MARIN WATER

2023 Rate Setting

Customer Workshop

February 2023

Overview

1. Marin Water
2. Rate-setting process and outreach
3. Challenges and opportunities
4. Current rate structure, preview of preliminary rate plan options, and customer impacts
5. Summary of proposal benefits and next steps
6. Customer Q&A and feedback

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

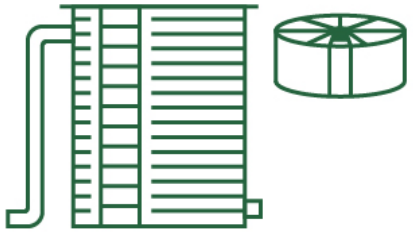
District Employees

62k

Water Meters

MARIN WATER

What it takes to deliver water to our customers



24/7 Water Operations

Water treatment and distribution

Water quality testing

Emergency response

Watershed Land Management

Wildfire resiliency/ vegetation management

Forest and creek restoration

Ongoing maintenance and improvements

Water System Care & Improvements

Ongoing maintenance

System improvements

Infrastructure investments for water system reliability

Customer Service

Billing and account assistance

Programs and outreach

24/7 Water Operations

Delivering the water and responding to emergencies – whenever you need it

Treating your water with care through every step of the process

Deploying mobile generators to system facilities to ensure your water flows even when the power goes out

Getting water service restored and commuters back on the road quickly after water main breaks

Watershed Land Management

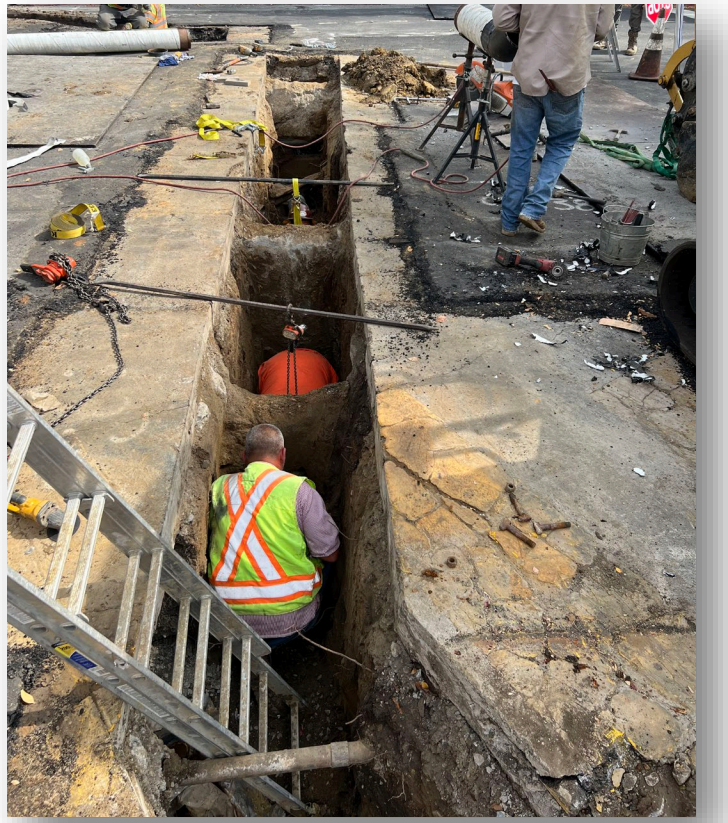
Fuel reduction through pile burning is one of many methods used to reduce risk of catastrophic wildfire

Building bridges, restoring trails for habitat protection, proper visitor access

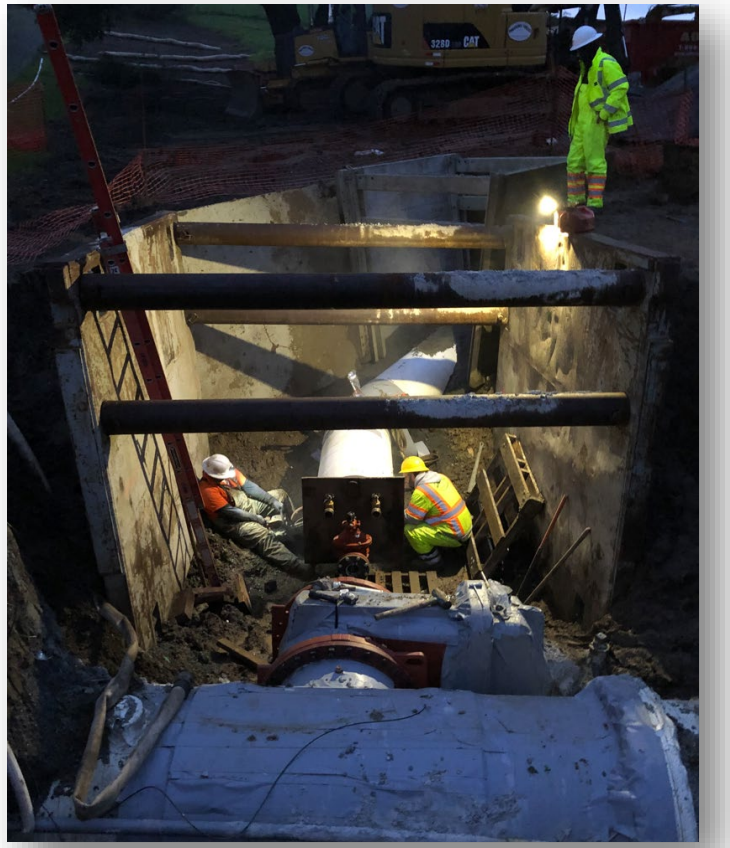
Improving ecological health by removing invasive plants

Caring for our Water System

A few examples of recently completed projects



East Blithedale Pipeline Replacement



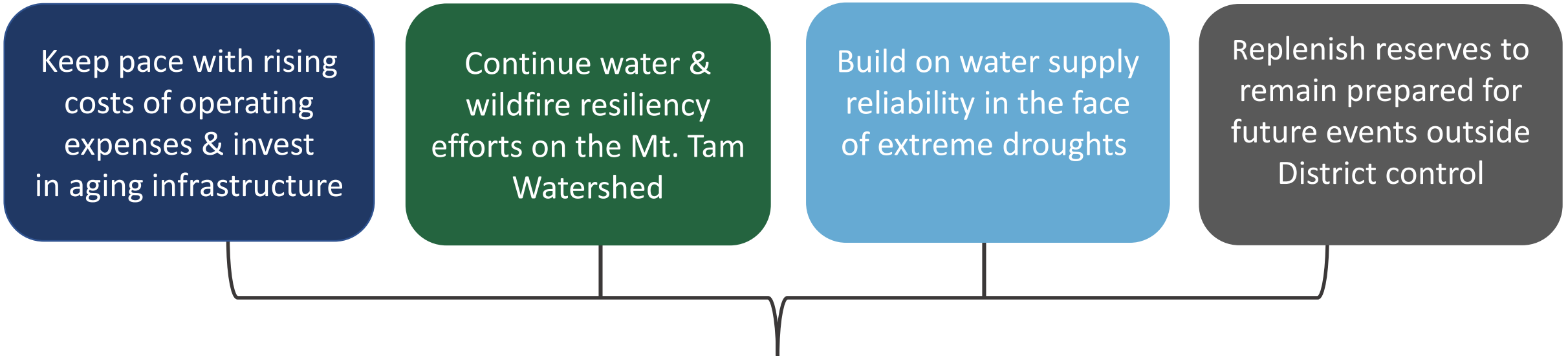
Kastania Pump Station Rehabilitation

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

Treatment Plant Emergency Generators

Rate Setting Process

Why a rate increase is needed



These initiatives require additional funding through local water rates

Rate Setting Process

- Proposition 218 outlines the process by which all service fees charged by local governments in California – the basic provisions include:
  - Rates cannot exceed cost of providing service
  - Cost recovery methodology must be proportional to customer base

Cost of Service Analysis

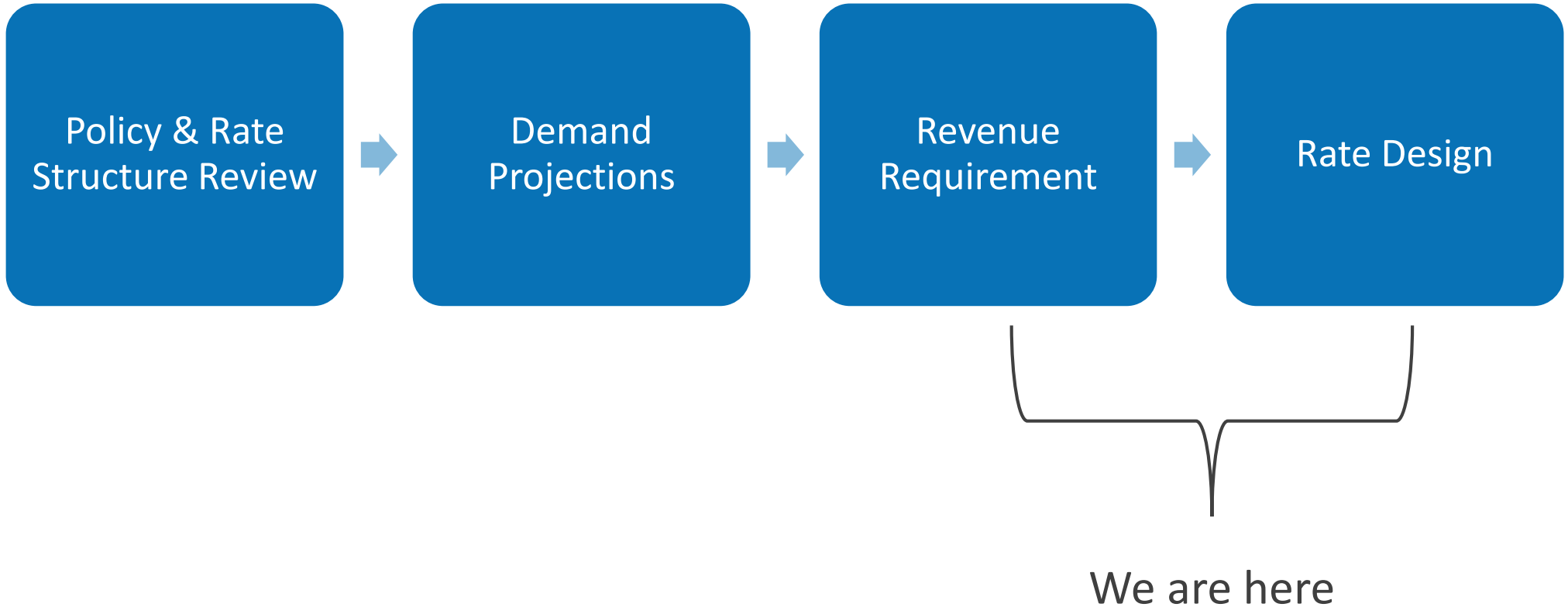
- Recent Trends
- Rate Structure
- Revenue Requirement:
  - Operations & Maintenance
  - Capital Improvements
  - Water Supply Enhancement Projects
  - Fiscal Sustainability

