue to maintain these assets to provide reliable services to customers.

Other operating expenses are more variable and may fluctuate based on system demand, treatment requirements, utility costs, or other operating conditions. Examples include electricity, treatment chemicals, purchased services, and certain maintenance activities. While these costs vary from year to year, they generally represent a smaller portion of the utility's overall cost structure compared to fixed operating expenses. The operating expense forecast is based upon actual financial performance, the adopted 2026 budget, and long-term planning assumptions previously discussed. Future expenses have been projected using inflationary assumptions that reflect anticipated increases in labor, materials, contracted services, insurance, and other operating costs.

Figure 2 illustrates historical and projected operating expenses for the Water Utility Fund throughout the planning horizon. Operating expenses are anticipated to increase gradually over time as a result of inflationary pressures and the ongoing cost associated with operating and maintaining critical infrastructure. While annual fluctuations may occur, operating expense growth remains relatively stable throughout the forecast period. Figure 3 illustrates

how the District's operating costs are accounted for with salaries and benefits being the largest expense. Cost of operating the treatment plants and distribution of water is the next largest category.

Figure 2 – Operating and Maintenance Costs

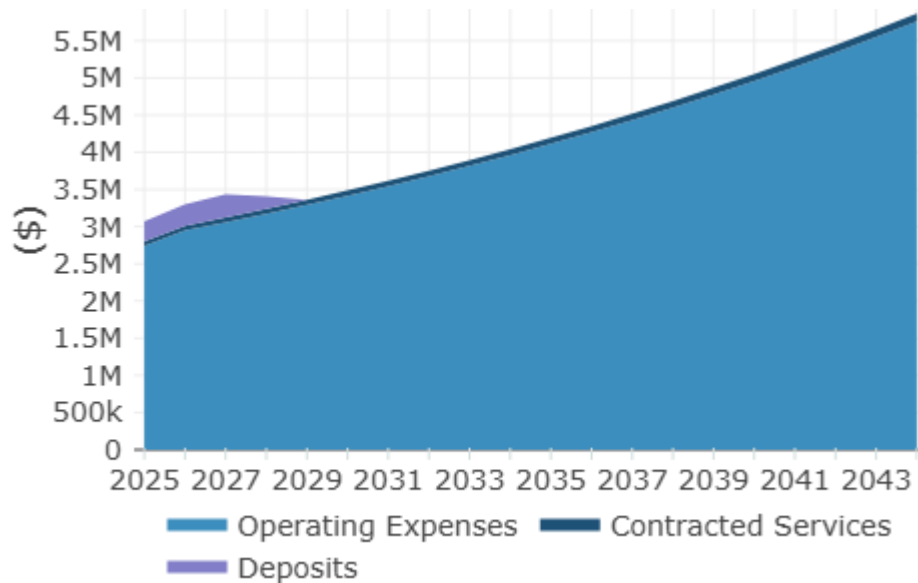
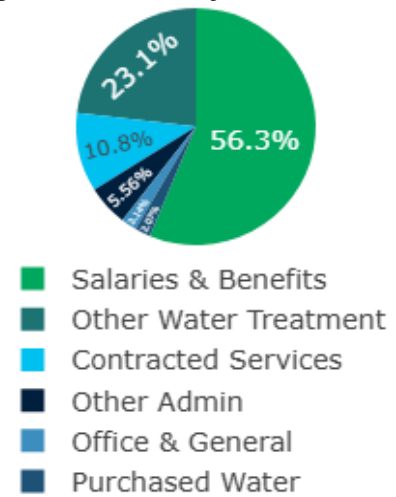


Figure 3 – Summary



The District continues to emphasize proactive maintenance, operational efficiency, and responsible financial management to control operating costs while maintaining service reliability. Although operating expenses remain an important component of the Water Utility Fund's overall revenue requirement, capital investment needs and reserve funding objectives are the primary drivers of future revenue requirements during the planning period.

Capital Expenses

Capital expenses represent investments in infrastructure that extend the service life, reliability, capacity, and resiliency of the District's water system. These projects include the replacement, rehabilitation, and improvement of treatment facilities, reservoirs, transmission mains, distribution infrastructure, booster stations, and other critical assets necessary to provide reliable drinking water service. Figure 4 illustrates historical and projected capital expenses for the Water Utility Fund throughout the planning horizon. Capital expenses represent one of the primary drivers of the utility's long-term revenue requirements and are significantly influenced by the District's ongoing efforts to maintain aging infrastructure, improve system resiliency, and address identified asset replacement needs.

Since completion of prior rate studies, the District has made substantial progress in developing a more comprehensive understanding of its infrastructure through ongoing asset management efforts. This work has improved the District's understanding of asset age, condition, replacement costs, and long-term reinvestment needs. As a result, the capital program reflected in this forecast represents a more realistic assessment of future infrastructure requirements than previous planning efforts and incorporates inflationary adjustments to account for anticipated increases in construction costs over time.

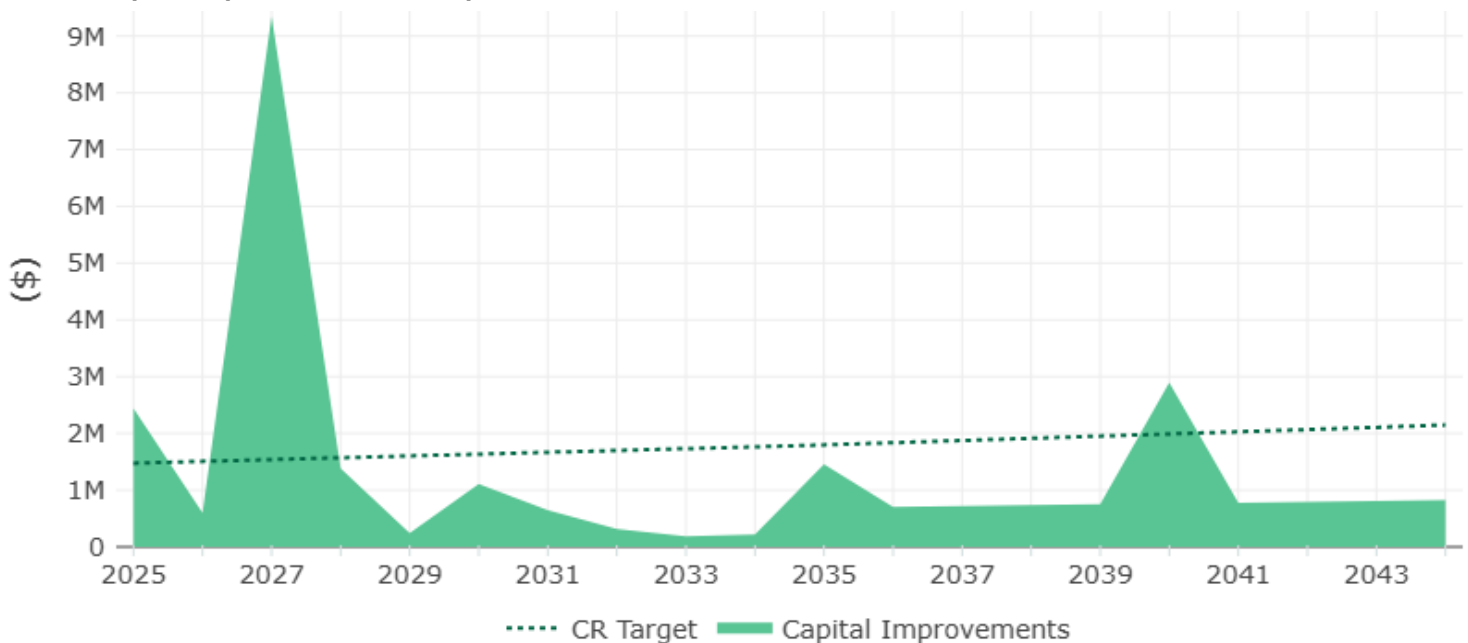
Over the past several years, the District has successfully leveraged grant funding and low-interest loan programs supporting major infrastructure investments while minimizing impacts to customers. Significant projects include

replacement of the Division 7 Reservoir and projects that are underway to replace the chlorine contact basin located at the Sudden Valley Water Treatment Plant and the Division 22-1 Reservoir, and improvements to the Geneva Reservoir in the form of recoating and seismic retrofits. These investments improve system reliability, regulatory compliance, emergency preparedness, and long-term asset performance while preserving the financial strength of the utility. While grant funding and low-interest loan financing have significantly reduced the cost burden associated with these projects, external funding sources do not eliminate the need for local financial participation. Most grant programs require matching contributions from the District, and loan proceeds must ultimately be repaid through utility revenues. As a result, maintaining sufficient local funding capacity remains essential to both completing capital projects and successfully pursuing future grant opportunities.

