



Water Rate Study Overview

December 12, 2022



Overview of Presentation

- MMWD Service Overview
- Financial Planning Process and Updated Projections
- Capital Infrastructure Funding Challenges
- Water Rate Setting Process Overview
- Communications Outreach Plan
- Recap and Next Steps

MMWD Mission Statement

Manage our natural resources in a sustainable manner and to provide our customers with reliable, high-quality water at a reasonable price.

Marin Water at a Glance

- 147-square-mile service area covering central and southern Marin
 - Over 191,000 residents
 - San Rafael, Mill Valley, Fairfax, San Anselmo, Ross, Larkspur, Corte Madera, Tiburon, Belvedere, Sausalito, & unincorporated Marin County
 - Novato and West Marin are outside of the District's service area
- Nearly 8 billion gallons of water are delivered to customers each year
 - System-wide costs of less than 2 cents per gallon
- MMWD receives 98 percent of its revenue directly from customers
 - Remaining 2 percent comes from interest and rent revenue
 - As a special district public agency, the District does not make a profit
 - By law, we only charge customers the cost of providing water

Your Water

- Locally Sourced*
 - 75% comes from Marin reservoirs
 - 25% is imported from Sonoma County
- 7 local reservoirs provide storage before water is treated
- 3 water treatment plants operate around the clock
- A network of over 900 miles of pipelines and 100 pump stations
- Over 60,000 service connections

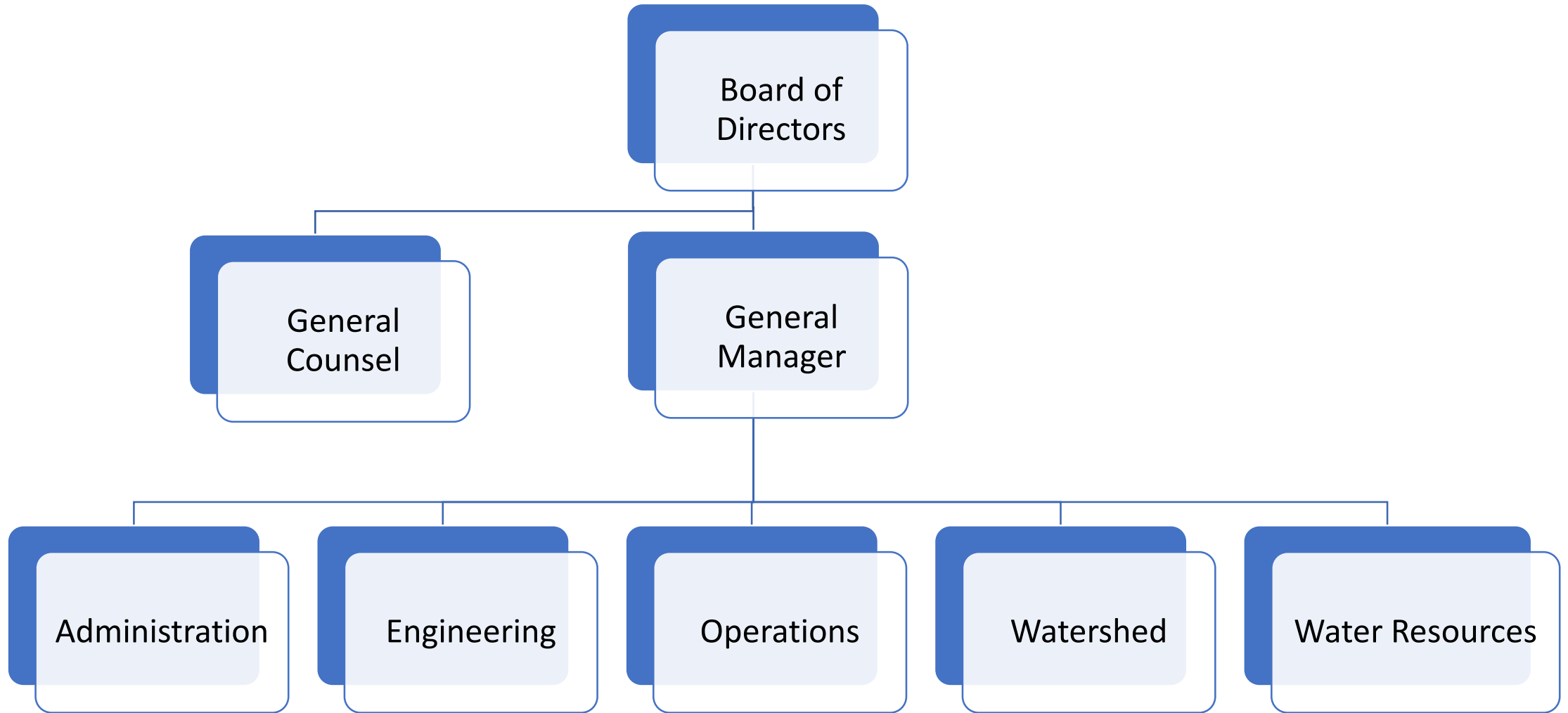


**based on long term averages*

Financial Planning Overview

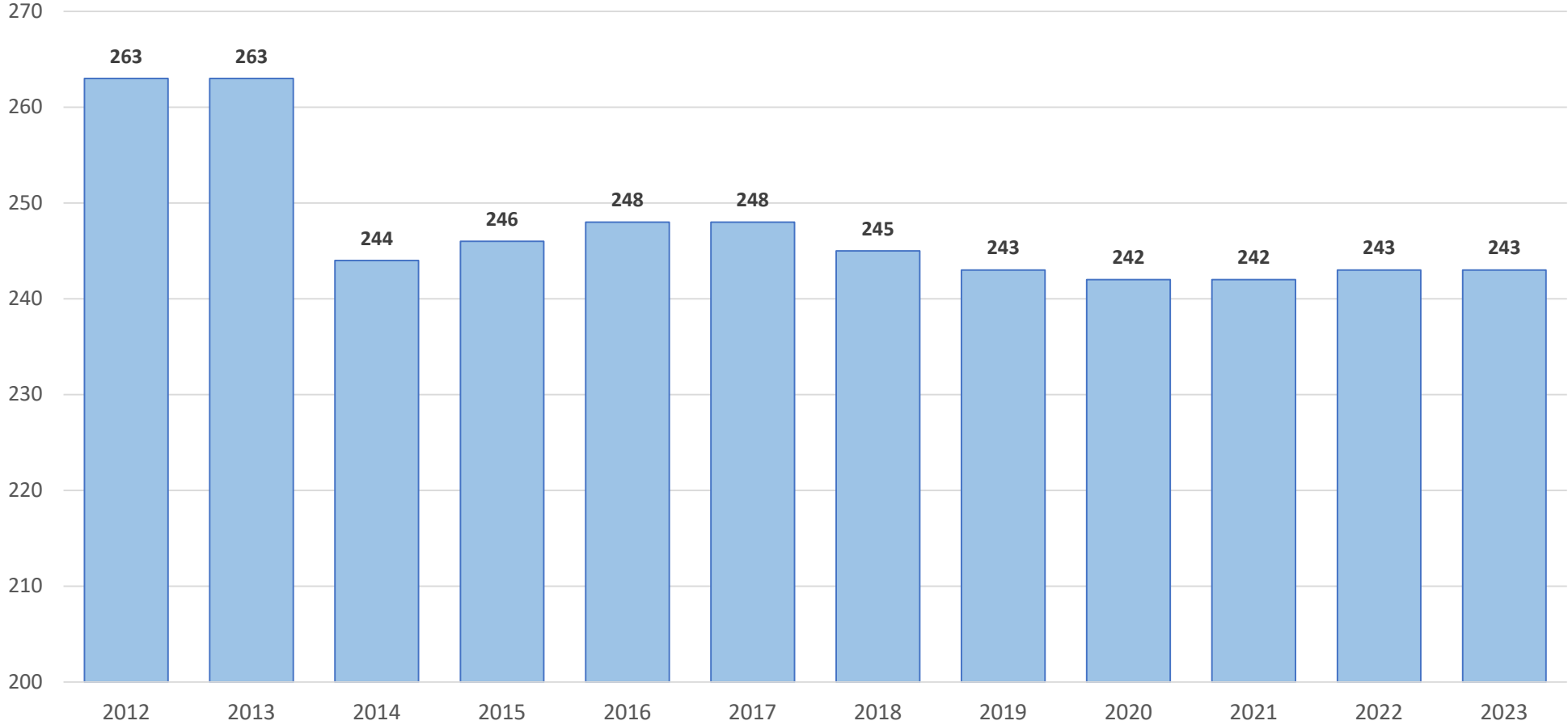
- Budget Overview
 - Total budget of \$116 million in FY 2022-23 (all funds)
 - 2 year budget cycle, builds upon prior year planning efforts
 - Next budget begins July 2023
 - By the numbers:
 - Expenditures
 - 70% is for ongoing operations;
 - 30% is for capital projects and debt service
 - Personnel costs account for 48% of the budget (243 full time employees)
 - Revenues
 - 50% comes from variable water sales
 - 45% comes from fixed service charges
 - 5% comes from non-rate sources (connection fees, permits, fees, rents)

