

Designing & Setting Utility Rates

Balancing Financial Sustainability, Fairness, and
Legal Compliance



1

What We Will Cover

- Why rates matter
- Legal authority & responsibilities
- Understanding revenue needs to support the system
- How revenue is collected fairly and equitably
- Rate structures & design choices
- Testing rates for stability & affordability
- Role of the Board & public transparency

2

Why We Set Rates

- Provide safe & reliable utility service
- Cover costs today and in the future
- Meet legal & regulatory requirements
- Treat customers fairly and equitably

3

Principles of Water Rates, Fees, and Charges
M1
Seventh Edition

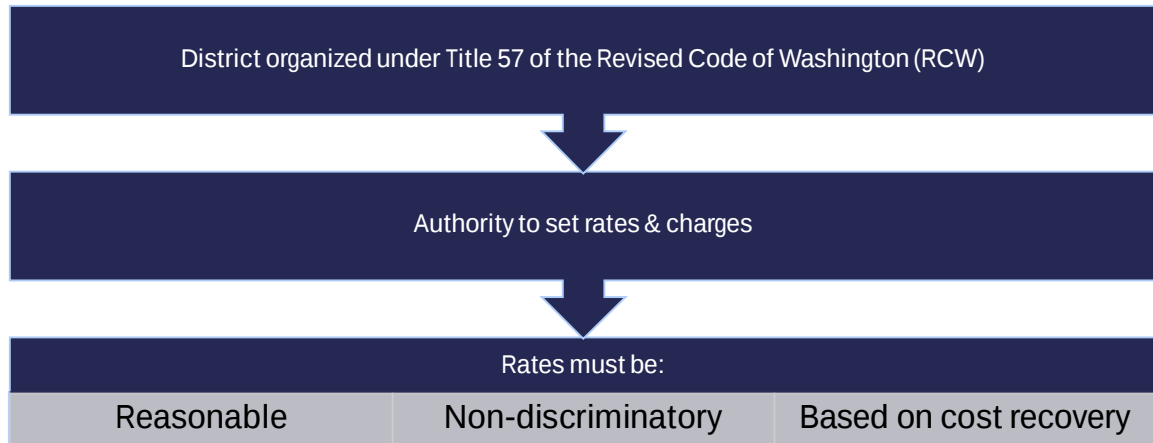
Guiding Standards We Use

- ▶ American Water Works Association (AWWA) M1 Manual - Industry Best Practices
- ▶ Rural Community Assistance Partnership (RCAP) Formulate Great Rates – Practical, Community-Focused Approach
- ▶ Washington State Law (Title 57 RCW)

Formulate Great Rates
The Guide to Conducting a Rate Study for a Small System

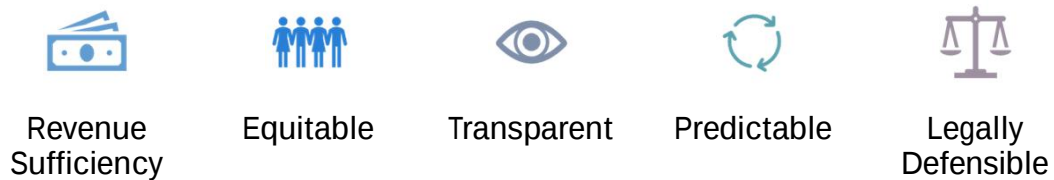
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Legal Authority (Washington State)

