



Rate Setting Update: Revenue Requirement

February 23, 2023

Finance and Administration
Committee



Overview

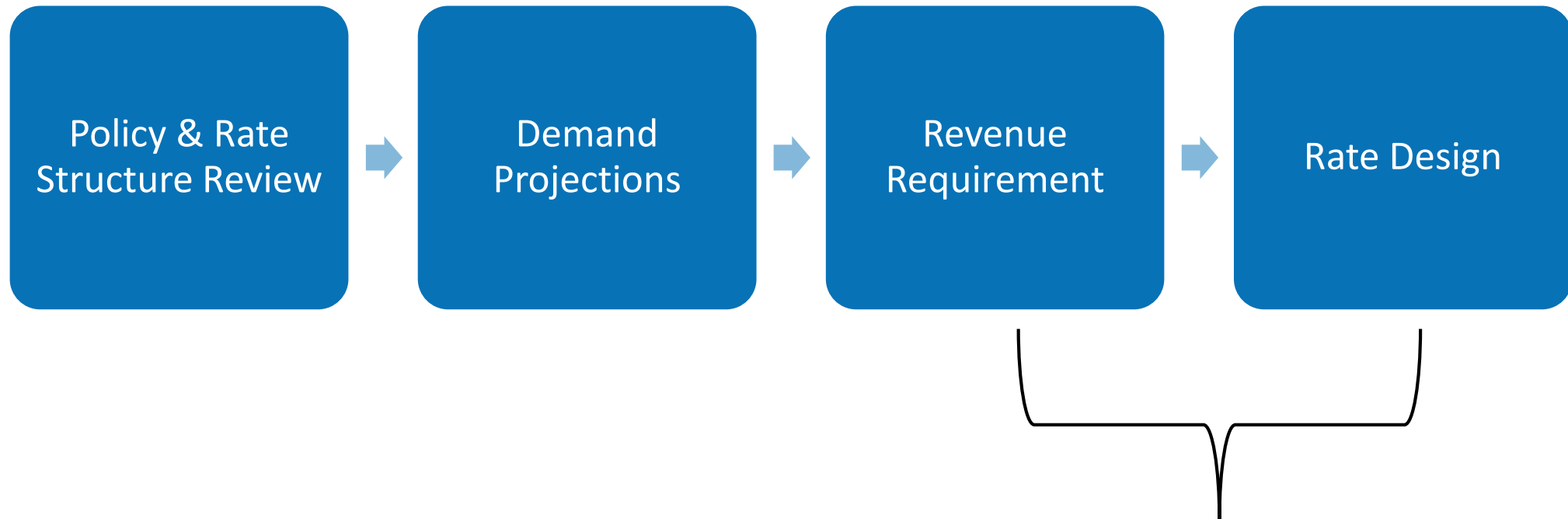
- Review of Rate Setting Process
- Revenue Requirement Scenarios
- Next Steps



Cost of Service Analysis

Determination of Revenue Requirement and Funding Priorities

Cost of Service Analysis: Step by Step Approach



We are here

Components of Revenue Requirement

- Baseline Budget: Funding for existing service levels and capital plan
 - Currently facing \$20 million shortfall due to rate design and inflationary impacts
 - Shortfall figure was revised to reflect recent consumption trends and to exclude reserve replenishment
 - Capital Improvement Plan baseline of ~\$20 million creates growing backlog
- Investments and Service Enhancements under consideration
 - Water Supply Enhancements
 - Large unfunded capital projects
 - Infrastructure backlog reduction
 - Service level enhancements in targeted areas of the organization
 - Reserve replenishment
 - Critical technology replacement

Financial Plan – Baseline Budget without rate increases

Operating and Capital Fund (\$m)	FY 2024 Plan	FY 2025 Plan	FY 2026 Plan	FY 2027 Plan
Rate Revenue	\$98.5	\$98.7	\$99.1	\$99.7
Expenditures	\$119.2	\$125.6	\$131.5	\$137.6
Operating Income (loss)	(\$20.7)	(\$26.9)	(\$32.3)	(\$37.9)

- Current rate structure produces an ongoing budgetary shortfall for existing (baseline) services
 - Due to inflation, deficit increases throughout the 4 year rate cycle
- Positive revision compared to December 2022
 - Reflects current water sales trends
 - Removes reserve replenishment from baseline

