



NORTH MARIN WATER DISTRICT
AGENDA – SPECIAL MEETING
March 13, 2024 – 4:00 p.m.
District Headquarters
Location: 100 Wood Hollow Dr., Suite 150
Novato, California

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Item	Subject
	CALL TO ORDER
1.	<i>OPEN TIME: (Please observe a three-minute time limit)</i> This section of the agenda is provided so that the public may express comments on any issues not listed on the agenda that are of interest to the public and within the jurisdiction of the North Marin Water District. When comments are made about matters not on the agenda, Board members can ask questions for clarification, respond to statements or questions from members of the public, refer a matter to staff, or direct staff to place a matter of business on a future agenda. The public may also express comments on agenda items at the time of Board consideration. PUBLIC WORKSHOP
2.	Draft 2024 Novato and Recycled Water Rate Study
3.	ADJOURNMENT



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**MEMORANDUM**

To: Board of Directors

March 13, 2024

From: Tony Williams, General Manager 
Julie Blue, Auditor-Controller 

Subj: Draft 2024 Novato and Recycled Water Rate Study

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RECOMMENDED ACTION: Information Only**FINANCIAL IMPACT:** None at this time

This memo is presented to the Board and public as an introduction to the 2024 Novato and Recycled Water Rate Study workshop. This workshop is for discussion purposes only and no action will be taken by the Board.

Background

At the October 17, 2023 meeting, the Board approved an agreement with Hildebrand Consulting to prepare a comprehensive Water Rate Study. Hildebrand Consulting has provided water rate setting and related services to public agencies throughout California. Mark Hildebrand, the sole proprietor of Hildebrand Consulting, most recently provided professional expertise for the District's Facility Reserve Charge Study (2022) and Drought Surcharge Review (2022), and previously provided water rate studies for the Novato Water (2020), Recycled Water (2020), and West Marin Water (2021) Service Areas. Throughout each study he communicated clearly with Staff, the Board, and members of the public and provided thorough and substantive reports.

The objective of the Water Rate Study is to develop water rates that are fair and equitable and to ensure that the District's water rates comply with California Constitution Article XIII D, Section 6 (commonly referred to as Proposition 218). In order to maintain compliance, the rate structure should generate revenue from each class of customers in proportion to the cost to serve each customer. In light of the recent variability of the purchased water costs, the Water Rate Study considers a mechanism whereby the District will be authorized to pass-through the costs associated with increases in the cost of Sonoma County Water Agency (Sonoma Water) wholesale water rate.

Workshop Activities and Upcoming Schedule

Mark Hildebrand will give a presentation to lead the discussion including: the rate setting process, rate study framework, enterprise fund revenue/expenses, capital spending and reserves,

financial forecast and rate structure design. Following the presentation, questions and comments are welcome from the Board and members of the public. Subsequently, the 2024 Novato and Recycled Water Rate Study will be presented to the Board on April 2, 2024 at a public meeting. At that time, the Board will consider accepting the 2024 Novato and Recycled Water Rate Study, directing staff to draft a three-year Proposition 218 notice, and approving a pass-through charge for Sonoma Water costs.

Below is a summarized schedule of current and upcoming rate study events:

- **March 13, 2024** Special Board Meeting Rate Study workshop (Board & Public)
- **April 2, 2024** Regular Board Meeting-Rate Study Presentation & Acceptance of Draft
- **June 18, 2024** Public hearing to adopt a Resolution to enact new water rates

ATTACHMENTS:

1. 2024 Novato and Recycled Water Rate Study Presentation, March 13, 2024



Novato and Recycled Water Rate Study

Presentation of Preliminary Findings

North Marin Water District

March 13, 2024



Agenda

1. Rate studies overview & scope
2. Review financial plans
 - Novato Enterprise (potable)
 - Recycled Water Enterprise
3. Rate design & structure
4. Project schedule

The Rate Setting Process

Revenue Requirements

Compares the revenues of the utility to its expenses to determine the overall level of rate adjustment



Cost-of-Service

Equitably allocates costs by customer classes (business, low water user, high water user, etc.) in proportion to the costs each class of customers places on the system to meet their needs



Rate Design

Design rates for each class of service to meet the revenue needs of the utility, along with any other rate design goals and objectives