Org Chart



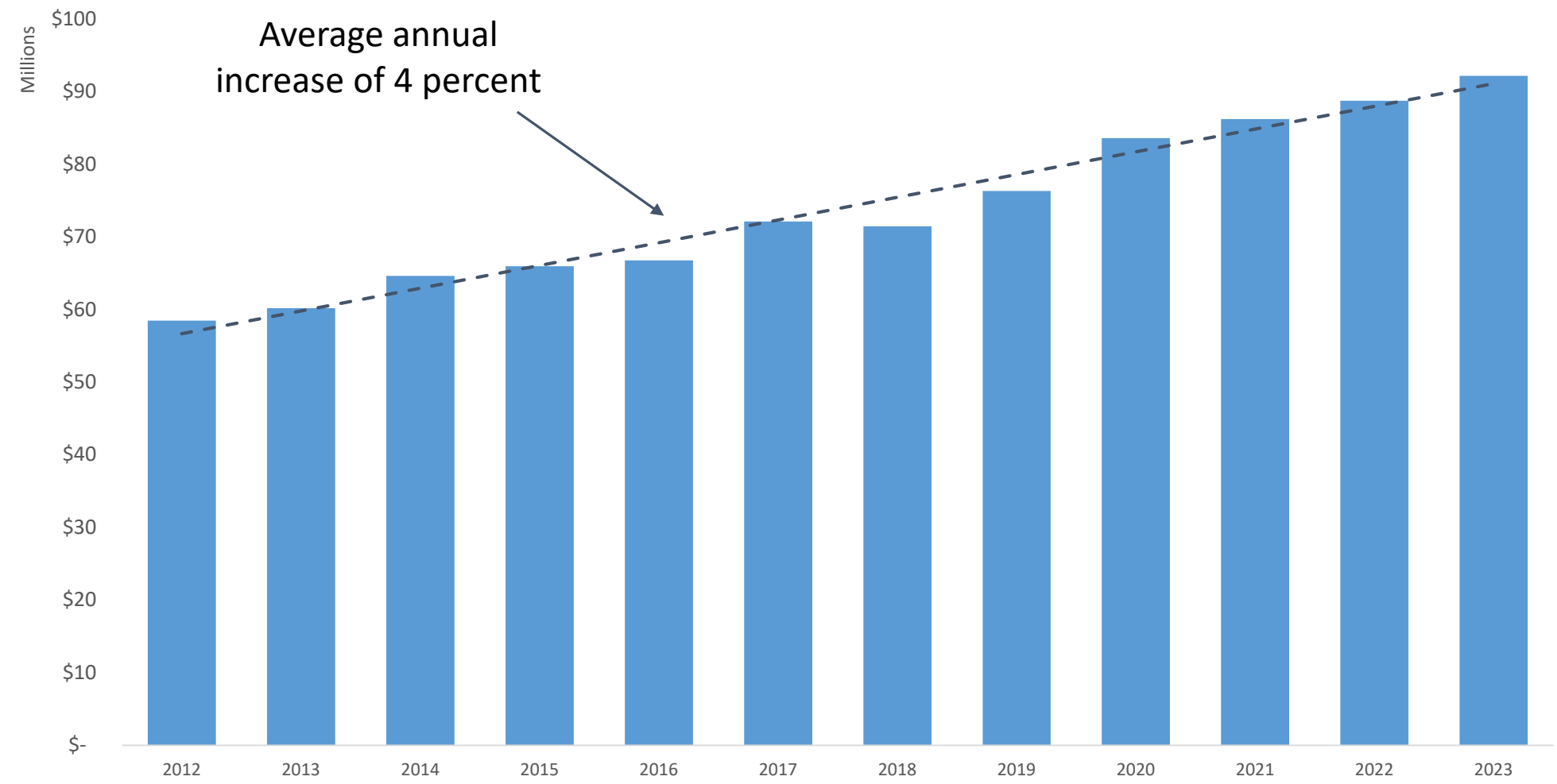
Historical Budget Trends

MMWD Staffing History – Budgeted FTE



Historical Budget Trends

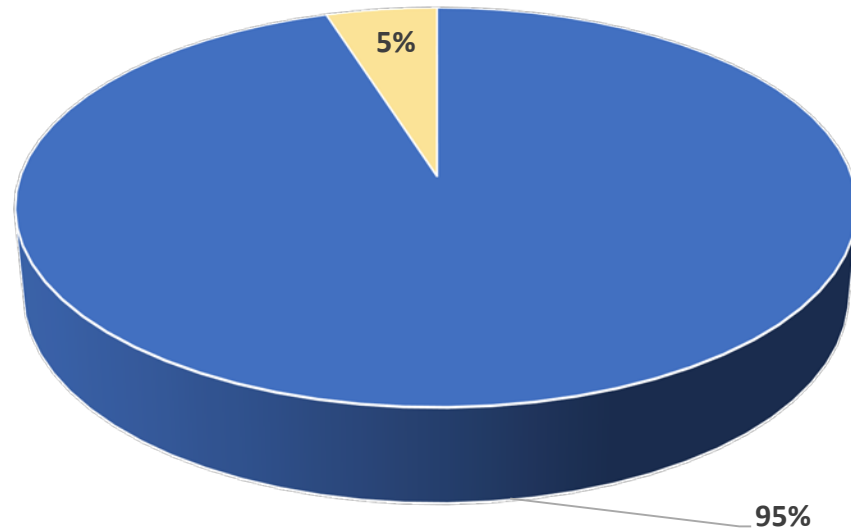
MMWD Adopted Budget - Operating Fund



Key Financial Concept: Fixed Expense vs Variable Revenues

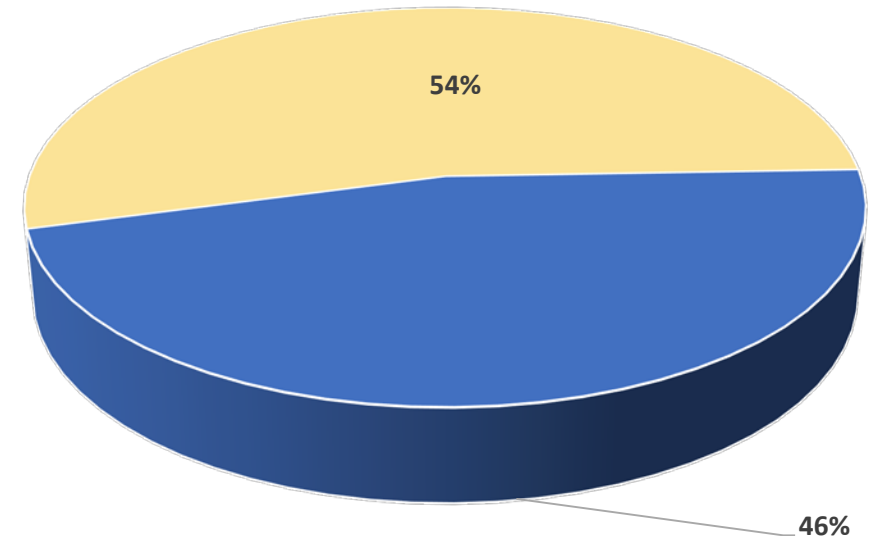
- Nearly all of the District's expenses are fixed