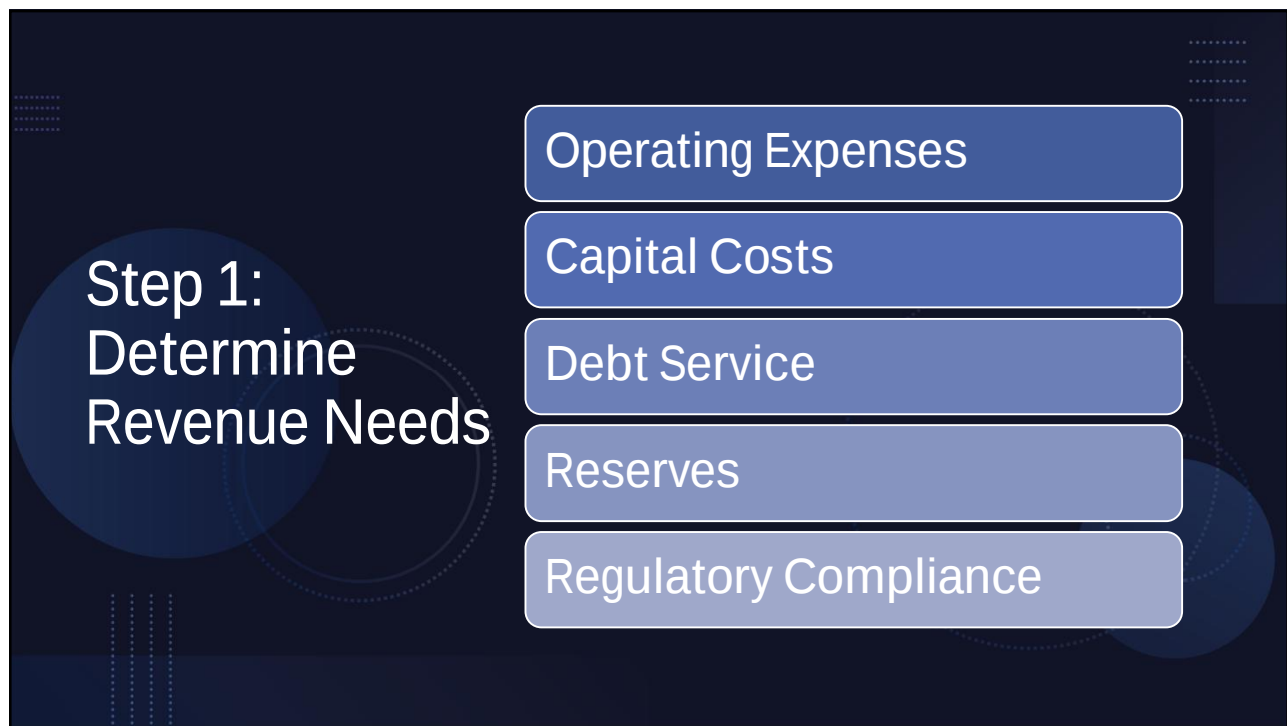


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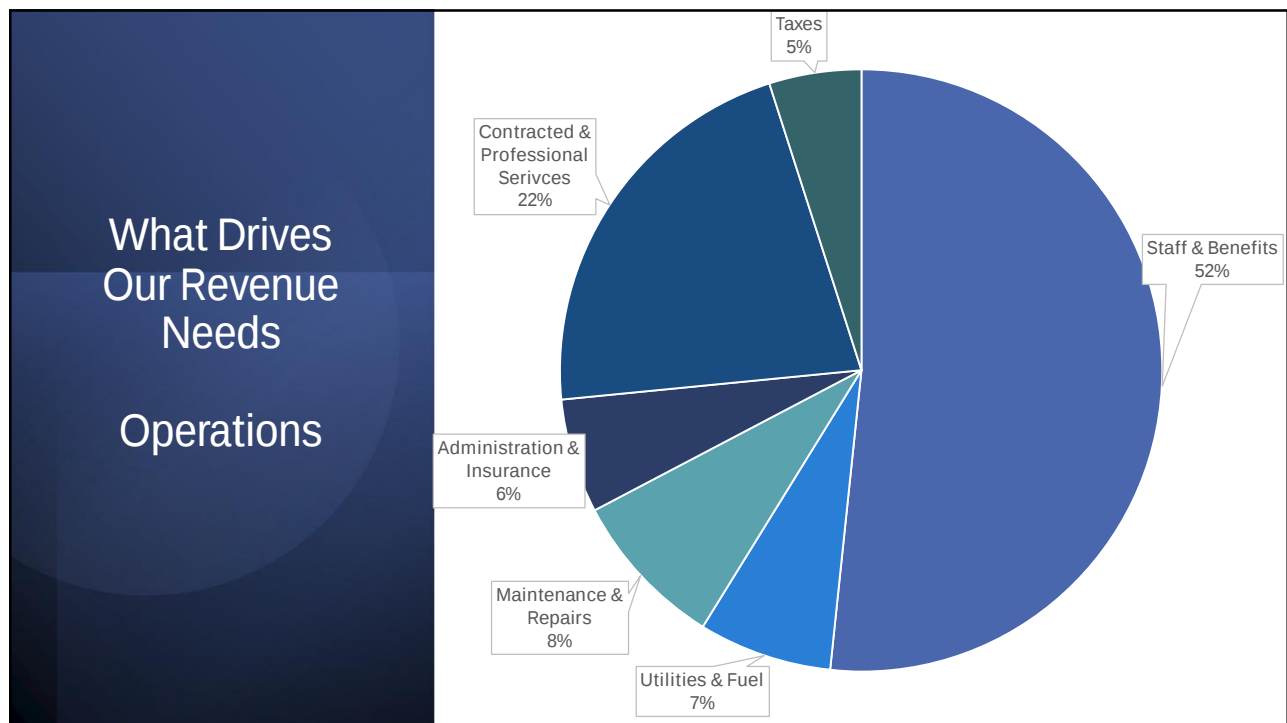
Core Principles of Good Rate Design