Novato Potable Water Financial Plan

Novato Enterprise Cash Reserves

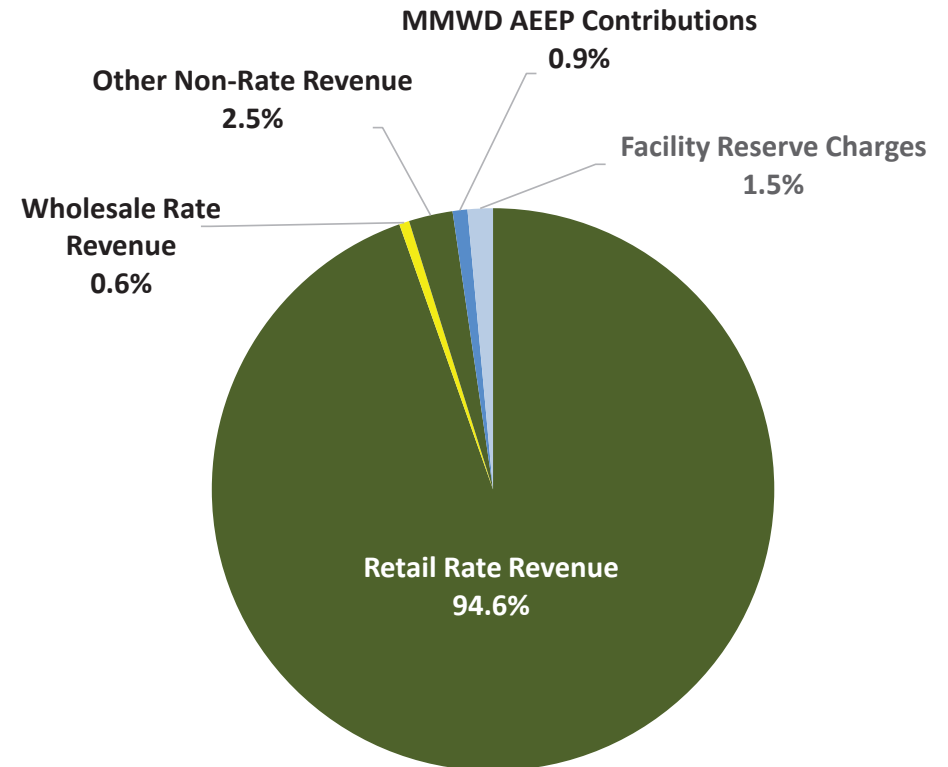
Beginning FY 2023/24

Cash	\$2,102,000
Operating Reserve Fund	\$5,780,000
Maintenance Accrual Fund	\$4,000,000
Liability Contingency Reserve	\$1,606,000
Worker's Compensation Fund	\$19,000
Retiree Medical Benefits Fund	\$4,344,000
Webster Bank-Admin Bldg/CIP Fund	\$10,481,000
Total Unrestricted:	\$28,332,000
 Restricted:	 \$1,341,000
Total Reserves:	\$29,673,000
 Long-term Receivable from other funds:	 \$7,126,000

Novato Enterprise Revenue

FY2023/24 Budget

Retail Rate Revenue	\$22,802,000 *
Wholesale Rate Revenue	\$140,000
Non-Rate Revenue	
Interest Earnings	\$201,000
Facility Reserve Charges	\$350,000
Operating Revenue	\$102,000
Other Charges	\$269,000
Miscellaneous	\$36,000
MMWD AEEP Contributions	\$205,000
Total:	\$24,105,000