- More than half of our revenues are dependent on the amount of water distributed to customers

Expenses



■ Fixed ■ Variable

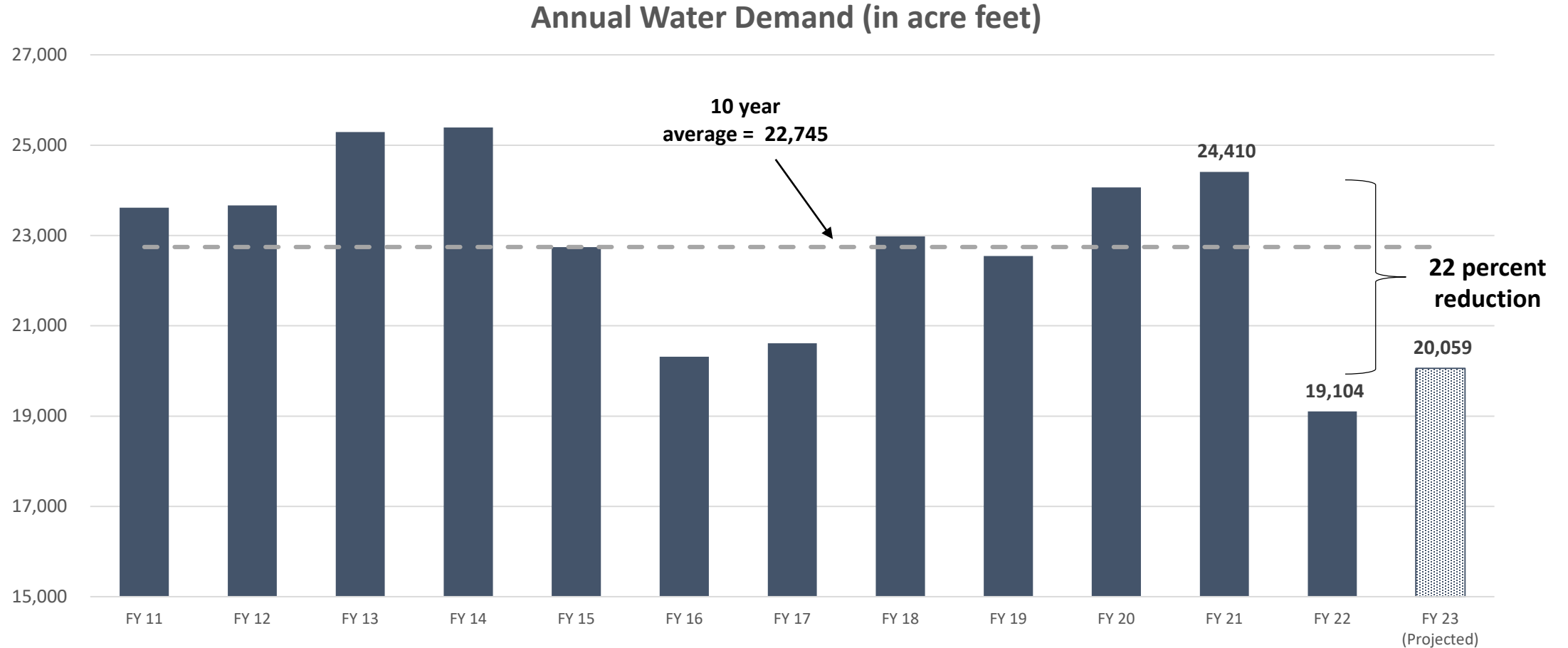
Revenues



■ Fixed ■ Variable

Customer Water Demand Trends

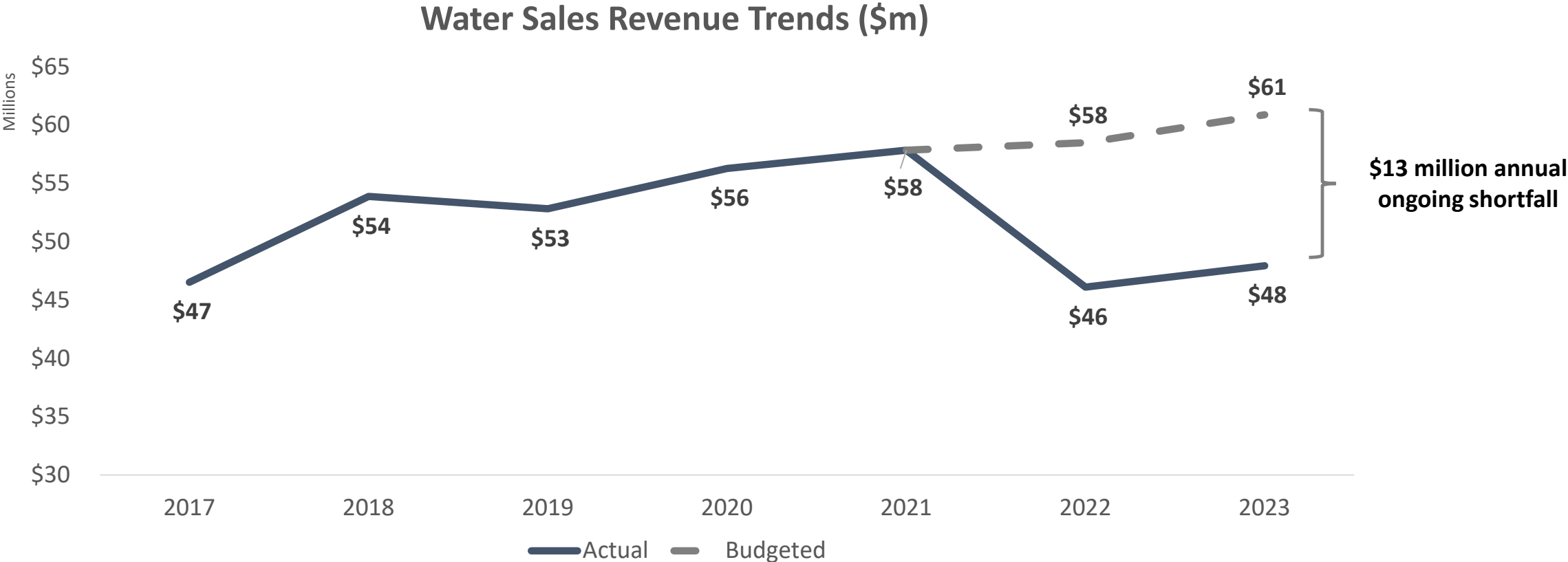
Customers have done an outstanding job conserving water in response to the drought



