AGENDA BILL Item 6.B

Utility Rate Structure Discussion

DATE SUBMITTED:	April 16, 2026	MEETING DATE:	April 29, 2026	
TO: BOARD OF COMMISSIONERS		FROM: Jenny Signs, Finance Manager		
GENERAL MANAGER APPROVAL				
ATTACHED DOCUMENTS		1. 2014 Water & Sewer Rate Update Report		
TYPE OF ACTION REQUESTED		RESOLUTION ☐	FORMAL ACTION/ MOTION ☐	INFORMATIONAL/ OTHER ☒

BACKGROUND / EXPLANATION OF IMPACT

The administrative, operational, capital, and debt service functions of the Lake Whatcom Water and Sewer District primarily rely on revenues received through water and sewer rates charged to District customers. The District bills for water and sewer services bi-monthly, with its customer base being approximately 98% residential. Like most utilities, the sewer rate is a flat rate that is independent of consumption. The water rate, on the other hand, is comprised of the following base rate, with two rate tiers based upon consumption (two months) beyond the base:

- Base (0 – 600 cubic feet [cf])
- Tier 1 (600 – 2,500 cf)
- Tier 2 (consumption above 2,500 cf)

With the final increase of the current multi-year rate program now in effect, the District has initiated a rate study to develop its next five-year rate program. With the rate analysis in its infancy, now is a good time to review with the Board the history of the current rate structure/design and discuss whether there is a desire to expend resources to evaluate alternative structures. Please note that, a desire to review the sewer rate structure has not been voiced, the remainder of this agenda bill focuses on the water rate structure.

Water Rate Structure History

The District's current water rate structure has been in-place since 2014 following a comprehensive rate analysis conducted by FCS Group (see below). In summary, the outcome of the analysis was to retain a bi-monthly base rate for consumption up to 600 cf, with escalating rates over two consumption tiers as a means of encouraging water conservation. Also of note, the 2014 revision incorporated into the rate structure the creation of the District's customer assistance program (provides a 40% rate reduction for qualifying low income senior or disabled customers).

In general, since taking over the Geneva and Sudden Valley water companies in the mid-1970s, the District has gradually reduced the base consumption allowance, with the 600 cf/2-months base rate in-place since 2003. Following is a summary of the evolution of the District's water rate structure.

1978	900 cf/month base with one rate for each 100 cf consumed above the base
1988	600 cf/month base with one rate for each 100 cf consumed above the base
1993	900 cf/2-months base with one rate for each 100 cf consumed above the base
2003	600 cf/2-months base with one rate for each 100 cf consumed above the base
2014	600 cf/2-months base with two tiers with escalating rates for each 100 cf consumed above the base/tier

2014 Water Rate Structure Analysis

As mentioned above, the District's most recent comprehensive analysis of its rate structure was completed by FCS Group in 2014 (attached). Please refer to Section 5.5 of the analysis for discussion specific to rate structure alternatives that were explored in 2014. The current rate structure was developed to ensure the water utility fund remains financially self-supporting, with rates designed to recover the full cost of operations, capital investment, and long-term system sustainability. The study further evaluated how these costs should be distributed among customers through a cost-of-service analysis, which identified that a significant portion of system costs are fixed or driven by maintaining system capacity rather than purely by volumetric usage. This framework supports a rate design that includes both a fixed component and a variable component.

As part of the rate design process, the study specifically evaluated multiple alternatives related to the base allowance including:

- Maintaining the 600 cf allowance;
- Reducing it to 400 cf;
- Eliminating it entirely; or
- Replacing it with a more complex tiered structure.

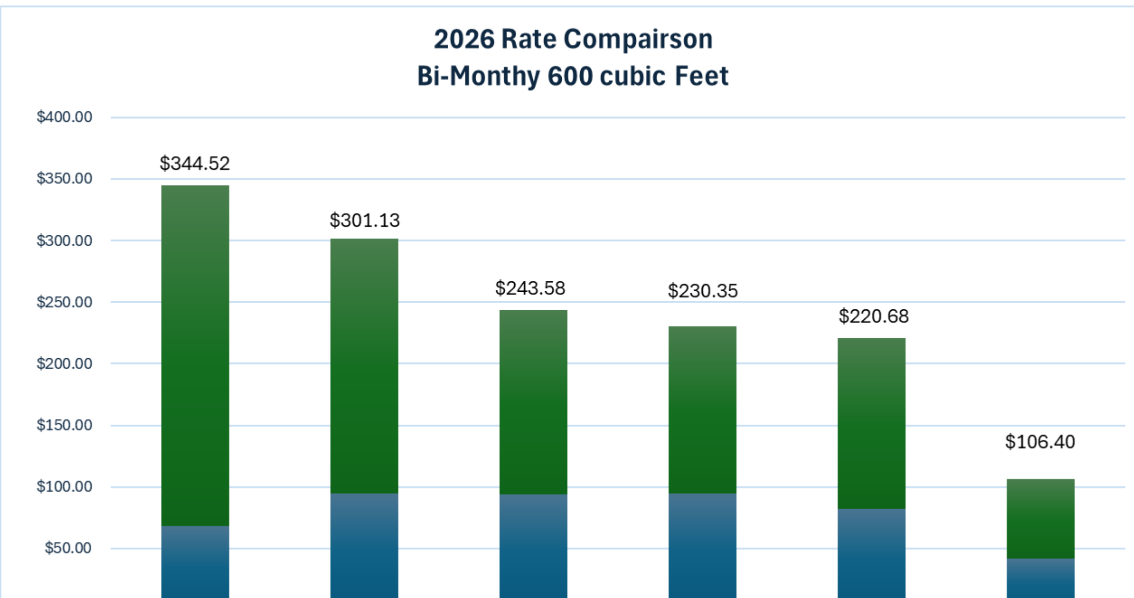
The approach ultimately retained the 600 cf allowance while refining the rate structure through tiered pricing as a means of encouraging water conservation. As discussed in Section 5.5 of the report, this approach was Alternative F where the Board's direction was to create a two-tiered block rate structure where the second block would act as a "conservation" block; a higher volume rate would be charged to those bi-monthly users whose consumption exceeds 2,500 cf over a two-month billing period. Importantly, the study found that many of the alternative structures, particularly those that reduced or eliminated the base allowance, would result in the typical customer bill increasing more than the overall proposed system-wide increase due to shifts in how costs are recovered (see Section 5.5.1 of the report).