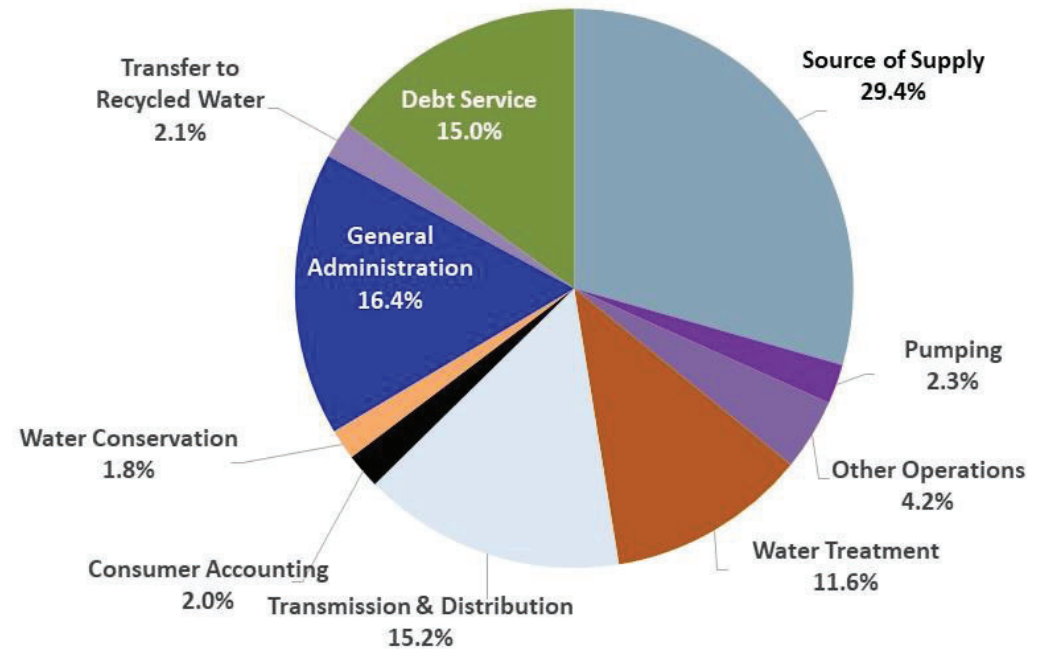


* 2.0 billion gallons sold. Price per gallon = \$0.011

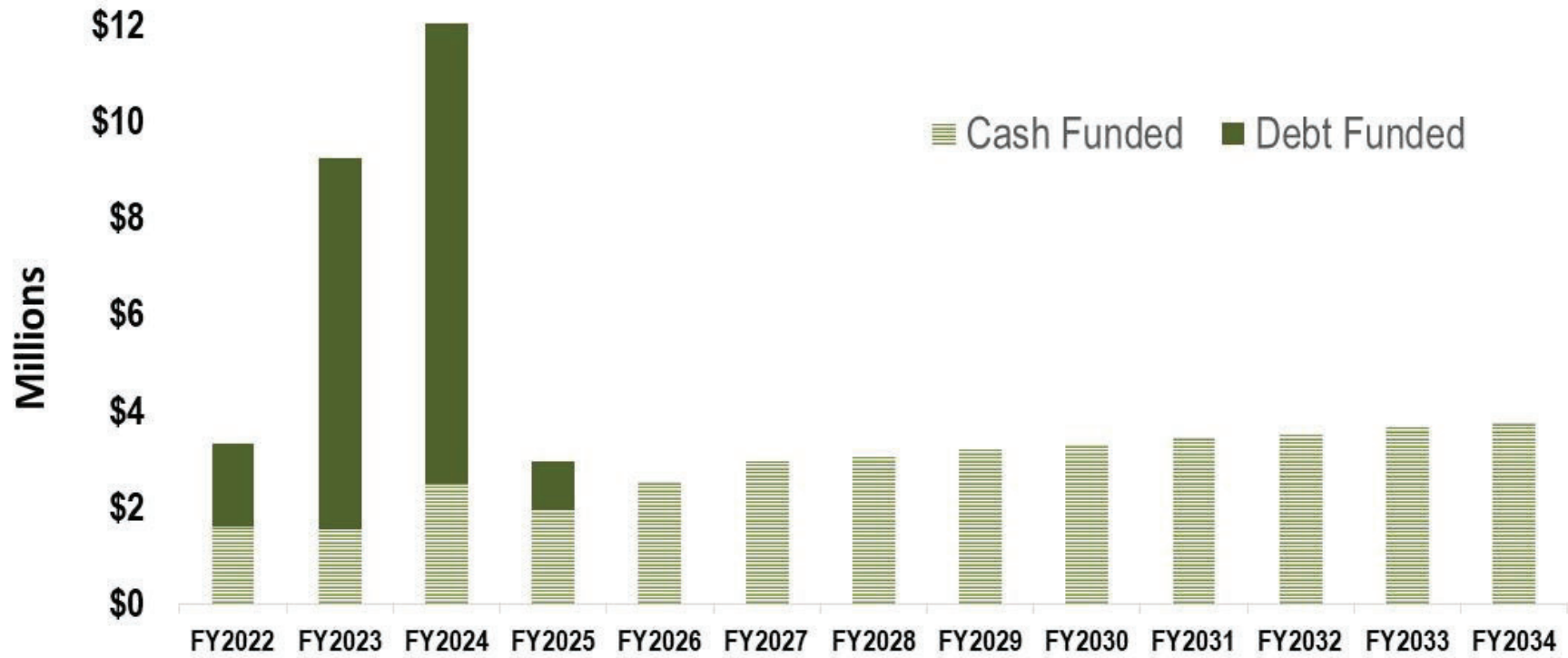
Novato Enterprise Operating Expenses & Debt Service