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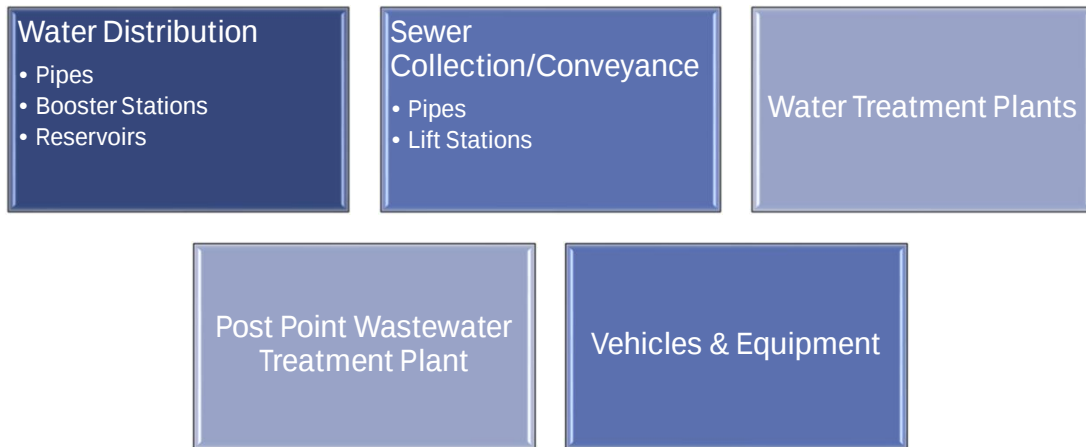


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8

What Drives Our Revenue Needs - Capital



9

What Drives Our Revenue Needs– Debt & Reserves



10

Understanding Costs Fixed vs. Variable



Fixed Costs

Staffing
Administration
Debt Service
Regulatory Compliance
System Readiness



Variable Costs

Water Production
• Power
• Chemicals
Sewer Conveyance
• Pumping
• Treatment at Post Point WWTP

11

Step 2: Align Rates to Revenue Needs

How we ensure stable and
sufficient revenue.



Identify Total Revenue Needed



Ensure Each Fund is Self-Supporting



Prioritize Stability & Simplicity

12

Step 3: Choose a Rate Structure



Base Rate Plus Tiered Usage
(Water Utility Fund)



Base Rate (Sewer Utility Fund)



Designed to Meet Revenue
Needs

13

Base Charges Explained

Pays for
system
reliability

Covers most
fixed costs

Stabilizes
revenue within
each fund

14

Volume Charges Explained



REFLECTS WATER USE



ENCOURAGES
EFFICIENT WATER USE



SUPPORTS VARIABLE
OPERATING COSTS

15

Conservation & Affordability Balance

Protect	Protect Essential Household Use
Avoid	Avoid Revenue Instability
Balance	Balance Conservation Goals

16

Step 4: Test the Rates

Does each fund meet revenue needs?

Are capital plans supported?

How sensitive are rates to usage changes?

Are our rates affordable?

