



2023 Rate Setting Update

February 7, 2023



Overview

1. Marin Water
2. Rate-setting process overview
3. Challenges and opportunities
4. Current rate structure, preview of proposed rate plan options, and proposal impacts
5. Cost management efforts & customer assistance programs
6. Summary of proposal benefits and next steps

Recent Rate Setting Presentations



Marin Water

Your Water District – the longest running in California

Mission: *Manage our natural resources in a sustainable manner and provide reliable, high-quality drinking water at a reasonable price*

- Established in 1912 as state's first municipal water District
- 147 sq. mile service area covers central and southern Marin
- 191,000+ people served
- Nearly 8 billion gallons of water delivered annually
- As a public agency, the District does not make a profit – by law, we only charge customers the cost of providing reliable, high-quality drinking water



Our Water System – clean water is more than turning on the tap



22k

Acres of Watershed
Lands



3

Treatment Plants



7

Reservoirs



908

Miles of Pipeline



97

Pump Stations



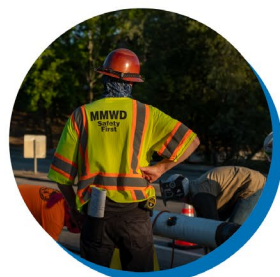
130

Storage Tanks



115k

Water Quality
Tests per Year



243

District
Employees



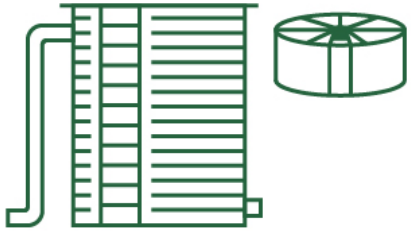
62k

Water Meters



MARIN
WATER

What it takes to deliver water to our customers



24/7 Water Operations

Water treatment
& distribution

Emergency leak
response



Watershed Land Management

Wildfire resiliency/
vegetation management

Forest restoration

Ongoing maintenance
& improvements



Water System Care & Improvements

Ongoing
maintenance

Infrastructure
investments



Customer Service

Billing & account
assistance

Programs &
outreach

24/7 Water Operations

Delivering the water whenever you need it



Clean water always on tap



With an average pipeline age of 50 years, Marin Water emergency crews can often be found responding to leaks and water main breaks – at all hours of the day.



Water main breaks almost always cause collateral damage, requiring crews to quickly respond to stop the leak, repair the main and then repair any infrastructure damage.

Watershed Land Management

Controlled pile burning operations, like this one near Sky Oaks Road, are a safe, cost-effective way to reduce fuel loads and reduce the risk of catastrophic wildfire.



The Azalea Hill Trail Project improves existing trail networks and removes non-system roads and trails to protect sensitive habitat



Working with partner agencies and volunteers, Marin Water removes invasive plants to reduce fuel loads and help native species thrive.

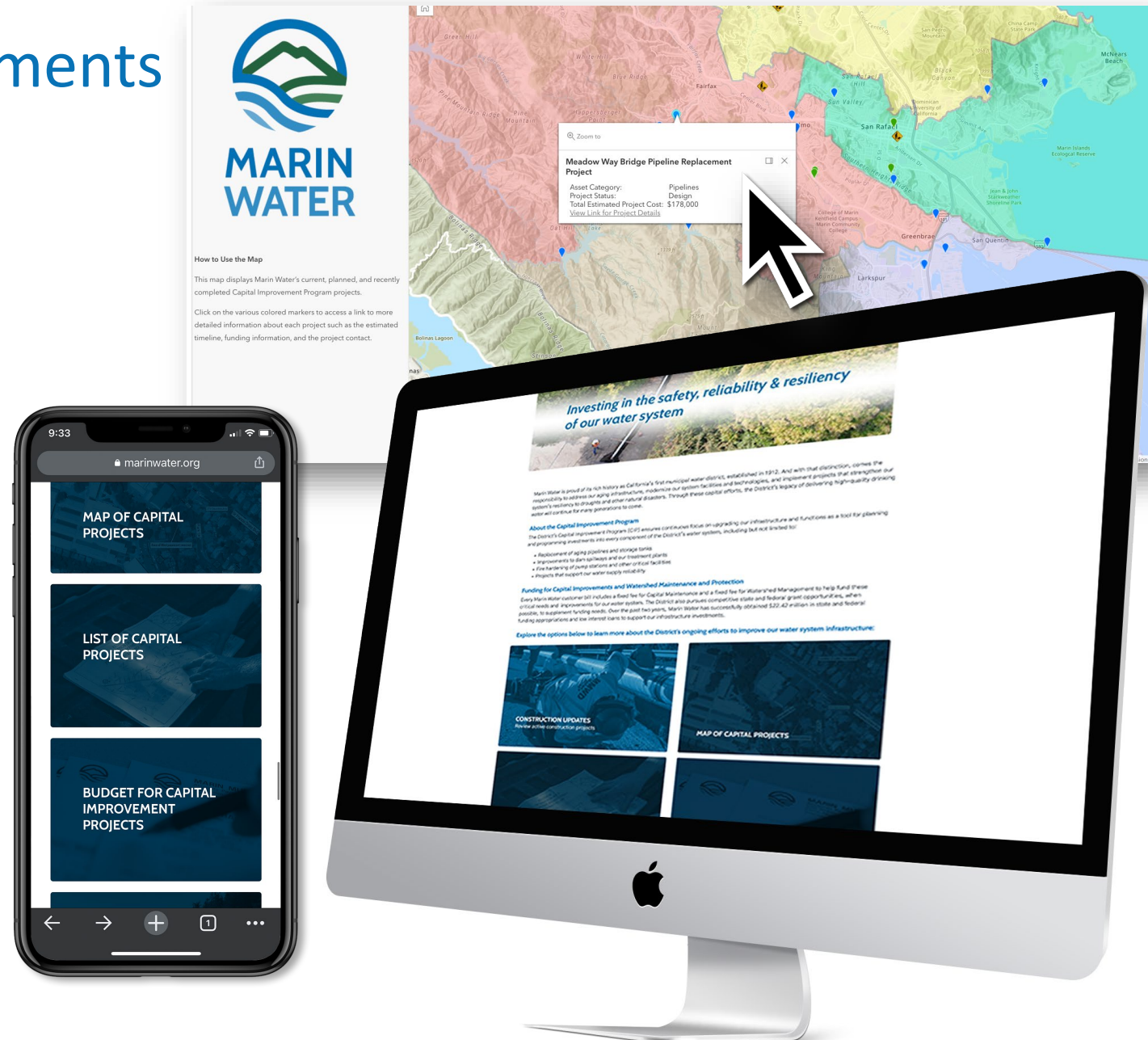


Water System Care & Improvements

Capital Infrastructure Program (CIP)

- 3 types of projects:
 - Renewal & Replacement
 - System Improvement
 - Water Supply Reliability

Track progress on our interactive map!
marinwater.org/CIP



Investing in our Water System

A few examples of recently completed projects



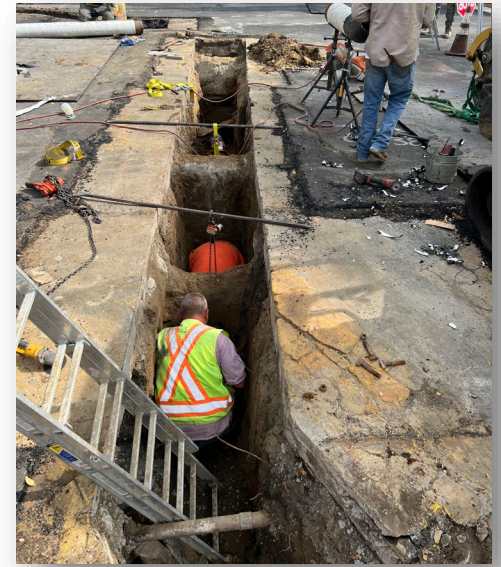
Culvert Replacement Program



Non-structural spillway repair (Seeger Dam spillway, Nicasio Reservoir)



Kastania Pump Station Rehabilitation



East Blithedale Pipeline Replacement



Treatment Plant Emergency Generators



Rate Setting Process Overview

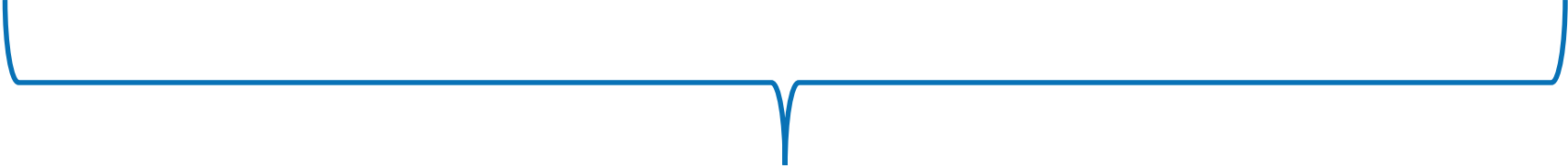
Why is a rate increase needed for Marin Water?