**proposition 218 requirement*

Public Outreach & Engagement

- Board Meetings
- Customer Workshops
- Website
- Bill Inserts
- District E-News
- News Releases/Media
- Social Media
- Mailed Notice*
- Public Hearing*

Cost of Service Analysis: Step by Step Approach



Challenges & Opportunities

Financial Overview

- **Total budget of $116 million in FY 2022-23 (all funds)**
  - 2-year budget cycle, builds upon prior year planning efforts

- **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)

Five Key Challenge Areas

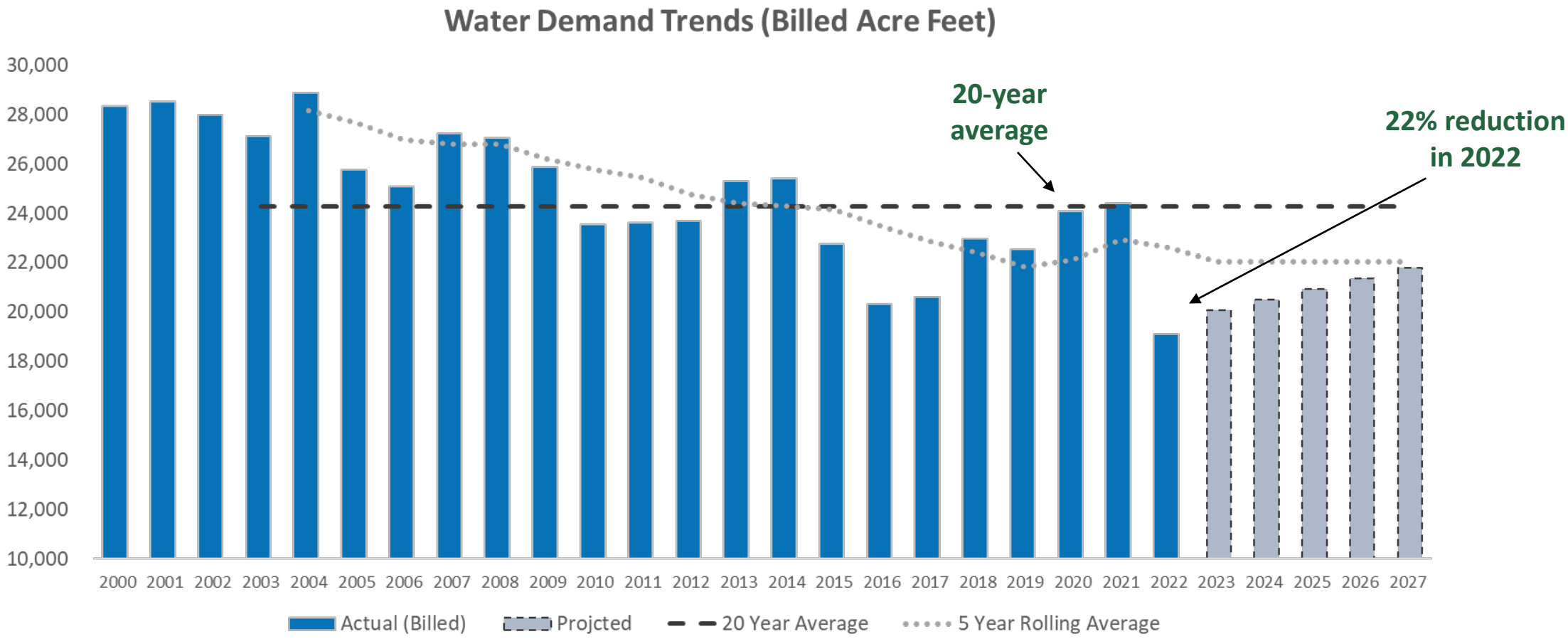
1. **Water consumption is well-below long-term averages**
   - Trend is expected to continue throughout the next rate cycle
2. **Ongoing annual baseline budget shortfall of ~$30 million**
   - Rate structure that does not align with current demand patterns
   - Inflationary pressures
3. **Water supply enhancement projects require additional funding**
   - Short-term projects
   - Long-term plan
4. **Capital investments are an increasing priority due to aging infrastructure**
   - Opportunity to use bond funding to address critical needs in short term
5. **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**

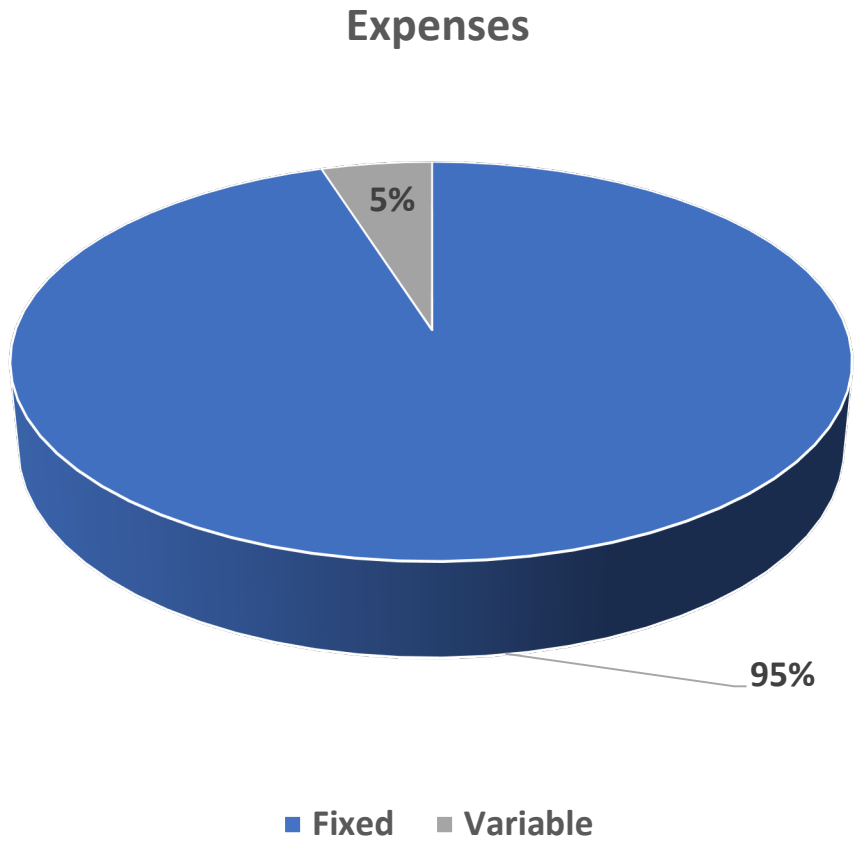
Rate Structure Challenge: Adapting to Consumption Trends

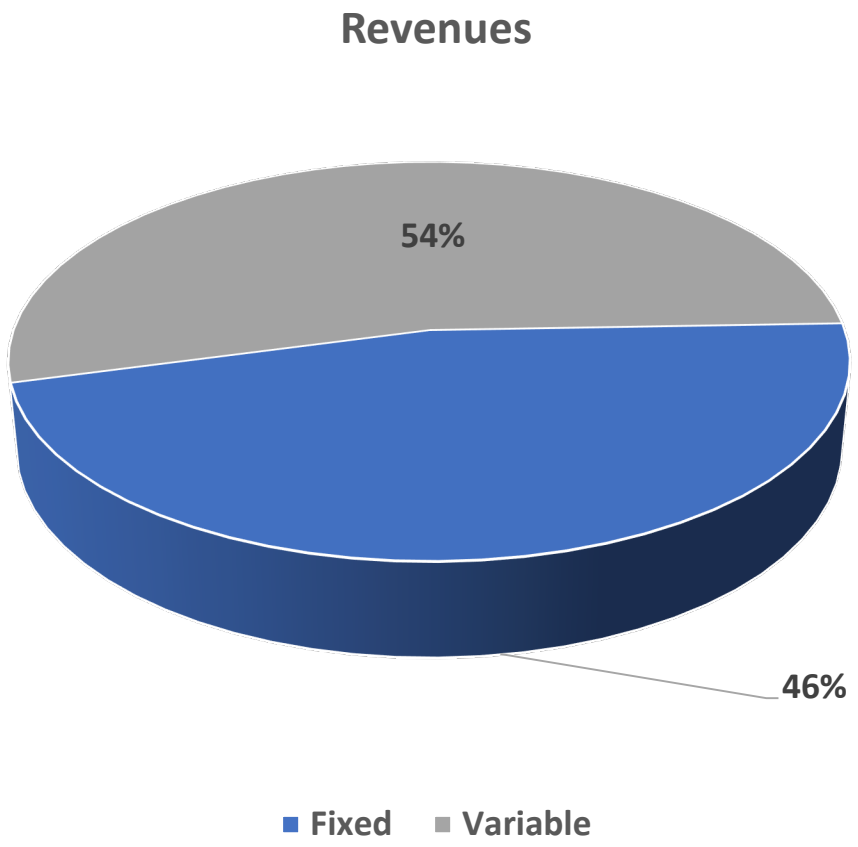
- Over the past 20 years, billed water units have fallen by about 1 percent per year
  - Demand is projected to stay below long-term averages for the next 4 years