The District's recent success in securing external funding has also highlighted the importance of maintaining strong financial reserves and sustainable levels of rate-funded system reinvestment. Utilities that demonstrate sound financial management and the ability to provide local project funding are often better positioned to compete for state and federal funding assistance. Consequently, the system reinvestment funding targets reflected in this study are significantly higher than those used in previous financial planning efforts. Historically, system reinvestment assumptions were based on fixed annual increases that provided a reasonable planning framework given the information available at the time. However, ongoing asset management efforts have demonstrated that future infrastructure replacement needs exceed those previously assumed. The forecast therefore reflects increased annual reinvestment funding targets that more closely align with the District's evolving understanding of long-term capital needs and incorporates annual inflationary adjustments to maintain purchasing power over time.

As illustrated in Figure 4, capital spending is concentrated during the early years of the forecast due to several planned infrastructure investments and ongoing system reinvestment initiatives. Although annual capital expenses fluctuate throughout the planning horizon, the forecast reflects a long-term commitment to proactive asset management, infrastructure preservation, and financial sustainability. This balanced approach allows the District to leverage grants, low-interest financing, reserves, and utility revenues to responsibly fund infrastructure needs while maintaining reliable service for current and future customers.

Figure 4 – Capital Improvement Plan Expenses



Debt Servicing

Debt service represents the annual principal and interest payments associated with financing capital improvements through long-term debt. The District uses debt financing as a tool to fund major infrastructure investments that provide benefits over multiple generations of customers, allowing project costs to be distributed more equitably over the useful life of the assets. Figure 5 illustrates projected annual debt service obligations for the Water Utility Fund throughout the planning horizon. Existing debt obligations continue to amortize over time while the forecast incorporates additional borrowing associated with several major infrastructure projects, including replacement of the Chlorine Contact Basin and Division 22-1 Reservoir, and the Geneva Reservoir recoating and seismic retrofit project.

The District has historically pursued low-interest financing opportunities through state revolving fund programs and other public infrastructure financing programs whenever available. These financing sources provide significantly lower borrowing costs than conventional financing alternatives (in the form of reduced interest rates) and have allowed the District to complete critical infrastructure improvements while minimizing impacts to customers. Although debt financing remains an important component of the District's capital funding strategy, the forecast reflects a balanced approach that combines debt financing, utility revenues, reserve funding, grant assistance, and other external funding sources. This approach helps preserve financial flexibility while ensuring necessary infrastructure investments can be completed in a timely manner.

Debt service coverage is a key measure of the utility's ability to meet its debt obligations. Figure 6 illustrates projected debt service coverage throughout the forecast period. The District's financial policies establish a minimum planning target of 1.75 times annual debt service. Throughout the forecast period, projected debt service coverage remains at or above this target, demonstrating the utility's ability to meet existing and anticipated debt obligations while maintaining adequate financial flexibility and supporting ongoing infrastructure investment. Maintaining strong debt service coverage provides additional financial resiliency, supports favorable borrowing terms, and positions the District to respond to future infrastructure needs.

Figure 5 – Debt Servicing

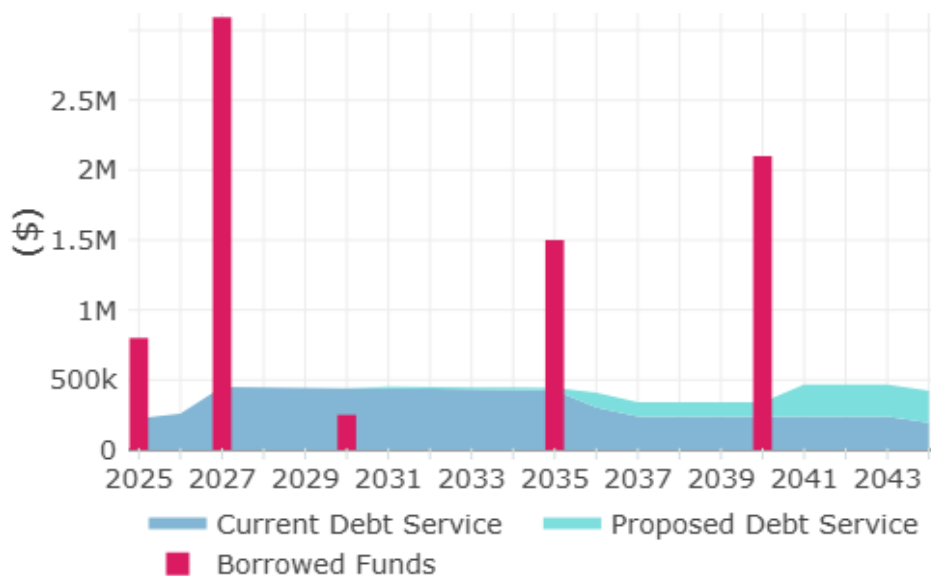
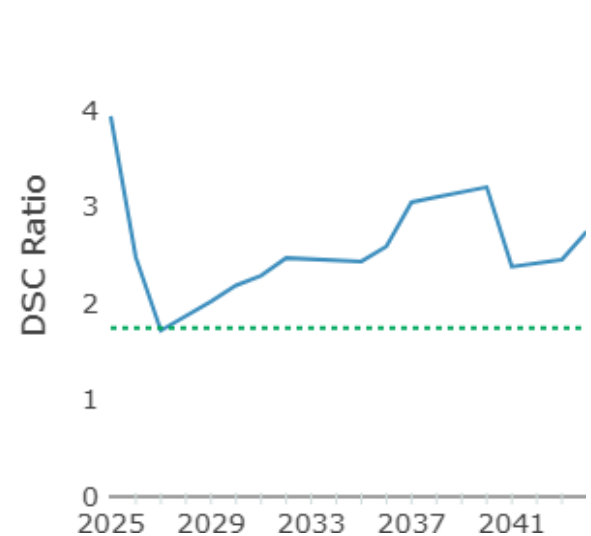


