

**NORTH MARIN WATER DISTRICT
MINUTES OF SPECIAL MEETING
OF THE BOARD OF DIRECTORS
February 25, 2020**

CALL TO ORDER

President Joly called the special meeting of the Board of Directors of North Marin Water District to order at 6:00 p.m. at the District Headquarters and the agenda was accepted as presented. Present were Directors Jack Baker, Rick Fraites, James Grossi, Michael Joly and Director Petterle. Also present were General Manager Drew McIntyre, District Secretary Terrie Kehoe, and Auditor-Controller Julie Blue.

In the audience were Mark Hildebrand from Hildebrand Consulting, District Legal Counsel Carl Nelson, Novato resident Judy Holland, Will Houston from the Marin IJ and Gino Gerard Thomas from Novato Community Television.

OPEN TIME

President Joly asked if anyone in the audience wished to bring up an item not on the agenda and there was no response.

NOVATO WATER RATE STUDY WORKSHOP

Director Joly introduced the General Manger, Drew McIntyre to briefly summarize the process for the rate study. Mr. McIntyre reminded the Board that about a year ago the District entered into an agreement with Hildebrand Consulting to do a comprehensive water rate study. Mr. McIntyre noted that the Novato Water Rate Study is being performed to ensure that our rate structure continues to generate revenue from each class of customer in proportion to the cost to serve each customer. He reminded the Board that the completed study will again be presented as part of the March 3rd regular meeting at which time the Board will consider taking action to accept the draft study report and direct staff to prepare a Proposition 218 Notice of Public Hearing scheduled for the June 16 regular board meeting.

Mr. McIntyre announced that we are again videotaping tonight's workshop and it will be posted on our website for those who cannot attend. He thanked Mr. Gerard and other supporting members from Novato Community Television for doing a great job on the first video. Mr. McIntyre introduced District Legal Counsel, Carl Nelson. Mr. McIntyre reviewed the public outreach to date, which included a notice in last fall's waterline newsletter that was mailed to all our customers, special website page posting beginning in November 2019 and messaging on all water bills during December 2019 and January 2020. In addition, and ad was placed in the Marin IJ and there have

been two newspaper articles. Mr. McIntyre also noted that an email notice about the workshop was sent to ~8,000 customers and 3,330 customers clicked on an embedded link to gain access to our Water Rate Study website page. Mr. McIntyre also noted that a water cost calculator on the website allows customers to calculate what an individual customer's bill would look like under the proposed rate changes.

Mr. McIntyre stated that it is appropriate to talk about what the District is doing to control costs. He noted that we have reduced staffing from 58 to 54 employees over the last decade. He added that this has occurred even though we have undergone a major recycled water expansion in cooperation with Novato and Las Gallinas Valley Sanitary Districts where NMWD has added 17 miles of new recycled water pipelines, 2 storage tanks, and have gone from 2 to 90 recycled water customers. He added that recycled water supply now represents close to one third of our Stafford Treatment Plant production capacity during summer month operation.

Mr. McIntyre added that the District has upsized five miles, or 70% of our North Marin aqueduct with over 80% of the total project cost funded by Caltrans and Marin Municipal Water District. He added this this upsizing project has eliminated the need to use the 400 HP Kastania Pump Station. Mr. McIntyre also noted that the District has been successful in receiving numerous Federal and State grants and low interest rate loans for various capital improvement projects. Mr. McIntyre also touched upon pension costs stating that data from the 2017 Marin County Grand Jury report identified that NMWD's pension costs were 39% below the average of all public agencies and 20% below the average of utility districts.

Mr. McIntyre stated the rate study presentation will illustrate the drivers that are necessitating the reasons for the proposed revenue increase and rate structure changes. He then introduced Mark Hildebrand from Hildebrand Consulting to provide his presentation.

Mr. Hildebrand gave a presentation for the draft 2020 Novato and Recycled Water Rate Study. The presentation led into a discussion that included the rate setting process, rate study framework, enterprise fund revenue/expenses, capital spending and reserves, financial forecast and rate structure design.

At the conclusion of the presentation President Joly asked if there were any questions from the Board, or members of the public, noting there will also be other opportunities to solicit input.