Financial Challenge: Fixed Expenses vs. Variable Revenues

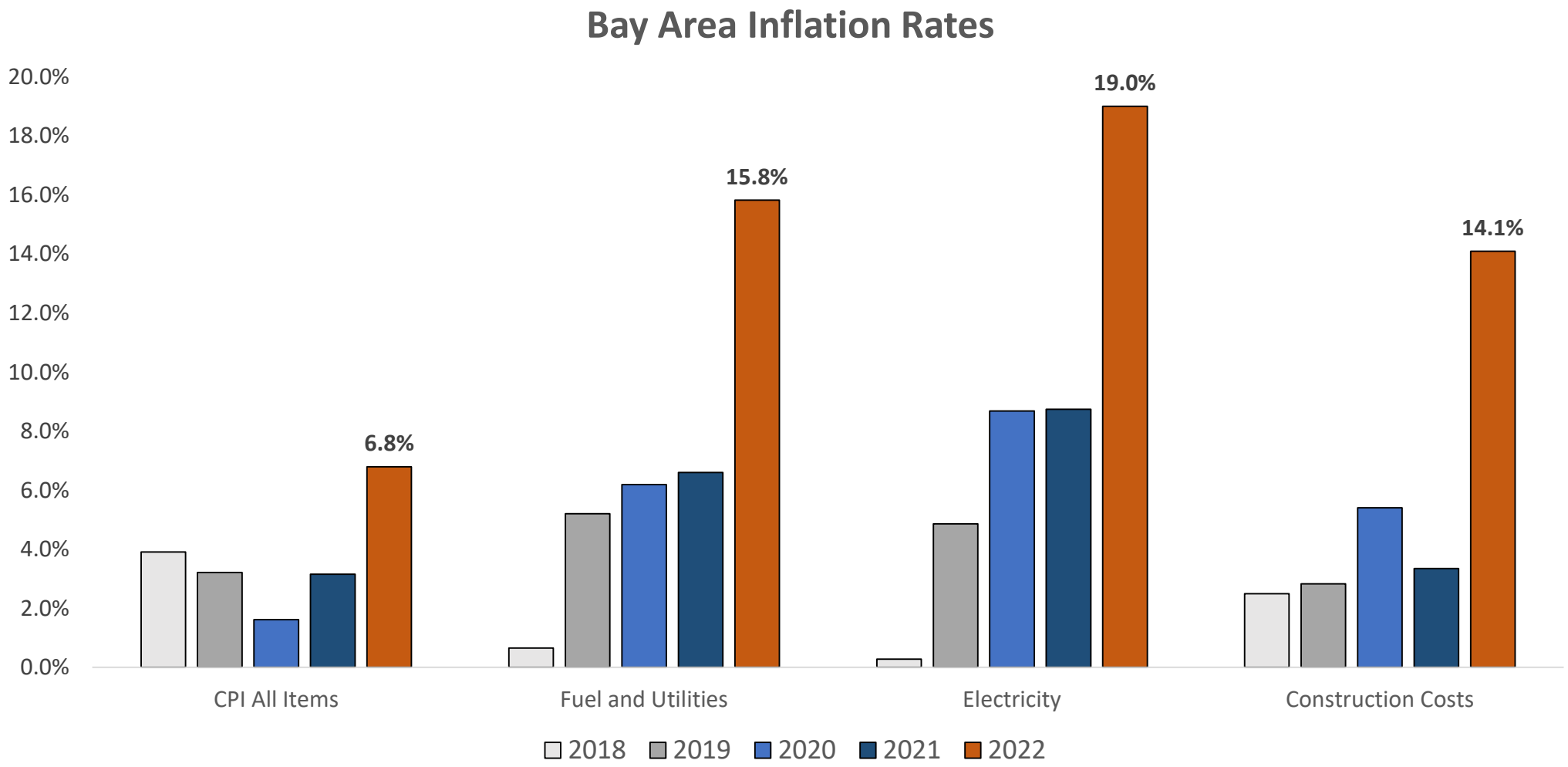
- Nearly all of the District's expenses are fixed
- More than half our revenues are dependent on the amount of water distributed to customers





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 estimated 10% per year increase in base rate in each of the next 4 years

Paving contracts

Costs more than doubled for paving projects since 2020 due to increasing local jurisdiction requirements to repair streets after pipeline projects

Welded Steel Pipe

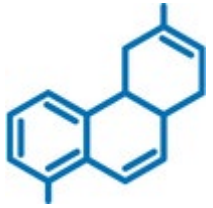
Costs have increased 17% per year from 2020 to 2022

Insurance

Premiums have risen over 50% since 2021 due to increased statewide wildfire risk and litigation trends