Keep pace with rising
costs of operating
expenses

Improve water supply
reliability in the face of
extreme droughts

Continue water &
wildfire resiliency
efforts on the Mt. Tam
Watershed

Replenish reserves to
remain prepared for
future uncertainty

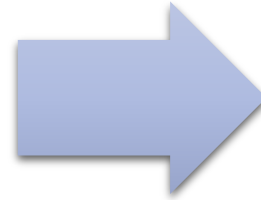


These initiatives require additional
funding through local water rates

Rate Setting Process

Cost of Service Analysis

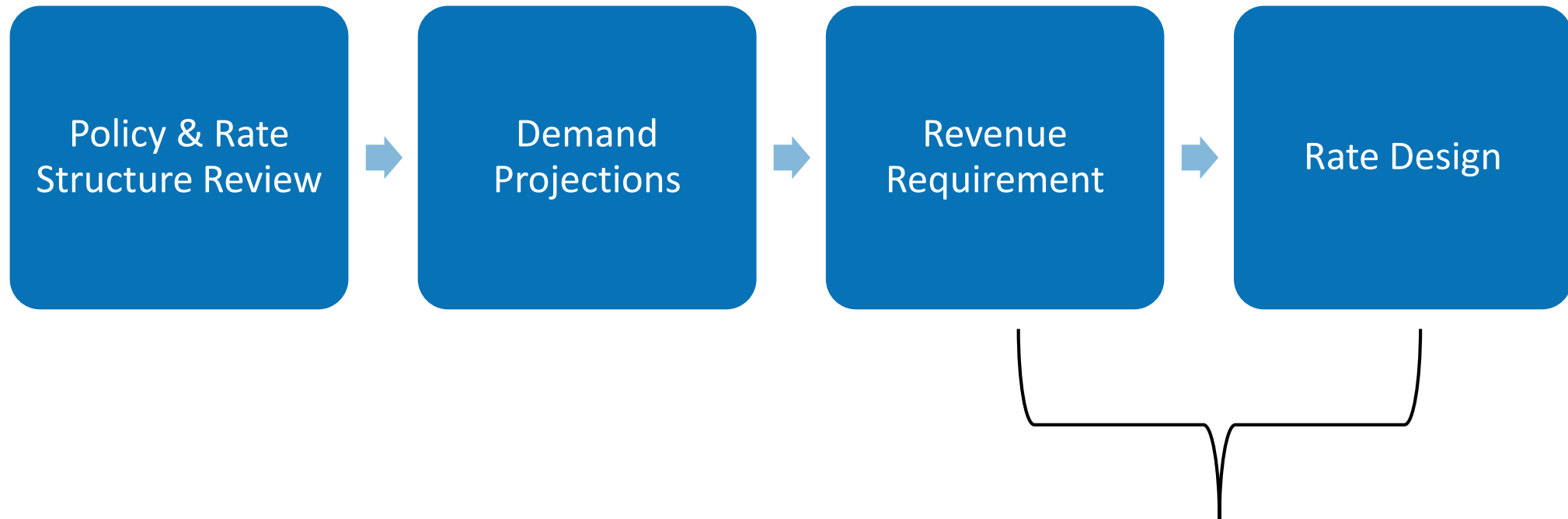
- Recent Trends
- Rate Structure
- Revenue Requirement:
 - Operations & Maintenance
 - Capital Improvements
 - Water Supply Enhancement Projects
 - Fiscal Sustainability



Public Outreach & Engagement

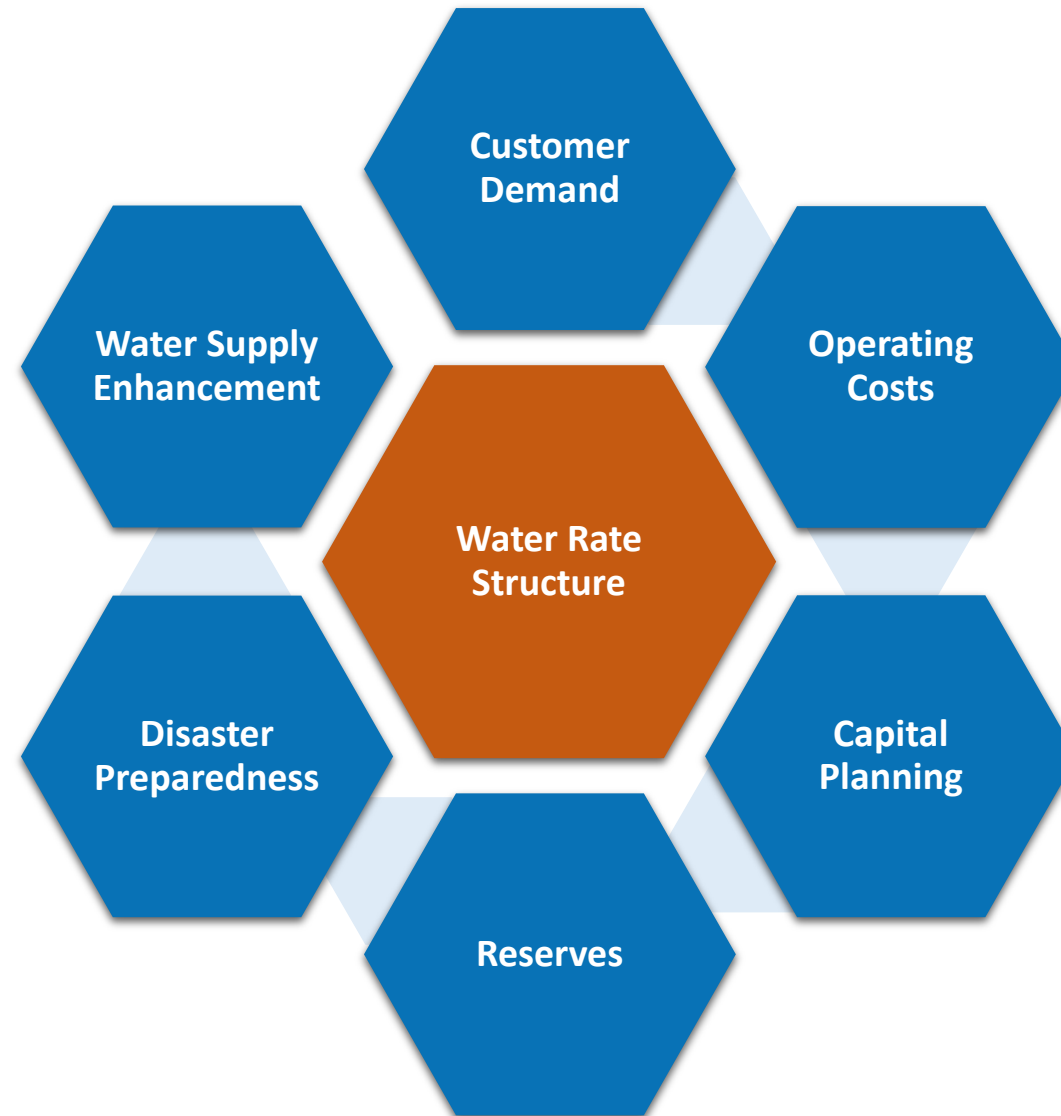
- Board Meetings
- Customer Workshops
- Website
- Bill Inserts
- District E-News
- News Releases/Media
- Social Media
- Direct Mail Written Notice
- Public Hearing

Cost of Service Analysis: Step by Step Approach



We are here

Key Variables of Budget Planning: Revenue Requirement



Financial Planning Overview

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



Challenges & Opportunities

Cost of Service Analysis – Initial Findings

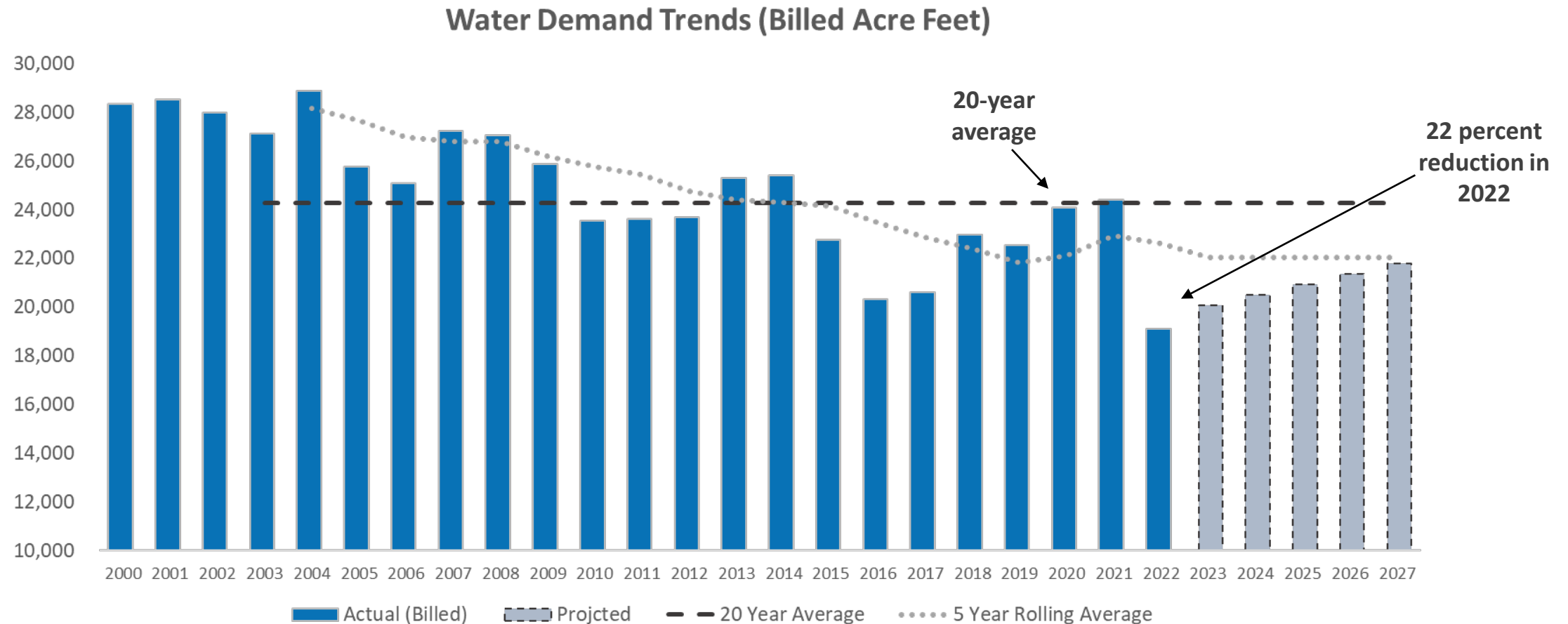
- **Water consumption is well-below long-term averages**
 - Trend is expected to continue throughout the next rate cycle
- **Ongoing annual baseline budget shortfall of ~\$30 million**
 - Rate structure that does not align with current demand patterns
 - Inflationary pressures
- **Water Supply Enhancement Projects require additional funding**
 - Short-term projects
 - Long-term plan
- **Capital investments are an increasing priority due to aging infrastructure**
 - Opportunity to use bond funding to address critical needs in short term
- **Future Uncertainties**
 - Climate Change/ Drought
 - Economy/ Inflation

