

Utility Rate Setting for 2027 & 2028 Budget

March 9, 2026





How We Set Rates

- Role of rate studies in financial planning
- Overview of the rate setting process
- Identifying sensitivities and priorities
- Revenue requirement
- Cost of service
- Rate design
- Questions / discussion





Role of Rate Studies in Financial Planning



Maintain the long-term health and integrity of utility systems



Quantify policies, priorities, and initiatives



Tell the "true" cost of providing service



Track cost information



Evaluate equity among customer groups



Communicate financial decisions and their impact



Management tool



Overview of Rate Setting Process

Financial Policies – Set the Management Foundation

1

Step 1:
Revenue Requirement
(defining overall needs)

Revenue

Debt

Reserves

O&M

Capital

2

Step 2:
Cost of Service
(equity evaluation)

Define Customer Classes

Allocate Costs

3

Step 3:
Design Rates
(collect target revenue)

Fixed Charge

Variable Charge



Understand Sensitivities And Priorities

- Understanding the City's goals and objectives sets the stage for your rate study
- Policies, strategies and rate structures can be developed or refined to align with priorities

Recover growth-related costs from growth

Fund renewal and replacement through rates

Discount programs

Smooth rate impacts over time

Fund capital program with cash vs. debt

Continue encouraging conservation

A green-tinted background image showing a business meeting. In the foreground, a person's hand holds a pen over a laptop. In the background, another person's hands are visible near a laptop. The image is overlaid with a network of white lines and dots, and semi-transparent data charts, including a bar chart and a line graph. A dark grey arrow-shaped banner is positioned across the middle of the image.

Revenue Requirement

“Defining Overall Needs”



Revenue Requirement Objectives

Determine

Determine the amount of annual revenue necessary to fund all financial obligations on a standalone basis