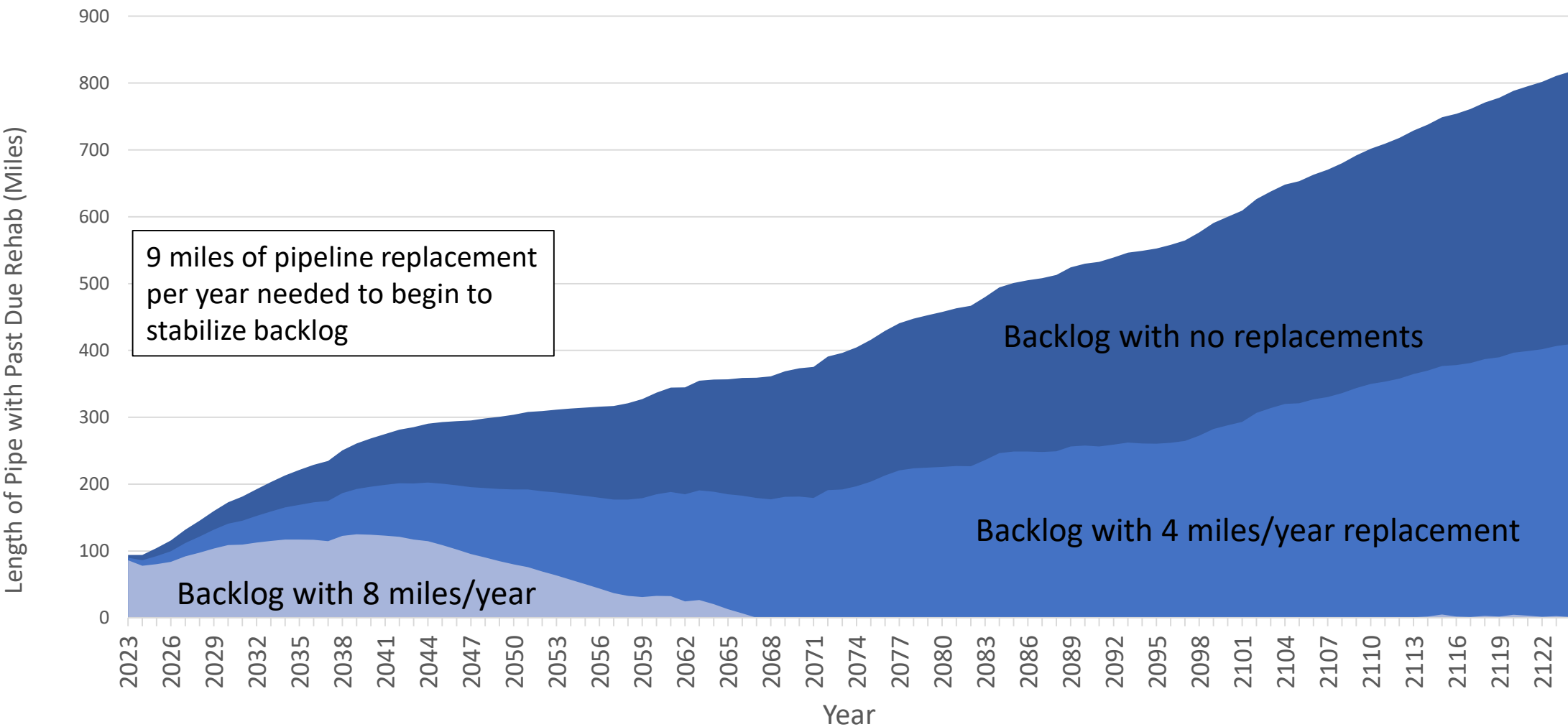
Revenue Requirement Consideration: Water Supply Enhancement

Water Supply Enhancement Expenditures (\$m)	FY 2024 Plan	FY 2025 Plan	FY 2026 Plan	FY 2027 Plan
Electrify Soulaajule	\$1.8	\$1.8	\$1.8	\$1.8
Phoenix Lake Connection	\$1.3	\$1.3	\$1.3	\$1.3
Maximize Sonoma Water	\$2.9	\$2.9	\$2.9	\$2.9
Roadmap Implementation/ Pre-Design	\$3.1	\$3.1	\$3.1	\$3.1
Water Supply Reserve	\$2.5	\$2.5	\$2.5	\$2.5
Water Supply Total	\$11.6	\$11.6	\$11.6	\$11.6