Water Sales Revenue Trends

Over the past two years, water sales revenues have decreased by over 20%

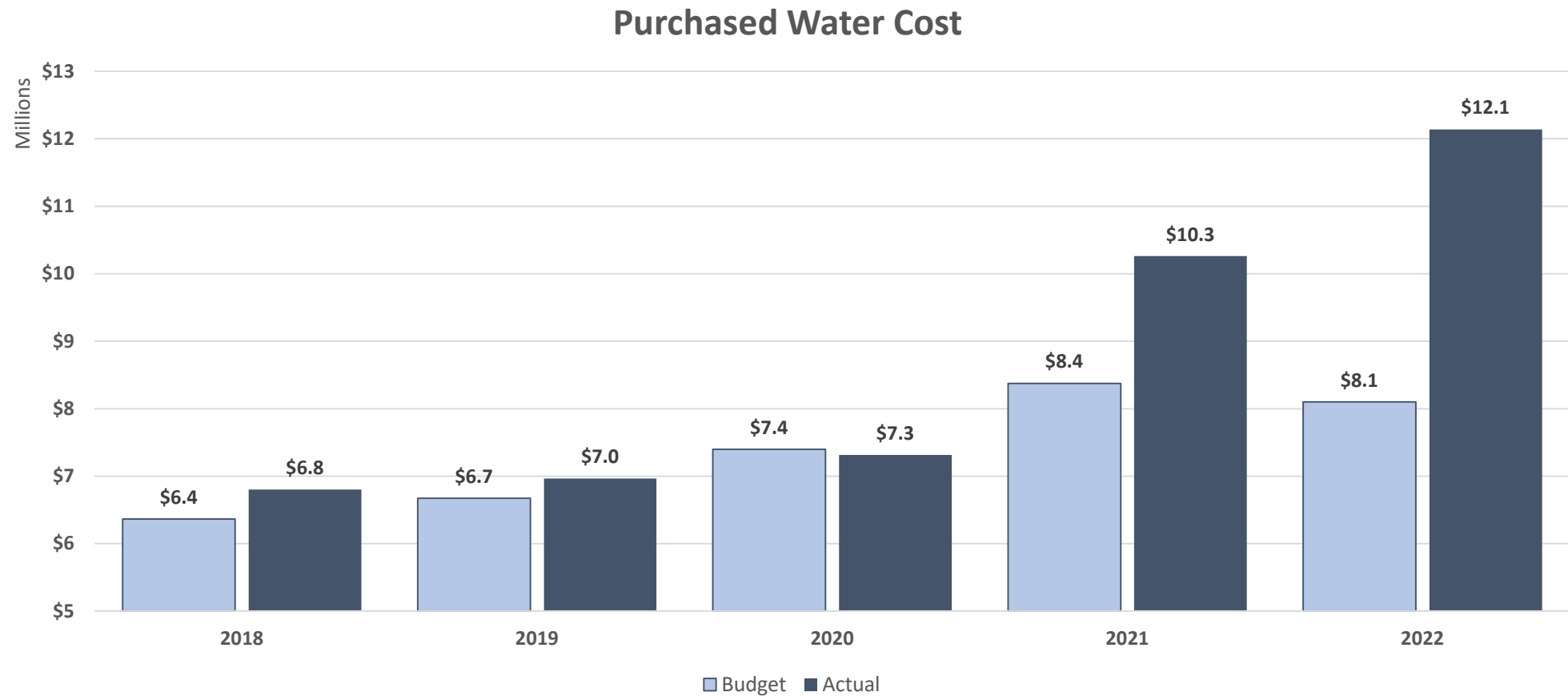
- Net revenue loss to the District of \$25 million over 2 years



Purchased Water to Augment Local Water Supply

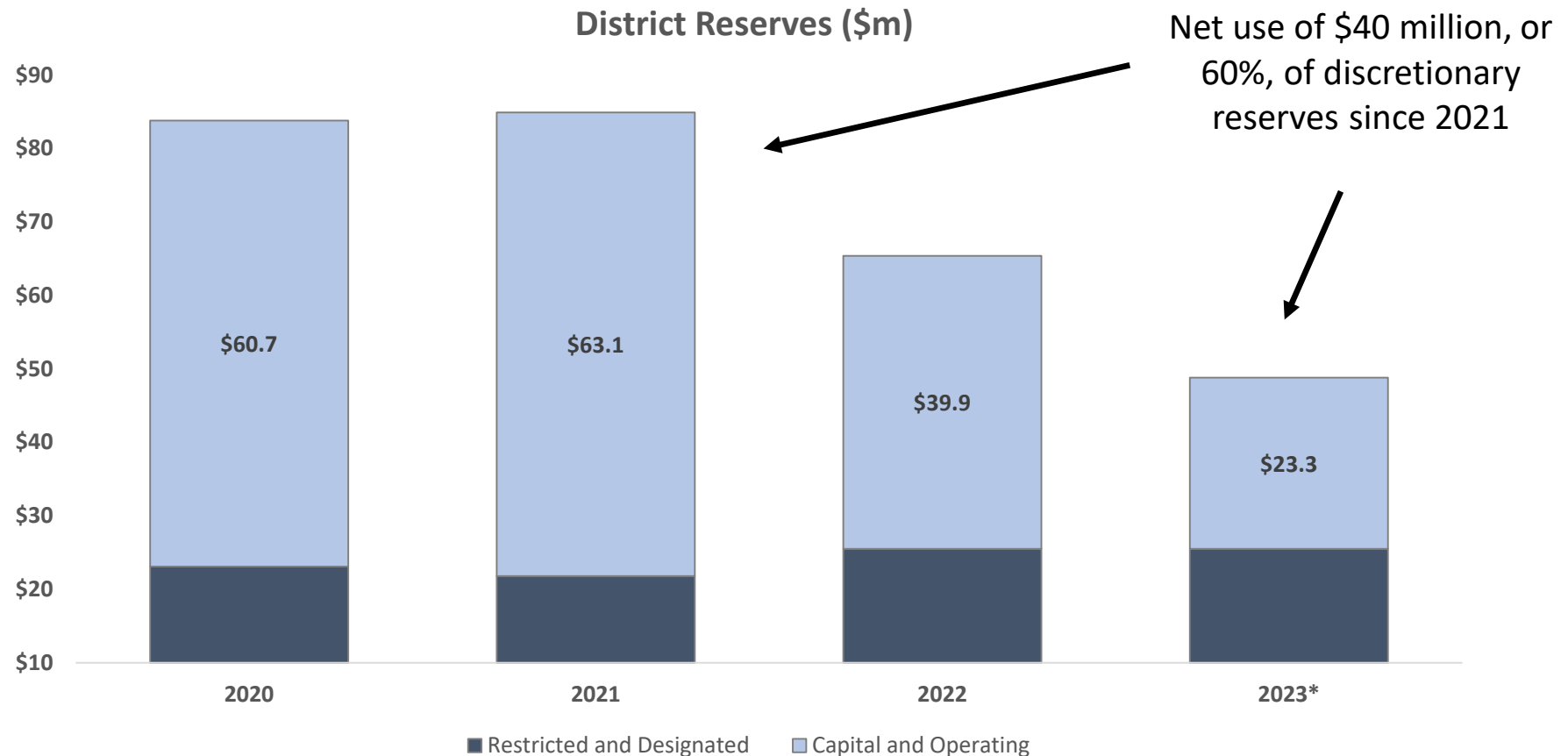
During drought years, the District imports additional water from Sonoma County