- Operating expenses
- Debt service
- Capital costs

Meet

Meet financial parameters and targets

- Target debt service coverage ratios
- Maintain target reserve balances

Evaluate

Evaluate revenue sufficiency over a multi-year period

Develop

Develop rate plan to balance financial needs and minimize customer impacts

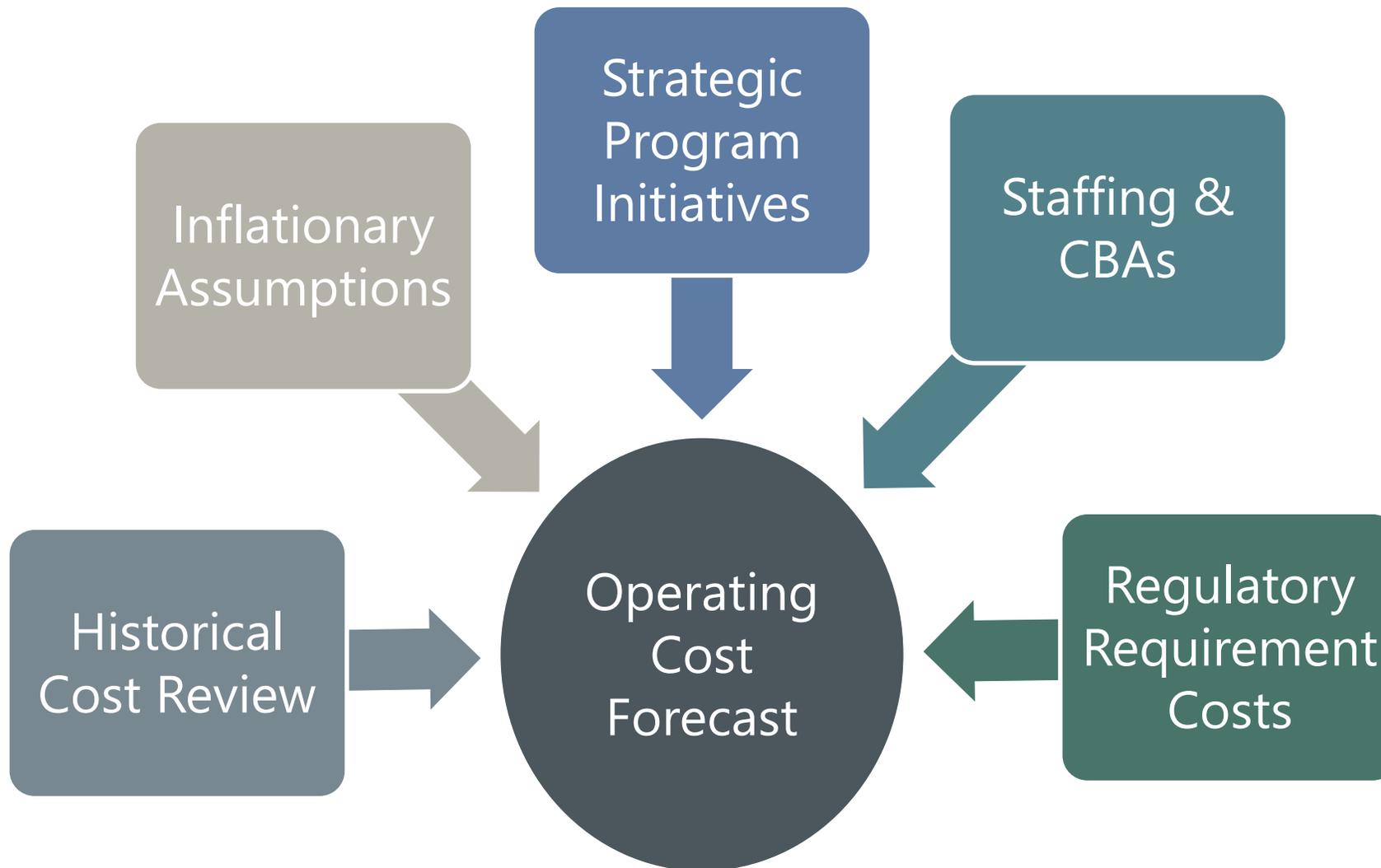


Revenue Considerations

Rate Revenue	<ul style="list-style-type: none">• Review historical trends• Anticipate growth (but be conservative)• Annexation / service area expansion• New, large customer
Other Revenue	<ul style="list-style-type: none">• Miscellaneous fees• One time or recurring• Increase w/ customer growth or flat
Fund Balance	<ul style="list-style-type: none">• Not an on-going resource• Can mask revenue shortfalls 