Figure 6 – Debt Service Coverage



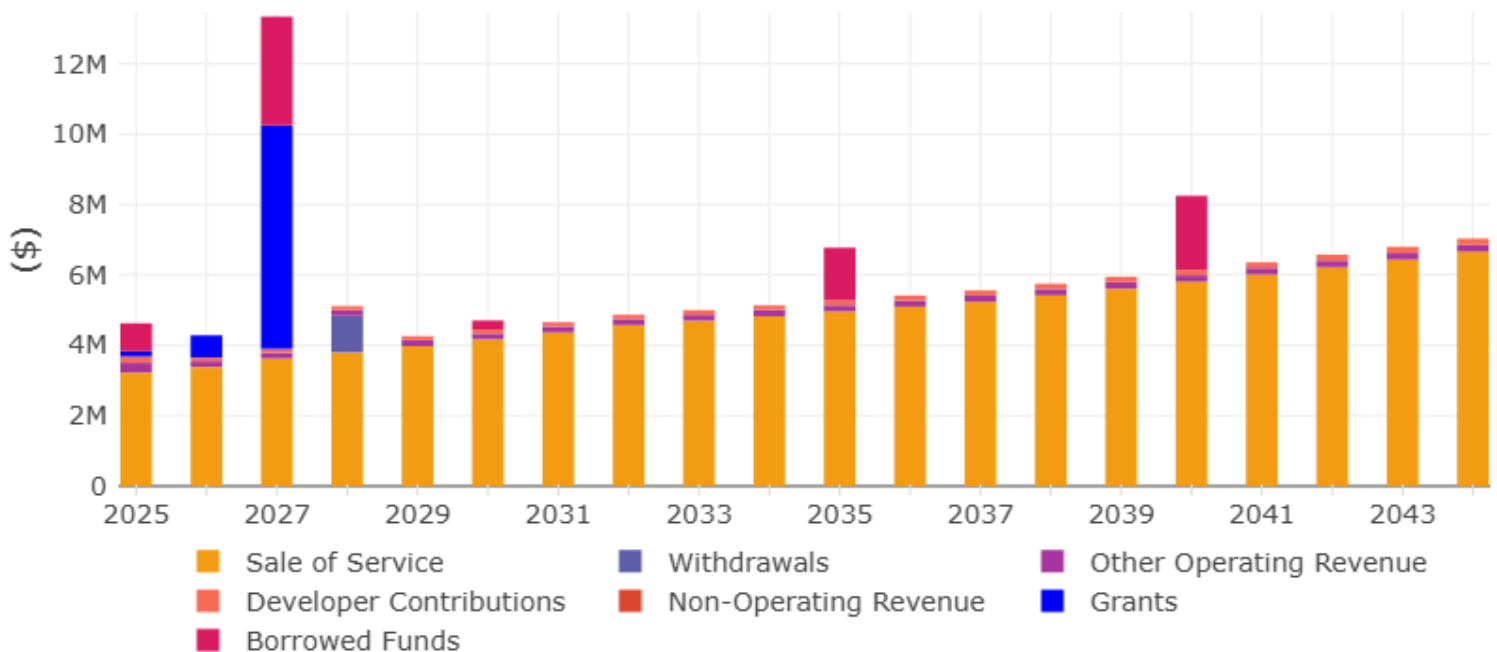
Revenues

The Water Utility Fund receives revenue from a variety of sources, including fixed base charges, volumetric charges, General Facilities Charges (GFCs), investment earnings, grant revenues, loan proceeds, and other miscellaneous revenues. Utility rates remain the primary source of ongoing operating revenue, while grant funding and low-interest financing provide important supplemental funding for major capital improvements. As a Special Purpose District organized under Title 57 RCW, the District establishes utility rates to recover the reasonable cost of providing safe and reliable water service, maintaining infrastructure, meeting financial obligation, and supporting long-term financial sustainability. Revenues generated through utility rates are reinvested directly into the operation, maintenance, replacement, and improvement of the water system.

Figure 7 illustrates projected revenues throughout the planning horizon. The financial forecast assumes annual water rate increases of 4.75 percent from 2027 through 2032, followed by annual adjustments of 2.75 percent thereafter. The reduced rate adjustments reflect the completion of several major capital projects, strengthening reserve levels, and transition toward a more sustainable long-term funding strategy. These assumptions provide a reasonable basis for evaluating future cash balances and will continue to be reviewed as part of future rate studies.

The recommended rate structure has also been revised as part of this study following the evaluation of multiple rate design alternatives by the Board. Historically, the District's water rates included a 600 cubic foot base allowance, Tier 1 usage from 601 to 2,500 cubic feet, and Tier 2 usage for all consumption exceeding 2,500 cubic feet. Based on the Board's direction and evaluation of current customer consumption patterns, the recommended rate structure retains the 600 cubic foot base allowance while revising Tier 1 usage to 601 through 1,800 cubic feet and Tier 2 usage to all consumption exceeding 1,800 cubic feet. The revised structure better aligns with current customer usage characteristics, continues to encourage responsible water use, and supports stable and predictable revenues. Because a significant portion of the District's costs are fixed regardless of water consumption, maintaining stable revenues is essential to funding operations, capital investment, debt obligations, reserve funding objectives, and long-term system reinvestment.

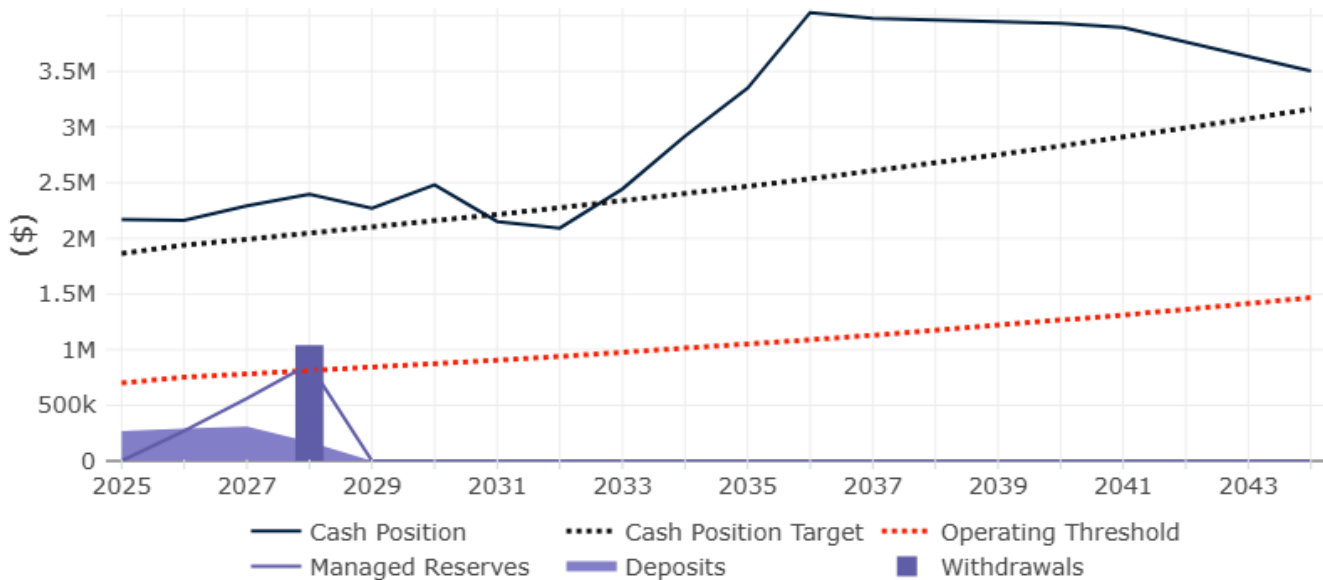
Figure 7 – Revenues



Cash Position

The purpose of the financial forecast and rate study is to evaluate whether the recommended rate strategy provides sufficient revenue to support the District's financial policies while maintaining long-term financial health of the Water Utility Fund. The projected cash position serves as one of the primary indicators of the utility's ability to sustain operations, fund capital improvements, meet debt obligations, and maintain appropriate reserve levels throughout the planning horizon. Figure 8 illustrates the projected cash balance of the Water Utility Fund under the recommended rate structure. The solid black line represents the projected cash balance throughout the planning horizon while the dotted lines identify the District's target cash position which includes the operating reserves and the contingency reserves. The purple shaded areas, line, and bar represent planned deposits and withdrawals from the managed capital surplus for large capital projects within the fund. The forecast demonstrates that the proposed annual rate increases of 4.75 percent through 2032, followed by adjustments of 2.75 percent annually thereafter, generates sufficient revenues to support the utility's operations along with capital needs and debt obligations.