FY2023/24 Budget

Source of Supply	\$6,661,000
Pumping	\$518,000
Other Operations	\$941,000
Water Treatment	\$2,617,000
Transmission & Distribution	\$3,445,000
Consumer Accounting	\$462,000
Water Conservation	\$403,000
General Administration	\$3,705,000
Unfunded Liabilities	\$1,835,000
Transfer to Recycled Water	\$483,000
Debt Service	\$3,401,000
Total Budget:	\$24,471,000



Novato Enterprise Capital Spending



Average Historical PayGo (3 years): \$1.6 million
Projected Average PayGo: \$3.0 million*

* Assumes 75% execution rate on planned capital spending

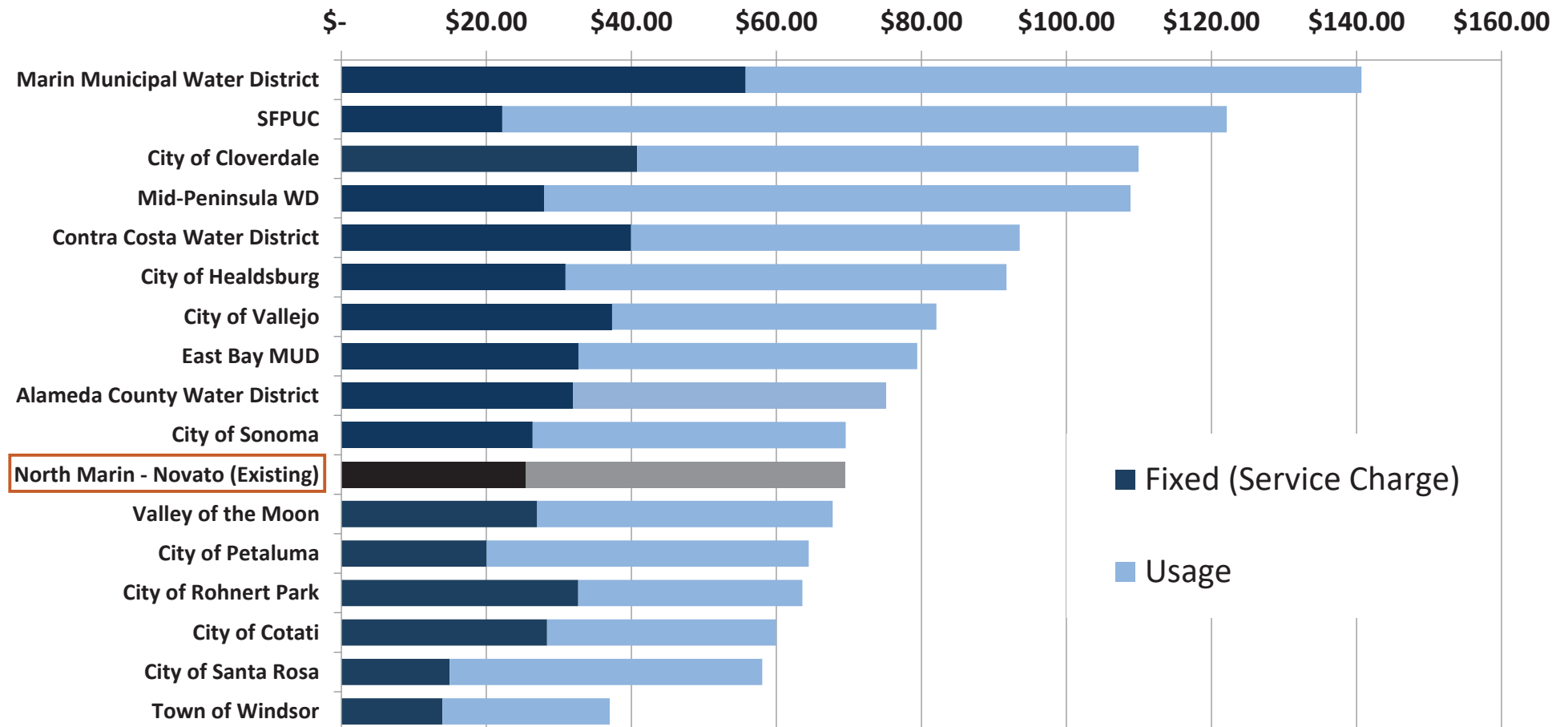
Novato Reserve Policies

The following are established District reserve policies. In addition to protecting the District against unforeseen circumstances, these policies also contribute towards the District's credit rating.