- Total of \$6 million in unplanned expenses over the past 2 years
 - Imported water is more expensive



Impact on Reserves

- The District had well-funded reserves in 2021
- Over the next two years, the District used reserves to provide emergency drought response and to absorb the revenue loss

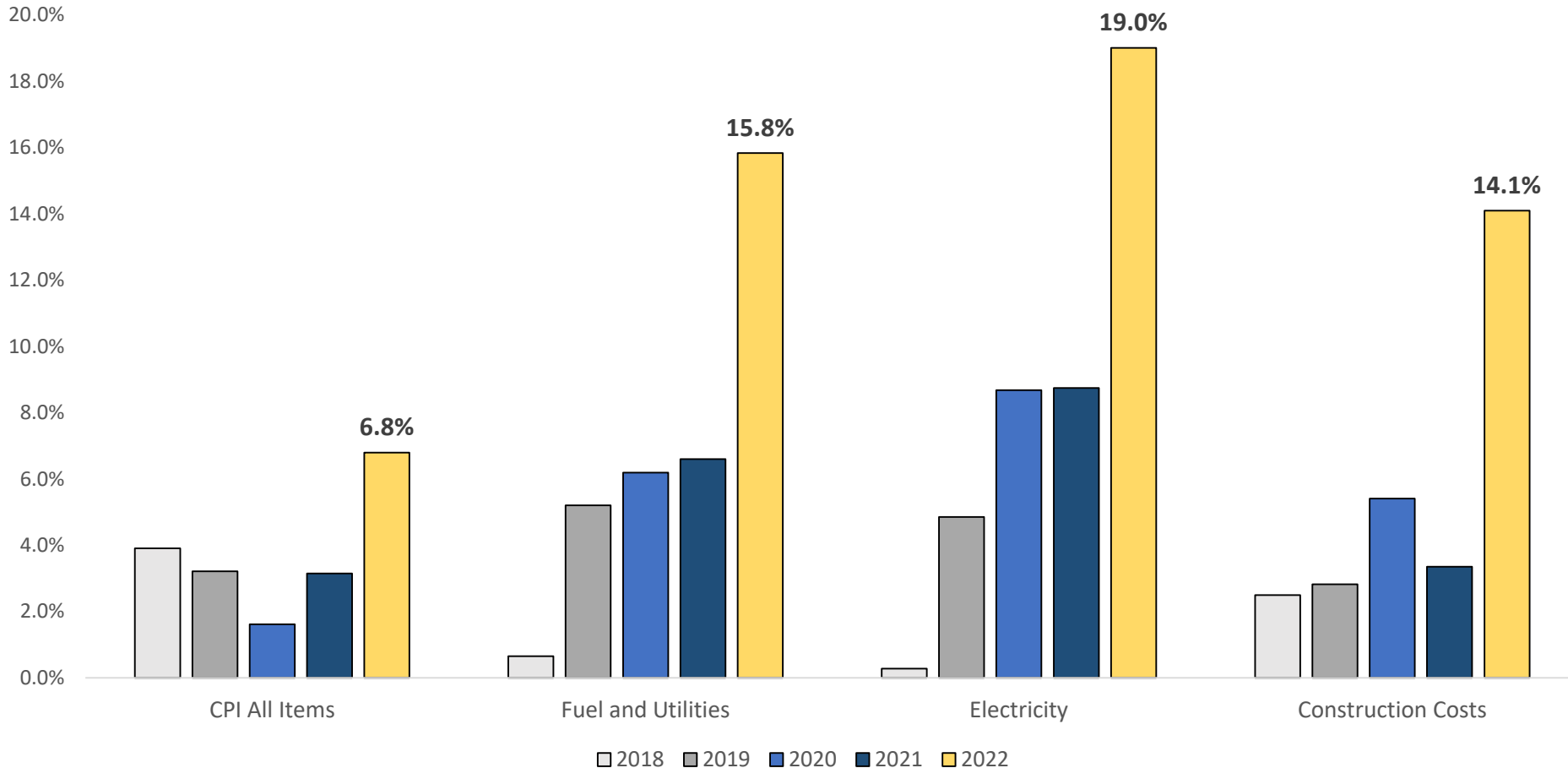


*Projected FY 2023

Inflationary Pressures are Increasing District Costs

- Double digit increases are affecting core operational areas

Bay Area Inflation Rates



Examples of Inflation and Key Cost Drivers

- Purchased Water
 - 6-8 percent per year increase in base rate
 - Planning to use at least 2,000 acre feet above the contractual minimum of 5,300 AF per year
- Paving contracts
 - Increased material cost
 - Increasing local jurisdiction requirements to repair streets after pipeline repairs
- Water Treatment Chemicals
 - 20 percent increase in unit costs last bidding cycle
- Welded Steel Pipe
 - Costs have increased 17 percent per year from 2020 to 2022
- Insurance
 - Premiums have risen over 50 percent since 2021 due to increased statewide wildfire risk and litigation trends

Financial Planning Considerations

- Expenditure reductions have been implemented to mitigate the impacts of revenue shortfalls
 - Short-term in nature because the District operates on a lean baseline budget
 - ✓ Delayed recruitments will generate \$4 million in savings in FY 23
 - ✓ Deferred capital investments generated \$5 million in one-time savings in FY 23
 - Due to the magnitude of the revenue shortfall, permanent expenditure reductions would require significant policy and service level adjustments
- Non-rate revenue enhancements under consideration
 - ✓ Increased watershed license for telecommunications sites
 - ✓ Leveraging grants and loan programs
 - Charging local sanitary districts for billing data
 - Modifying leak adjustment billing practices

Structural Challenges

Marin County has many unique characteristics that result in higher levels of investment and higher per-unit costs:

- As the first municipal water district in California, much of our infrastructure is in need of replacement
- The topography and low population density of Marin County requires a larger number of lift stations and storage tanks on a per capita basis
- We are fortunate to have our own watershed located within the county; but sustainable management requires ongoing investment
 - Many other regional agencies rely on water imported from the Sierras or from the State Water Project
- Marin is less able to benefit from economies of scale
 - “Slow Growth” county
 - Relatively low levels of population expansion and commercial investment
 - We have a smaller customer base to spread costs

