



Rate Setting Process Update – Reserves, Capital Targets and Rate History

January 3, 2023



Overview of Presentation

- MMWD Rate Setting Process Overview
- Reserve Account Funding Targets
- Capital Investment Funding Targets
- Recap and Next Steps

Your Water

- 8 billion gallons annually
- 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
 - 191,000 residents served

**based on long term averages*



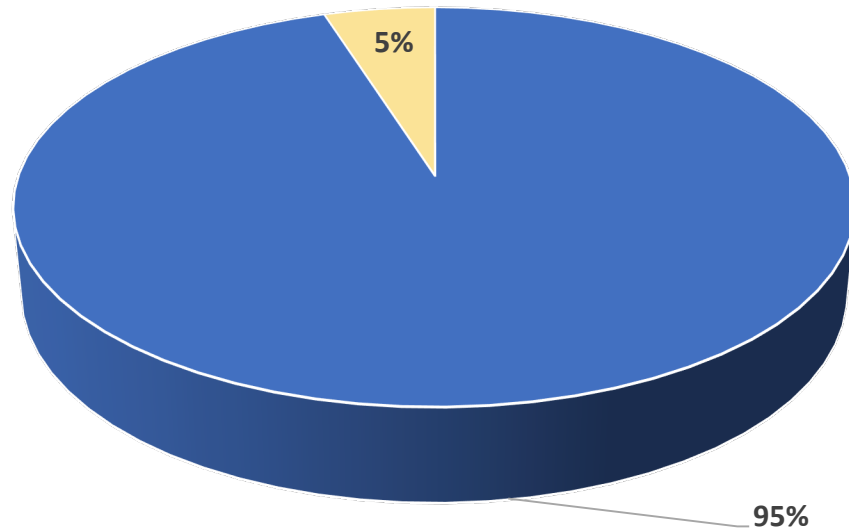
Financial Planning Overview

- Budget Overview
 - Total budget of \$116 million in FY 2022-23 (all funds)
 - Operating Budget = \$92.2 million
 - \$9.6 million is for debt service
 - Capital Budget = \$23.9 million
 - Primarily funded by Capital Maintenance Fee (CMF) revenues
 - \$4.5 million is funded by Fire Flow fees
 - 98 percent of District revenues come directly from customers
 - Remainder comes from rent, user fees, and interest earnings

Fixed Expense vs Variable Revenues

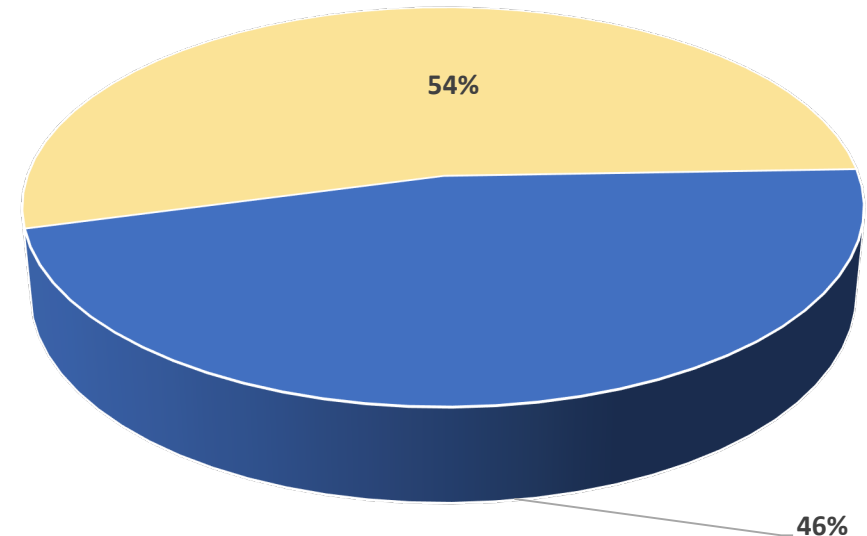
- Nearly all of the District's expenses are fixed
- More than half of our revenues are dependent on the amount of water distributed to customers