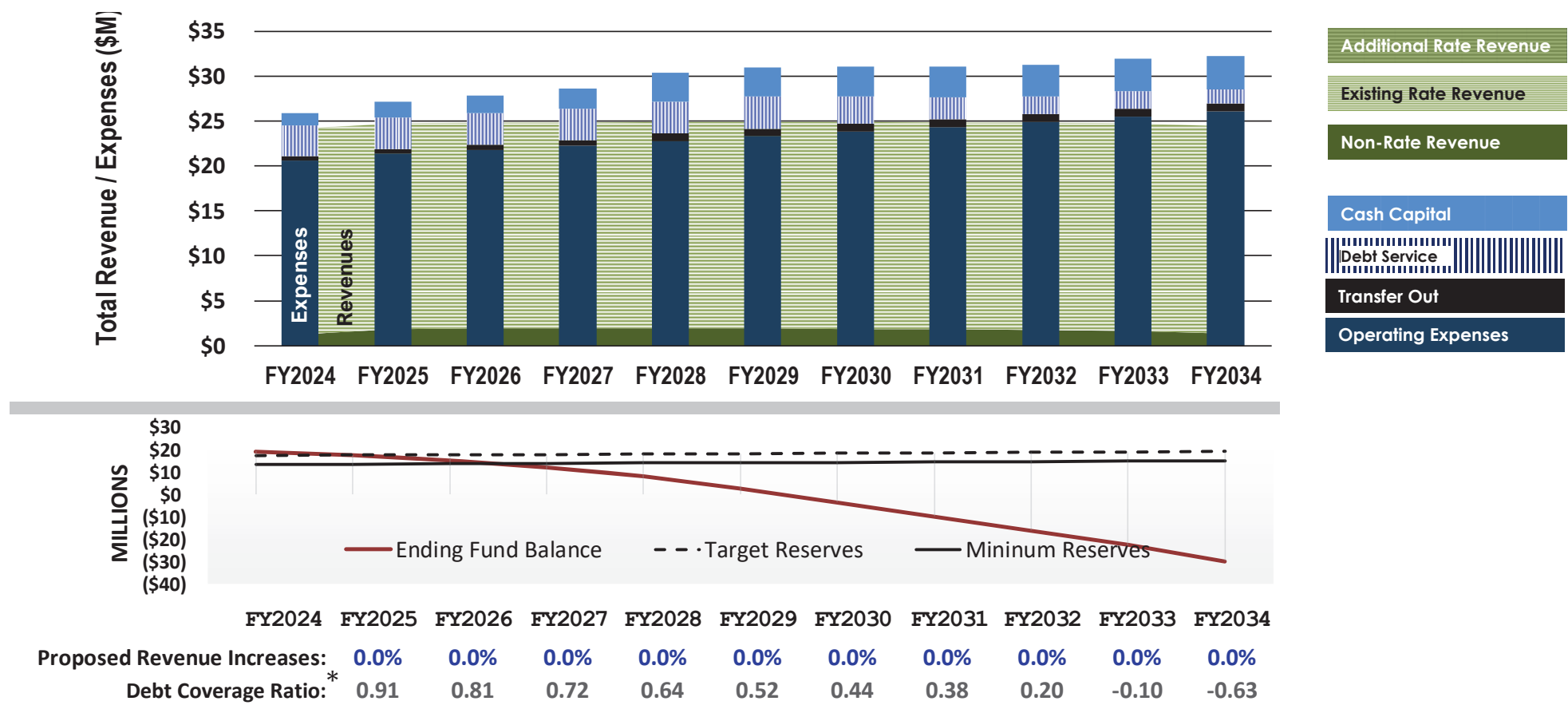
Minimum Reserves: \$13.5 million	<u>These reserves should always *plan* to be fully funded:</u> Operating Reserve (\$7.1 million in FY24, based on 4 months of operating costs) Other Post Employment Benefit (OPEB) Liability Reserve (\$4.4 million) Liability Contingency Reserve (\$2.0 million)
Target Reserves: \$17.5 million	<u>This reserve is designed to occasionally be drawn down:</u> Maintenance Accrual Fund (\$4.0 million)

Survey – Single Family Homes

Monthly Bill for typical water usage (6,500 gallons per month)