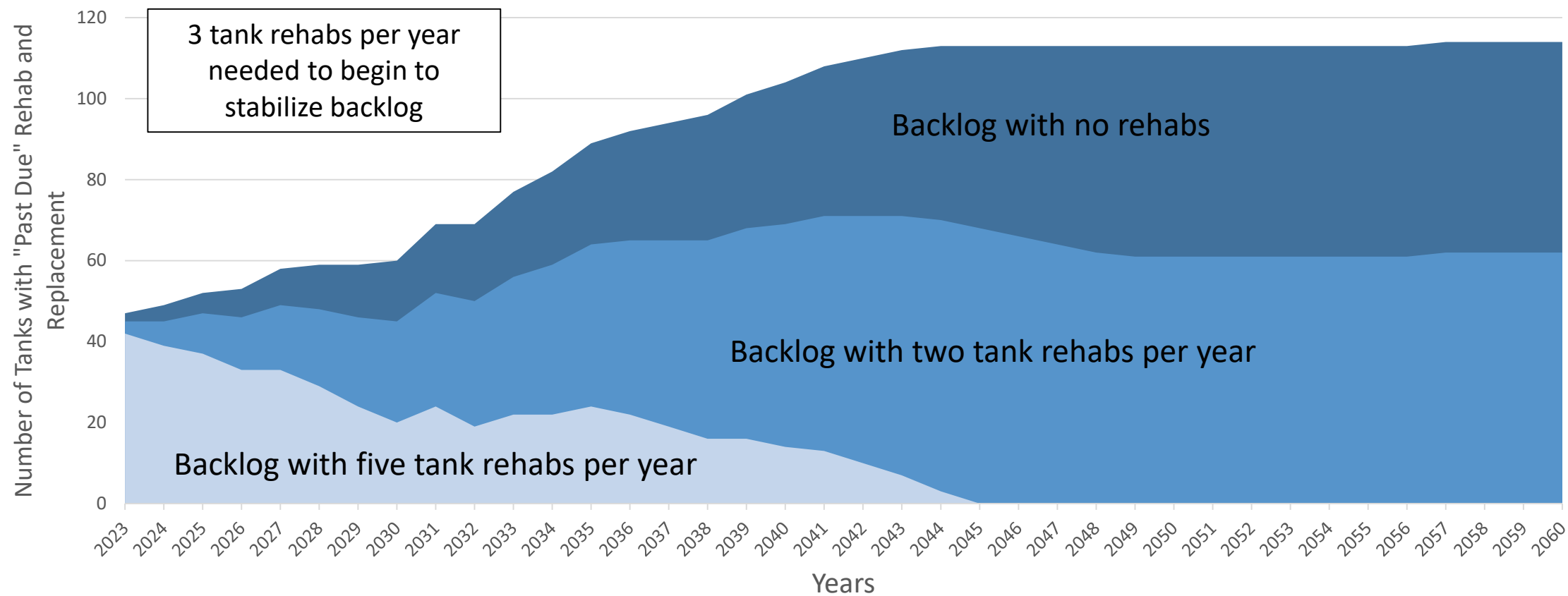
Revenue Requirement Consideration: Large Capital Projects

Debt Service for Large Capital Projects (\$m)	FY 2024 Plan	FY 2025 Plan	FY 2026 Plan	FY 2027 Plan
North Marin Line	\$2.8	\$2.8	\$2.8	\$2.8
Smith Saddle Tanks	\$2.4	\$2.4	\$2.4	\$2.4
Ross Reservoir	\$1.5	\$1.5	\$1.5	\$1.5
Clarifier Seismic Retrofit	\$2.1	\$2.1	\$2.1	\$2.1
Large Capital Projects Total	\$8.8	\$8.8	\$8.8	\$8.8