Infrastructure Planning - Background

- Capital planning was the primary focus of District financial planning before the drought
 - Baseline CIP spending plan of \$25 million per year was approved in last budget cycle
 - Capital Maintenance Fee (CMF) was implemented in 2019 to provide stable funding for maintenance, upgrades, and improved resilience
 - Provides dedicated funding each year for:
 - Pipeline and Storage Tank Replacement Projects
 - Pump Station Upgrades
 - Wildfire Preparedness and Watershed Improvements
 - Debt Service (new or existing)
- The District developed a 10 Year Financial Plan in 2021
 - Multiple Board workshops
 - Hybrid Model was selected; which would increase annual CIP spending to \$37M
 - Now \$44M due to inflation

Infrastructure Funding - Challenges

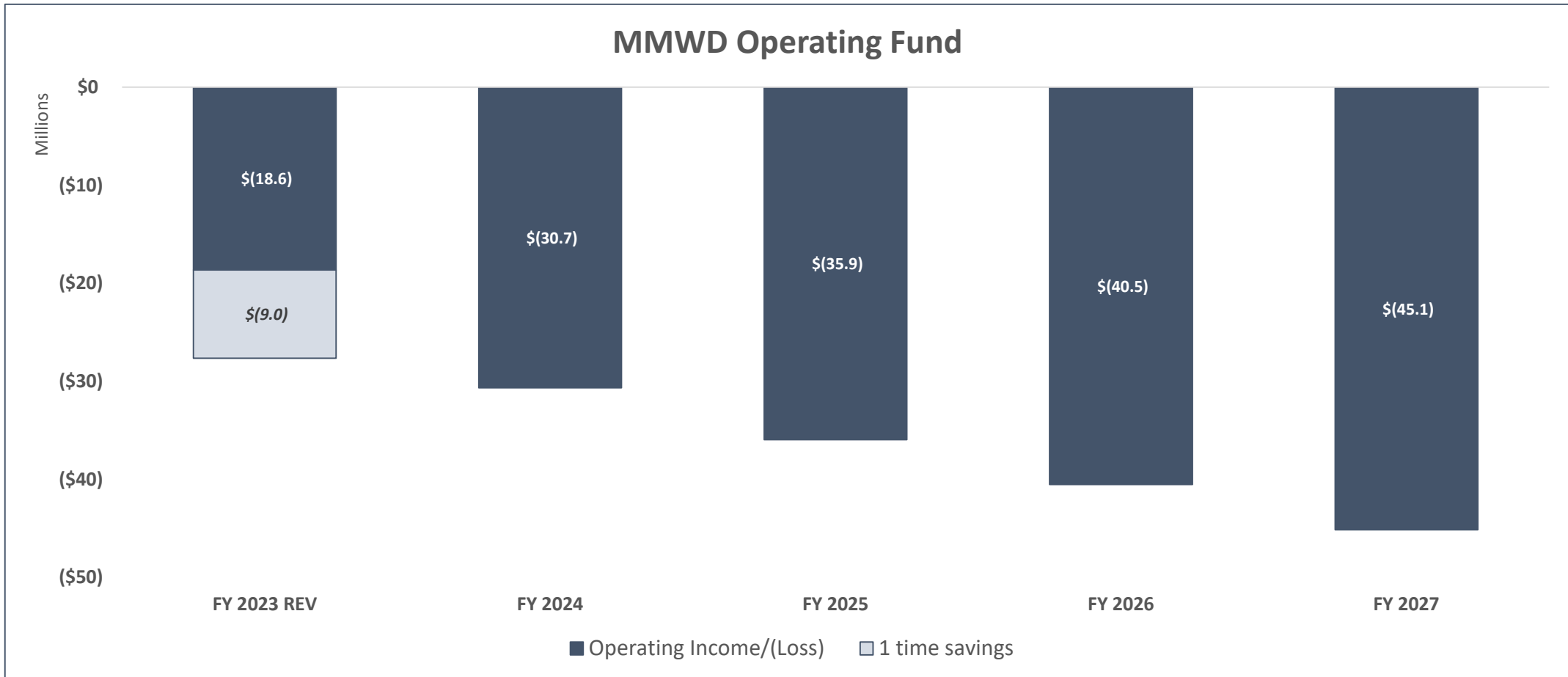
- Use of CMF for existing debt service has increased the number of unfunded projects
 - Reduced capital spending for pipeline replacements, watershed improvements and pump station upgrades
 - Delayed planning for Smith Saddle, AMI, and treatment plant upgrades
- Grants and loans will continue to be leveraged for high priority projects
- Bond funding may be needed to address targeted infrastructure needs in the short term
- Construction costs for water supply enhancement projects need to be incorporated in future planning
 - Annual debt service coverage requirements
 - Aggregate debt capacity policies

Financial Forecasting

Key Assumptions (Operating and Capital Funds)	Annual Fiscal Impact
Customer demand will remain well below long term averages	\$12 to \$15 million
Reserves have been utilized and need to be replenished	\$5 to \$8 million
Inflation will continue to impact core expenditure areas	\$3 to \$5 million
Purchased water from Sonoma County will exceed the contractual minimum	\$2 to \$4 million
Implementation of the Water Supply Roadmap will continue for the next four years	\$1 to \$2 million
Debt service may be needed to address critical infrastructure needs (\$50-\$75M in net proceeds)	\$3 to \$5 million
Total Annual Fiscal Impact:	\$26 to \$39 million

Financial Forecasting

- The District is currently operating below break-even (FY 2023)
 - Offset by short term expenditure savings from vacancies and deferred capital projects
- At current revenue levels, annual ongoing deficits would reach \$45 million by FY 2027