Expenses



■ Fixed ■ Variable

Revenues



■ Fixed ■ Variable

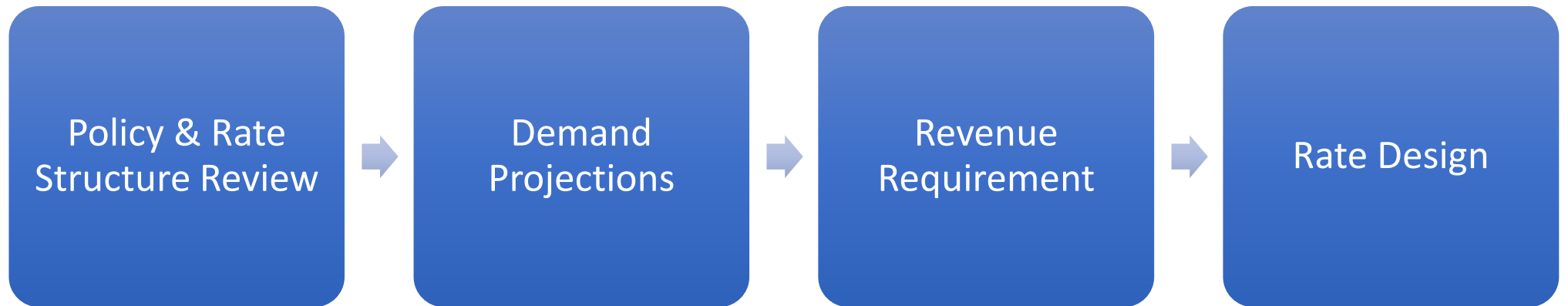
Cost of Service Analysis – Recap

- Ongoing annual operating budget shortfall of ~\$30 million
 - Reduced consumption (\$14m)
 - Inflationary pressures (\$5m)
 - SCWA water purchases (\$4m)
 - Reserve replenishment (\$7m)
- Water rate structure will be updated to reflect current demand levels and financial outlook
 - Tier breaks, seasonal allocations
 - Operations and maintenance costs
 - Capital funding requirements

Cost of Service Analysis – Recap (cont)

- Key Assumptions for Rate Setting Period
 - Demand will remain well below long term averages
 - Water purchases from Sonoma will be above the minimum contractual amount
 - Inflation will continue to impact core operational costs
 - Funding will be provided to implement the Water Supply Roadmap
 - Reserves have been utilized and need to be replenished
 - Additional debt service may be considered to address critical infrastructure needs
- Future Uncertainties
 - Pace of climate change; frequency and intensity of droughts
 - Level of sustained inflation