Financial Challenge: Budgetary Shortfalls

Key Assumptions (Operating and Capital Funds)	Annual Fiscal Impact
Customer demand will remain below long-term averages	\$12 to \$14 million
Inflation will continue to impact core expenditure areas	\$5 to \$8 million
Water Supply Roadmap will be implemented	\$2 to \$9 million
Reserves have been utilized and need to be replenished	\$3 to \$7 million
Additional investments are needed to address critical infrastructure	\$3 to \$7 million
Service level enhancements in targeted areas of the organization	\$1 to \$2 million
Total Annual Fiscal Impact: \$26 to \$42 million	

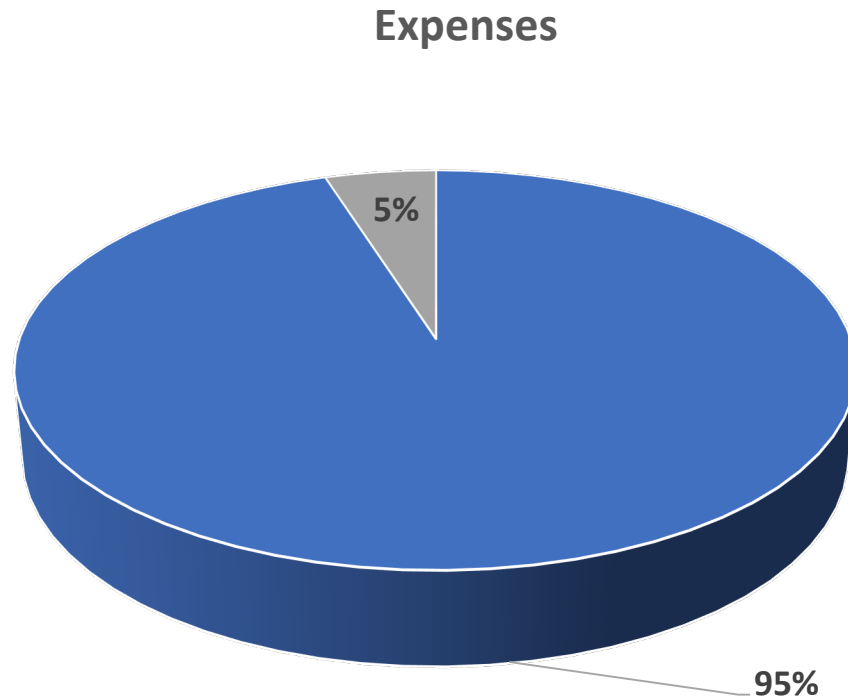
Rate Structure Challenge: Adapting to Consumption Trends

- Over the past 20 years, billed water units have fallen by about 1 percent per year
 - Demand is projected to stay below long-term averages for the next 4 years