Miles of Pipe “Past Due” for Replacement at different Rehab or Replacement Rates

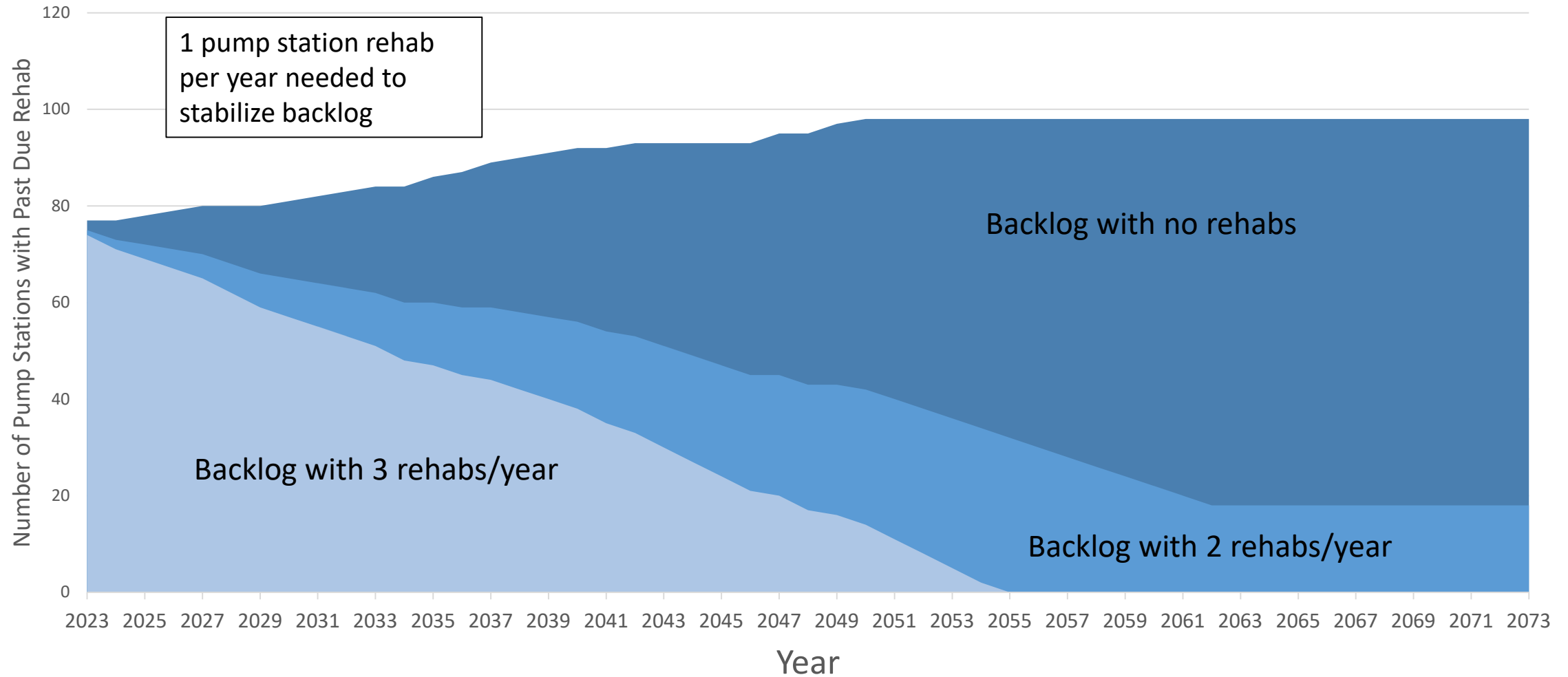


Effect of Rehab Rate on Backlog of “Past Due” Tank Rehabs



Includes major tanks only (114); final version will account for all 128 tanks, and will exclude any that can be eliminated via consolidation

Effect of Rehab Rate on Backlog of “Past Due” Distribution Pump Station Rehabs



Infrastructure backlog summary

- Current capital funding level adds to infrastructure rehabilitation backlog
- Approximately \$30 million is needed annually to stabilize the deferred maintenance backlog of pipes, tanks and pumps
- Additional funding would be required to reduce the existing backlog

	Current Rate (Annual)	Current Funding (Annual)	Full Stabilization Rate (Annual)	Full Stabilization Amount (Annual)	Unfunded Amount (Annual)	Note
Pipes	4 miles	\$8m*	9 miles	\$18m	\$10m	Cast-iron pipe from 1950's and 1960's is nearing end of life
Tanks	1-2 tanks	\$5.5m	3 tanks	\$11m	\$5.5m	Variance is due to size, material and condition of tanks
Pump Stations	1 project	\$1.4m	1 project	\$1.4m	\$0.0m	No additional funds are needed
Total		\$14.9m		\$30.4m	\$15.5m	

*Pipeline funding includes Fire Flow fee revenues

Infrastructure backlog summary (continued)

- Other asset classes require approximately \$17 million per year to keep pace with replacement schedules

	Current Funding (Annual)	Full Backlog Stabilization (Annual)	Unfunded Stabilization (Annual)	Note
Capital Equipment	\$1.3m	\$3.0m	\$1.7m	Vehicles, heavy equipment, firefighting apparatus, lab equipment, survey and telemetry
Treatment Plants	\$1.1m	\$3.5m	\$2.4m	Fire resiliency, roof replacement, electrical upgrades, process improvements
Watershed	\$3.3m	\$6.0m	\$2.7m	Fire & fuels management (BFFIP), spillway, actuator valves, retaining walls, culverts
Facilities	\$2.8m	\$4.5m	\$1.7m	Admin, Corp Yard and Sky Oaks: Roof & carpet replacement, EOC Upgrade, A/V improvements, ADA, phones, computers
Total	\$8.5m	\$17.0m	\$8.5m	