Figure 8 – Cash Position



During the early years of the forecast, the District strategically uses existing cash reserves to provide local funding for several significant capital projects while leveraging substantial grant funding and low interest loans to cover shortfalls. This planned use of reserves results in temporary fluctuations in the cash position but reflects a deliberate financial strategy rather than a deterioration of the utility's financial condition. As capital projects are completed and the recommended rate adjustments take effect, cash balances recover to meet the District's long-term cash position target.

Throughout the planning horizon, projected cash balances remain above the minimum operating reserve threshold while continuing to support operations and ongoing capital projects. The forecast demonstrates that the recommended financial plan provides sufficient liquidity to meet the District's financial policy objectives while maintaining flexibility necessary to respond to future infrastructure needs and unforeseen events. Overall, the cash forecast confirms that that recommended rate strategy provides a balanced and sustainable funding approach. By strategically using reserves, leveraging external funding, maintaining prudent debt levels, and implementing gradual rate adjustments, the District is able to preserve long-term financial stability while continuing to invest in critical infrastructure while providing reliable water service to its customers.

Summary

Based on the results of the rate study and financial forecasts, the recommended annual rate increases for a single family summarized in Table 2 provide a balanced approach to maintaining the long-term financial sustainability of the Water Utility Fund while minimizing abrupt impacts to customers.

Table 2 – Recommended Water Rates – Single Family

Water Bi-Monthly Rate Charges										
Recommended Rate Plan	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Adjustment Rate	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	2.75%	2.75%	2.75%	2.75%
Fixed Charge - Base 600 Cubic Feet										
	\$ 99.27	\$ 103.99	\$ 108.93	\$ 114.10	\$ 119.52	\$ 125.20	\$ 128.64	\$ 132.18	\$ 135.81	\$ 139.55
Volume Charge Per CCF										
601-1,800	\$ 14.08	\$ 14.75	\$ 15.45	\$ 16.18	\$ 16.95	\$ 17.74	\$ 18.23	\$ 18.73	\$ 19.25	\$ 19.78
>1,800	\$ 17.62	\$ 18.46	\$ 19.33	\$ 20.25	\$ 21.21	\$ 22.22	\$ 22.83	\$ 23.46	\$ 24.11	\$ 24.77

SEWER UTILITY FUND & REVENUE REQUIREMENTS

The Sewer Utility Fund provides wastewater collection and conveyance services to customers throughout the District's service area. The District owns and operates more than 75 miles of gravity sewer mains, force mains, and transmission pipelines, as well as 26 sewer lift stations that convey wastewater to the City of Bellingham's conveyance system for ultimate treatment at its Post Point Wastewater Treatment Plant (WWTP). While the District is responsible for the collection and conveyance of wastewater, treatment services are provided through an interlocal agreement with the City of Bellingham. This section of the rate study and financial forecast evaluates the financial condition of the Sewer Utility Fund and determines whether existing and projected revenues are sufficient to support utility operations, capital expenses, debt obligations, reserve funding objectives, and long-term financial sustainability. Similar to the Water Utility Fund, the financial forecast incorporates actual financial performance through fiscal year 2025, the adopted budget for fiscal year 2026, and projected financial activity throughout the planning horizon.

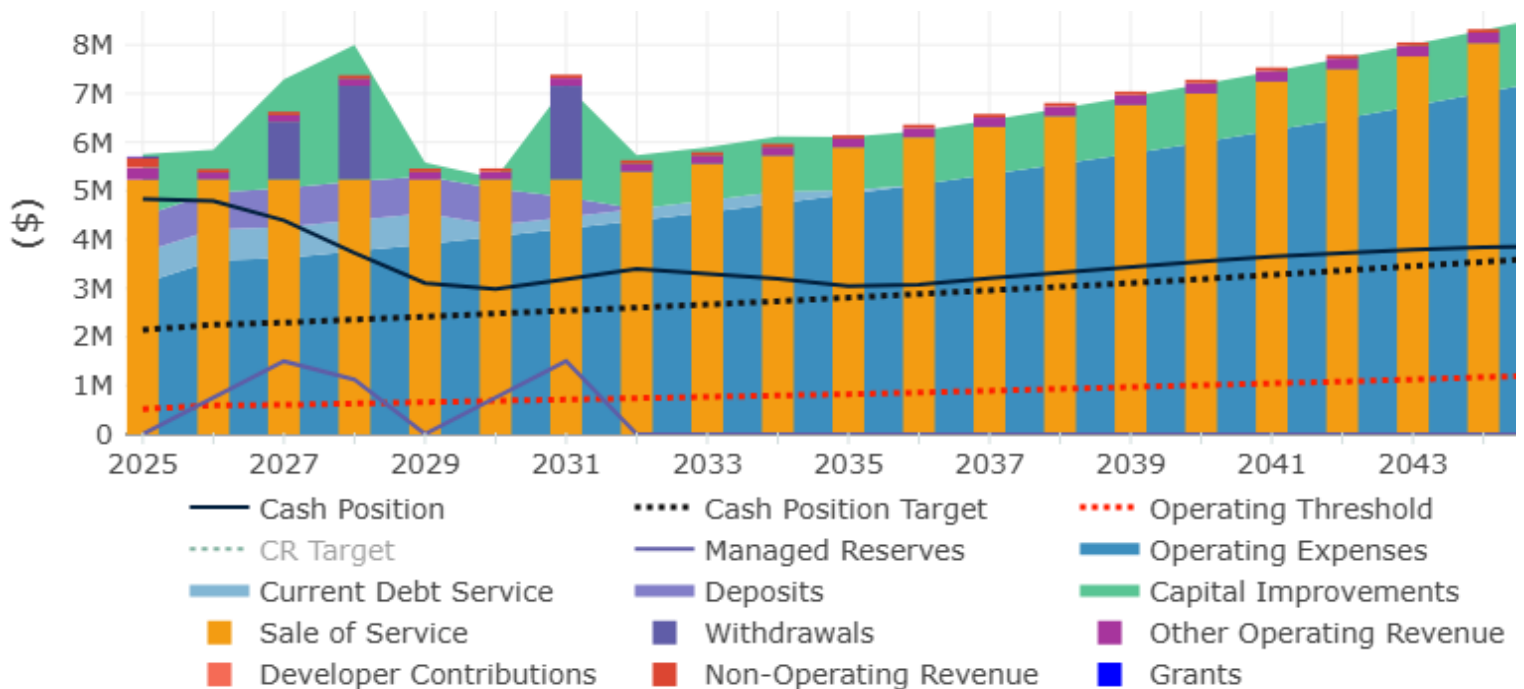
Consistent with the revenue-driven planning framework presented throughout this report, the financial forecast evaluates anticipated costs and implementation of the District's financial policies. Unlike the Water Utility Fund, however, the Sewer Utility Fund is currently in a strong financial position as a result of several years of prudent financial planning and conservative reserve funding. A significant factor influencing the Sewer Utility Fund since the completion of the 2022 Rate Study has been changes to the City of Bellingham's Post Point WWTP planned improvements. At the time of the 2022 study, the District anticipated participating in the City's Resource Recovery Project, resulting in an estimated District obligation of approximately \$12 million. Based on this information, the District implemented a long-term funding strategy that included building reserves in preparation for the anticipated capital costs.

Since that time, the City of Bellingham has significantly revised the scope of its long-term wastewater improvements and is no longer pursuing the original Resource Recovery Project as previously envisioned. Under the City's current capital planning assumptions, the District's estimated costs associated with future

improvements during this planning period have been reduced to approximately \$5 million. As a result, the financial forecast demonstrates that existing reserves, together with ongoing utility revenues, provide sufficient funding to support anticipated capital obligations without requiring additional sewer rate increases during 2027 through 2031.