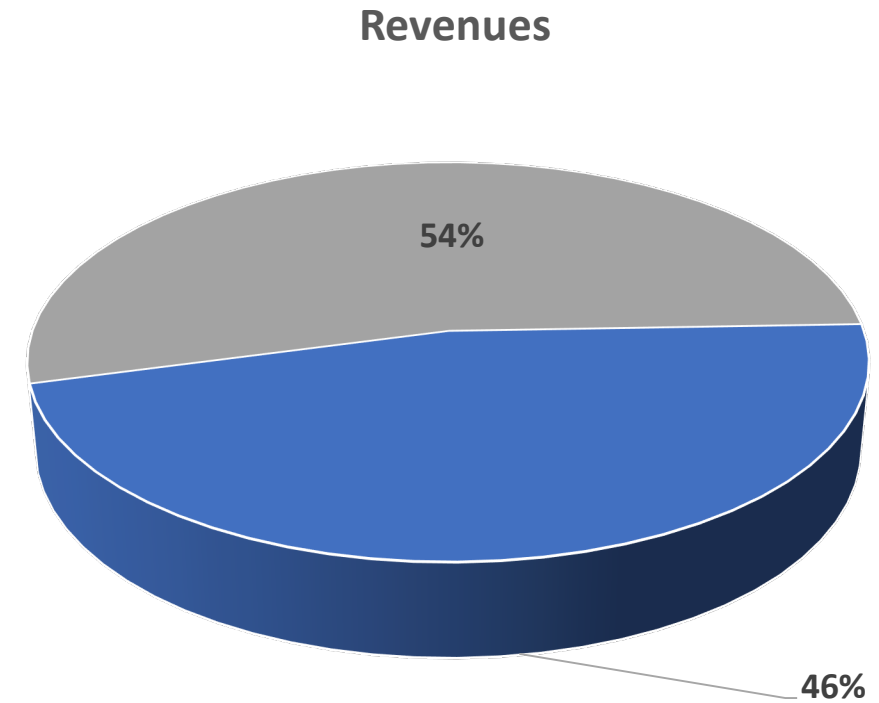


Financial Challenge: Fixed Expense vs Variable Revenues

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



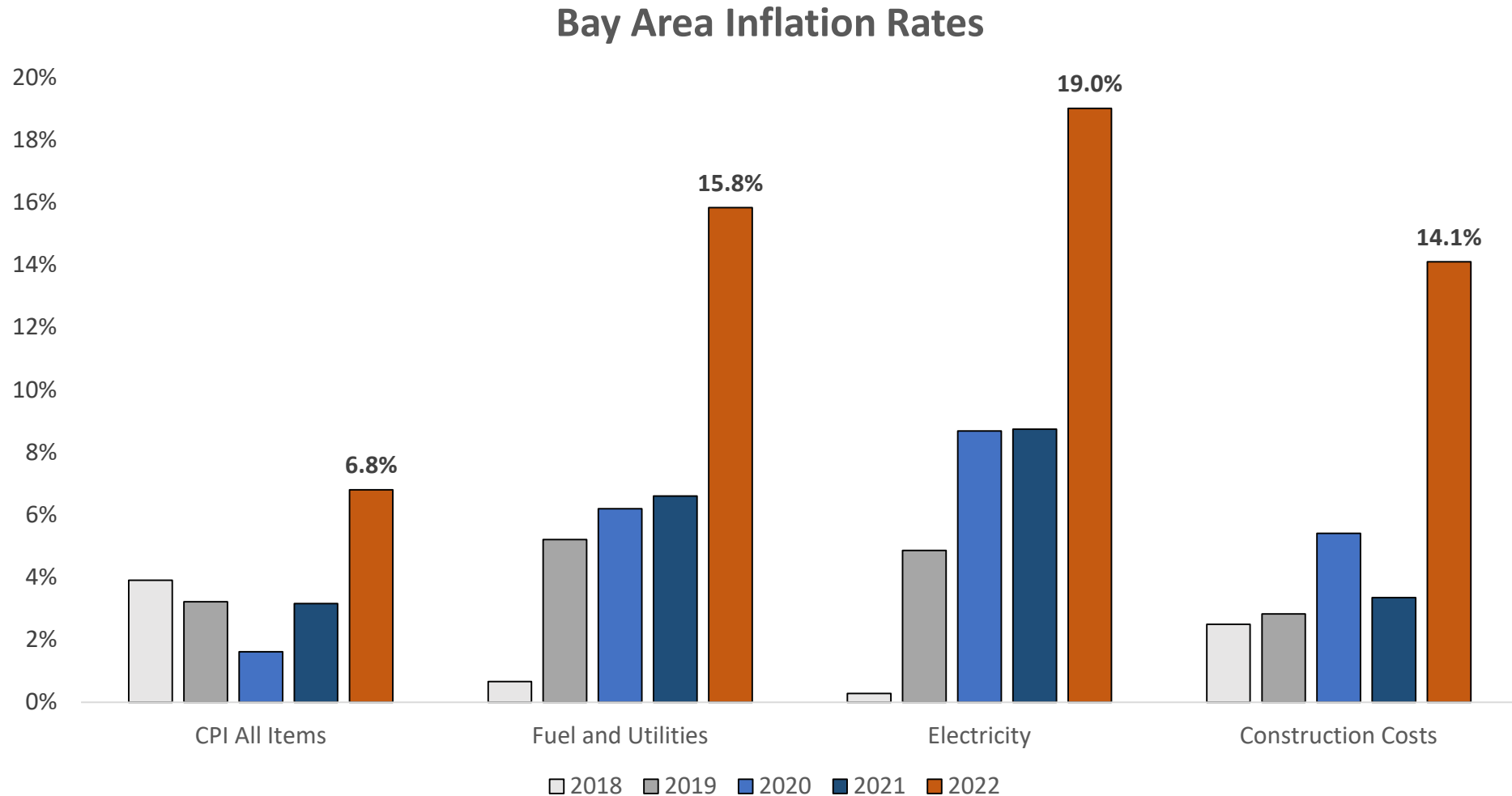
■ Fixed ■ Variable



■ Fixed ■ Variable

Financial Challenge: Inflationary Pressures

- Double digit increases are affecting core operational areas

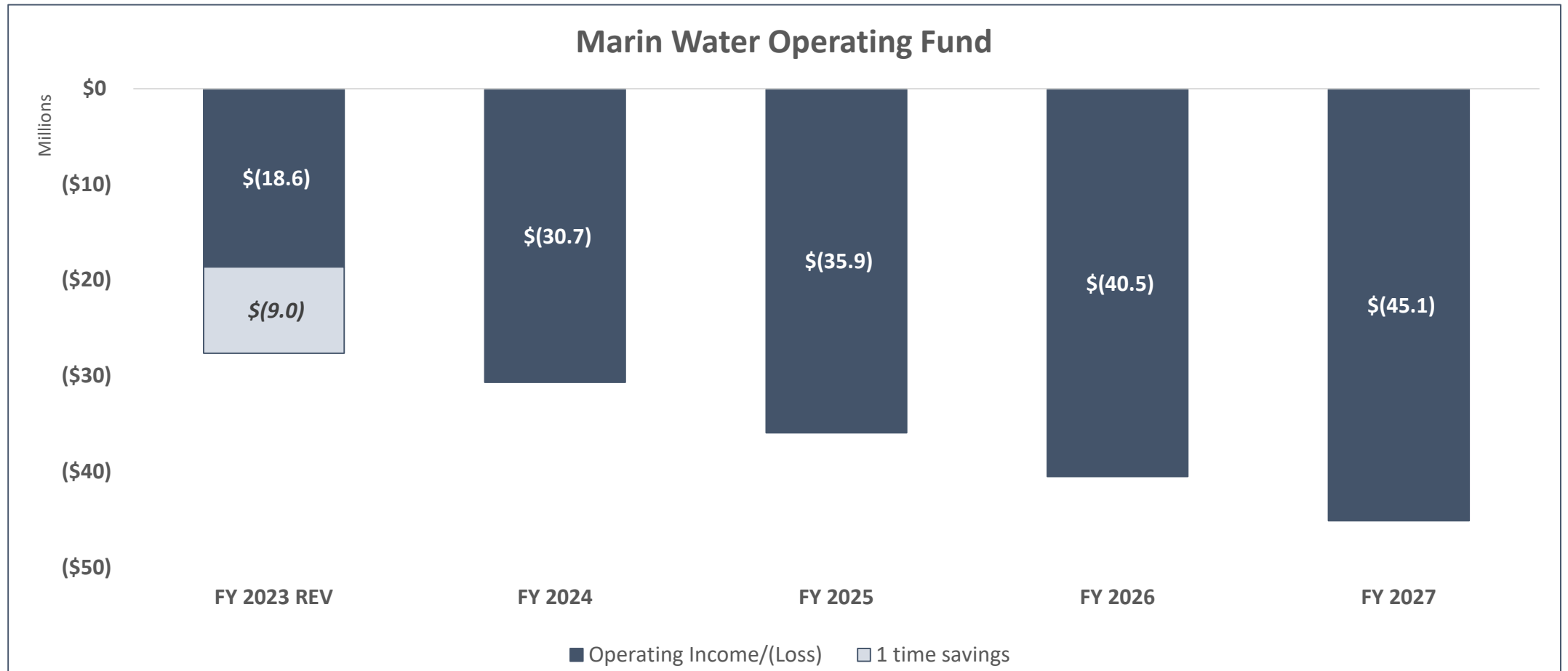


Examples of Inflation and Key Cost Drivers at Marin Water

- Purchased Water from Sonoma
 - Expecting an estimated 10 percent per year increase in base rate in each of the next 4 years
- Paving contracts
 - Costs have more than doubled for paving projects since 2020
 - Increasing local jurisdiction requirements to repair streets after pipeline projects
- 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
- Water Meters
 - Prices are up over 60 percent since 2021 for basic analog meters
- Insurance
 - Premiums have risen over 50 percent since 2021 due to increased statewide wildfire risk and litigation trends

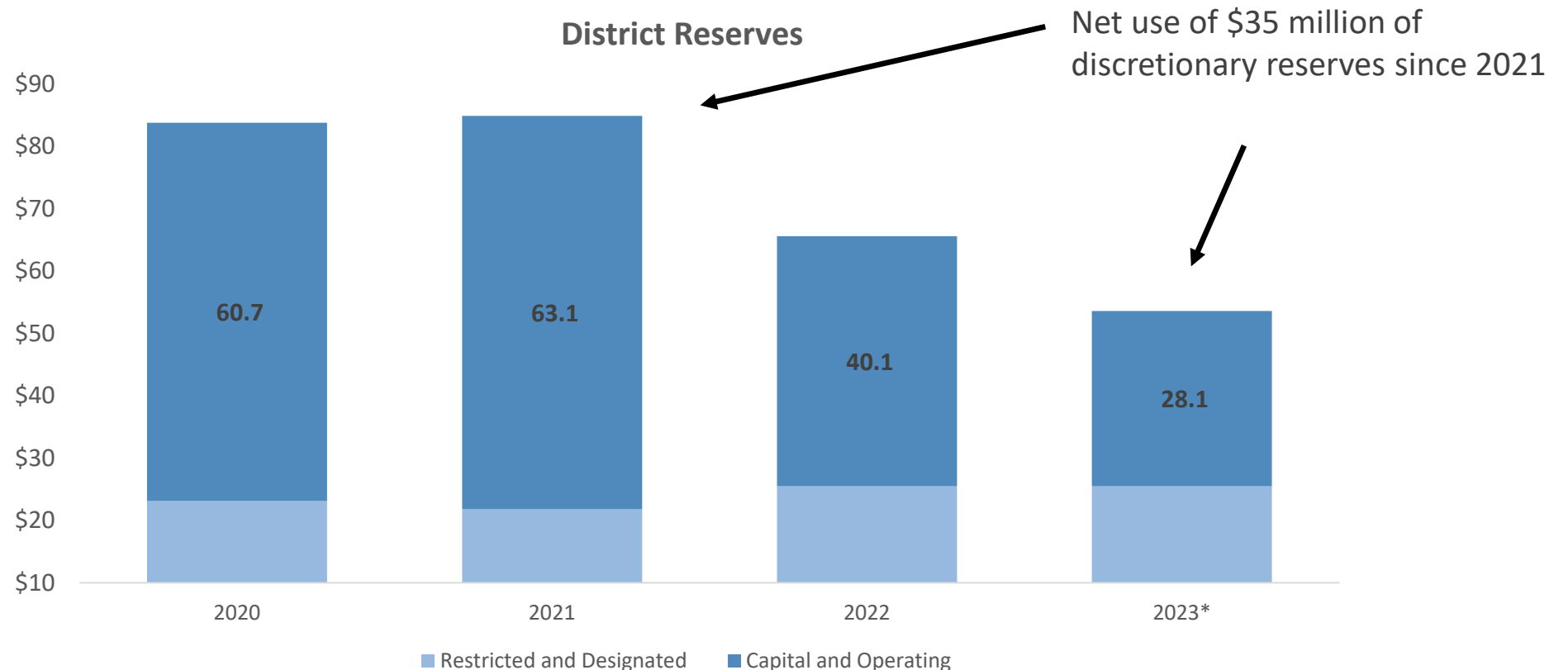
Financial Forecasting – Operating Deficit under Current Rates