Revenue Requirement Consideration: Infrastructure Backlog

Backlog Stabilization for Existing Infrastructure (\$m)	FY 2024 Plan	FY 2025 Plan	FY 2026 Plan	FY 2027 Plan
Pipes	\$9.9	\$9.9	\$9.9	\$9.9
Tanks	\$5.5	\$5.5	\$5.5	\$5.5
Capital Equipment	\$1.7	\$1.7	\$1.7	\$1.7
Treatment Plants	\$2.4	\$2.4	\$2.4	\$2.4
Watershed	\$2.7	\$2.7	\$2.7	\$2.7
Facilities	\$1.7	\$1.7	\$1.7	\$1.7
Infrastructure Backlog Total	\$23.9	\$23.9	\$23.9	\$23.9

Revenue Requirement Consideration: Service Level Enhancements

Enhance services in targeted areas of the organization	FY 2024 Plan	FY 2025 Plan	FY 2026 Plan	FY 2027 Plan
Ranger Trainee	\$123,250	\$129,413	\$135,883	\$142,677
Training and Development Manager	\$217,500	\$228,375	\$239,794	\$251,783
Valve Exerciser Crew	\$483,500	\$350,175	\$367,684	\$386,068
Risk Manager	\$217,500	\$228,375	\$239,794	\$251,783
Watershed Management (BFFIP)	\$500,000	\$500,000	\$500,000	\$500,000
Service Enhancement Total	\$1,541,750	\$1,436,338	\$1,483,154	\$1,532,312

Revenue Requirement Consideration: Reserve Replenishment and Critical System Projects

Reserves and Critical Systems (\$m)	FY 2024 Plan	FY 2025 Plan	FY 2026 Plan	FY 2027 Plan
Minimum Debt Service Coverage	\$2.5	\$2.5	\$2.5	\$2.5
4 year reserve replenishment	\$2.5	\$2.5	\$2.5	\$2.5
SAP Replacement	\$0.5	\$3.5	\$3.5	\$0.7
AMI (RFP and Selection)	\$0.0	\$0.0	\$0.0	\$2.5
Reserves and Critical Systems	\$5.5	\$8.5	\$8.5	\$8.2

Financial Plan – Baseline Budget + Enhancements

Operating and Capital Fund (\$m)	FY 2024 Plan	FY 2025 Plan	FY 2026 Plan	FY 2027 Plan
Baseline operating shortfall	\$20.7	\$26.9	\$32.3	\$37.9
Water Supply	\$11.6	\$11.6	\$11.6	\$11.6
Large Infrastructure	\$8.8	\$8.8	\$8.8	\$8.8
Deferred Backlog	\$23.9	\$23.9	\$23.9	\$23.9
Service Enhancements	\$1.5	\$1.4	\$1.5	\$1.5
Reserves and Systems	\$5.5	\$8.5	\$8.5	\$8.2
Total Revenue Requirement	\$72.0	\$81.1	\$86.5	\$91.9
<i>Annual % change</i>	<i>73%</i>	<i>5%</i>	<i>3%</i>	<i>3%</i>



Revenue Requirement: Alternative Funding Scenarios and Customer Bill Impacts

Scenario #1: Core Baseline

	<u>FY 24</u>	<u>FY 25</u>	<u>FY 26</u>	<u>FY 27</u>
Baseline Shortfall	20.7	26.9	32.3	37.9
Reserve Replenishment	2.5	2.5	2.5	2.5
Total	23.2	29.4	34.8	40.4
<i>% change from prior year</i>	<i>24%</i>	<i>5%</i>	<i>4%</i>	<i>4%</i>
Approximate Bill Impacts				
<i>Low Water Use (25%)</i>	<i>11%</i>	<i>4%</i>	<i>3%</i>	<i>3%</i>
<i>Median Water Use (50%)</i>	<i>18%</i>	<i>5%</i>	<i>4%</i>	<i>4%</i>
<i>High Water Use (75%)</i>	<i>33%</i>	<i>9%</i>	<i>7%</i>	<i>7%</i>