The financial forecast presented in Figure 9 illustrates the relationship between operating expenses, capital expenses, debt service, reserve funding objectives, utility revenues, and projected cash balances. The analysis demonstrates that the District's conservative financial planning has positioned the Sewer Utility Fund to absorb significant changes in future capital obligations while maintaining financial stability and avoiding the need for additional rate increases during the planning horizon.

Figure 9 – Financial Model



Operations & Maintenance

Operating expenses represent the ongoing costs necessary to operate, maintain, administer, and support the District's wastewater collection and conveyance system. These expenses include personnel costs, utilities, maintenance and repairs, professional services, regulatory compliance, insurance, administrative support, and wastewater treatment charges paid to the City of Bellingham. Similar to the Water Utility Fund, a significant portion of the Sewer Utility Fund's operating expenses are fixed in nature and do not fluctuate based on wastewater flows. The District must continue to operate and maintain its collection system, lift stations, conveyance facilities, and supporting infrastructure regardless of short-term variations in customer usage.

The operating expense forecast is based on actual financial performance, the adopted 2026 budget, and the planning assumptions presented earlier in this report. Future expenses have been projected using inflationary assumptions that reflect anticipated increases in labor, materials, contracted services, wastewater treatment costs, and other operating expenses. Figures 10 and 11 illustrate historical and projected operating expenses for the

Sewer Utility Fund throughout the planning horizon as well as a summary of how those costs breakdown. Operating expenses are projected to increase gradually over time, primarily due to inflationary pressures and anticipated adjustments in wastewater treatment costs. Although these expenses represent an important component of the utility's overall financial requirements, they remain relatively stable throughout the forecast period.

Figure 10 – Operating & Maintenance Costs

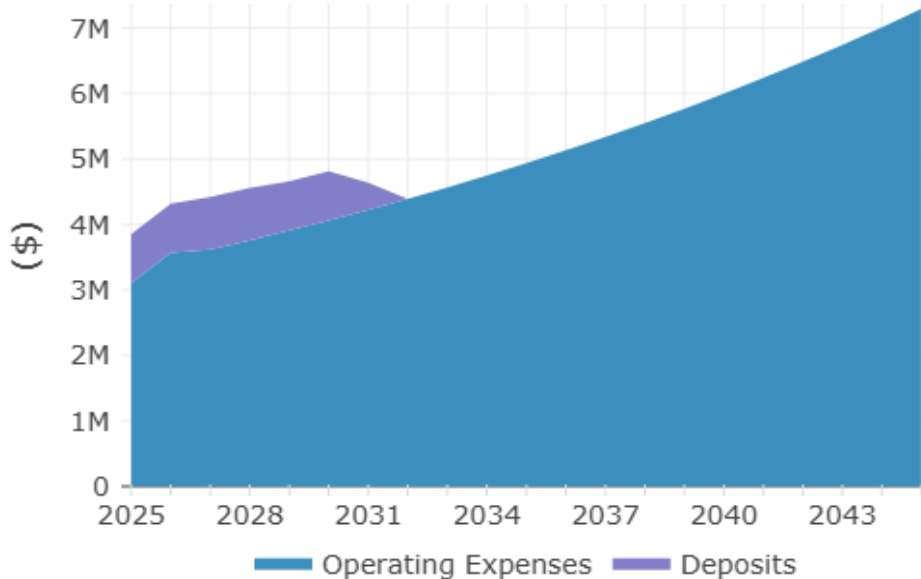
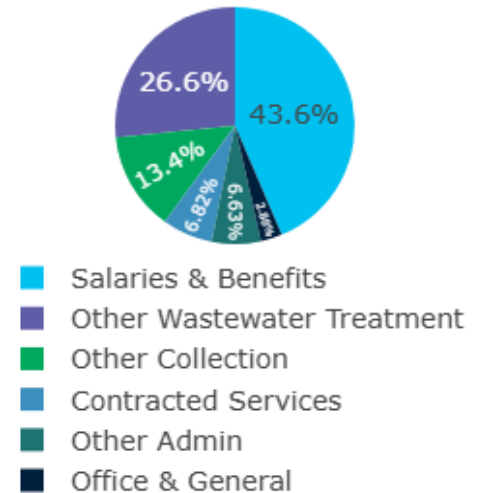


Figure 11 – Summary



The District continues to emphasize preventative maintenance, operational efficiency, and responsible asset management to maximize the useful life of its infrastructure while controlling operating costs. As discussed in the following section, the primary changes affecting the Sewer Utility Fund during this planning period are associated with the anticipated capital obligations related to the City of Bellingham's wastewater treatment improvements rather than significant changes in day-to-day operating expenses.

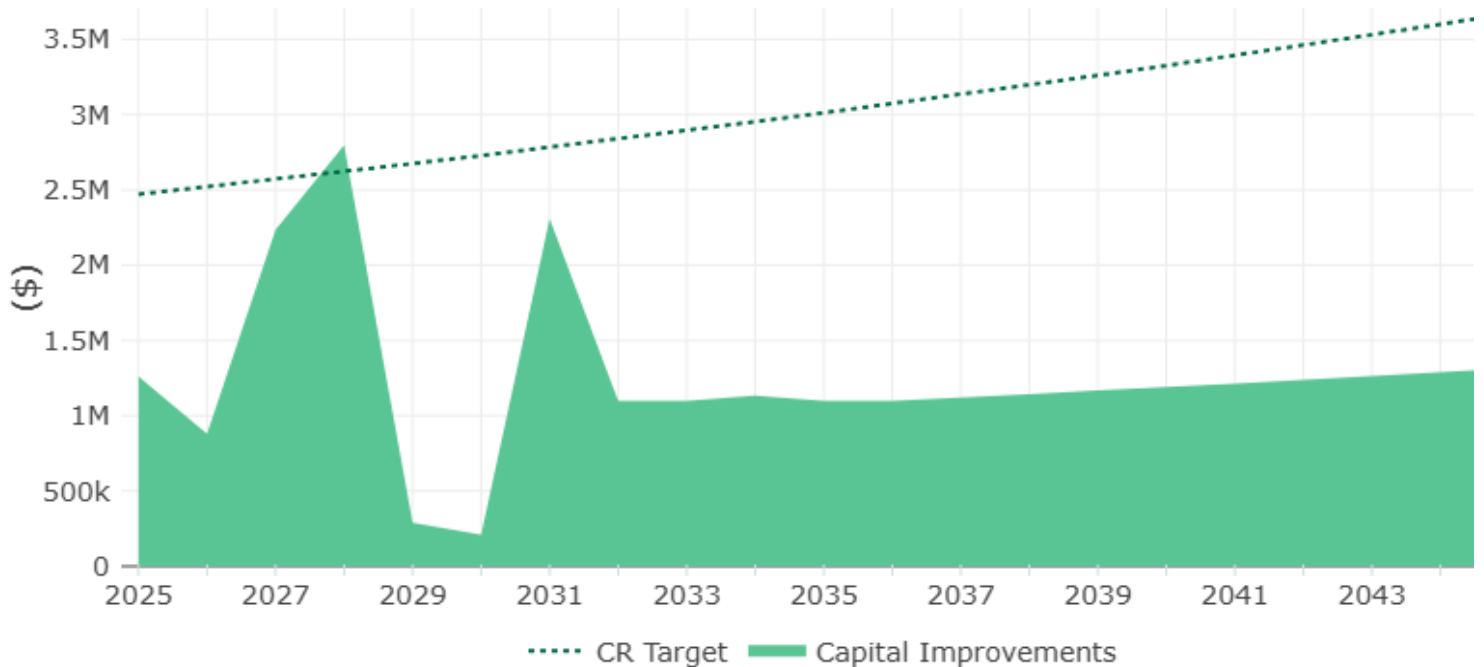
Capital Expenses

Capital expenses represent investments necessary to maintain, rehabilitate, and improve the District's wastewater collection and transmission system including lift stations, force mains, gravity sewer mains, equipment, and other supporting infrastructure. In addition to District owned assets, the Sewer Utility Fund also reflects the District's financial participation in regional wastewater treatment improvements undertaken by the City of Bellingham at its Post Point WWTP.