- Marin Water 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



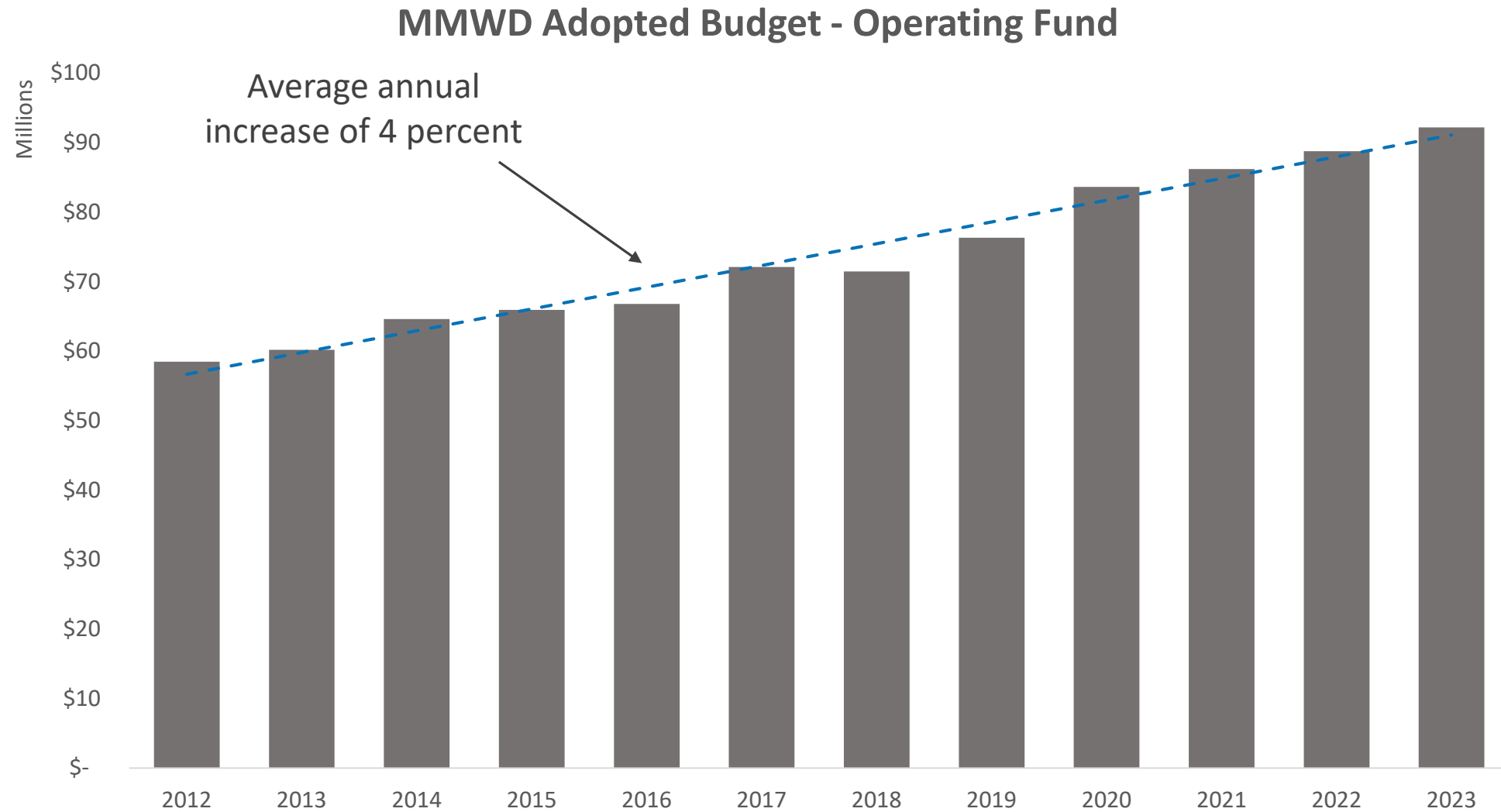
Financial Challenge: Reserves must be replenished

- The District had well-funded reserves in 2021
- Over the next two years, the District used reserves to secure additional water supply and offset revenue losses from the drought



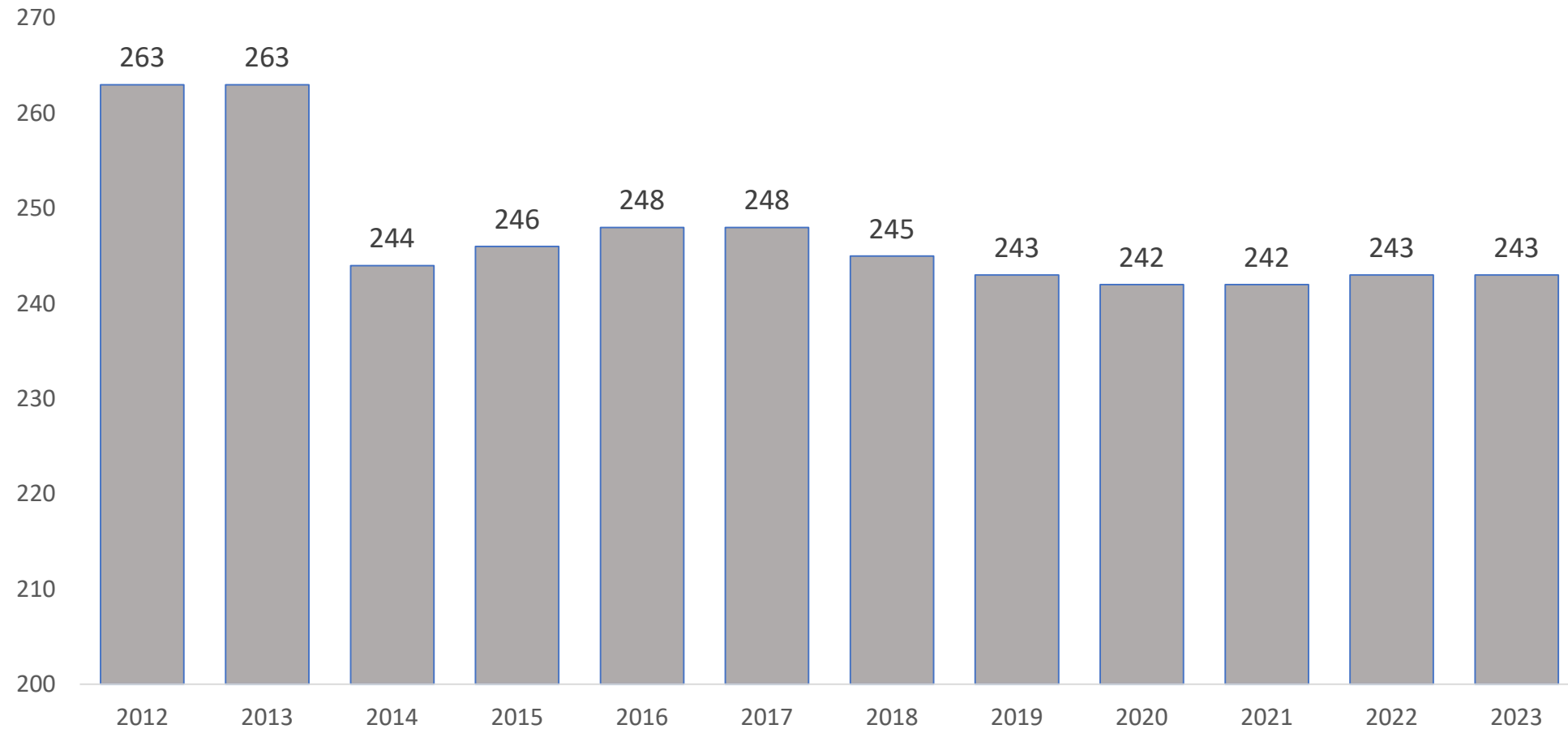
*Projected FY 2023

Historical Budget Trends



Historical Budget Trends

MMWD Staffing History – Budgeted FTE



Organizational Challenge: Marin Water is Unique

Municipal Utility

- Not a business
- Not a municipal government (i.e. town, city, county)
- Not a non-profit organization

California

- Proposition 218 governs the rate-setting process
- Climate change drives increased risk of drought and wildfire

Marin County

- Topography -> requires more infrastructure to pump water over the hills
- Density -> Low population density reduces economics of scale
- Slow Growth -> Smaller population base to share costs; less benefit from new connection fees

Marin Water

- Oldest municipal water district in California -> significant deferred maintenance
- Local Watershed Management and Water Treatment Operations
- Unlike many Bay Area water suppliers, Marin does not rely on the Sierras or the State Water Project

Marin Water is Locally Sourced

- **75%** comes from Marin reservoirs
(Combined total storage = 80,000 AF)
 - Mt. Tamalpais Watershed
 - Nicasio & Souldajule reservoirs
- **25%** is imported from Sonoma County*
 - Russian River

**Based on long-term averages*



Where does the Bay Area get its water?