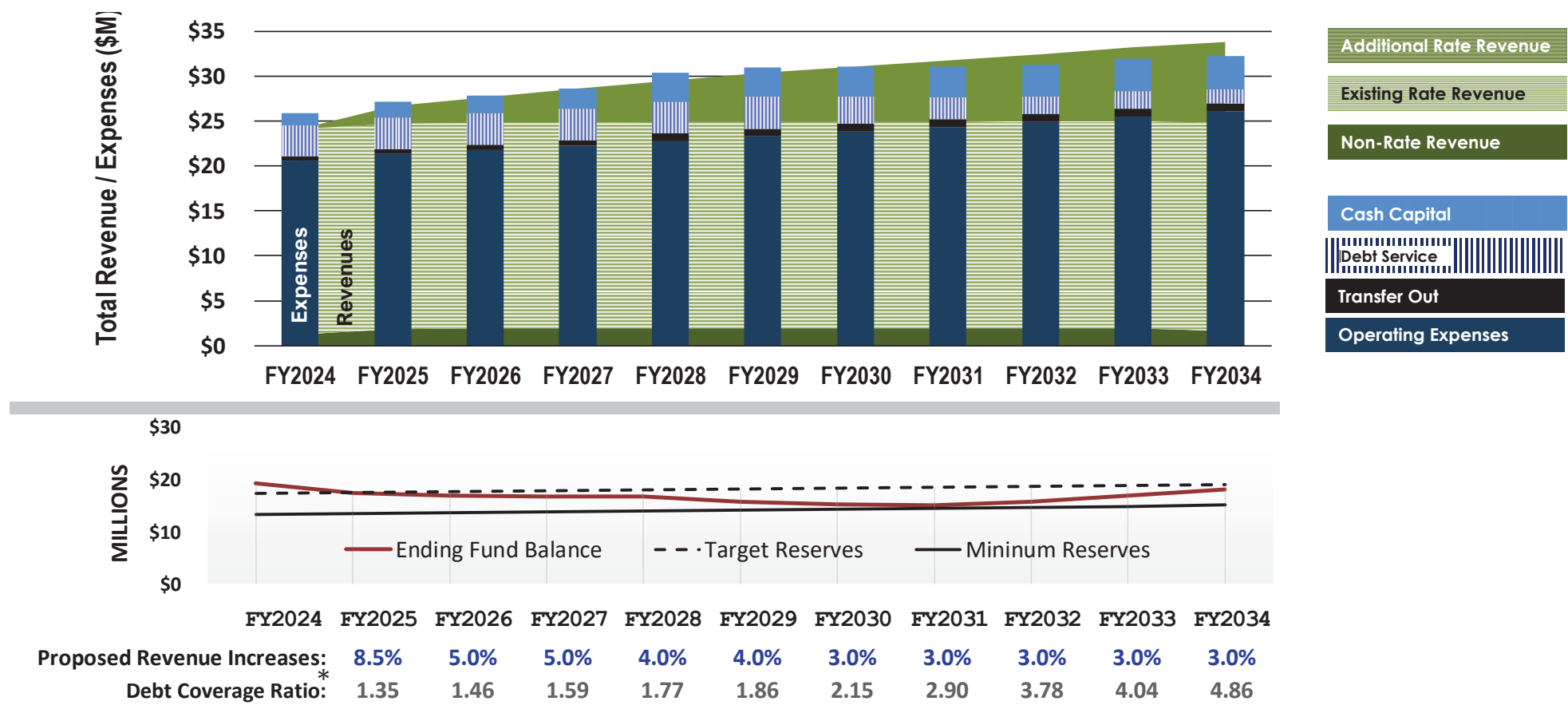


Hypothetical Novato Enterprise Financial Forecast



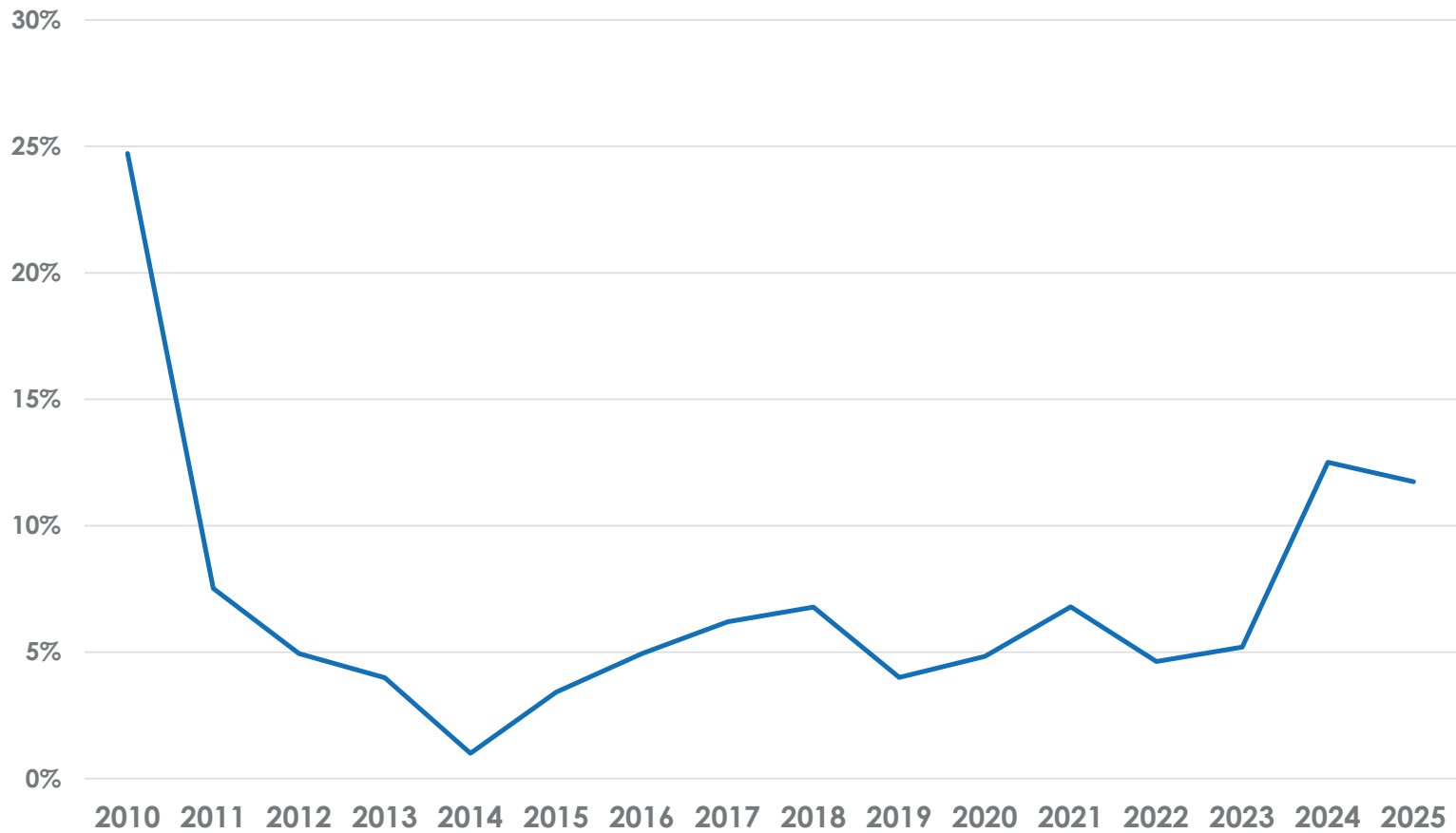
* Debt coverage ratio is aggregated with Recycled Water Enterprise (banks look at all enterprises aggregated).
Low value in FY2025 largely driven by conservative assumption for Facility Reserve Charge revenue.

Proposed Novato Enterprise Financial Forecast



* Debt coverage ratio is aggregated with Recycled Water Enterprise (banks look at all enterprises aggregated).
Low value in FY2025 largely driven by conservative assumption for Facility Reserve Charge revenue.