17

Rate Stability & Long-Term Planning



Separate Financial Planning By Fund



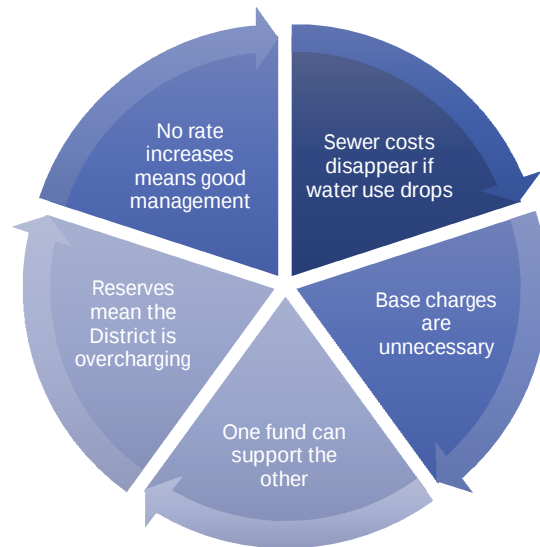
Coordinated Long-Term Strategy for Water and Sewer Funds



Gradual Adjustments

18

Common Misconceptions



19

Transparency & Public Trust



Clear Explanations & Calculations

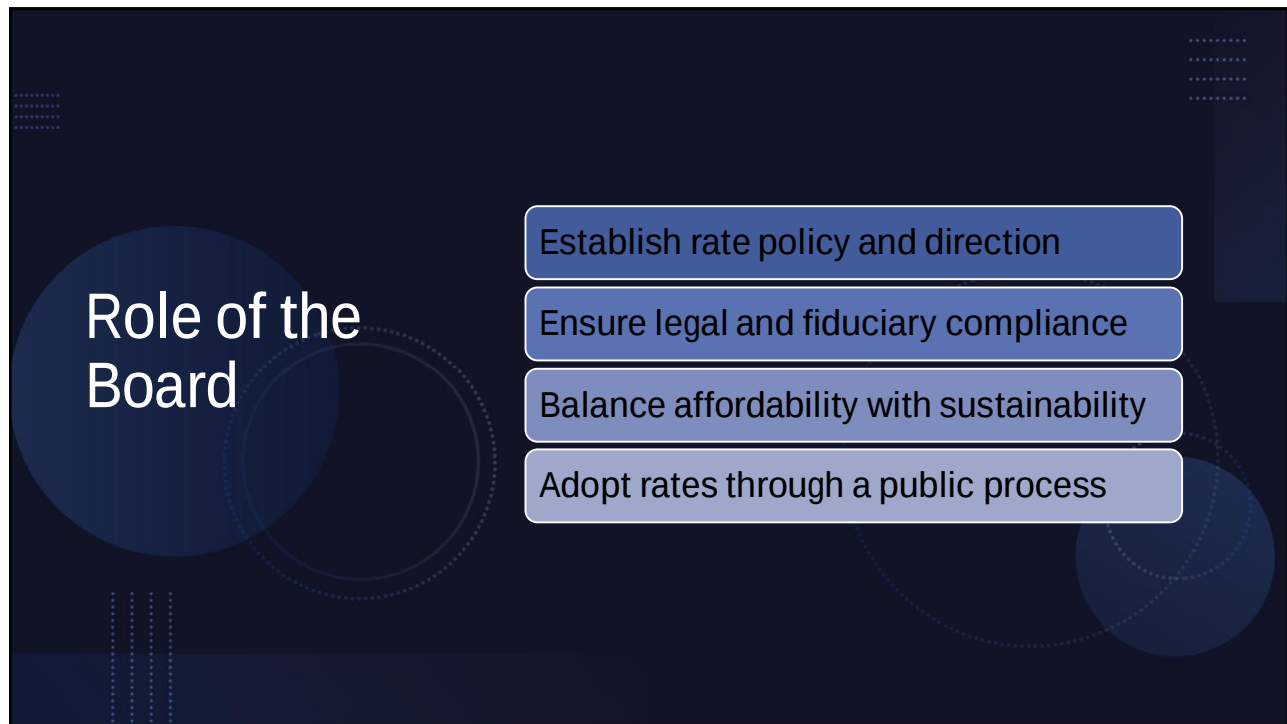