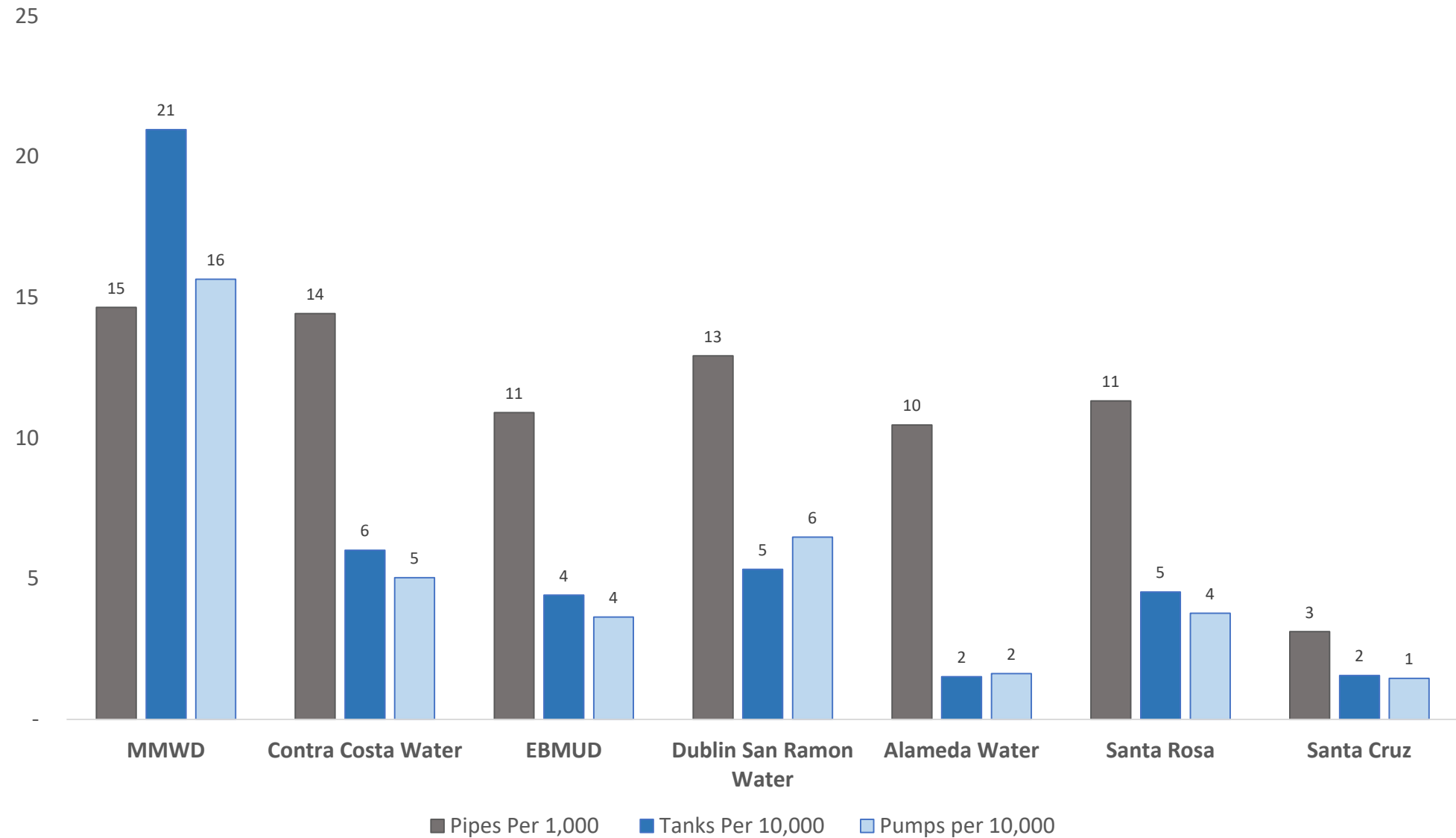


Infrastructure Challenge: Regional Comparisons

- Marin Water requires more infrastructure than other similarly sized agencies
 - Higher per capita ratios of pipes, pumps and tanks

Agency	Accounts	Miles of Pipeline	Pumps	Tanks
Dublin-San Ramon	26,237	339	17	14
Santa Rosa	53,000	600	20	24
Contra Costa Water	61,550	888	31	37
Marin Water	62,000	908	97	130
Alameda Water	86,000	900	14	13
Santa Cruz	96,186	300	14	15
East Bay MUD	385,000	4,200	140	170

Regional Infrastructure Ratios



Long Term Planning Challenges: Water Supply & Infrastructure

- Use of Capital Maintenance Fee (CMF) for existing debt service has increased the number of unfunded projects
 - Critical infrastructure projects have been delayed
 - Reduced capital spending for:
 - Pipeline replacements
 - Watershed improvements
 - Pump station upgrades
- Grants and loans will continue to be leveraged for high priority projects
- Design and construction costs for water supply enhancement projects need to be incorporated in future planning

**Current rate structure,
preview of proposed rate plan
options, and proposal impacts**

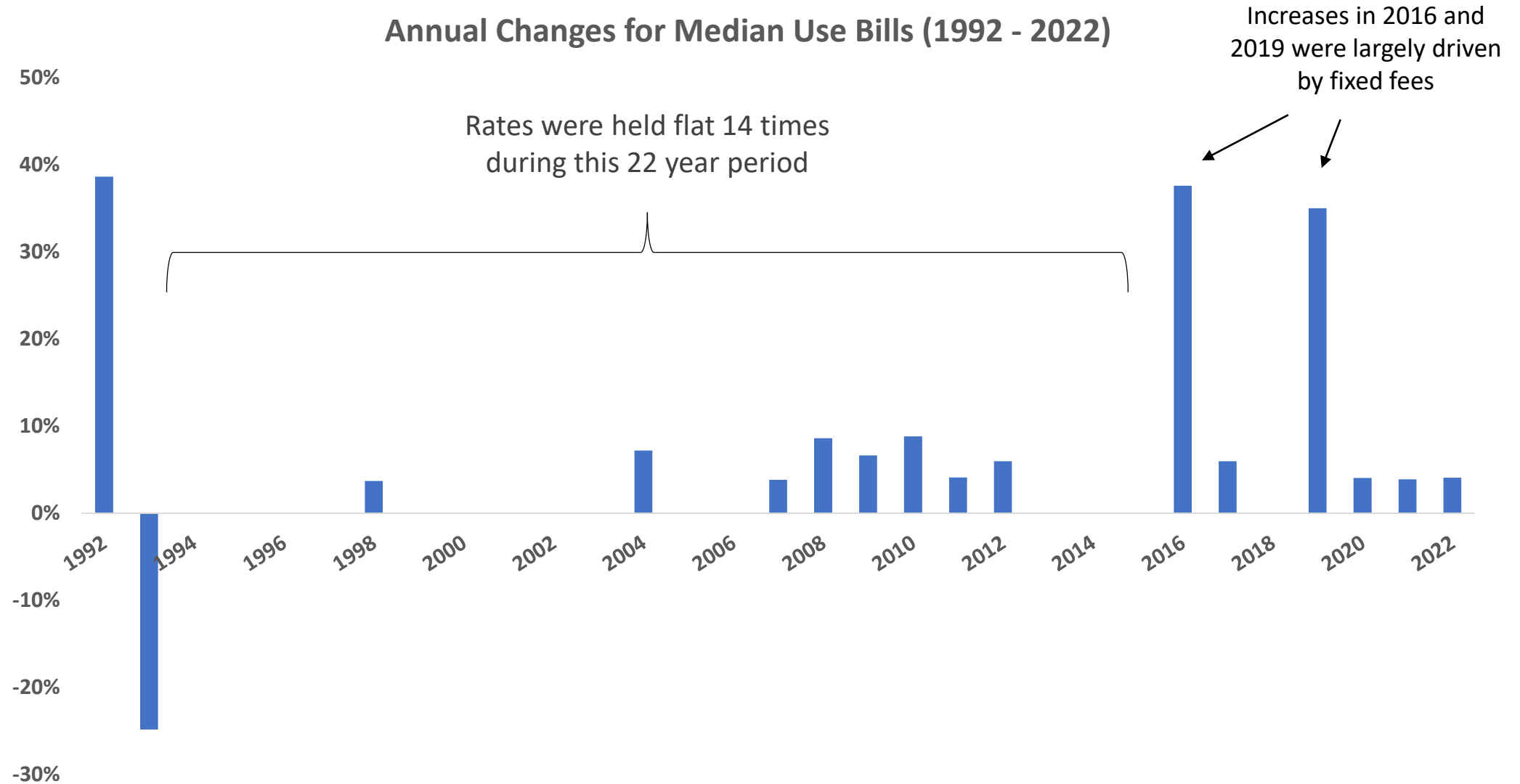
Water Rates and Cost of Service Study

- Proposition 218 outlines the process by which all service fees charged by local governments in California
 - Requires a 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 and Bond Covenants
 - Reserves
 - Water Supply Enhancements

Rate Increase History

- Over the past 30 years, Marin Water 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
- 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



Current Rate Structure

- Customers pay for water service through a blend of fixed fees and variable charges based on water usage
 - Fixed fees:
 - Base Water Charge, Watershed Management Fee and the Capital Maintenance Fee
 - Variable charges:
 - Tiered rate structure
 - 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