A significant change since the completion of the 2022 rate study relates to the City of Bellingham's long-term improvement plans at the WWTP. At the time of the previous rate study, the City was advancing the Resource Recovery Project and the District's estimated financial participation was projected to be approximately \$11 million. Based on the information available at that time, the District adopted a conservative financial strategy and began building a capital surplus in anticipation of these future obligations. Since that time, the City of Bellingham has substantially revised the scope and timing of its long-term plan and is no longer pursuing the original Resource Recovery Project as previously envisioned. Based on the City's current capital improvement program and available cost information, the District's estimated participation during the planning period has been reduced to approximately \$5 million.

Figure 12 illustrates the historical and projected capital expenses for the Sewer Utility Fund throughout the planning horizon. These investments are essential to maintaining reliable wastewater service, protecting public health, and complying with regulatory requirements.

Figure 12 – Capital Improvement Plan Expenses



The District's conservative approach to financial planning has positioned the Sewer Utility Fund to absorb these anticipated capital costs without the need for additional sewer rate increases during the 2027 – 2031 rate-setting period. Existing reserves, together with ongoing utility revenues provide sufficient funding to meet anticipated capital obligations while maintaining the financial policies established by the Board. Although the current outlook has improved significantly, the forecast continues to recognize that future improvements remain subject to refinement as project planning progresses. Accordingly, the financial forecast maintains prudent reserve levels and continues to monitor future capital requirements to ensure the District remains prepared for changing conditions. Overall, the capital forecast demonstrates the value of long-term financial planning and rate setting. By proactively preparing for significant future obligations, the District has maintained the financial flexibility necessary to adapt to changing project assumptions while preserving sustainability that avoids unnecessary rate impacts to customers.

Debt Servicing

Long-term debt provides the District with an effective tool to fund major capital improvements and projects that provide benefits over multiple generations of customers. By financing significant capital investments over the useful life of assets, the District may equitably distribute project costs while preserving financial flexibility and minimizing abrupt impacts to utility rates. Figures 13 and 14 illustrates the District's current and projected debt obligations as well as the Sewer Utility Fund's Debt Service Coverage ratio. Existing debt gradually declines as principal payments are made and outstanding obligations are retired by 2035.

Figure 13 – Debt Servicing

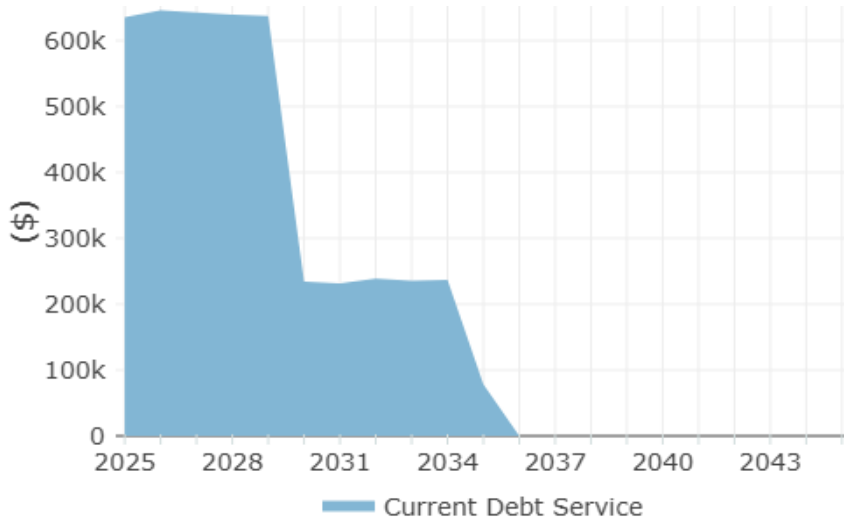
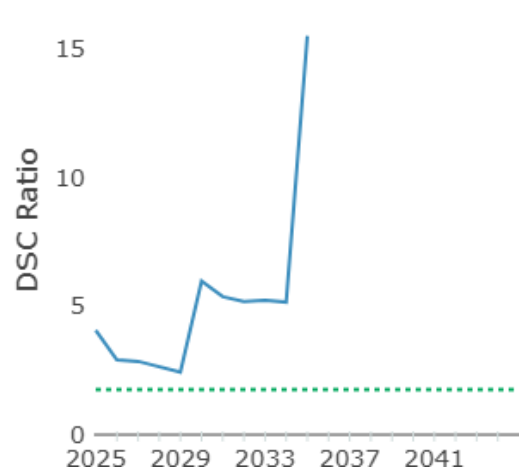


Figure 14 – Debt Service Coverage



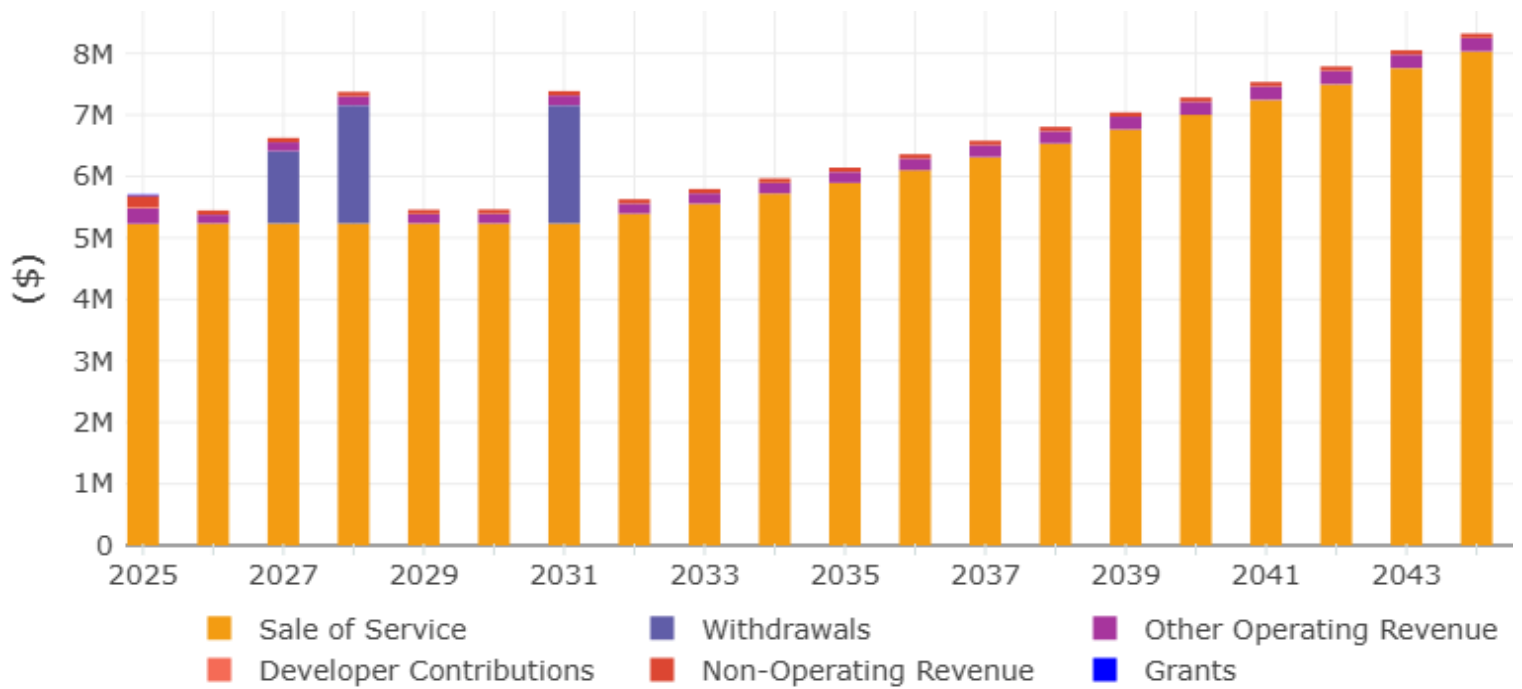
Unlike previous planning assumptions, this forecast does not anticipate the issuance of additional debt during the planning period. The 2022 Rate Study assumed the District would incur additional borrowing to fund anticipated participation in the City of Bellingham’s Post Point WWTP capital improvement program. As previously discussed, existing reserves and ongoing utility revenues are projected to provide sufficient funding for these anticipated capital obligations without the need for additional financing. As existing debt continues to be repaid, the District’s debt burden declines throughout the forecast, strengthening the overall financial position of the Sewer Utility Fund. Maintaining lower debt levels also preserves future borrowing capacity and maintains the debt service coverage consistent with the District’s financial policies.