Mr. Hildebrand pointed out a correction in some of the high use numbers on Slide 31. Director Baker asked how that was discovered. Ms. Blue stated that she discovered the error when she compared the online water cost calculator with the proposed rate. Mr. Hildebrand added that this did not affect the overall analysis, only that one table. Director Joly asked how the bills will be

impacted and if the new graphic will be on the webpage. Ms. Blue replied that the revised copy was put on the webpage as soon as it was discovered.

Director Joly stated that he looked at his individual account on the water cost calculator and noted that his account was impacted more than the proposed 6%, and asked if the first year will have the largest increase and then get less after that. Mr. Hildebrand replied that the bill calculator is only for a one-year period. He added only in the first year will the percentage of increase fluctuate and that is due to the initial structural rate changes. Director Joly asked if Proposition 218 is requiring us to change our rate structure based on water supply rather than customer behavior. He inquired if some customers will be greatly impacted based on their usage history and if we might be able to talk to those customers in advance. Mr. McIntyre responded that our extensive outreach effort is designed to encourage customers to use the District's online water cost calculator as the best way to see how each account is impacted by the proposed rate changes. He added that Novato Unified School District water costs could go up about 8% in the first year, and City of Novato water costs may go up 9% in the first year. He added, however, that these projected cost increases do not take into account that both NUSD and the City have had many meters converted at no cost over the last three to five years from potable water to lower cost recycled water resulting in a savings of up to 7- 8%.

Director Fraites asked what logic was used on the tier allocation and why are they proposing to shrink the range. Mr. Hildebrand replied that a common way rates were set in the past was based on customer behavior. He added the current 262 gallons per day in tier one is a direct result of selling 74% of water in that tier which is the percentage of water we purchase from Sonoma County Water Agency. Mr. Hildebrand added a vast number of customers will still stay in tier one. Mr. Hildebrand stated that it is true that some customers will go to higher tiers faster, however the higher tier costs are less expensive than before. He explained the rates are not set on District policy, and not by public water use behavior, rather, it is based on what water supply we use. He added that the tier one rate is based on the 74% water supply we purchase from Sonoma County Water Agency, tiers two and three reflect Stafford Treatment Plant water which provides additional supply along with water conservation costs. Director Joly asked if we have any provisions that we will be putting in effect so that people who are on a fixed income and are deeply challenged have access to some available funds to help them. Ms. Blue replied that she is working on a low-income rate assistance program which she will bring to the Board at the next meeting and if approved, will be effective on July 1st as a flat rate fixed component to help those in financial need. Mr. Hildebrand noted that the affordability program is also mentioned in the rate study.

Director Baker noted that Novato Unified School District has always struggled to keep track of their use, and they receive public pressure to keep the fields green which is good for business but not good for their budget. Director Baker stated that earlier we mentioned something about changing meters for them, and wondered if there are other possibilities to look at to provide changes in regards to irrigation. Mr. McIntyre responded that we continue to offer rebate programs that NUSD has used in the past to reduce overall water use. Director Baker asked about Indian Valley College, noting they are doing many changes now with new buildings, upgrading and not much landscaping which gives us a sense that they are taking this in account. Mr. McIntyre confirmed that they currently have many renovation projects underway and that all the new buildings will be equipped with much more efficient plumbing fixtures. Director Baker noted that it does not seem like there will be extensive landscape with the new projects. Director Grossi confirmed that there's very little outside landscape irrigation at the college site. Director Baker stated he remembered that NUSD had one school that used recycled water. Mr. McIntyre replied that Olive, Lynwood and both Hamilton Schools have been converted to recycled water for outside turf irrigation.

Director Joly added that recycled water is a third component of our supply, and asked what is the percentage of basis for this supply. Mr. McIntyre replied annually it is 7% of our supply, and peaks to about 12% or more in the summer months. He also noted we now have three automatic car washes that use recycled water year around.