Cost of Service Analysis: Step by Step Approach

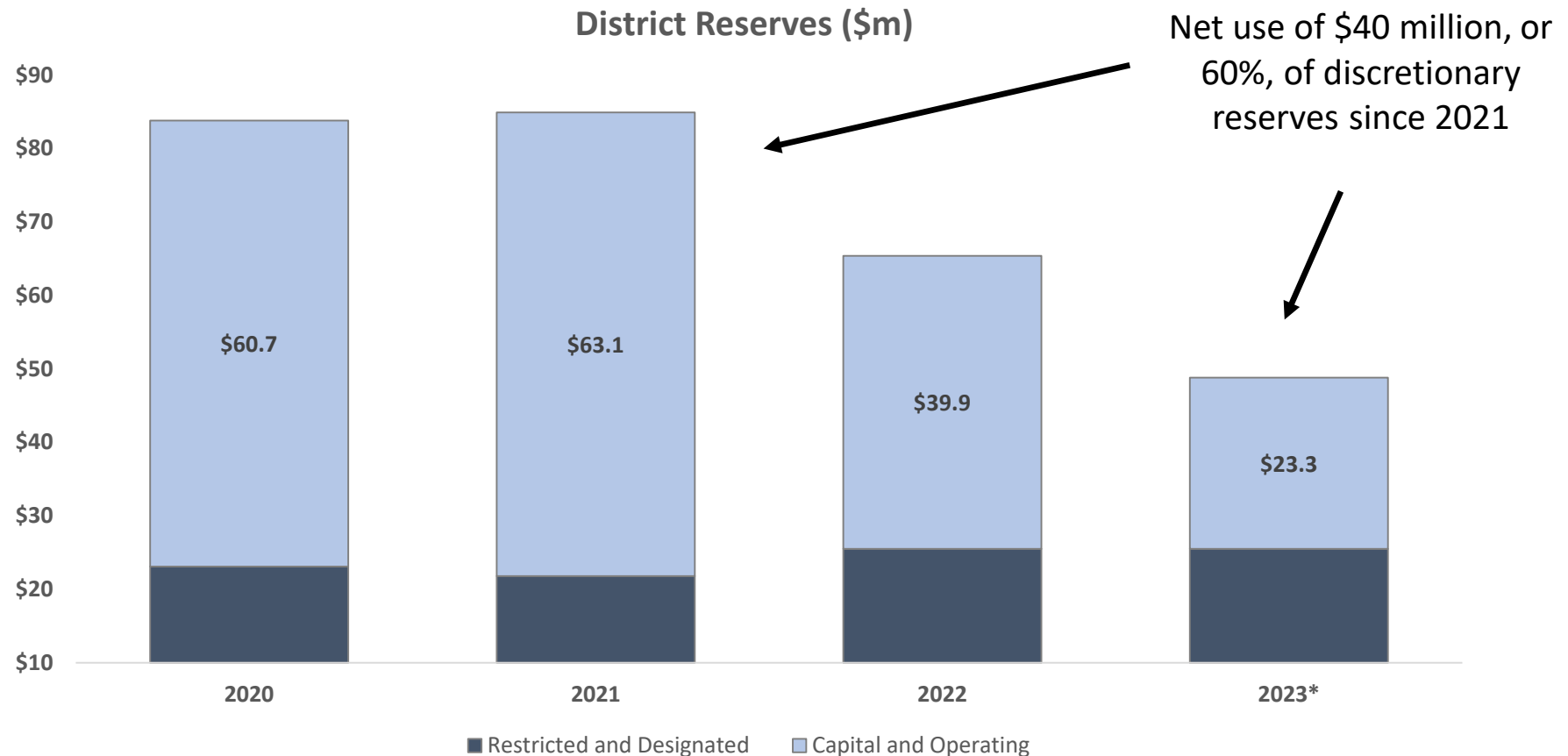


- ✓ Baseline budget
- Reserve replenishment
- Enhanced capital investments

Reserve Level Targets, Capital Investment Options & Rate Increase History

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

Reserve Level Targets

- Current Board Policy (#46)

Discretionary Reserve Fund	Minimum Balance (per policy)	Target Balance (FY 23 Budget)	Actual Balance (June 30, 2022)	Projected Balance (June 30, 2023)
Capital Reserve	Annual budget for capital expenditures	\$19.4M	\$10.8M	\$1.9M
Unrestricted Reserve	Six months of the annual operating budget	\$46.1M	\$27.4M	\$19.6M
Rate Stabilization	No minimum	N/A	\$1.9M	\$1.9M

Operating Reserve Targets

- Industry Best Practices: Minimum of 2 months of operating budget*
 - Agency specific factors include budget structure, revenue volatility and credit rating objectives

<u>Organization</u>	<u>Target Balance</u>
Government Finance Officers Association (GFOA)	No less than 45 days of expenses
International City/County Management Association	One to two months of expenses
Water Environment Federation (WEF)	One to three months of expenses

* AWWA Cash Reserve Policy Guidelines, 2018

Capital Reserve Targets

- Industry Best Practices* are to provide sufficient funds for:
 - Unplanned infrastructure repairs
 - Consider age of system and historical investment levels
 - Cost over-runs and/or inflationary impacts
 - Accelerated infrastructure replacements
 - May include grant matching funds
 - Smooth out the rate impact of large projects
 - Applies mostly to cash-funded organizations
 - Emergency replacement for catastrophic events
 - Fire, flood, earthquake

* *AWWA Cash Reserve Policy Guidelines, 2018*

Reserve Targets Considerations

- Prior to 2021, District Reserves were well-funded
- Even after recent use of reserves, the District is still within industry guidelines for operating reserves
- Target of \$7m annually to replenish reserves to pre-drought levels over next 4 years
- Opportunity for further analysis, discussion and policy refinement
 - Will incorporate agency-specific factors

Infrastructure Planning – Debt Funding Considerations

- Prior to 2019, the District relied largely on debt funding for capital projects
 - Capital Maintenance Fee (CMF) provides \$16.4 million annually for capital improvements and debt service payments
- Board policies limit overall long term debt to 4 times the operating budget
 - Current long term debt of \$149.4M; Operating budget of \$92.1M
 - Remaining debt capacity (under Board policy) is ~\$219M
- Revenue requirements for additional debt:

Additional Debt	Annual Debt Service (Approximate)	Revenue Impact w/150% Debt Service Coverage
\$ 10,000,000	\$ 675,000	\$ 1,012,500
\$ 50,000,000	\$ 3,375,000	\$ 5,062,500
\$ 200,000,000	\$ 13,500,000	\$ 20,250,000