Revenues

Similar to the Water Utility Fund, the Sewer Utility Fund receives revenue primarily from bi-monthly service charges, supplemented by GFCs, investment earnings, and other miscellaneous revenues. These revenues provide the financial resources necessary to support the District’s ongoing expenses, capital expenses, debt obligations, reserve funding objectives, and long-term infrastructure investment. As a special purpose district, the District establishes rates to recover the reasonable cost of providing wastewater collection and conveyance services while maintaining financial sustainability. Revenues generated through sewer rates are reinvested directly into the operation, maintenance, rehabilitation, and replacement of the District’s collection system.

Figure 15 illustrates projected revenues throughout the planning horizon. Unlike the Water Utility Fund, the Sewer Utility Fund is projected to maintain sufficient financial capacity without additional rate adjustments from 2027 through 2031. This outcome reflects the District’s conservative financial planning in previous years, combined with the City of Bellingham’s revised capital improvement program, which substantially reduced the District’s anticipated financial obligation. The District will continue to monitor operating costs, capital planning, and future obligations associated with the City of Bellingham’s wastewater treatment facilities as part of future rate studies and financial forecast reviews. Should conditions materially change, the financial forecast and revenue requirements will be updated to ensure the continued long-term financial health of the Sewer Utility Fund.

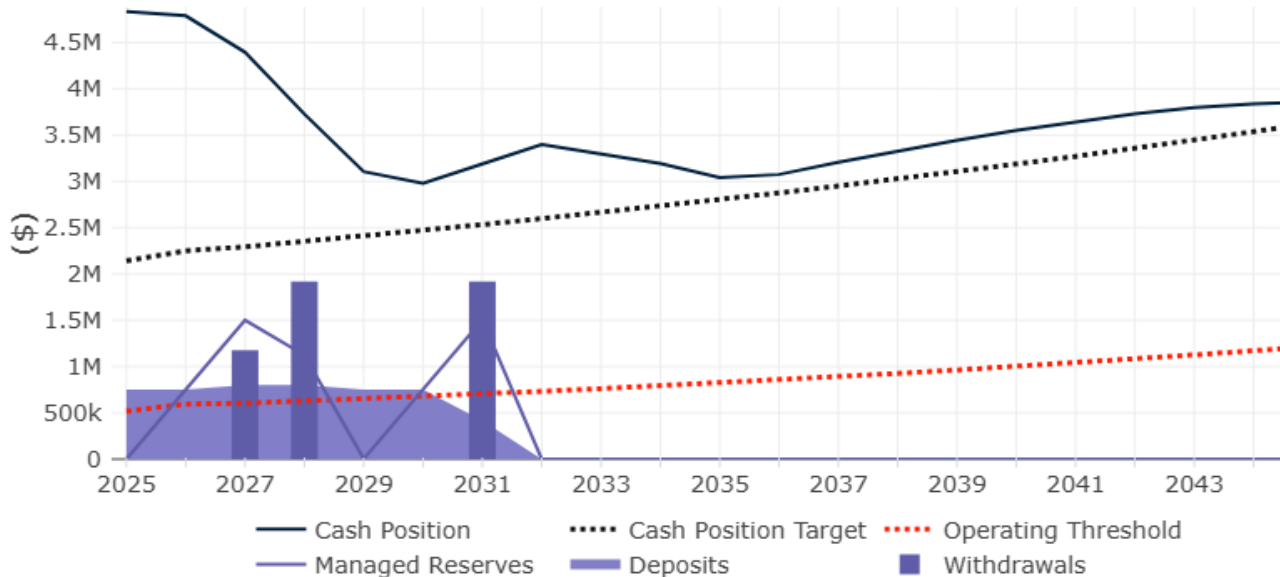
Figure 15 – Revenues



Cash Position

The projected cash position serves as a key indicator of the Sewer Utility Fund's ability to maintain financial stability while continuing to provide reliable wastewater collection and conveyance services. During the early years of the forecast, the District strategically uses the managed reserves known as the capital surplus to fund planned capital investments and anticipated participation in the City of Bellingham's Post Point WWTP projects. These planned reserve deposits and withdrawals are represented by the purple areas, bars, and lines in Figure 16. Although cash balances decline (solid black line) during this period, the forecast demonstrates that the Sewer Utility Fund continues to maintain cash levels above the District's minimum reserve thresholds and policies (dotted lines). As planned capital spending moderates, cash balances stabilize and gradually increase throughout the remainder of the forecast period.

Figure 16 – Cash Position



The financial forecast demonstrates that existing revenue and reserve balances are sufficient to support anticipated operating expenses, capital investment, debt obligations, and financial policy objectives without additional sewer rate adjustments as discussed. The District will continue to monitor future planning efforts with the City of Bellingham and evaluate revenue requirements as part of future rate studies and financial forecast updates to ensure the continued financial stability of the Sewer Utility Fund.

Summary

This financial forecast and rate study demonstrates that the Sewer Utility Fund is well positioned to meet the District's objectives throughout the planning period. Based on the results of this rate study, no sewer rate increases are recommended for 2027 through 2031. Table 3 summarizes the recommended sewer rates and corresponding customer charges.

Table 3 – Recommended Sewer Rates

Sewer Bi-Monthly Rate Charges										
Recommended Rate Plan	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Adjustment Rate	0.00%	0.00%	0.00%	0.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.50%
Fixed Charge										
	\$206.36	\$206.36	\$206.36	\$206.36	\$206.36	\$212.55	\$218.93	\$225.50	\$232.26	\$240.39

CONCLUSION

The purpose of this Rate Study and Cash Forecasting Model was to evaluate the long-term financial needs of the District's water and sewer utilities and develop funding strategies that provide reliable utility service while preserving long-term financial stability. Using a revenue-driven financial planning framework, the study evaluated projected operating expense, capital improvement needs, debt obligations, reserve funding objectives, and anticipated revenues over a 20-year planning horizon to determine whether existing and proposed utility rates are sufficient to meet the District's financial goals. The recommended financial plan reflects a comprehensive evaluation of each utility as an independent enterprise fund to ensure the District can meet all financial policies collectively. Through detailed financial forecasting and rate designs, the District evaluated anticipated operating and capital needs, reserve requirements, debt obligations, customer consumption trends, and customer impacts to determine the revenue necessary to responsibly operate and maintain each utility.

The analysis demonstrates that the Water Utility Fund requires phased rate adjustments to support increased costs. The recommend annual water rate adjustments provide sufficient revenue to maintain the District's financial policies while continuing to leverage grant funding, low-interest financing, and proactive asset management practices. The Sewer Utility Fund reflects a different financial outlook. The District's long-term financial planning and conservative reserve strategy, combined with the City of Bellingham's revised capital improvement program have significantly reduced the District's anticipated financial obligations during the planning period. As a result, the financial forecast demonstrates that existing sewer rates are sufficient to support the Sewer Utility Fund through the 2027-2031 rate-setting period without additional rate increases.