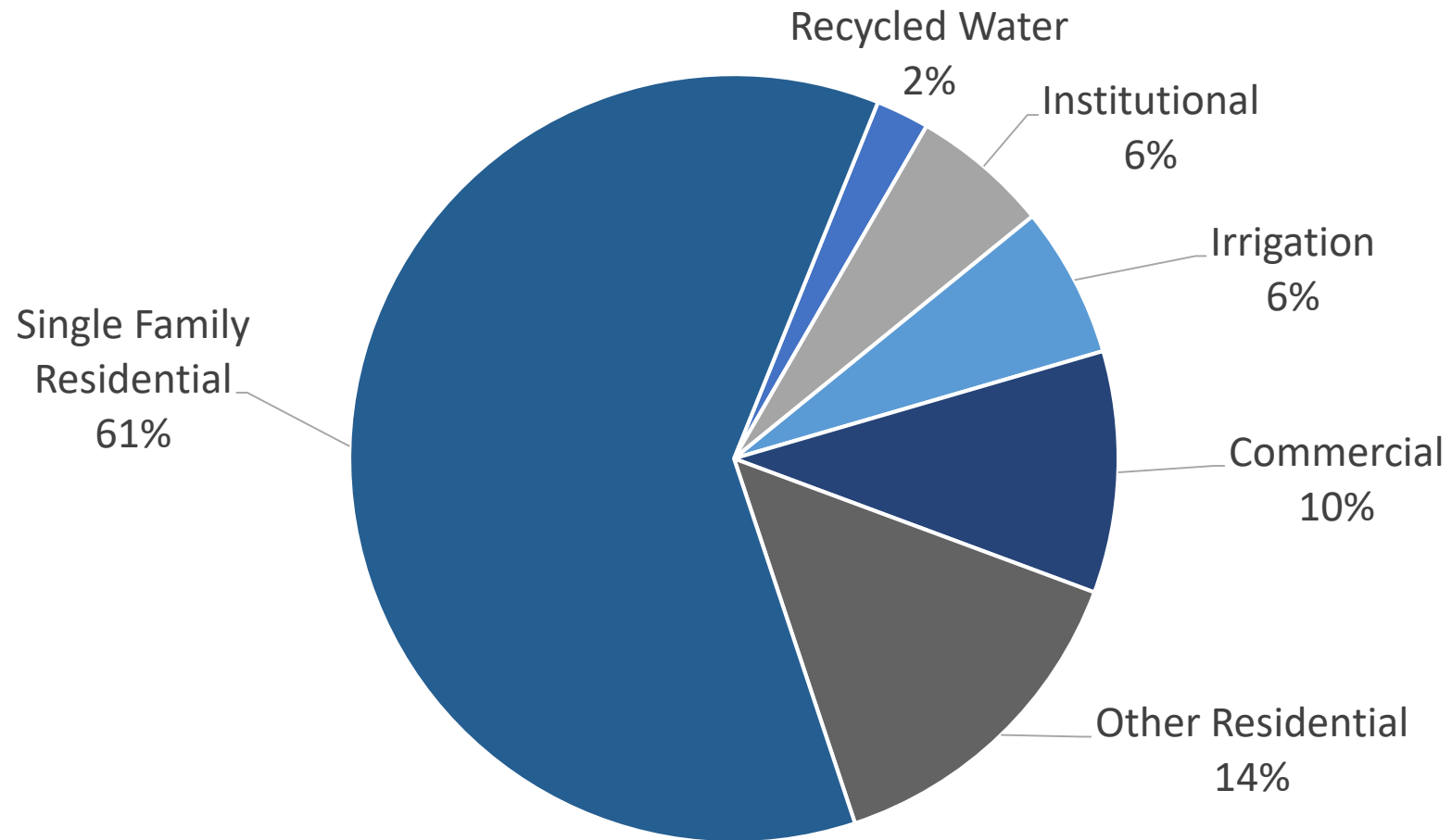
RESIDENTIAL

	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

Distribution of District Water Sales



Typical Monthly Expenses for Water Service**

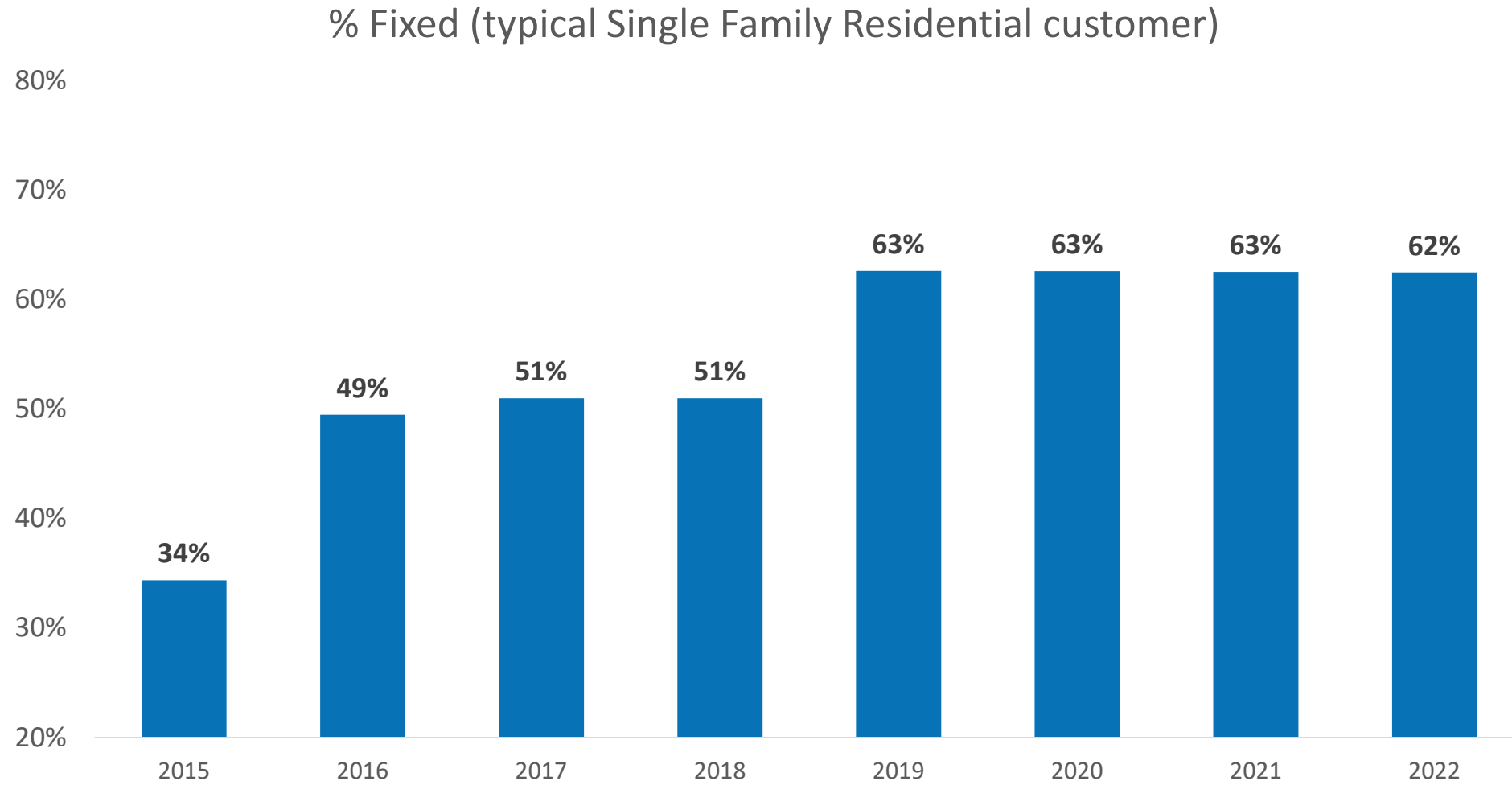
- Median Single Family Residential Customer

Revenue Category	Revenue Type	Monthly Cost
Water Use Charge (5.5 CCF/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

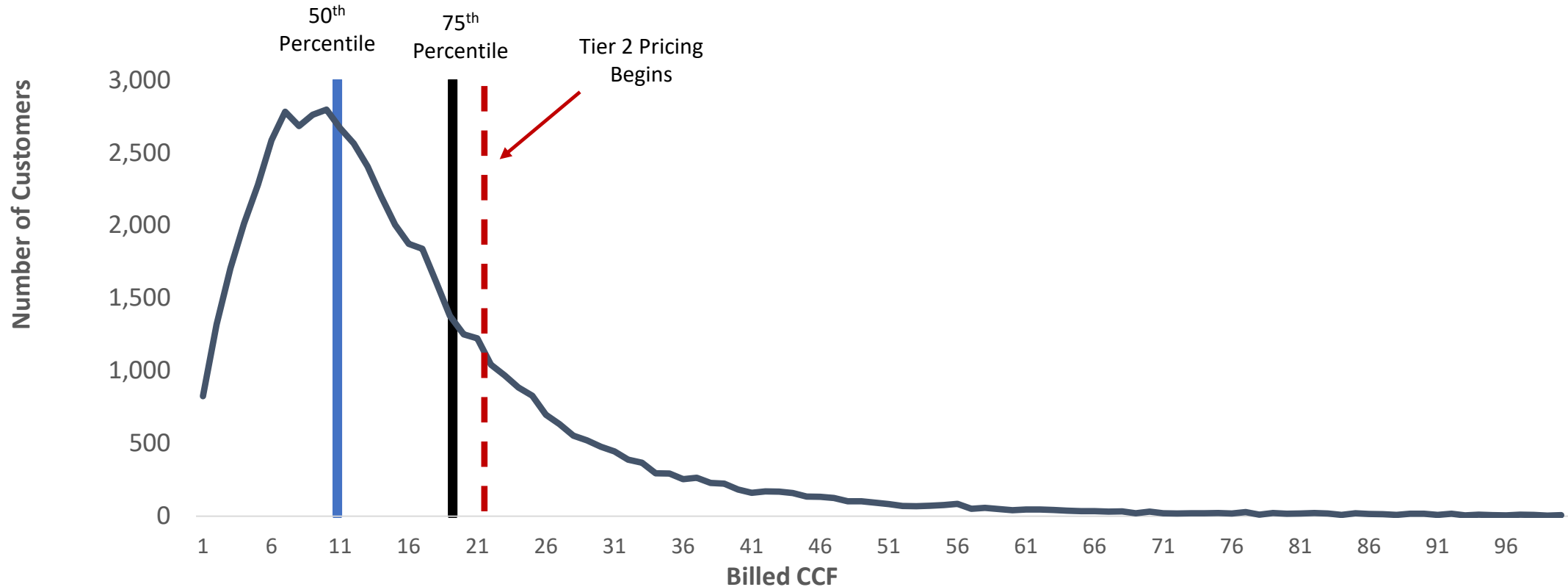
**Water bills are typically issued on a bi-monthly basis

Current rate structure and reduced demand have resulted in increased % of fixed fees



Tiered Rate Structure does not Align with Current Demand

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

Rate Structure: Focus Areas

Update rate model to reflect current demand patterns and cost of service

- Reduce residential tier breaks to align with current demand patterns
- Evaluate fixed fees as a percentage of customer bills
- Increase volumetric charges to provide enhanced funding
- Establish drought rates based on Water Shortage Contingency Plan

Simplify the rate structure

- Improve customer understanding
- Give customers greater control of their monthly bill
- Encourage conservation
- Eliminate seasonal tiers for residential customers

Apply a long-term lens

- Incremental approach to change where possible
- Goal of stable and predictable future rate increases

Rate Structure: Revenue Requirement - Baseline

\$30 million ongoing budgetary shortfall under current rates

- The current rate structure does not provide sufficient funding for existing service levels
 - Demand patterns have changed
 - Adjust for inflationary impacts
 - The District is losing \$1 million per month
- Eliminate hiring freeze: Fill vacant positions
- Restore capital improvement program
- Adhere to bond covenants
 - Reserve levels and debt service coverage