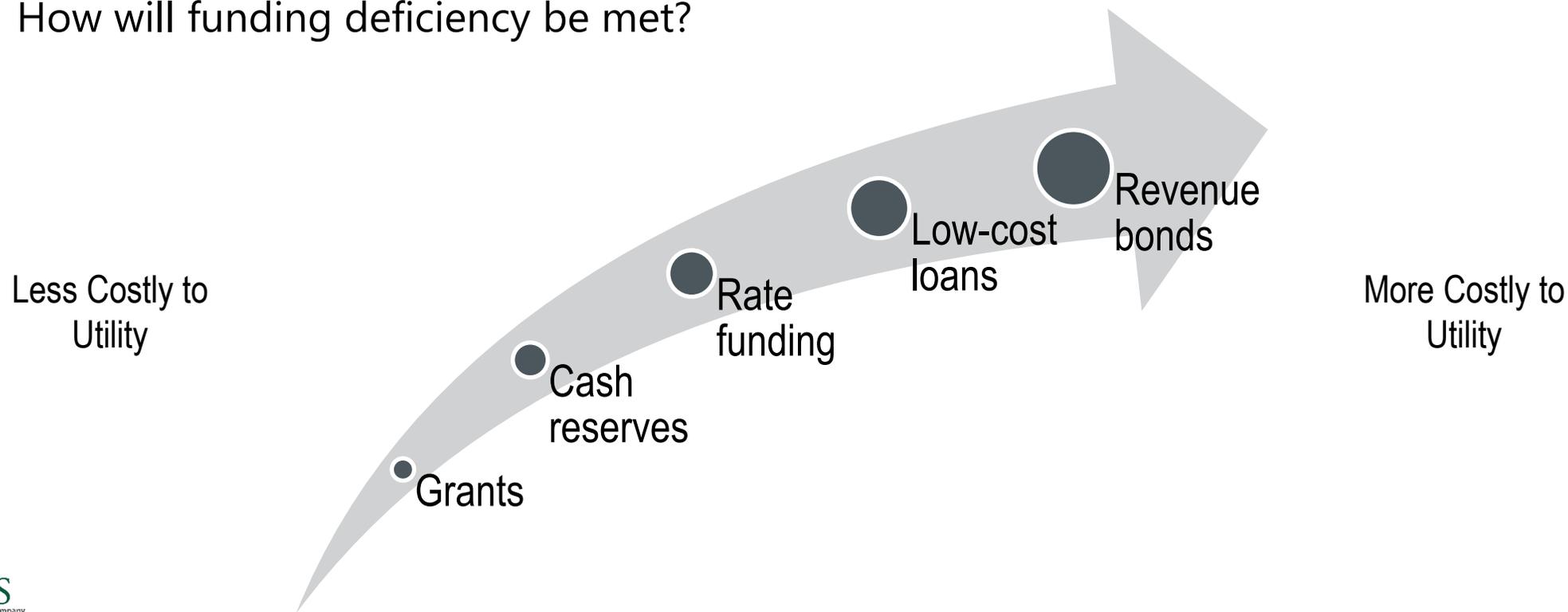
Operating Cost Considerations





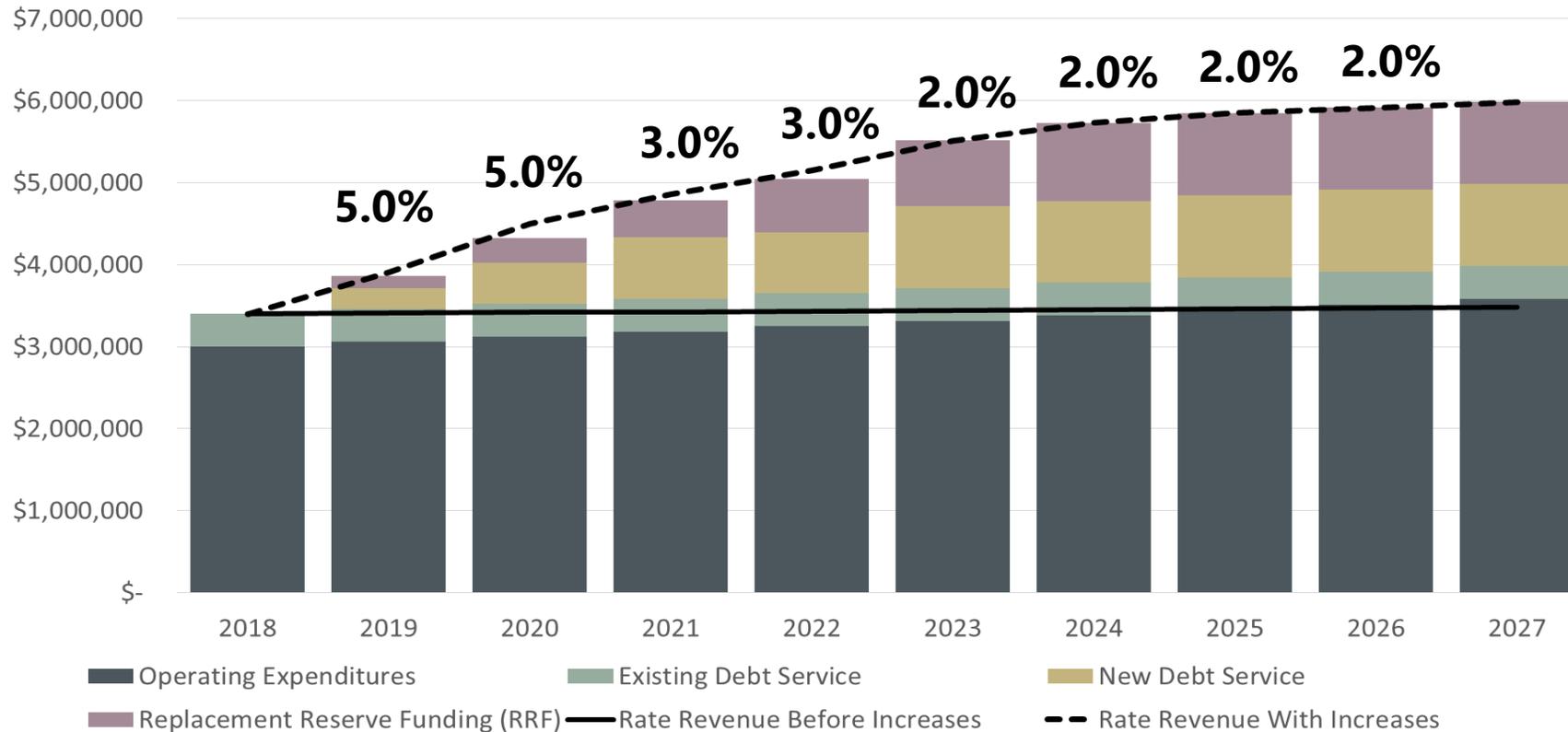
Capital Funding Considerations

- Understanding nature of capital projects can determine if funding should be cash, debt or a combination
 - » Debt financing spreads costs between existing and future ratepayers
 - » Existing customers should pay for assets currently in use
 - » How will funding deficiency be met?





Example Rate Revenue Requirement



- Identifies total financial obligations
- Evaluates sufficiency of existing rates
- Develops annual rate strategy to meet gap

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Cost of Service “Equity Evaluation”



What is Cost of Service?

- An equitable distribution of cost share that considers utility specific data
 - » Measures of usage and demand
 - » Planning, engineering and design criteria
 - » Facility requirements
- Cost of Service analysis determines:
 - » Total cost by class
 - » Unit costs (\$/usage; \$/customer)
- Fundamental question: Do cost differences exist to serve different customer classes of service?





Example Customer Class Considerations



Single Family Residential

- Typically, largest customer group (number of accounts)
- Relatively low usage per account
- Higher peaking demands
- Lower fire flow requirements; domestic sewer strength



Multifamily Residential

- Lower usage per unit
- Typically, master metered
- Relatively constant use – low peaking
- Domestic sewer strength



Commercial / Industrial

- Diversity in use per account
- Typically, constant use – low peaking
- Highest fire flow requirements
- Varying sewer strength contributions – may be lower than domestic or require a permit



Parks, Irrigation & Agriculture

- Often smallest customer class in terms of accounts – varies by location
- Majority of use in peak demand time / season
- No fire flow requirement