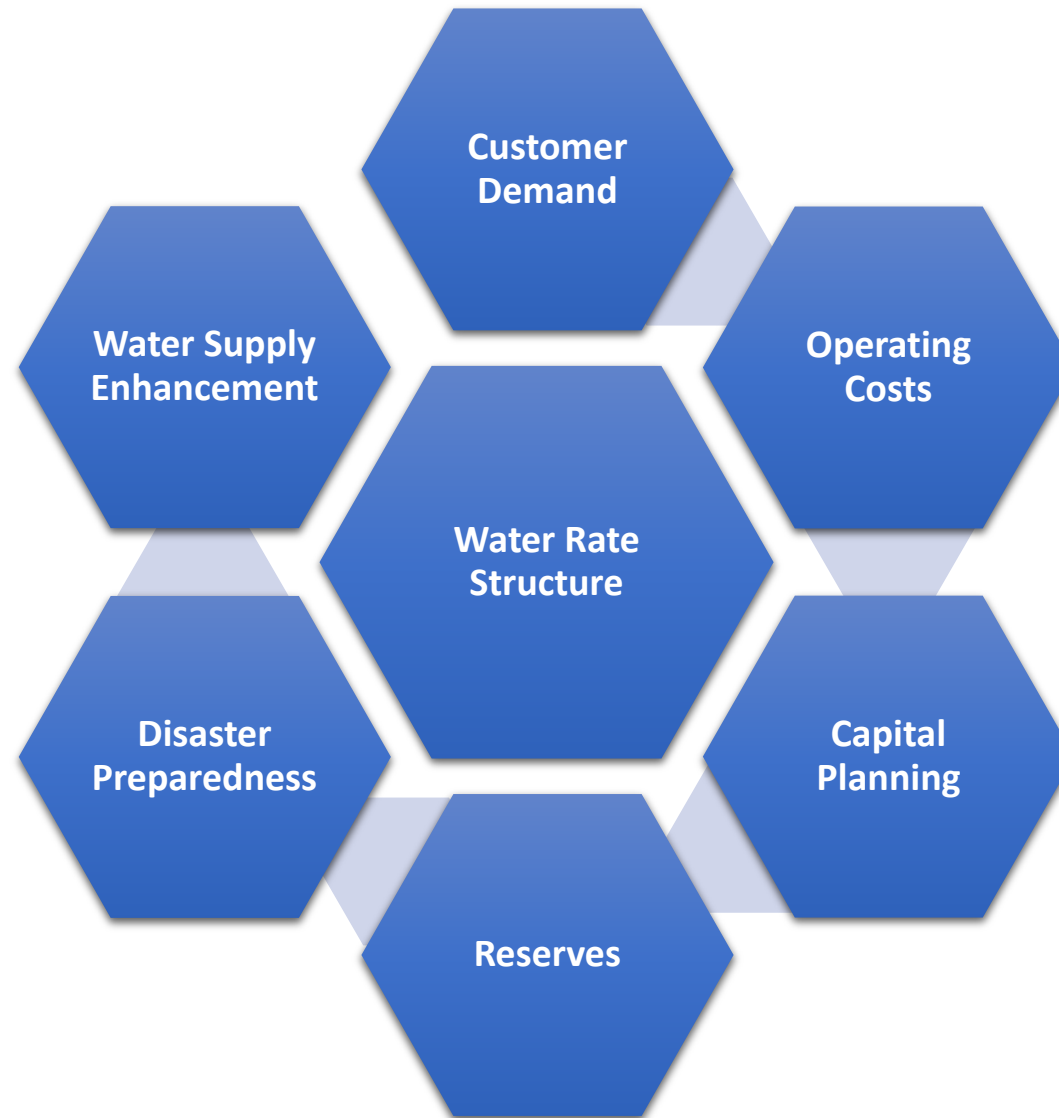
Impact on Discretionary Reserves

- District reserves were well-funded before the drought
 - Reliance on reserves is an appropriate short-term strategy
 - Must be replenished to prepare for future uncertainties and to maintain credit ratings



Cost of Service Study & Water Rate Overview

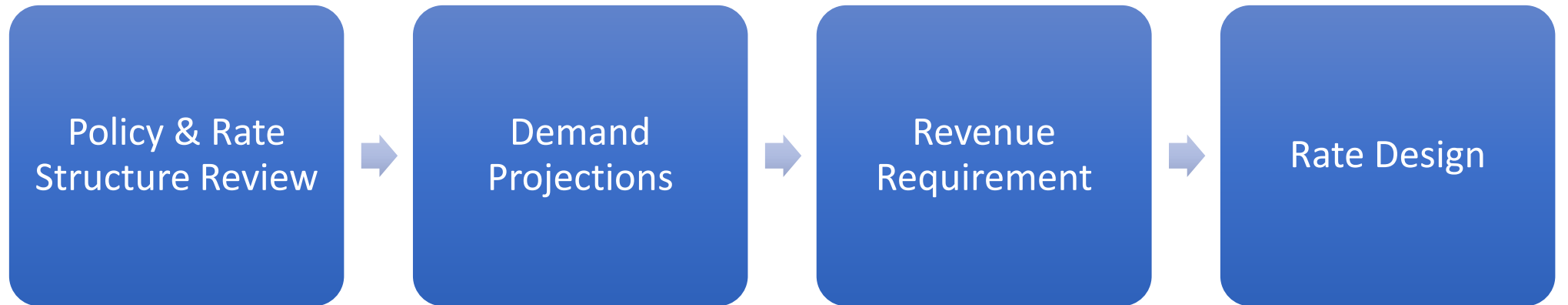
Key Variables of Budget Planning



Water Rates and Cost of Service Study

- Proposition 218 outlines the process by which all service fees charged by local governments in California
 - Passed in 1996 to improve local control of tax assessments and property-based fees
 - Established procedural requirements for levying fees and taxes
 - Public hearing with notice mailed to property owners and tenants in advance
- Basic provisions include:
 - Rates cannot exceed cost of providing service
 - Cost recovery methodology must be proportional to customer base
- Water rate structure must provide sufficient revenue to fund:
 - Operations and Maintenance
 - Capital Improvements
 - Debt Service
 - Reserves
 - Water Supply Enhancements

Cost of Service Analysis: Step by Step Approach



Current Rate Structure

- The District's rate structure was last updated in 2019
- Customers pay for water service through a blend of fixed fees and variable charges based on water usage
 - Bills are issued on a bi-monthly basis
- Fixed fees include the Base Water Charge, Watershed Management Fee and the Capital Maintenance Fee
- Variable charges utilize an inclining block structure with an additional summer allocation
 - Customers that use more water pay a higher unit price
 - Higher prices for Single Family Residential customers begin at 21 CCF
 - Customers receive additional units of water in lower tiers in the summer months
 - Commercial and Institutional customers have a different structure
 - Based on percentage used of baseline units

Current Rate Structure

Marin Water Rate Tables

RESIDENTIAL

	Single-Family			Duplex			Multi-Family		
	Rate per unit*	Dec-May (units)	Jun-Nov (units)	Rate per unit*	Dec-May (units)	Jun-Nov (units)	Rate per unit*	Dec-May (units)	Jun-Nov (units)
Tier 1	\$4.73	0 - 21	0 - 26	\$4.76	0 - 18	0 - 20	\$4.82	0 - 10	0 - 10
Tier 2	\$8.19	22 - 48	27 - 59	\$8.31	19 - 35	21 - 45	\$8.11	11 - 18	11 - 20
Tier 3	\$13.78	49 - 80	60 - 99	\$13.72	36 - 68	46 - 78	\$12.85	19 - 26	21 - 28
Tier 4	\$22.15	81+	100+	\$21.53	69+	79+	\$20.56	27+	29+

*1 unit or CCF (hundred cubic feet) = 748 gallons

Meter Size	Base Water Charge (Bimonthly)	Watershed Management Fee (Bimonthly)	Capital Maintenance Fee (Bimonthly)
5/8"	\$44.62	\$11.59	\$30.42
3/4"	\$57.09	\$13.86	\$45.61
1"	\$82.01	\$18.35	\$76.03
1 1/2"	\$144.30	\$29.61	\$152.07

