



**AGENDA
BILL
Item 6.A**

**Water Utility Rate Design
Alternatives Discussion**

DATE SUBMITTED:	May 8, 2026	MEETING DATE:	May 27, 2026
TO: BOARD OF COMMISSIONERS	FROM: Jenny Signs, Finance Manager		
GENERAL MANAGER APPROVAL			
ATTACHED DOCUMENTS	1. Water Rate Scenario Modeling		
TYPE OF ACTION REQUESTED	RESOLUTION ☐	FORMAL ACTION/ MOTION ☐	INFORMATIONAL/ OTHER ☒

BACKGROUND / EXPLANATION OF IMPACT

During the regularly scheduled Board meeting on April 29, 2026, the Board requested evaluation of several water rate design scenarios based on varying consumption levels within the District's tiered rate structure. The purpose of this discussion is to evaluate how different rate structures within the Water Utility Fund affect:

- revenue stability
- customer bill impacts
- long-term infrastructure sustainability
- recovery of costs
- ability to responsibly fund ongoing operations and capital reinvestments

The District has historically used a revenue-driven rate methodology consistent with utility industry best practices. Under this approach, the District first determines the total revenue requirement necessary to responsibly operate, maintain, repair, and replace utility infrastructure, and then develops rates designed to support its needs.

One of the key concepts in utility rate design is distinguishing between fixed costs and variable costs. The fixed costs are expenses the District incurs regardless of how much water customers use. These costs generally don't materially decrease during periods of lower consumption and include expenses such as debt service, capital improvements, infrastructure maintenance, regulatory compliance requirements, staffing and administration. For the District, the majority of total costs are typically fixed in nature. Water systems must maintain full operational readiness to provide service even during periods of reduced consumption. Variable costs include power consumption associated with pumping and treatment, chemicals, purchased water and certain operational supplies. These costs represent a smaller portion of total system costs compared to fixed infrastructure obligations.

The current models reflect the following projected costs over the 2027-2031 planning horizon:

	2027	2028	2029	2030	2031
Fixed Costs					
Payroll & Benefits	\$ 1,758,998	\$ 1,846,948	\$ 1,939,295	\$ 2,036,260	\$ 2,138,073
Repairs & Maintenance	\$ 155,324	\$ 161,537	\$ 167,998	\$ 174,718	\$ 181,707
Operating Supplies	\$ 124,115	\$ 129,080	\$ 134,243	\$ 139,612	\$ 145,197
Purchased Water	\$ 64,808	\$ 67,400	\$ 70,096	\$ 72,900	\$ 75,816
Debt Service	\$ 449,799	\$ 447,017	\$ 444,236	\$ 441,455	\$ 438,674
Capital Program	\$ 6,983,000	\$ 1,385,000	\$ 245,000	\$ 1,104,000	\$ 644,000
Total Fixed Costs	\$ 9,536,044	\$ 4,036,982	\$ 3,000,869	\$ 3,968,946	\$ 3,623,467
Variable Costs	\$ 1,020,190	\$ 1,035,214	\$ 1,049,823	\$ 1,063,958	\$ 1,077,555

It should be noted that the recommended Capital System Reinvestment annual budget should be \$639,000 based on current asset valuations. This is a significant increase from years past due to new reservoirs that have been added as well as a better understanding of the District's assets. Of the \$7 million in 2027 for capital, all but \$1.7 million is funded through grants and loans. With the exception of proposed debt in 2030 of \$250,000 all remaining capital program costs are modeled as District cash funded projects. This results in an average annual expenditure of \$664,333 for the capital program. Also, as a result of the increased asset value, to meet the District's policy of maintaining a 1% contingency fund, the District will need to increase its contingency from \$460,000 to \$1.1 million or revisit the policy. Lowering this would allow lower rate increases over the five-year rate structure horizon. All the models currently reflect increasing the contingency to \$1.1 million (from current \$460,000).

The structure of utility rates determines how the District recovers its fixed and variable costs. Base charges are generally intended to recover a greater portion of fixed system costs. These charges support availability of service, system capacity, infrastructure replacement, debt obligations, and ongoing operational readiness. Because these costs exist regardless of water consumption, recovering a portion of them through fixed charges helps improve revenue stability and predictability.

Several alternative scenarios were evaluated to compare the balance between base revenue and volumetric revenue. Each scenario is based upon 2025 billings and 2026 rates. The following is an analysis of the impacts of each of the scenarios for the Board's consideration.