Scenario #2: Core Baseline + Water Supply and 1 Enhancement

	<u>FY 24</u>	<u>FY 25</u>	<u>FY 26</u>	<u>FY 27</u>	
Baseline Shortfall	20.7	26.9	32.3	37.9	
Reserve Replenishment	2.5	2.5	2.5	2.5	
All Water Supply Projects	9.1	9.1	9.1	9.1	←
Service Enhancement - BFFIP	0.5	0.5	0.5	0.5	←
Total	32.8	39.0	44.4	50.0	
<i>% change from prior year</i>	<i>33%</i>	<i>5%</i>	<i>4%</i>	<i>4%</i>	
Approximate Bill Impacts					
<i>Low Water Use (25%)</i>	<i>15%</i>	<i>4%</i>	<i>3%</i>	<i>3%</i>	
<i>Median Water Use (50%)</i>	<i>26%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>	
<i>High Water Use (75%)</i>	<i>45%</i>	<i>8%</i>	<i>7%</i>	<i>7%</i>	

Scenario #3: Core Baseline + All Water Supply +50% CIP +50% Backlog + 3 Enhancements + SAP

*Staff Recommendation

	<u>FY 24</u>	<u>FY 25</u>	<u>FY 26</u>	<u>FY 27</u>	
Baseline Shortfall	20.7	26.9	32.3	37.9	
Reserve Replenishment	2.5	2.5	2.5	2.5	
All Water Supply Projects	4.0	9.1	9.1	9.1	
Water Supply Reserve	2.5	2.5	2.5	2.5	←
2 Large CIP (year 3)	-	-	5.2	5.2	←
Scaled up backlog (50%)	3.0	6.0	9.0	12.0	←
Service Enhancement - BFFIP	0.5	0.5	0.5	0.5	
Service Enhancement - Ranger and Training Mgr.	0.4	0.4	0.4	0.4	←
SAP Replacement	0.5	3.5	3.5	0.7	←
Total	34.1	51.4	65.0	70.8	
<i>% change from prior year</i>	<i>35%</i>	<i>13%</i>	<i>9%</i>	<i>4%</i>	
Approximate Bill Impacts					
<i>Low Water Use (25%)</i>	<i>16%</i>	<i>10%</i>	<i>7%</i>	<i>3%</i>	
<i>Median Water Use (50%)</i>	<i>27%</i>	<i>12%</i>	<i>9%</i>	<i>3%</i>	
<i>High Water Use (75%)</i>	<i>46%</i>	<i>22%</i>	<i>15%</i>	<i>6%</i>	

Scenario #4: Full Funding for District Needs

	<u>FY 24</u>	<u>FY 25</u>	<u>FY 26</u>	<u>FY 27</u>	
Baseline Shortfall	20.7	26.9	32.3	37.9	
Reserve Replenishment	2.5	2.5	2.5	2.5	
All Water Supply Projects	9.1	9.1	9.1	9.1	
Water Supply Reserve	2.5	2.5	2.5	2.5	
4 Large CIP (year 3)	-	-	8.8	8.8	←
Scaled up backlog (100%)	6.0	12.0	18.0	24.0	←
SAP Replacement	0.5	3.5	3.5	0.7	
All Service Enhancements	1.5	1.4	1.5	1.5	←
AMI (RFP and Selection)	-	-	-	2.5	←
Add'l Reserve Replenishment	2.5	2.5	2.5	2.5	←
Total	45.3	60.4	80.7	92.0	
<i>% change from prior year</i>	<i>46%</i>	<i>11%</i>	<i>13%</i>	<i>6%</i>	
Approximate Bill Impacts					
<i>Low Water Use (25%)</i>	<i>21%</i>	<i>8%</i>	<i>10%</i>	<i>5%</i>	
<i>Median Water Use (50%)</i>	<i>35%</i>	<i>10%</i>	<i>12%</i>	<i>6%</i>	
<i>High Water Use (75%)</i>	<i>58%</i>	<i>18%</i>	<i>22%</i>	<i>11%</i>	

Recap and Next Steps

- Revenue requirement is a fundamental step in the Cost of Service Analysis
- Marin Water is considering 4 scenarios
 - Staff recommends Scenario 3 to address top District priorities
 - Water Supply Enhancement
 - Reserve Replenishment
 - Large CIP projects in FY 26
 - Scaled up funding to address the infrastructure backlog
 - Targeted service enhancements
 - Critical technology replacement project (SAP)
- Final rate impacts will be determined as part of the Cost of Service Analysis
 - Reflected in Proposition 218 notices this Spring
 - Public Hearing planned for May 2023