Water Meters

Prices are up over 90% since 2021 for basic analog meters

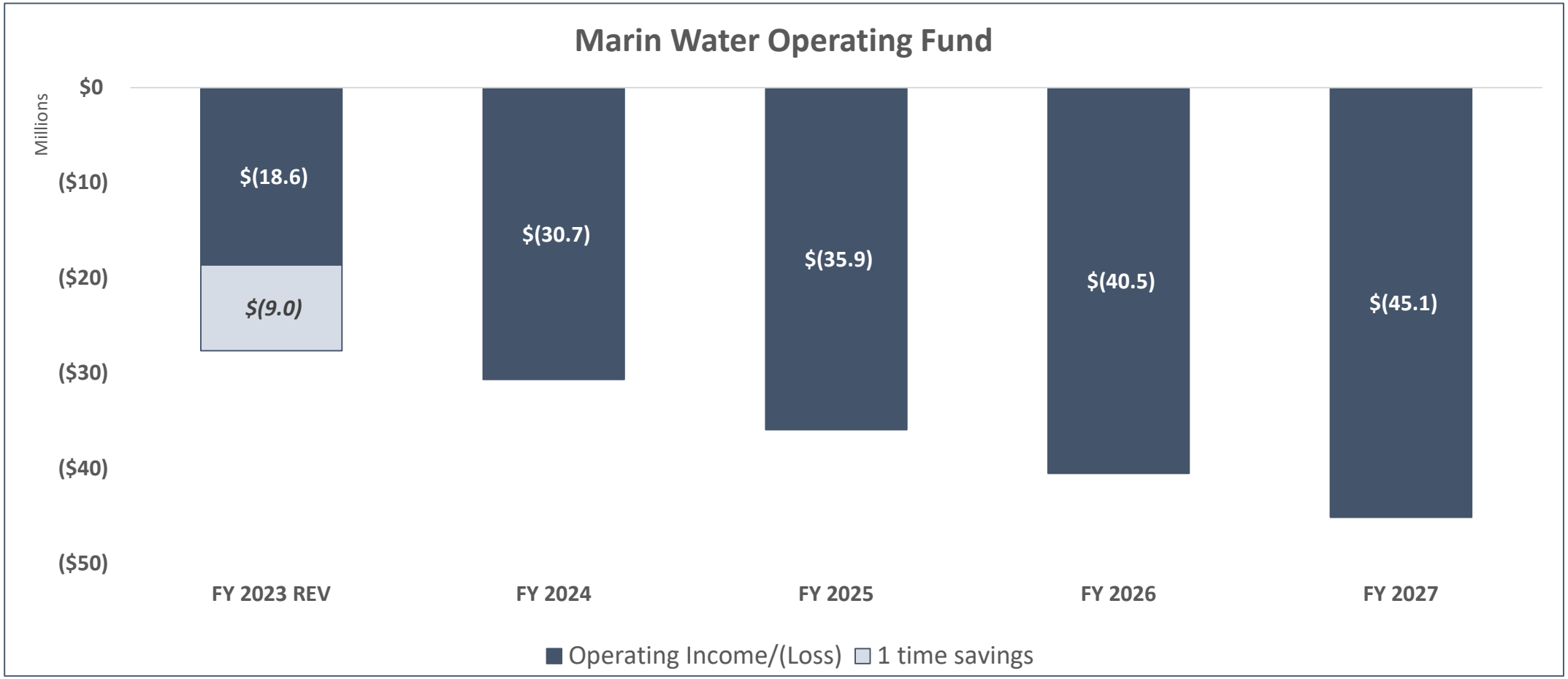


Water Treatment Chemicals

20% increase in unit costs last bidding cycle

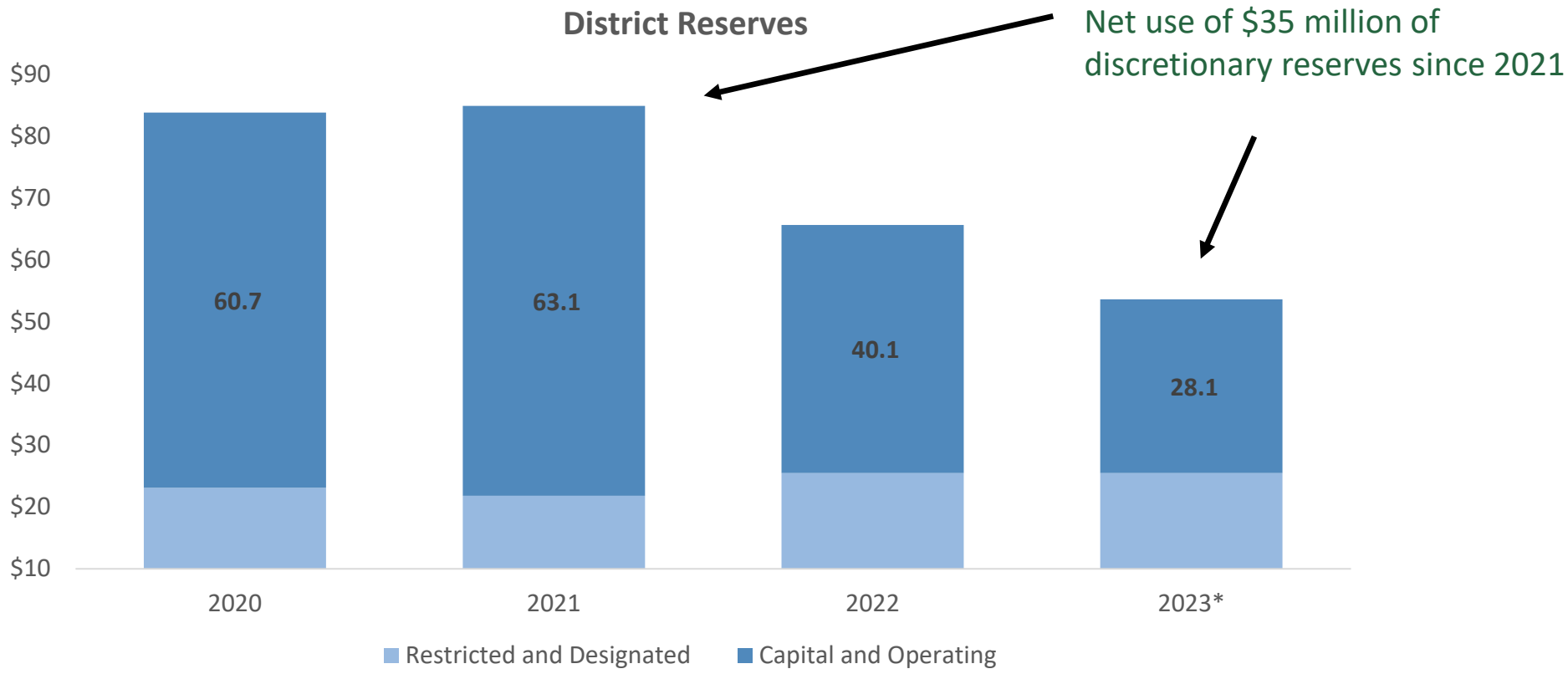
Financial Challenge: Operating Deficit Under Current Rates

- 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



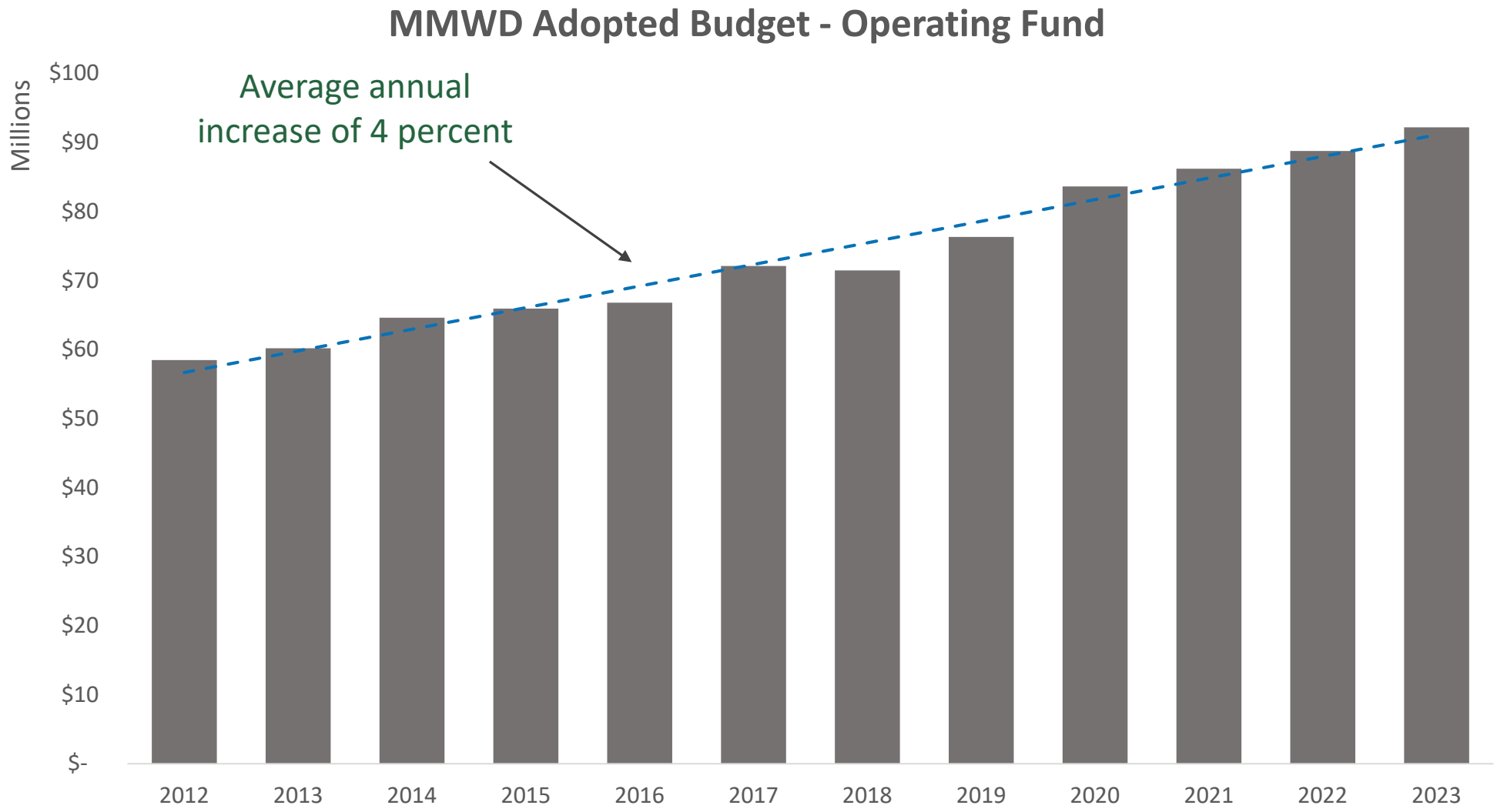
Financial Challenge: Reserves Must be Replenished

- 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

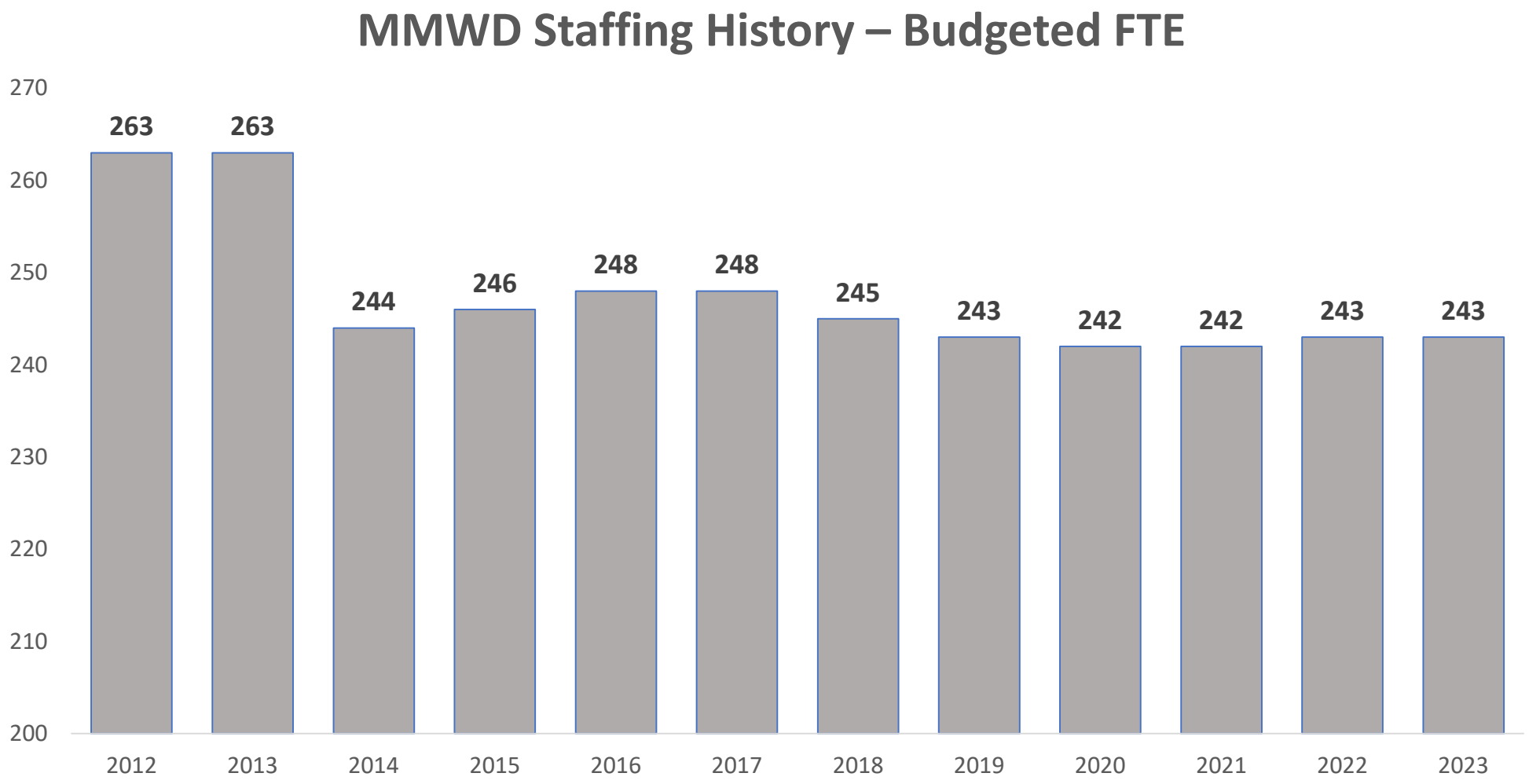


*Projected FY 2023

Historical Budget Trends



Historical Budget Trends



What is the District Doing to Contain Costs?

