



MEMORANDUM

CC-26-051

Utility Rate Structure – Monthly Minimum vs. Monthly Service Fee

Item Type: Informational Memorandum
Prepared For: Mayor Lord and Homer City Council
Date: February 21, 2026
From: Councilmember Davis

SUMMARY:

This memo outlines the policy rationale for preferring a monthly minimum bill rather than a fixed monthly service fee as the mechanism for ensuring that vacant properties contribute toward the fixed costs of Homer's water and sewer system.

BACKGROUND:

Homer's current utility model is volumetric, meaning customers pay based on gallons used. Because many homes sit vacant for extended periods, some accounts generate little or no revenue while still benefiting from system availability and capital investment.

Two policy tools for addressing this have been discussed:

1. A monthly service fee applied to all accounts; or
2. A monthly minimum bill, where customers pay at least a fixed amount, or their usage charge if higher.
3. **Revenue Predictability**
The revenue generated by a monthly service fee can be calculated with high certainty because the City knows the number of active accounts and billing months per year. By contrast, revenue from a monthly minimum bill is inherently less predictable because it depends on how many customers fall below the threshold, and by how much, in any given month. Seasonal occupancy patterns, tourism variability, and conservation efforts can all affect this number. Accordingly, a minimum-based system would require estimating expected revenue initially and then adjusting volumetric rates annually based on hard data.
4. (Note: In interpreting PWD Slide 15, *Customer Usage Jan. 2026 0-1000 gallons*, many of the non-zero users likely represent vacant properties. A toilet flapper valve or faucet releasing

one drop per second consumes roughly 200 gallons per month, rising to 600+ gallons if dripping quickly, whether due to a leak or an attempt to avoid frozen pipes.)

5. Equity Considerations

A fixed monthly service fee applies equally to every account regardless of consumption. Because lower-volume households pay less in volumetric charges, a fixed fee represents a larger share of their total bill and therefore functions regressively.

- 6. In addition, under a service-fee model, lower use customers effectively subsidize heavy users: the added fixed revenue lowers the per-gallon rate charged, meaning high-volume users receive a larger dollar benefit from the reduced rate than low-volume users, even though both pay the same fixed charge.
- 7. In practical terms, this means a flat service fee shifts system costs toward the lowest-use households while reducing bills significantly for the highest-use customers.

The table below illustrates how a \$22 monthly service fee (Slide 9 in the PWD presentation), paired with reduced volumetric rates, affects customers at different usage levels.

Monthly Water & Sewer Bills — \$22 Service Fee Scenario

| Monthly Usage (gallons) | Current Bill Water \$0.0165/gal Sewer \$0.0186/gal | New Bill (+\$22 fee) Water \$0.0140/gal Sewer \$0.0158/gal | Change (\$) | Change (%) |
|-------------------------|--|--|-------------|------------|
| 1,000 | \$35.10 | \$51.80 | +16.70 | +47.6% |
| 3,000 | \$105.30 | \$111.40 | +6.10 | +5.8% |
| 5,000 | \$175.50 | \$171.00 | -4.50 | -2.6% |
| 10,000 | \$351.00 | \$320.00 | -31.00 | -8.8% |

8. Possible Hybrid Approach

With a monthly minimum, the very lowest users could still end up subsidizing high volume consumers, because they pay more (to meet the minimum) while the highest users pay less per gallon than they would otherwise. This could potentially be addressed through a hybrid structure in which higher-volume users (for example, those exceeding 5,000 or 7,500 gallons per month) are subject to a service-fee component. Because heavy users benefit the most from reductions in per-gallon rates, their overall bill under such a hybrid approach could remain similar to or lower than under the current fully volumetric system, while ensuring upkeep costs are shared more proportionally.

9. Conclusion

Both the service fee and monthly minimum approaches would increase participation from vacant properties and improve revenue stability. However, a monthly minimum bill more precisely targets under-contributing accounts while avoiding disproportionate impacts on smaller and average-volume year-round households. Council should consider whether a

monthly minimum-based approach, potentially combined with a targeted hybrid structure, would better align system funding with principles of fairness and proportional cost sharing.