Cost of Service

- Step 1: Allocate total utility costs to cost pools

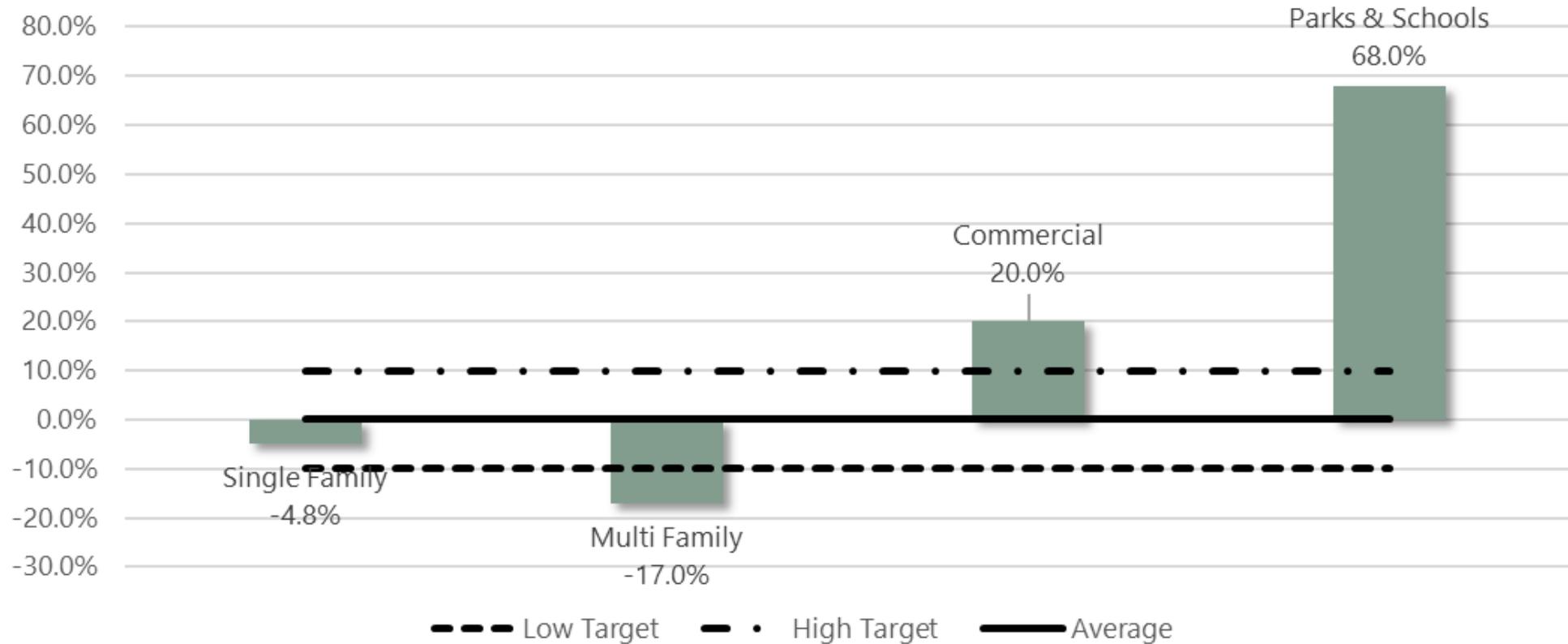
Water Utility Functions*	
• Customer	• Transmission
• Meters & Services	• Distribution
• Source of Supply	• Fire Hydrants
• Storage	• Hydroelectric
• Pumping	• General

Sewer Utility Functions*	
• Customer	• Treatment - Nitrogen
• Flow	• Treatment - Phosphorus
• Treatment – Flow	
• Treatment – BOD	
• Treatment - TSS	

- Step 2: Develop allocation factors using customer facility requirements and usage characteristics
- Step 3: Allocate costs to customer classes



Example Cost of Service Results



- $\pm 10.0\%$ of average is within cost of service
- Phase-in plans can be developed to move towards cost of service while minimizing impacts on customers

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Rate Design

“Target Revenue Collection”



Overview of Rate Design

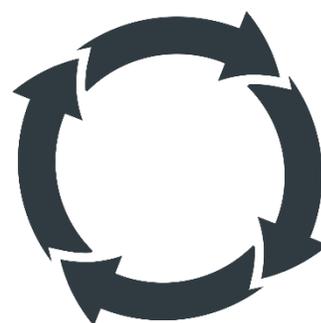
- **Development of fixed and variable charges assessed to customers**



Aligns fixed and variable costs with fixed and variable revenue sources



Generates sufficient revenue to meet utility requirements



Meet goals and objectives of the utility (e.g., conservation)



Evaluate monthly rate impact for different levels of use



Rate Design Considerations

- Revenue stability
 - » Can be addressed through increasing fixed charges
- Tiered rate differentials
 - » Sending the appropriate price signal
- Conservation
 - » Through a combination of rate design and education
- Rate structures don't have to be the same for all classes
- For example: Application of a tiered rate for residential, a seasonal rate for commercial and multi-family accounts and a uniform year-round rate for parks and schools is achievable



Timeline

- Introduction to Rate Setting – March 2026
- Water/Wastewater Rates Proposal – May/June 2026
 - » Include Commercial Water Consumption structure update
 - » Review Revenue Requirements & Cost of Service Analysis
- Solid Waste Rates Proposal – July/August 2026
 - » Review Revenue Requirements
 - » Include funding to begin to implement mandatory organics collection & WTE CCA compliance costs
- Approval of Rates – By October 2026
- Effective date – Jan. 1, 2027



Questions?