Current

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

Past and Ongoing

- Refinanced bonds in 2020 to reduce annual debt service
- Leveraging grant opportunities
- Investing in projects that improve efficiency and reliability
  - 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

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 & Soulajule reservoirs

- **25%** is imported from Sonoma County*
  - Russian River

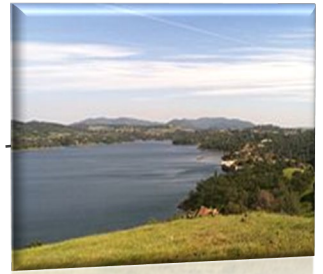
Based on long-term averages

Where does the Bay Area get its water?

Shasta: 4.5 million AF

Oroville: 3.5 million AF

Mokelumne: 620,000 AF



Hetch Hetchy: 633,000 AF

San Luis: 2 million AF

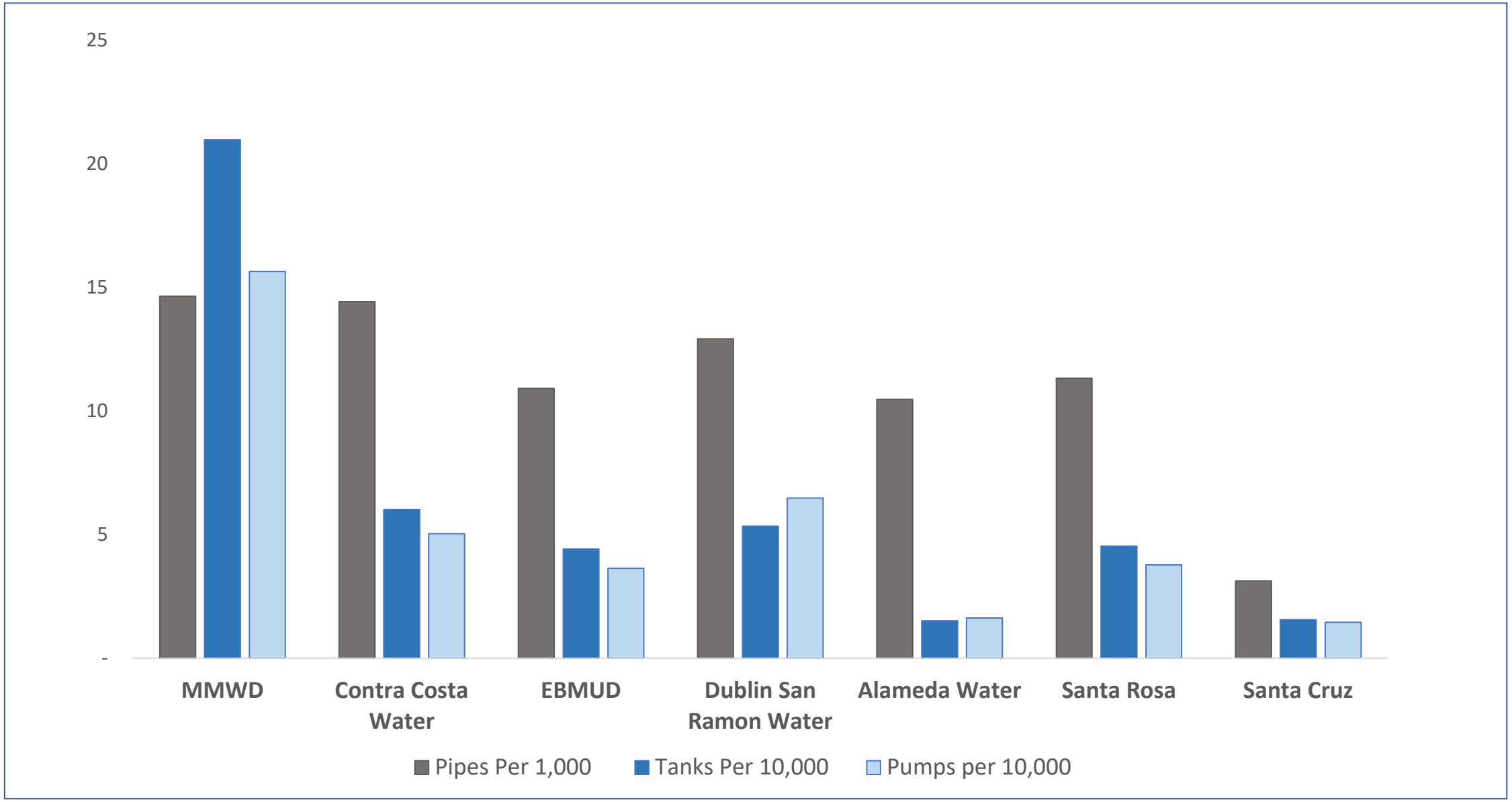
Map not to scale
AF = Acre Feet

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



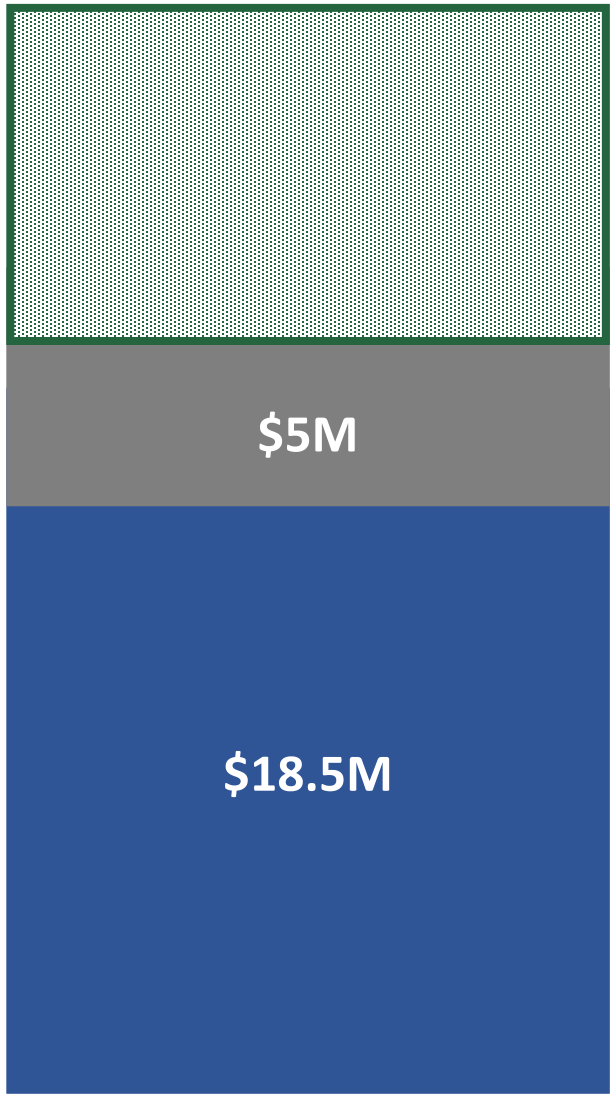
Opportunities: Water Supply & Infrastructure

Enhancements
- Water Supply Reliability - implementation of the Strategic Water Supply Roadmap
  - Near-term projects
  - Longer-term plan
- Critical needs for larger (>$20M) infrastructure projects

Baseline (Unfunded)
- Restore prior baseline rate of replacement
- Implement system improvement opportunities

Current
- Reduced rate of renewal or replacement of aging infrastructure
  - ~ four miles of pipeline
  - ~ one storage tank
  - ~ one pump station
  - watershed fire fuels reduction
  - water treatment plants
  - facilities
- Ongoing maintenance

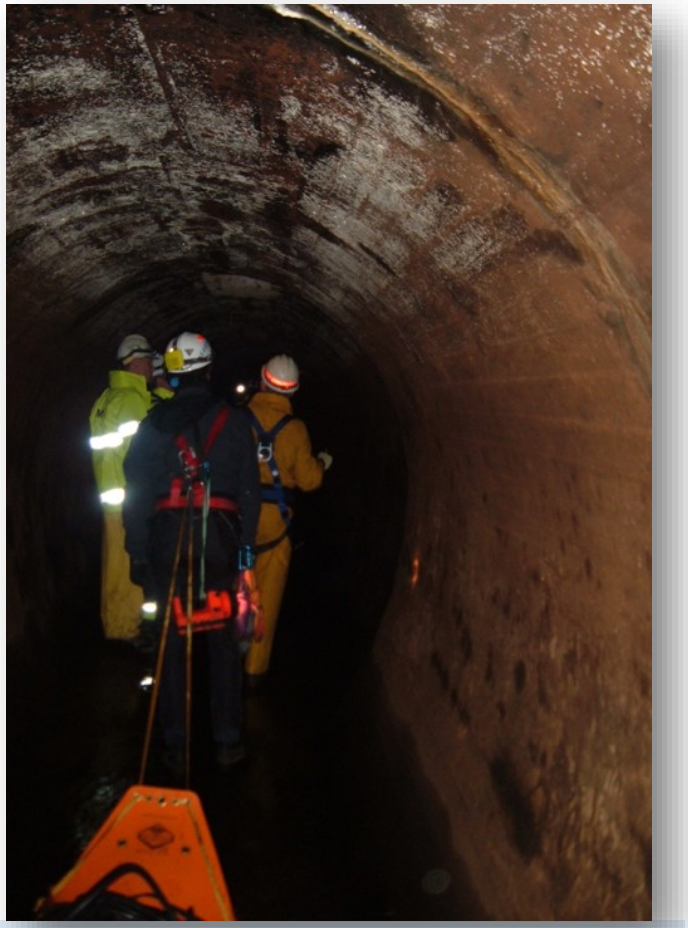
Annual Estimate Expenditures:
Capital Infrastructure Projects