Director Grossi commented that we will have to decide on whether to move forward with a one year or multiple year rate increase and how comfortable are we with the forecast period. Mr. Hildebrand replied that the standard rate study is typically up to five years, adding that you really don't know what inflation will do and the capital spending program can change so it is not advisable to forecast beyond the five-year window. He added some agencies do rate increase one year at a time; but it depends on the agency and their comfort level. Mr. McIntyre reminded the Board that a week from tonight this will come back as an action item to accept the report and give direction to staff. Mr. McIntyre noted that historically we have brought a five-year financial plan to the board each spring and the Board has typically directed staff to move forward with Prop 218 noticing for the first year. Director Joly asked what the SCWA wholesale cost is projected to be. Ms. Blue replied that it is projected to be 6.79%. Director Joly asked for how long. Ms. Blue responded for only one year, usually the increase is 4-6% and they were projecting 7%, but went slightly below after having budget review meetings. Mr. Hildebrand stated that we don't have a crystal ball so we used 6% based on the SCWA original estimate noting not every projected number will be correct, and in the end, it won't affect the results.

Director Joly asked about the building renovation, noting the Administration building is fifty-five years old and the project is not a tear down, but a rebuild. He noted the current interest rates are low and Ms. Blue will soon begin looking at financing for the project. Director Joly asked what is the sensitivity of the building with respect to percentage rate increases over the proposed period with a project cost of \$16-18M. Mr. Hildebrand replied that it is about 1% per year over the next five years. Director Joly asked what is the life cycle depreciation for the building. Mr. McIntyre replied around forty to fifty years. Director Joly commented that the building is already depreciated beyond its useful life and we need to provide a safe place for our staff and customers. Director Fraites also noted that we will double the size of the lab which is greatly needed. Mr. McIntyre added that the building renovation project also includes permanent standby power to ensure reliable 24/7 operation and upgrades to ensure ADA compliance for both our customers and staff. Director Grossi asked if the rate study factors in costs for all phases of the project. Mr. McIntyre replied the rate study includes costs for Phase 1 and Phase 2 of the renovation.

Director Grossi also asked how we will factor in the West Marin fees, since the costs are all different and not in this study. Ms. Blue replied that we are currently looking into costs to perform a West Marin Water Rate Study next fiscal year.

Ms. Holland from the audience stated that the consultant did a great job explaining the study; however, she was unclear about what he meant by availability of water. She noted that she is a single person, she understands the change cost basis and that we are mandated to do so, but what constitutes the availability of water. Mr. Hildebrand replied it is based on the District use of water purchased from SCWA and how much treated water from Stafford Lake is used as a source of supply. He added the legal requirement with Proposition 218 is that the District must charge the customer for water served based on the cost for providing that water, and this is what should be reflected in the rates. Ms. Holland asked if the mandated cost is based on a single family. Director Joly asked if she has had a chance to review the water cost calculator available on our website. Ms. Holland replied not yet, but wanted to come to the meeting to get a better understanding. Director Joly asked Mr. Nelson if he could help address the question as it relates to Proposition 218. Mr. Nelson replied that in the past the State of California encouraged conservation through use of tier rates and a court decision came out that this is allowed only if the tier rates are directly associated with the cost to provide service for each tier. Mr. McIntyre commented that Ms. Holland is more than welcome to come in during normal office hours and we would be happy to work with her to see what her projected water bill impacts will be. Ms. Holland stated that she is new to all of this and coming to the meeting helped her to understand the proposed rates and structure and she enjoyed listening to the presentation.

Director Joly summarized the workshop stating this was the second workshop and the first workshop was on February 11th. He added an article was in the Marin IJ on February 17th, and on our website, there is a water cost calculator, a seventy-one-page rate study and in addition staff has made various social media outreach efforts. Director Joly noted we will have a regular Board Meeting on March 3rd and that is when the Board can opt to accept the report and provide direction to staff on Prop 218 noticing to our customers. Additionally, after the Board gathers all the customer feedback during the Prop 218 notice period, on June 16th the Board will take action as part of a Public Hearing. Director Joly thanked everyone and stated that it is important to the Board to be transparent as possible throughout this process.

ADJOURNMENT

President Joly adjourned the meeting at 7:40 p.m.

Submitted by

A handwritten signature in cursive script that reads "Theresa Kehoe".

Theresa Kehoe
District Secretary