Simple Visuals

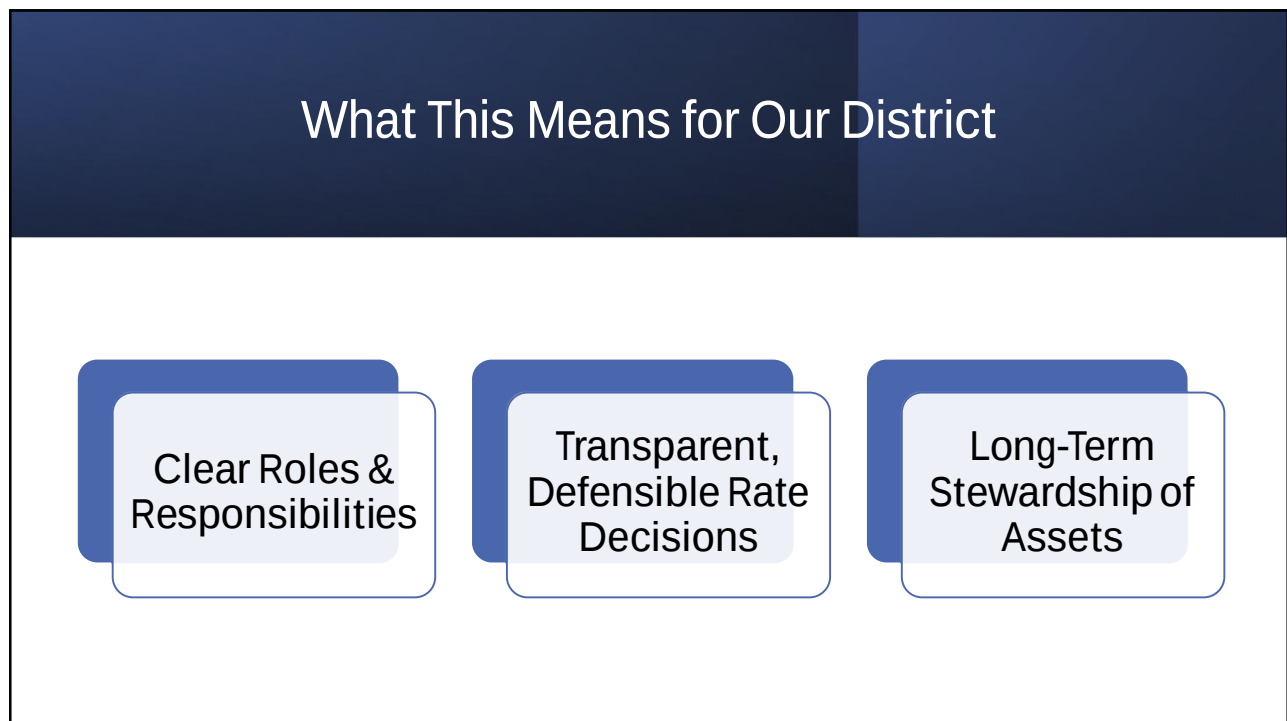


Open Dialogue

20



21



22

Next Steps



Establish timeline of rate study



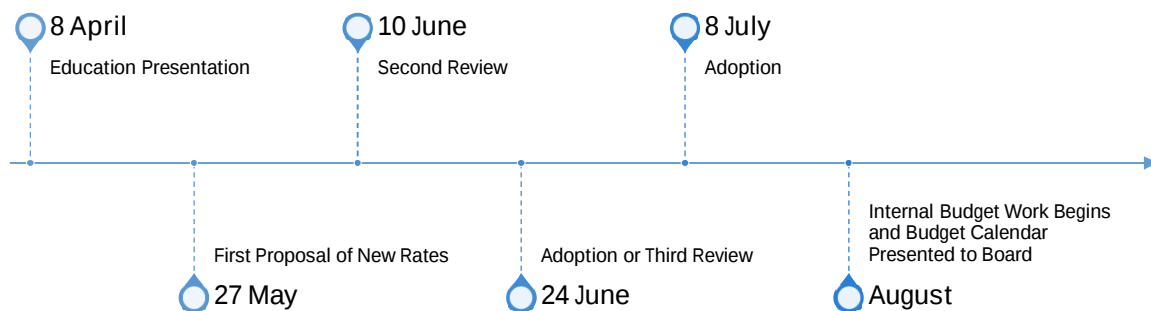
Establish target date for rate adoption



Incorporate rates into the next biennial budget cycle for 2027 - 2028

23

Timeline



24

Questions?