Typical Monthly Expenses for Water Service**

- Median Single Family Residential Customer

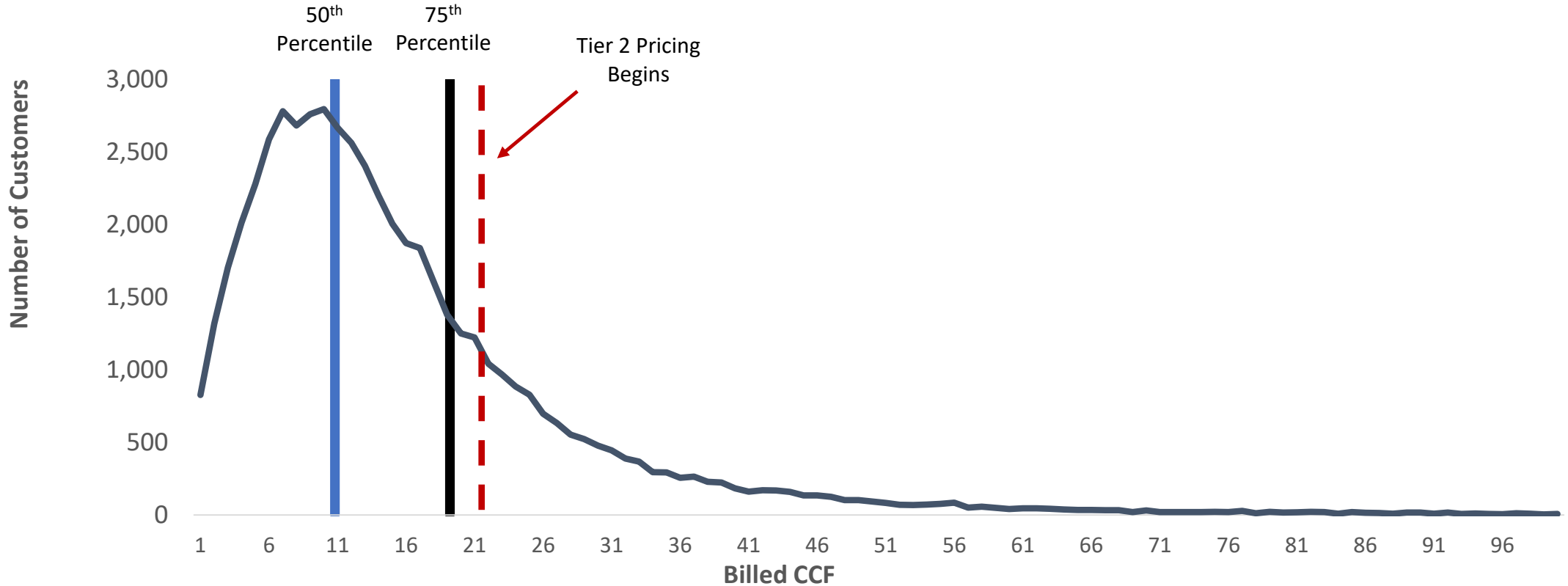
Revenue Category	Revenue Type	Monthly Cost
Water Use Charge (4,100 gallons)	Variable	\$26
Base Water Service Charge	Fixed	\$22
Watershed Management Fee	Fixed	\$6
Capital Maintenance Fee*	Fixed	\$15
Total: Variable + Fixed		\$69

*Capital Maintenance Fee was added in 2019 to address growing deferred maintenance and to enhance wildfire prevention efforts

**Does not include fire flow fee revenues that are included in the property tax collections

Water Consumption Data

FY 22 Distribution of Single Family Residential Water Usage (bi-monthly)



- Half of the District's customers use less than 11 CCF each billing cycle
- 75% of the District's customers use less than 19 CCF each billing cycle
- Tier 2 begins at 21 CCF in winter, 26 CCF in summer

Water Rate Design

- Rate Requirements
 - Financial sufficiency
 - Legal compliance
 - Based on cost of service
- Rate Policy Considerations
 - Revenue stability
 - Conservation
 - Affordability
 - Ease of administration
 - Customer understanding

Discount Programs Available to Customers

The District provides a variety of financial assistance programs to customers who need assistance in paying their water bill



Medical Disability Discount

Waives certain fees, discounts additional water usage

400 Enrolled Customers | **\$160,000** in annual District assistance



Waiver Program Based on Income

Subtracts water charges and fees from qualifying customers' bills

1,000 Enrolled Customers | **\$750,000** in annual District assistance



Super Saver Program

Provides a discount worth up to \$8 for the lowest 5% of water users

3,000 Benefitting Customers | **\$144,000** in annual District assistance

Online and Other Resources

Understanding Your Bill



 **MARIN WATER**
220 Nellen Avenue
Corte Madera, CA 94925-1105

Name
Address
City, State Zip

Billing Inquiries: 415.945.1400
Water Emergencies: 415.945.1500

ACCOUNT INFORMATION

Customer Number:
Service Number:
Billing Date:
Service Address:

IMPORTANT INFORMATION

Need Help Paying Your Bill?
We understand that these are difficult times. Rest assured that during the COVID-19 crisis, we will not shut off your water due to nonpayment and there will be no late fees if you fall behind. We offer income-based discounts and payment plans. Visit MarinWater.org or contact Customer Service at 415.945.1400.

ACCOUNT DETAILS

Previous Balance:	54.71
Payments - Thank You (5/7/20):	-54.71
Adjustments:	0.00

WATER USAGE

Meter Read Date: 02/02/2020 - 04/03/2020

Service Number	Meter Size	Prior Reading	Current Reading	Water Use Units*
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Marin Water has a two-month billing cycle, which means your bill covers two months of water service. Billed amounts are based on water usage during the previous two months.

A previously approved increase in rates and fees took effect on July 1, 2022. If you are having difficulty paying your bills, we offer [discount programs](#) and [payment plans](#). If you have a question about your water bill, please contact our Customer Service Department.

Contact Info



Customer Service
Ph: [415.945.1400](tel:415.945.1400)
[Email](#)

Communications Planning for Rate Setting Process

Outreach Goals

- Ensure transparency & accessibility of information
- Ensure customers understand the challenges facing Marin Water and the basis for District funding needs



Communications Planning for Rate Setting Process

Public Outreach Activities

- **Communications toolkit** - FAQs, key messages / talking points, fact sheets, etc.
- **Internal communications** - for strong customer support throughout process
- **Board meetings, public hearing** – promoted in advance
- **Customer workshops** - virtual and in person
- **Stakeholder engagement** – to connect with key groups
- **Dedicated webpage** - updated frequently
- **Digital outreach** - monthly eNews updates, social media
- **News media relations** - news releases for key milestones, editorial board meeting
- **Print communications** - bill messages and inserts, advertorials
- **Prop 218 notice** – postal mailed to every customer

Communications Planning for Rate Setting Process

Timing of Outreach Activities

ACTIVITY	Dec 2022	Jan 2023	Feb 2023	March 2023	April 2023	May 2023	June 2023	July 2023
Communications Toolkit	X	X	X	X	X	X	X	X
Internal Communications	X	X	X	X	X	X	X	X
Regular & Special Board Mtgs	X	X	X	X	X	X	X	X
Key Stakeholder Engagement		X	X	X	X			
Customer Workshops		X	X					
Print Communications/ Advertorials		X	X	X	X			
News Media Relations		X	X	X	X	X	X	X
Rates Webpage		X	X	X	X	X	X	X
Digital Outreach		X	X	X	X	X	X	X
Prop 218 Notice				X				
Public Hearing						X		
Correct Misinformation	X	X	X	X	X	X	X	X

Cost of Service Analysis – Recap

- Ongoing annual operating budget shortfall of ~\$30 million
 - Reduced consumption, inflationary pressures, reserve replenishment
- Capital investments are an increasing priority due to aging infrastructure
 - Opportunity to use bond funding to address critical needs in short term
- Water rate revenue structure will be updated to reflect current demand levels
 - Working with a consultant to develop rate increase alternatives
- Future Uncertainties
 - Climate Change/Drought
 - Economy/Inflation

Next Steps

- District staff will continue to provide updates throughout the winter and spring
 - Board meetings
 - Public Workshops
 - Online and social media resources
- Public Hearing will be conducted in May 2023
- New rates will be effective in July 2023

Questions?