Maintaining Our Water System

Examples of current planned work

Bolsa Redwood Tank Replacement



Pine Mountain Tunnel

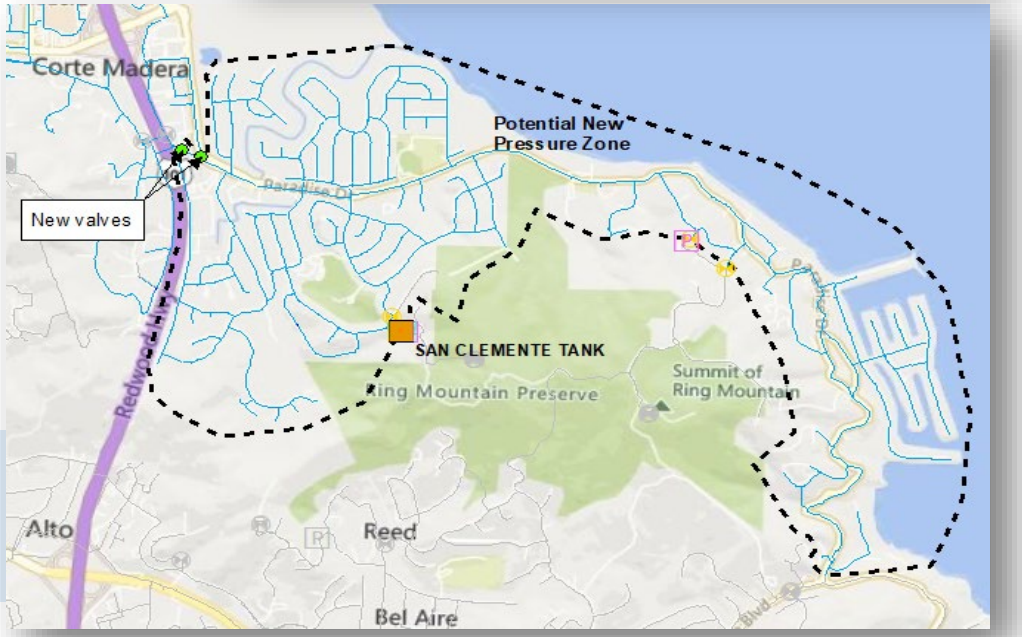
Watershed fire fuel reduction projects

Infrastructure Improvements

Examples of unfunded baseline work

- Pump Station Structure Hardening
- San Clemente Pressure Zone Isolation
- Freitas Parkway Valve Replacement

Example of fire resilient pump station



San Clemente system improvement

Opportunities: Water Supply & Infrastructure

Enhancements (unfunded)

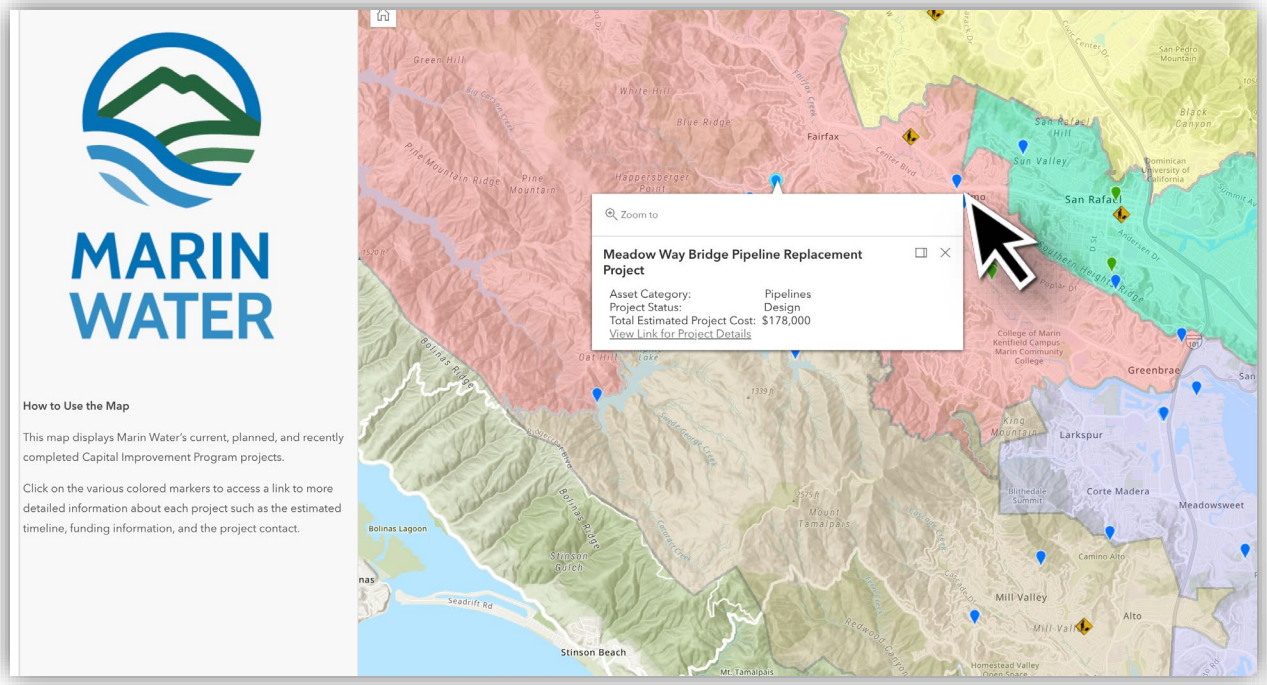
- Critical Infrastructure Projects
  - North Marin Line
  - Advanced Metering Infrastructure (AMI)
  - Smith Saddle Tanks
  - San Geronimo Treatment Plant Clarifier
  - Ross Reservoir
- Water Supply Projects

Existing San Geronimo Treatment Plant Clarifiers

Smith Saddle Tanks Provide 10 MG of storage

Water System Care & Improvements - Capital Infrastructure Program

Did you know? You can track the status of projects on our interactive map:
marinwater.org/CIP

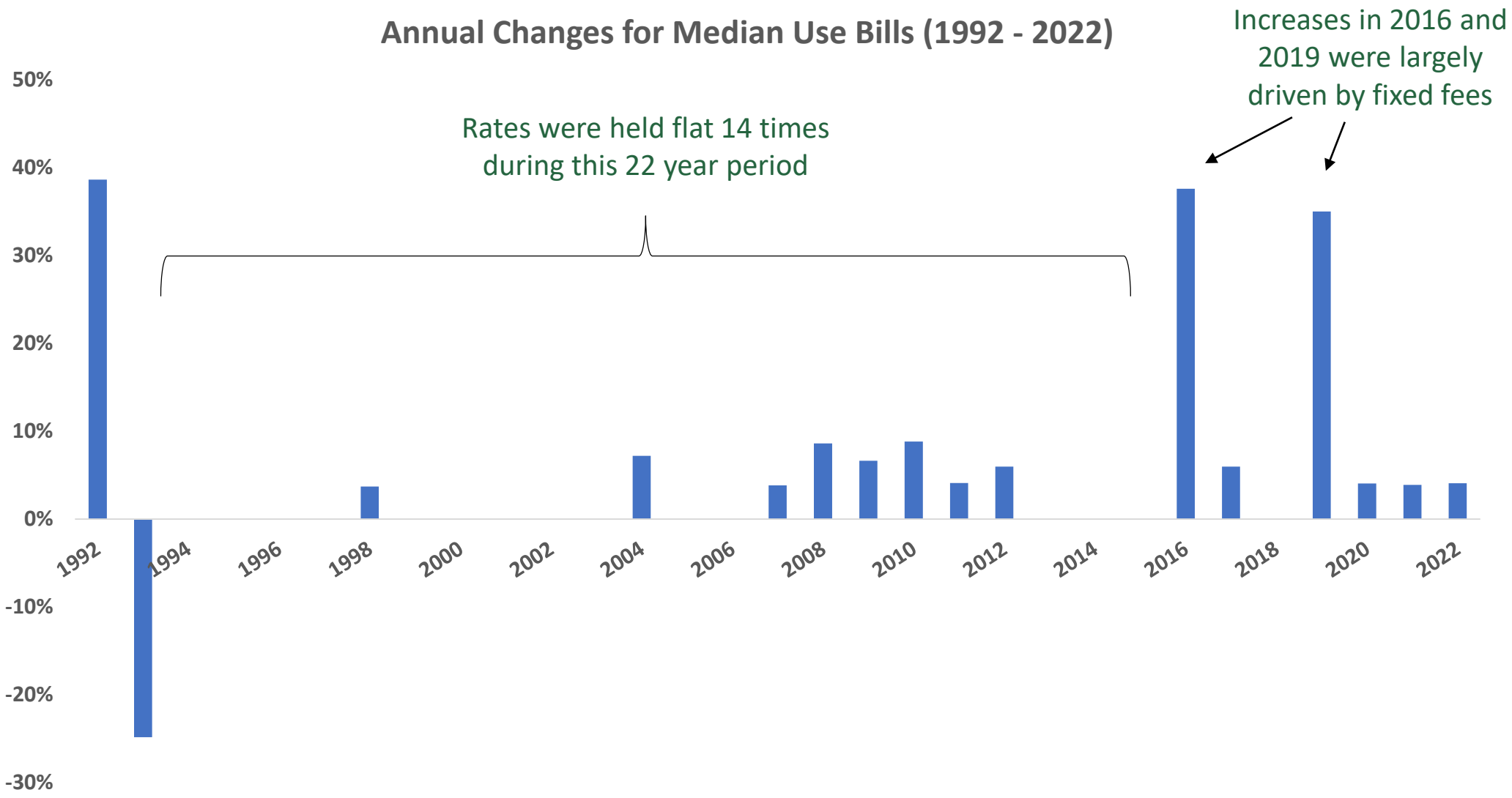


Current rate structure, preview of proposed rate plan options, and proposal impacts