Current Structure – 600 ccf Base/Tier 1 Up to 2500 ccf/Tier 2 Infinity

- Revenue Characteristics
 - Projected Revenues 2026 - \$3.27 million
 - Customer Allocation
 - 35% Base
 - 62% Tier 1
 - 3% Tier 2

- To meet revenue needs, annual increases range from 5%-6% through 2031 and result in a bi-monthly base charge from approximately \$100.46 in 2027 to \$124.44 in 2031.
- The current structure creates the least amount of bill volatility for customers and maintains financial stability for the District by recovering a more moderate portion of fixed costs.

600 ccf Base/Tier 1 Up to 2000 ccf/Tier 2 Infinity

- Revenue Characteristics
 - Projected Revenues 2026 - \$3.31 million
 - Customer Allocation
 - 35% Base
 - 60% Tier 1
 - 5% Tier 2
- To meet revenue needs, annual increases are 8% each year and result in a bi-monthly base charge from approximately \$102.35 in 2027 to \$139.25 in 2031.
- This scenario results in higher rate increases with bill volatility remaining similar to the current rate structure.

600 ccf Base/Tier 1 Up to 1800 ccf/Tier 2 Infinity

- Revenue Characteristics
 - Projected Revenues 2026 - \$3.46 million
 - Customer Allocation
 - 35% Base
 - 58% Tier 1
 - 7% Tier 2
- To meet revenue needs, annual increases are 7.5% each year and result in a bi-monthly base charge from approximately \$101.88 in 2027 to \$136.05 in 2031.
- This scenario results in higher rate increases and requires the District to potentially use contingency funds in 2031. This structure shifts a smaller portion of customers into the Tier 2 rates compared to the prior alternative. It provides somewhat greater conservation incentives while still preserving stable fixed revenue.

600 ccf Base/Tier 1 Up to 1500 ccf/Tier 2 Infinity

- Revenue Characteristics
 - Projected Revenues 2026 - \$3.48 million
 - Customer Allocation
 - 35% Base
 - 53% Tier 1
 - 12% Tier 2

- To meet revenue needs, annual increases are 7.5% each year and result in a bi-monthly base charge from approximately \$101.88 in 2027 to \$136.05 in 2031.
- This scenario results in higher rate increases, creates greater bill volatility for customers, and may result in some instability for the District. While this may strengthen conservation incentives, it also creates financial instability for the District as customers adjust water usage downward over the five-year structure horizon since a larger portion falls into the tier 2 rates.

600 ccf Base/Tier 1 Up to 1100 ccf/Tier 2 Infinity

- Revenue Characteristics
 - Projected Revenues 2026 - \$3.3 million
 - Customer Allocation
 - 35% Base
 - 38% Tier 1
 - 27% Tier 2
- To meet revenue needs, annual increases are 6.25% each year and result in a bi-monthly base charge from approximately \$100.69 in 2027 to \$128.33 in 2031.
- This scenario creates a significant burden on the majority of the District's customer base. Approximately 25% more customers will be pushed into the Tier 2 rates and substantially shifts cost recovery into the upper usage tier. While it may create a stronger incentive for conservation, it also materially increases revenue dependence on higher volume consumption exposing the District to financial instability and creating a burden for customers.

300 ccf Base/Tier 1 Up to 1100 ccf/Tier 2 Infinity

- Revenue Characteristics
 - Projected Revenues 2026 - \$4 million
 - Customer Allocation
 - 14% Base
 - 60% Tier 1
 - 27% Tier 2
- This scenario requires no rate increases. However, with 86% of bills above the base rate, customers will experience higher bill volatility, higher bills, and open the District up to having to reevaluate rates mid-cycle due to consumption changes with the anticipation of rate increases to compensate. It significantly reduces fixed revenue recovery through the base charge and increases dependence on volumetric charges. While this option may appear attractive from a lower base charge perspective, it creates substantially greater revenue volatility and weaker alignment between fixed infrastructure obligations and fixed cost recovery. This structure may also create larger swings in annual revenues depending on weather patterns and conservation trends.

FISCAL IMPACT

No fiscal impact is anticipated with discussion of the District's rate structure. Should the rate structure be revised, rates will need to be set at levels that support continued financial viability of the District.

APPLICABLE EFFECTIVE UTILITY MANAGEMENT ATTRIBUTE(S)

Financial Viability

Customer Satisfaction

RECOMMENDED BOARD ACTION

None.

PROPOSED MOTION

Not applicable.