Current Rate Structure Performance

A review of consumption patterns in 2025 indicates that only 11% of the District's customer utility bills were for less than 300 cf while approximately 35% were for less than 600 cf. The bulk (62%) of bi-monthly utility bills fell within Tier 1 (600 – 2,500 cf), with the remainder (3%) of utility bills exceeding 2,500 cf consumption. Therefore, while a smaller base allowance only fully encompasses a limited share of customers, the 600 cf threshold more appropriately reflects typical baseline indoor water uses across the system. Shifting to a more complex tiered system would result in a larger share of customers seeing their bill driven by variable charges that would ultimately cost them more. It is also worth noting that water rates only represent a third of our customers' bill (i.e., a significant portion of what a customer pays is driven by the sewer rate).

Regional Rate Comparison

The District's rate structure, including the 600 cf base allowance, is further validated when viewed in the context of rates of other regional utilities. A comparison of neighboring jurisdictions demonstrates that the District's water rates remain generally in line with, and in many cases are competitive with peer utilities. The District's total bills for typical residential usage fall within the range of comparable utilities indicating that the overall revenue requirement and how it is recovered is reasonable in a regional context. Utilities in the region use a variety of rate structures, including differing base charges, allowances and volumetric pricing, yet the District's structure produces similar overall customer impacts. The inclusion of a base allowance, such as 600 cf, is consistent with approaches used by other utilities to balance fixed cost recovery and customer bill stability.



	Blaine	LWWSD	Ferndale	Lynden	Bellingham	Birch Bay
Sewer	$276.34	$206.36	$149.88	$135.60	$138.46	$64.60
Water	$68.18	$94.77	$93.70	$94.75	$82.22	$41.80

600 Cubic Foot Base Justification

The District's use of a 600 cf allowance reflects a thoughtful and well-supported policy decision that aligns with cost-of-service principles and financial requirements, reflects District customer usage patterns, provides stable and predictable revenue to support system needs, maintains fairness across customer base, and remains competitive within the regional market. Taken together, the 2014 rate study findings, current usage data, and regional comparison confirm that the District's rate structure continues to support sustainable, fair, revenue driven approach to utility pricing that meets the District's unique needs.

1. Aligns with Typical Residential Water Use
   The 600 cf allowance represents a reasonable approximation of baseline indoor water use for a typical residential customer. By incorporating this level of usage into the base rate, the structure ensures that essential water needs are covered in a predictable and stable manner.

2. Supports Revenue Stability

   Including a portion of usage in the base rate reduces reliance on volumetric charges, which can fluctuate due to weather, conservation, and seasonal demand. This is particularly important given that:
   - Water revenues have historically been sensitive to consumption variability as outlined in Section 5.1 of the 2014 report.
   - The utility must reliably fund fixed costs and debt obligations regardless of usage levels.

   By keeping the 600 cf allowance, the District preserves revenue predictability, which is critical for maintaining financial health.

3. Reflects the Cost Structure of the Utility
   The cost-of-service analysis showed that a large share of costs are related to system capacity (base and peak demand) and infrastructure readiness (including fire protection and storage). This is discussed in Section 5.4 of the report. These costs do not vary with water usage, supporting the inclusion of a meaningful base component that includes some level of consumption.

4. Balances Fairness and Conservation Signals
   Maintaining the 600 cf allowance strikes a practical balance between ensuring all customers contribute to the fixed cost of maintaining the system and preserving a price signal for higher discretionary use through volumetric and tiered rates. The preferred rate design of the 2014 report (Alternative F) reinforces this by adding a higher cost second tier for high volume users, ensuring that those who place greater demand on the system pay proportionally more (Section 5.5).

5. Avoids Customer Impacts from More Aggressive Alternatives
   Alternatives considered in the 2014 report that reduced or eliminated the allowance would have shifted more cost recovery to volumetric rates,

increasing bill volatility, and potentially creating larger impacts for the typical residential user. By contrast, maintaining the 600 cf allowance provides more gradual and balanced transition while still meeting revenue needs.

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.