Capital and Debt Planning Considerations

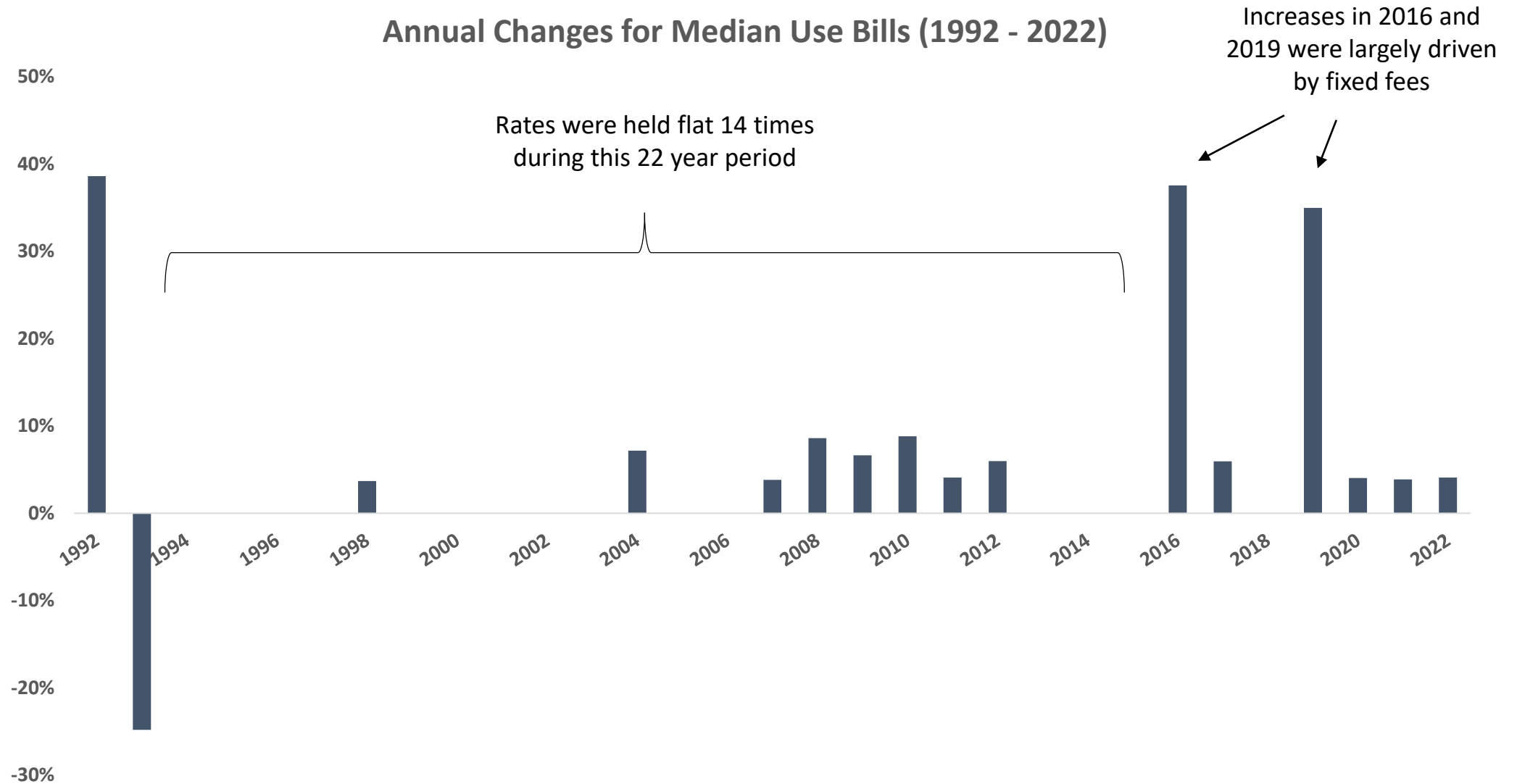
- Staff will return to the Board with a comprehensive review of capital planning efforts
 - Review of 10 year planning process
 - Capital Investment prioritization strategy over next 4 years
 - Opportunity to consider a mix of cash funding and debt funding
 - Supplemental water supply projects

Rate Increase History

- Over the past 30 years, MMWD bills have increased by an average of 4 percent per year
 - Inflation has been approximately 3 percent per year during this time
- AWWA survey from 1998 to 2018 shows average rate increases of 10 percent per year
 - National water rates have risen at about twice the rate of inflation
 - MMWD averaged 4.4 percent during this time period
- Ideally, rates would increase in a consistent and predictable manner
 - However, due to uncertainty of weather and consumption, we have experienced large swings in annual rate changes since 1992
 - 16 years with 0% increases or rate reductions
 - 3 years with 10% increases or greater
- During the period of 1993 to 2007 (15 years):
 - Rates were reduced by 25% then held flat for 11 of the next 14 years