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
  - **Fixed fees** - Base Water Charge, Watershed Management Fee and 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
    - Residential customers receive additional units of water in lower tiers in the summer months
- Commercial and institutional customers have a different structure
  - Tier breaks are based on percentage of baseline units used
- Affordability: Marin Water offers multiple customer discount programs

Typical Monthly Expenses for Water Service*

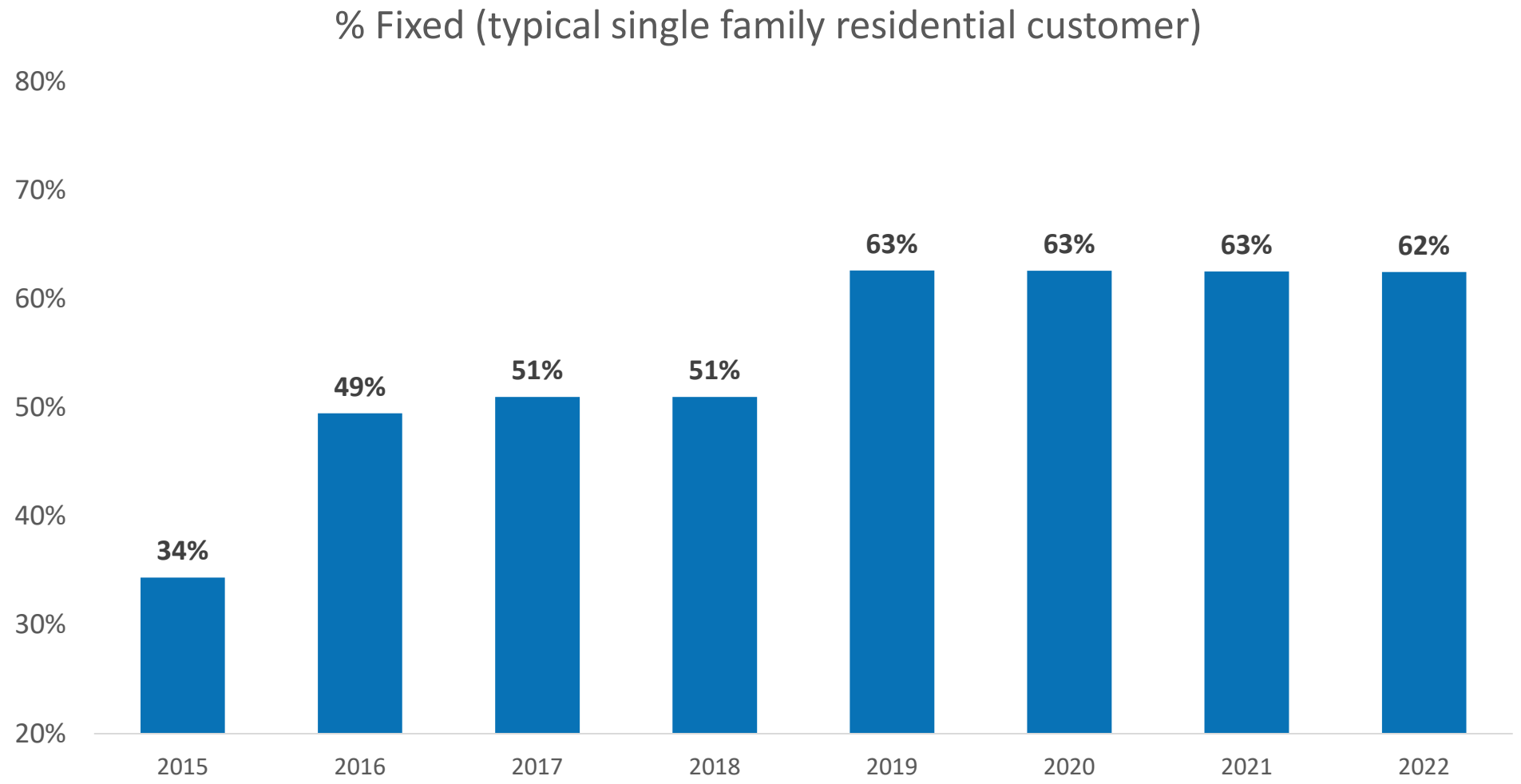
- Median Single Family Residential Customer

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**

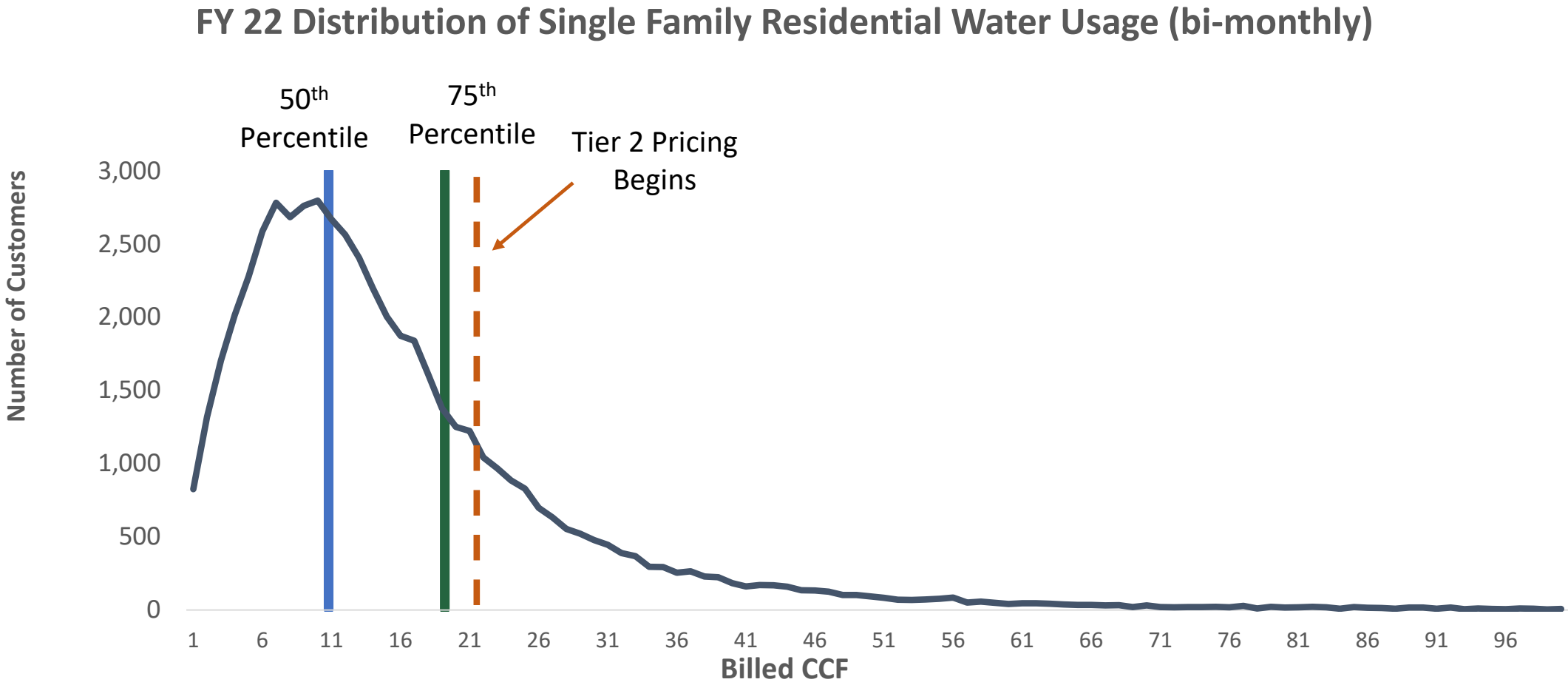
*Water bills are typically issued on a bi-monthly basis

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

Recent rate structure changes and reduced demand have resulted in increased percentage of fixed fees on most bills



Water Consumption Data



- 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

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

Opportunity to restore funding for core services

- Current rate structure does not provide sufficient funding for existing service levels
  - Demand patterns have changed: District is losing $1 million per month
  - Inflationary impacts: Maintain pace with price increases
  - Staffing and service levels: Fill vacant positions
- Restore capital improvement program
  - Infrastructure and equipment replacement
  - System improvements and efficiencies
- Financial Commitments
  - Adhere to bond covenants and debt service coverage requirements
  - Replenish discretionary reserves

Rate Structure: Revenue Requirements - Enhancements

Opportunities to strengthen the organization

- Water supply projects
  - $2 - $9 million annually for short term projects and longer term plan

- Critical infrastructure needs
  - Smith Saddle Tanks ($24M), Pine Mountain Tunnel ($25M),
  - N. Marin Line ($28M), Ross Reservoir ($15M)
  - AMI ($26M), Seismic Retrofits ($6M)

- Service level enhancements
  - Watershed protection
  - Wildfire resiliency
  - Forest and creek restoration
  - Organizational efficiencies
  - Industry best practices

