

October 13, 2026

MEMORANDUM - WATER

Sonny Weathers, City Administrator
City of Medical Lake
124 S Lefevre St.
PO Box 369
Medical Lake, WA 99022

Re: 2026 Water Fund Rate Study
Methodology, Assumptions, & Recommended Rates

This memorandum summarizes the methodology, key policy decisions, and supporting assumptions underlying the recommended 2026 water rates. The initial recommended structure is a \$26.50 monthly base charge, an \$18.00 additional-unit charge, and volumetric rates of \$1.23 (Tier 1), \$1.65 (Tier 2), and \$2.90 (Tier 3) per 1,000 gallons. The approach is consistent with cost-of-service principles commonly applied in municipal rate studies and with AWWA Manual M1 guidance.

1. Revenue Requirement

The revenue requirement is assembled from three components:

- **Operations & Maintenance (\$852,000).** This amount is based on the 2026 operating budget with materials and equipment associated with short-lived asset replacement removed. Those items are funded through the dedicated SLA reserve. O&M therefore represents the recurring cost of operating and maintaining the system on a day-to-day basis.
- **Short-Lived Asset Reserve (\$238,000 annually).** SLAs are system components whose useful lives are significantly shorter than the overall facility (examples include pumps, meters, control equipment, valves, vehicles, and tank recoating). The annual contribution is derived from a 1 to 20-year replacement schedule.
- **Capital Project Debt Service (ratepayer share).** A \$9 million project is planned to construct a new well source and associated transmission mains to the reservoir, providing long-term source resiliency. The new source will provide long-term service for existing customers and future connections. While growth is expected to bear the cost of growth, source capacity must be in place before growth can occur. As a reasonable initial allocation, existing ratepayers are assigned 33.3 percent of the annual debt service on this project (approximately \$146,000). The balance is assumed to be covered by appropriations, or future growth-related contributions.

2. Revenue Shortfall

Last year's water fund revenue from base charges and consumption totaled \$869,006. Other non-rate revenues (reservoir rental, purveyor contract, delinquent fees, investment interest, and hook-up fees) added \$162,000, for a total of \$1,031,006.

The combined O&M, SLA reserve, and ratepayer share of debt service, net of other revenues, produces a revenue requirement from rates of approximately \$1,074,000. This results in a shortfall of roughly \$205,000 relative to current rate and consumption revenue.

If the entire shortfall were recovered solely through an increase in the base charge (with no change to the existing tiered rates), the base rate would need to rise from \$22.79 to approximately \$34.00 per month. Such an approach would place a disproportionate burden on lower-income households and on customers who use water conservatively, even though high-volume use is the primary driver of source, storage, and transmission costs.

3. Rate Design Approach

The recommended structure applies an economic-justice and cost-causation framework. Essential use is protected while higher users, who drive peaking and capacity costs for wells, reservoirs, and transmission mains, bear a larger share of the incremental revenue need. This approach is consistent with AWWA guidance favoring increasing-block rates that provide clear conservation signals without unduly burdening basic indoor use.

- **Tier 1 (\$1.23 per 1,000 gallons).** A modest inflationary adjustment of approximately 2.5 percent over the current \$1.20 rate. This maintains affordability for essential (primarily indoor) use.
- **Tier 2 (\$1.65 per 1,000 gallons).** A more substantial increase that creates a clearer differential (approximately 34 percent above Tier 1). AWWA M1 supports meaningful step-ups in increasing-block structures to reflect higher capacity costs associated with above-average demand while remaining within a reasonable range.
- **Tier 3 (\$2.90 per 1,000 gallons).** Set at approximately 2.4 times the Tier 1 rate (compared with the current 1.33 times differential). The higher rate recovers a more equitable portion of the costs of source, storage, and transmission facilities that are sized to meet peak demands driven by high discretionary use. The resulting rate remains within the range of highest-tier charges observed among other Spokane-area purveyors.
- **Additional Unit Charge (\$18.00 per month).** Set below the base charge to reflect the typical relationship that an additional dwelling unit uses approximately 0.6 times the water of a base connection. This preserves a stable fixed-revenue contribution while recognizing lower average use.

4. Derivation of the Base Rate

Applying the recommended volumetric and unit rates to current annual volumes produces the following estimated revenue:

- Tier 1: $140,235 \times \$1.23 \approx \$172,500$
- Tier 2: $47,408 \times \$1.65 \approx \$78,200$
- Tier 3: $79,214 \times \$2.90 \approx \$229,700$
- Additional units: $444 \times \$18 \times 12 \approx \$95,900$

Subtotal from consumption and additional units $\approx \$576,300$.

Required revenue from rates $\approx \$1,074,000$.

Residual to be recovered through base charges $\approx \$497,700$.

Monthly base rate = $\$497,700 \div (1,562 \text{ base connections} \times 12) \approx \$26.55$, which is recommended for implementation at \$26.50.

5. Regional Comparison

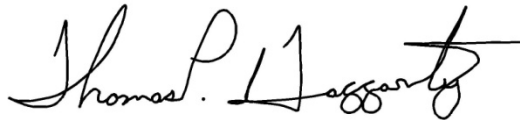
Medical Lake's recommended rates remain competitive with, and in most cases lower than, those of other West Plains and Spokane-area purveyors when both base charges and volumetric rates are considered. The table below summarizes current published rates for ready comparison.

Purveyor	Base (\$/mo)	Lowest Tier	Highest Tier	Highest Tier Starts
Medical Lake (Recommended)	26.50	1.23	2.90	>30,000 gal
City of Spokane (Inside)	20.07	0.50	3.26	>33,662 gal
City of Spokane (Outside)	30.11	0.76	4.91	>33,662 gal
City of Airway Heights	22.55	2.74	6.10	>14,961 gal
City of Cheney	13.26	5.00	5.00	Flat rate
Spokane Co. WD #3	33.20*	0.67	1.00	>75,553 gal
Whitworth Water District No. 2	30.66*	0.99	2.87	>112,201 gal.
Vera Water and Power	23.53	0.85	1.35	>29,922 gal
City of Deer Park	33.95*	0.90	0.90	>4,000 gal
City of Chewelah	57.25*	1.23	1.75	>65,000 gal.

** Base includes a volume allowance. Rates are approximate per 1,000 gallons after unit conversion.*

We believe this is at least a starting point for discussions regarding rates with respect to the various needs of the water system. Assumptions and methodology can definitely be altered to provide different results and please keep in mind that this is just one scenario of reasonable rates; many scenarios exist that can accomplish the same goal. Please do not hesitate to contact us should questions or concerns arise.

Sincerely,



Thomas P. Haggarty, P.E.
Principal