Although the recommendations differ between the two utilities, they are based upon the same financial planning methodology and are intended to ensure each utility remains financially self-supporting while continuing to provide safe, reliable, and sustainable service to customers within the District. The recommended rates balance today's operational and infrastructure needs with the District's responsibility to manage public resources on behalf of both current and future customers. Figure 17 is a model of the District's overall financial health for the next 20 years.

Figure 17 – District Wide Financial Model

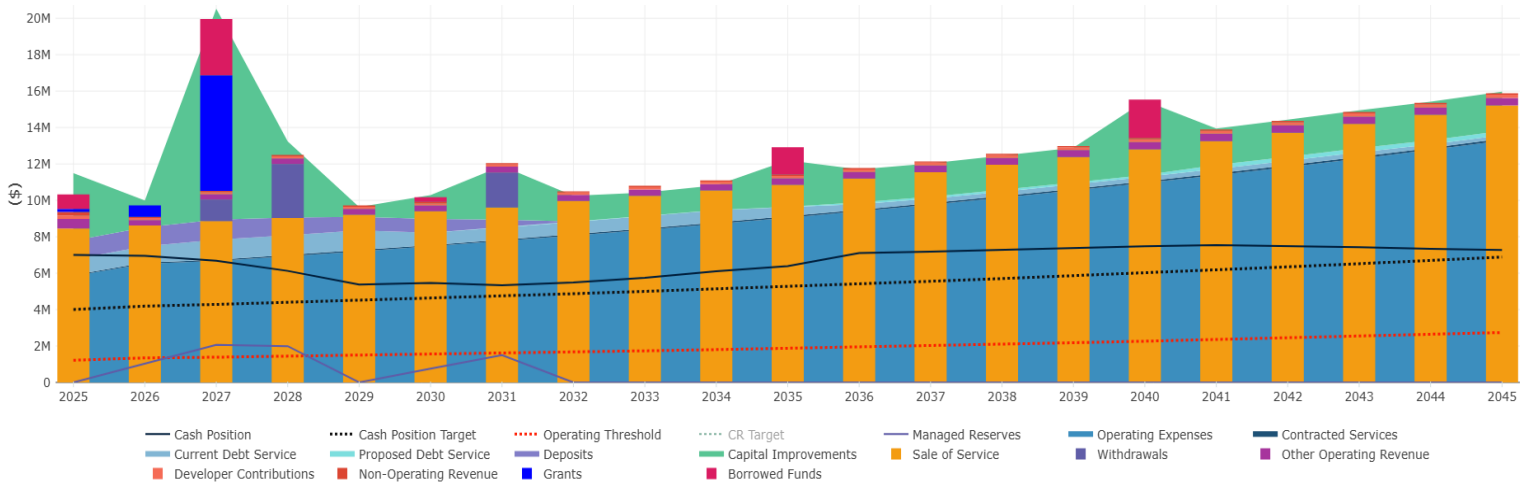


Figure 18 summarizes the projected debt service coverage for the District's water and sewer utilities combined. The analysis demonstrates that the recommended financial plan maintains debt service coverage consistent with the District's financial policies throughout the planning horizon while strengthening the overall financial position of the utility system. This provides assurance that the recommended rates generate sufficient revenue to meet existing debt obligations, preserve future borrowing capacity, and support the District's long-term financial objectives.

Figure 18 – District Wide Debt Service Coverage

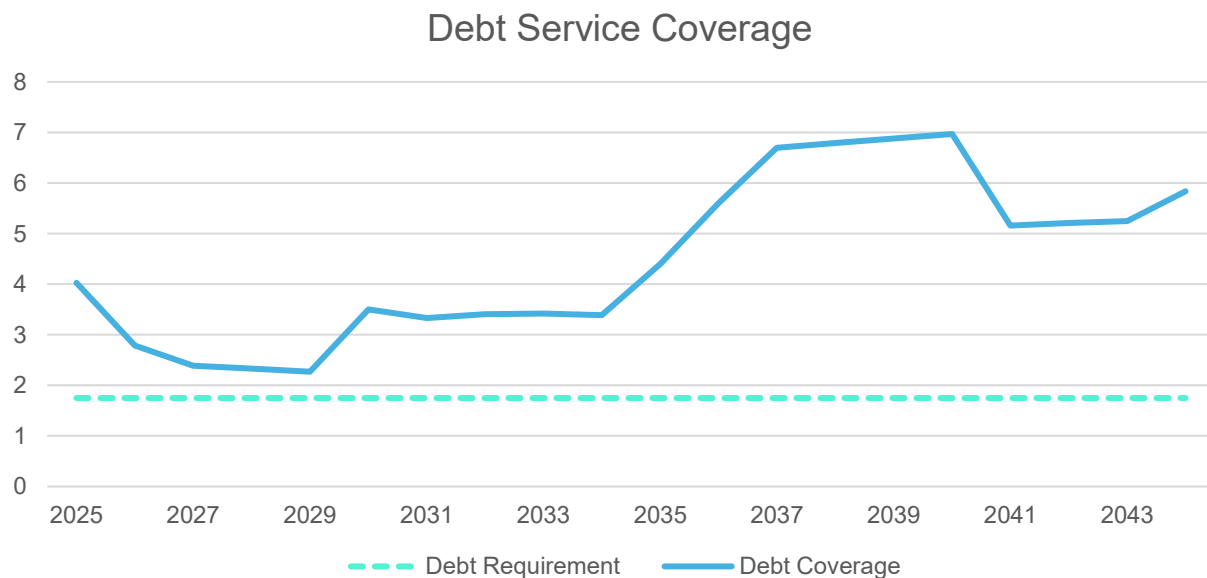


Table 4 provides a consolidated summary of the recommended single-family residential water and sewer base utility rates, including both the individual utility and the combined bi-monthly customer bill for each year for the next ten years.

Table 4 – District Bi-Monthly Base Rate Charges

Water Bi-Monthly Rate Charges										
Recommended Rate Plan	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Adjustment Rate	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	2.75%	2.75%	2.75%	2.75%
Fixed Charge - Base 600 Cubic Feet										
	\$ 99.27	\$ 103.99	\$ 108.93	\$ 114.10	\$ 119.52	\$ 125.20	\$ 128.64	\$ 132.18	\$ 135.81	\$ 139.55
Volume Charge Per CCF										
601-1,800	\$ 14.08	\$ 14.75	\$ 15.45	\$ 16.18	\$ 16.95	\$ 17.74	\$ 18.23	\$ 18.73	\$ 19.25	\$ 19.78
>1,800	\$ 17.62	\$ 18.46	\$ 19.33	\$ 20.25	\$ 21.21	\$ 22.22	\$ 22.83	\$ 23.46	\$ 24.11	\$ 24.77
Sewer Bi-Monthly Rate Charges										
Recommended Rate Plan	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Adjustment Rate	0.00%	0.00%	0.00%	0.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.50%
Fixed Charge										
	\$ 206.36	\$ 206.36	\$ 206.36	\$ 206.36	\$ 206.36	\$ 212.55	\$ 218.93	\$ 225.50	\$ 232.26	\$ 240.39
Combined Bi-Monthly Rate Charges										
Fixed Base Charge Combined										
Total	\$ 305.63	\$ 310.35	\$ 315.29	\$ 320.46	\$ 325.88	\$ 337.75	\$ 347.57	\$ 357.68	\$ 368.07	\$ 379.94

As with any long-range financial plan, the assumptions and projections contained in this Rate Study should continue to be reviewed periodically as part of the District's ongoing financial review and future rate studies. Updating the financial forecast as conditions change will allow the District to remain responsive to changing economic conditions, capital improvement priorities, regulatory requirements, and infrastructure needs while maintaining transparent, predictable, and financially responsible utility rates.