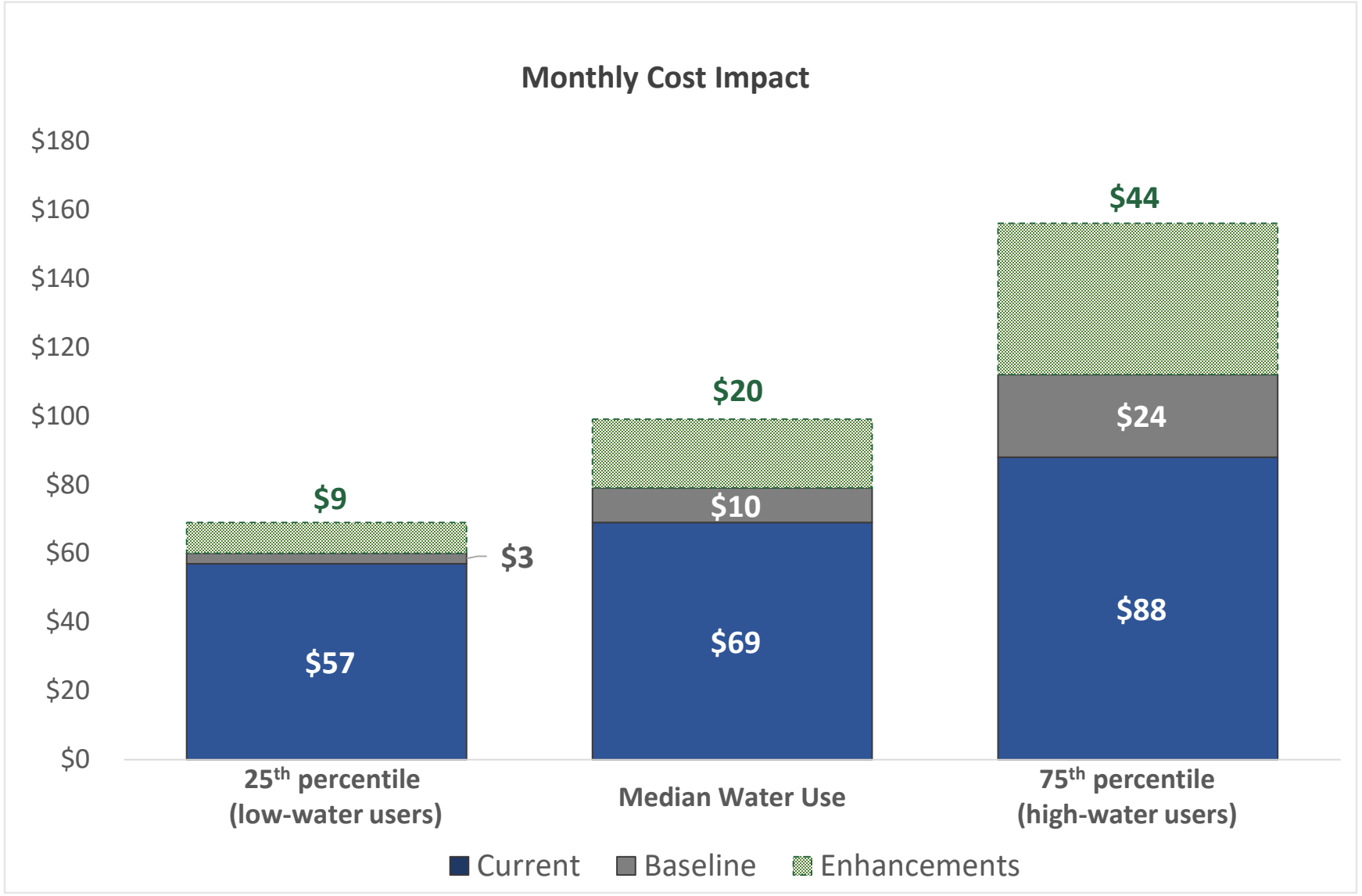
Preliminary Rate Option: Potential Range of Residential Customer Impacts

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 service levels (Baseline)

Monthly costs may increase by additional $9 to $44 to provide funding for:

- Water supply projects
- Infrastructure improvements
- Service enhancements



Affordability: Discount Programs Available to Customers

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

Medical Disability Discount

Waives certain fees, discounts additional water usage

400 currently enrolled customers

Waiver Program Based on Income

Subtracts water charges and fees from qualifying customers' bills

1,000 currently enrolled customers

Super Saver Program

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

3,000 benefitting customers

Summary of benefits and next steps

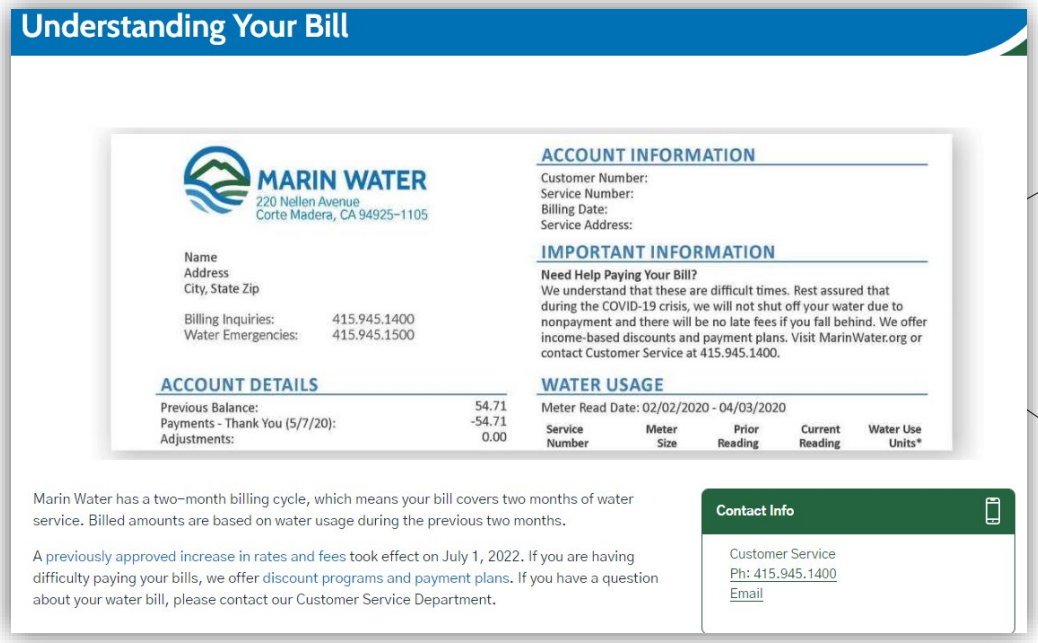
Cost of Service Analysis – Recap

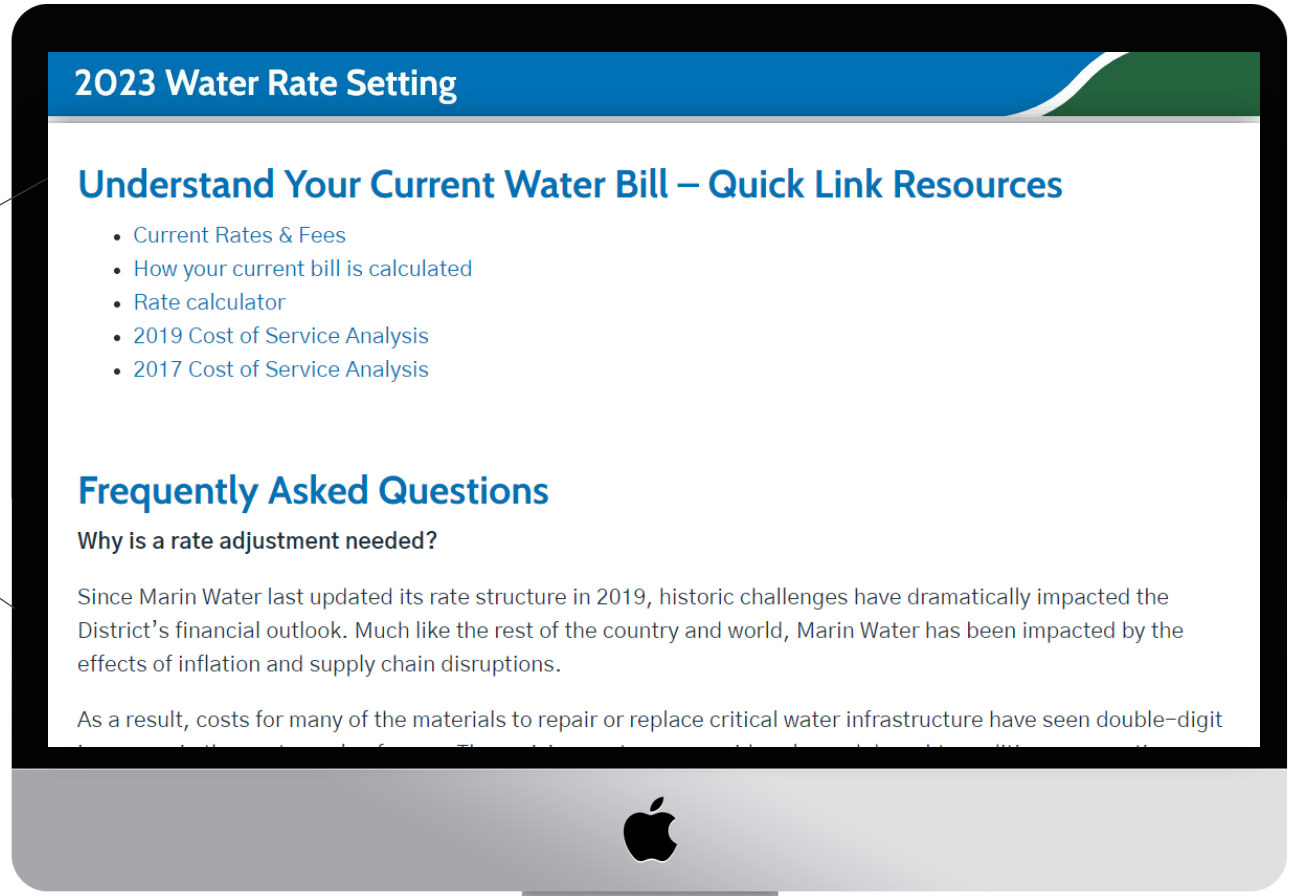
Ongoing annual operating budget shortfall of ~$30 million	• Reduced consumption • Inflationary pressures, Reserve replenishment
Water supply projects and service enhancements require additional funding	• Short term projects • Medium and long term planning
Capital investments are an increasing priority 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

Next Steps

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

Website: marinwater.org/2023RateSetting





Customer Q&A and Feedback

Instructions for indicating you have a question and/or feedback

If watching from a computer or smart device:

- Use the **raise hand**  **feature** in Zoom

If participating by phone or using a phone for your audio:

- Dial ***9** on your phone to let the Zoom host know your hand is raised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