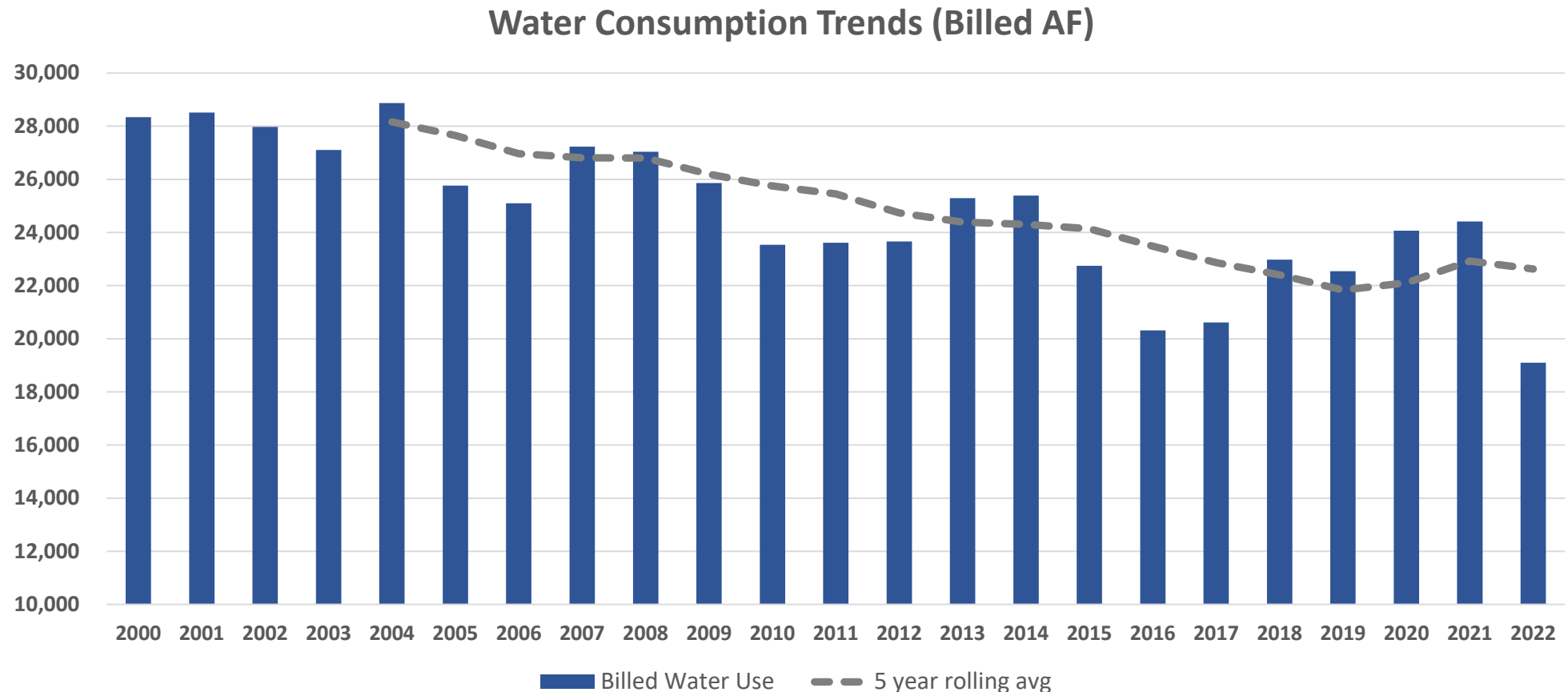
Rate Increase History

Annual Changes for Median Use Bills (1992 - 2022)



Consumption Trends

- Over the past 20 years, billed water units have fallen by about 1 percent per year
 - Declining sales units require in higher unit cost (rates) to maintain status quo



Rate History Considerations

- Nationwide trends show that water rates typically increase at double the rate of inflation
 - Aging infrastructure, regulations and climate change are key drivers
 - MMWD rate increases have been about half of industry trends
- Sustained period of 0% rate increases reduced the District's ability to address aging infrastructure
- Efficiency and conservation efforts result in higher unit costs (rates)

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