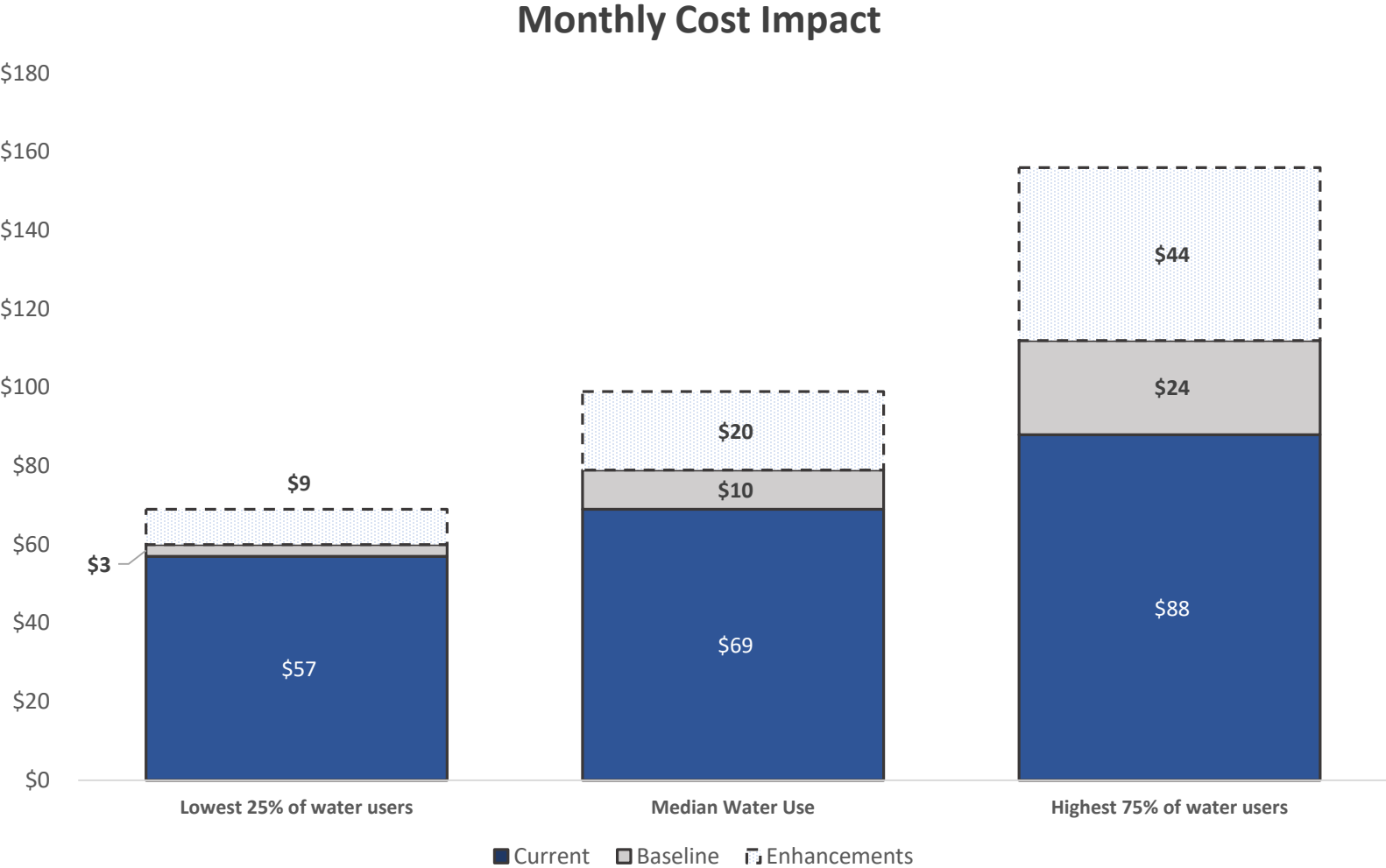
Rate Structure: Revenue Requirement - Enhancements

Opportunities to strengthen the organization

- Water supply projects
 - \$2.0 - \$9.0 million annually for short term projects and longer term planning
- Critical infrastructure needs
 - Smith Saddle Tanks (\$24M), Pine Mountain Tunnel (\$25M), N. Marin Line (\$28M)
 - AMI (\$26M), Seismic Retrofits (\$6M), Ross Reservoir (\$15M)
- Service level enhancements
 - Watershed protection
 - Wildfire preparedness
 - Habitat restoration
 - Organizational efficiencies
 - Industry best practices

Rate Structure: Preliminary Range of Residential Customer Impacts

- Most current monthly costs range from \$57 to \$88 depending on water use
- Monthly costs will increase by \$3 to \$24 to provide funding for existing services (baseline)
- Monthly costs may increase by an additional \$9 to \$44 to provide funding for:
 - Water supply projects
 - Infrastructure improvements
 - Service enhancements





Cost management efforts & customer assistance programs

What is the District Doing to Contain Costs?

Current

- Hiring freeze for most positions
- Reduced capital spending
- Delayed equipment replacement

Ongoing

- Refinanced bonds in 2020 to reduce annual debt service
- Leveraging grant opportunities
- Investing in projects that improve efficiency
 - Kastania Pump Station
 - Emergency Generator
- Used reserves in lieu of passing on additional costs to customers during drought
- Held staffing levels flat
 - Net reduction of 7 percent since 2012
- Limited staff salary increases to CPI index
 - Less than 3 percent per year

Discount Programs Available to Customers

- The District will continue to provide a variety of financial assistance programs to customers who need assistance in paying their water bill



Waiver Program Based on Income

Subtracts fixed fees from qualifying customers' bills

1,000 currently enrolled customers



Medical Disability Discount

Waives certain fees, discounts additional water usage

400 currently enrolled customers



Super Saver Program

Provides an automatic discount for the lowest 5% of water users

3,000 benefitting customers

Low Income Discount Program Comparisons

- Marin Water offers a more generous low income discount program than most regional agencies
 - Higher income limits -> more customers can qualify
 - Higher benefit levels -> provides greater relief to qualified customers

Agency	Income Level (Household Size)	Discount
Marin Water	\$83,520 (1); \$119,280 (4)	Waives all fixed fees
East Bay MUD	\$57,150 (1); \$71,400 (4)	50% reduction to fixed fees; 50% reduction to first 1.4 CCF
Alameda County Water	\$57,150 (1); \$71,400 (4)	\$40 credit to fixed fees
Contra Costa Water	\$50,000 (1); \$71,400 (4)	50% reduction to fixed fees
Santa Rosa (City)	\$41,600 (1); \$59,400 (4)	Waives all fixed fees
North Marin Water	\$36,620 (1); \$55,500 (4)	\$15 credit to fixed fees

Summary of proposal and next steps

Rate Setting Recap

Ongoing annual operating budget shortfall of ~\$30 million

- Reduced consumption
- Inflationary pressures, Reserve replenishment

Water supply projects and service enhancements require additional funding

- Short term projects
- Medium and long term planning

Capital investments are an increasing priority due to aging infrastructure

- Increase annual investment to catch up with deferred projects
- Opportunity to use bond funding to address critical needs in short term

Water rate structure will be updated to reflect current demand levels

- Working to develop rate structure proposals
- Currently losing \$1 million per month due to rate structure

Future Uncertainties

- Climate Change and Drought
- Inflation

Resources - marinwater.org/2023RateSetting

Understanding Your Bill



Name
Address
City, State Zip

Billing Inquiries: 415.945.1400
Water Emergencies: 415.945.1500

ACCOUNT DETAILS

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

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](https://marinwater.org) or contact Customer Service at 415.945.1400.

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
[Email](#)

2023 Water Rate Setting

Understand Your Current Water Bill – Quick Link Resources

- [Current Rates & Fees](#)
- [How your current bill is calculated](#)
- [Rate calculator](#)
- [2019 Cost of Service Analysis](#)
- [2017 Cost of Service Analysis](#)

Frequently Asked Questions

Why is a rate adjustment needed?

Since Marin Water last updated its rate structure in 2019, historic challenges have dramatically impacted the District's financial outlook. Much like the rest of the country and world, Marin Water has been impacted by the effects of inflation and supply chain disruptions.

As a result, costs for many of the materials to repair or replace critical water infrastructure have seen double-digit

Resources

Upcoming Customer Workshops for Rate Setting

- In-person and virtual opportunities
- The same information will be provided at each workshop
- Virtual meeting will be recorded and placed online at:
marinwater.org/2023RateSetting

Thursday, Feb. 9, 2023 | 6 - 8 p.m.
Mill Valley Community Center - Cascade Room
180 Camino Alto, Mill Valley

Monday, Feb. 13, 2023 | 6 - 8 p.m.
Corte Madera Community Center - Main Hall
498 Tamalpais Drive, Corte Madera

Wednesday, Feb. 15, 2023 | 6 - 8 p.m.
Albert J. Boro Community Center
50 Canal Street, San Rafael

Thursday, Feb. 16, 2023 | 6 - 8 p.m.
Virtual Meeting - Get zoom participation
information at marinwater.org

Next Steps

- ❑ Customer Workshops begin February 9
- ❑ District staff will continue to provide updates throughout the spring
 - Board meetings
 - Customer Workshops
 - Digital and print resources
- ❑ Proposition 218 notice will be mailed in March 2023
- ❑ Public Hearing will be conducted in May 2023
- ❑ New rates will be effective in July 2023