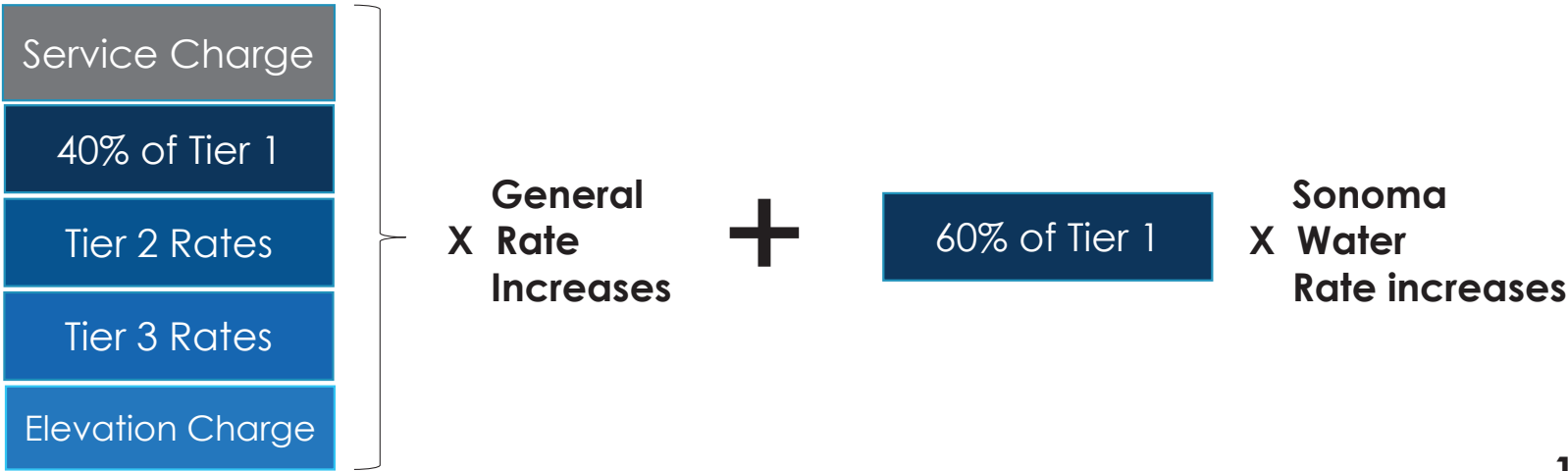
Sonoma Water Rates



Proposed SCWA Pass-Through Provision

- Adjusts Tier 1 and Winter water usage rates to reflect changes in wholesale water costs
- Adjustments occur each July, following Sonoma Water rate action
 - 30-day notice provided to customers

Formula:



Example Pass-Through Rate Adjustment Calculation

	<u>Rate Increase</u>	<u>Weight</u>	<u>Weighted Increase</u>
North Marin Rate increase:	5%	40%	2.0%
Sonoma Water Rate Increase:	11%	60%	6.6%
Total Tier 1 Rate Increase:			8.6%

Service Charges and Tier 2 rates would increase by 5% in this example

Rate increase drivers

Capital Spending

While overall capital spending will be less, the District has transition to a PayGo model (no additional debt)

Operating costs

- Operating costs have increased by an average of 4% per year since the 2019 study
 - This matches the 2019 planning assumption
- The 2023/24 budget includes:
 - A 12.5% increase in water purchase costs
 - Similar increases to the cost of insurance and chemicals
 - Increase in personnel costs due to three (3) new FTEs
 - A 50% increase to the cost of the backflow program due to change in regulations

Cost Escalation Assumptions

- Water Purchases – 11.7% increase in Year 1
 - Changes in costs after Year 1 do not impact the cash flow analysis due to the proposed Pass-Through policy (see Slide 11)
- Utilities, chemicals, supplies – 5% per year
- Salaries & Benefits – 19% increase in Year 1* and 3% per year thereafter
- All other costs – 3% per year

* Increase due to inflationary increases, increased health insurance and pension costs, and impacts from the MOU effective October 1, 2023

Recycled Water Enterprise Financial Plan

Recycled Water Reserves

Cash Reserves

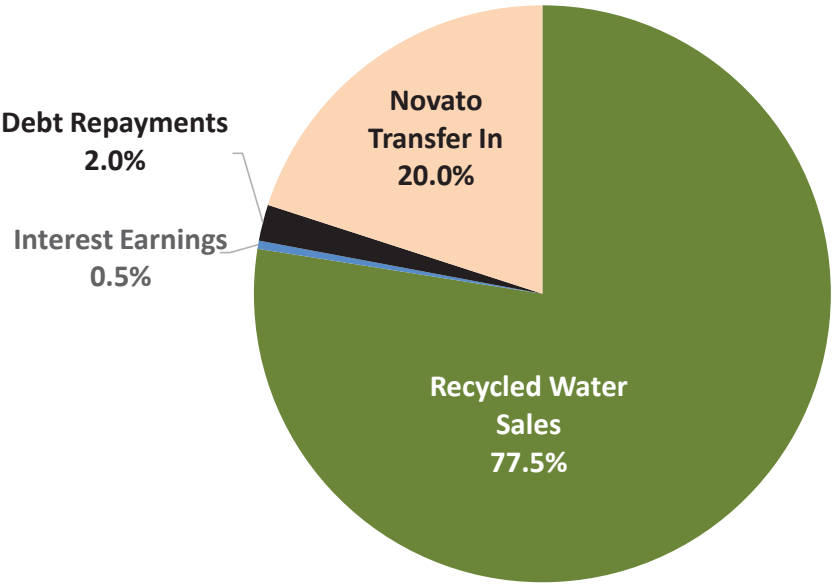
Fiscal year beginning July 1, 2023

Cash	\$206,000
Operating Reserve Fund	\$241,000
Total Unrestricted:	\$447,000
Restricted	\$1,105,000
Capital Replacement & Expansion Fund	\$3,062,000
Total Reserves:	\$4,614,000

Recycled Water Revenue

FY2023/24 Budget

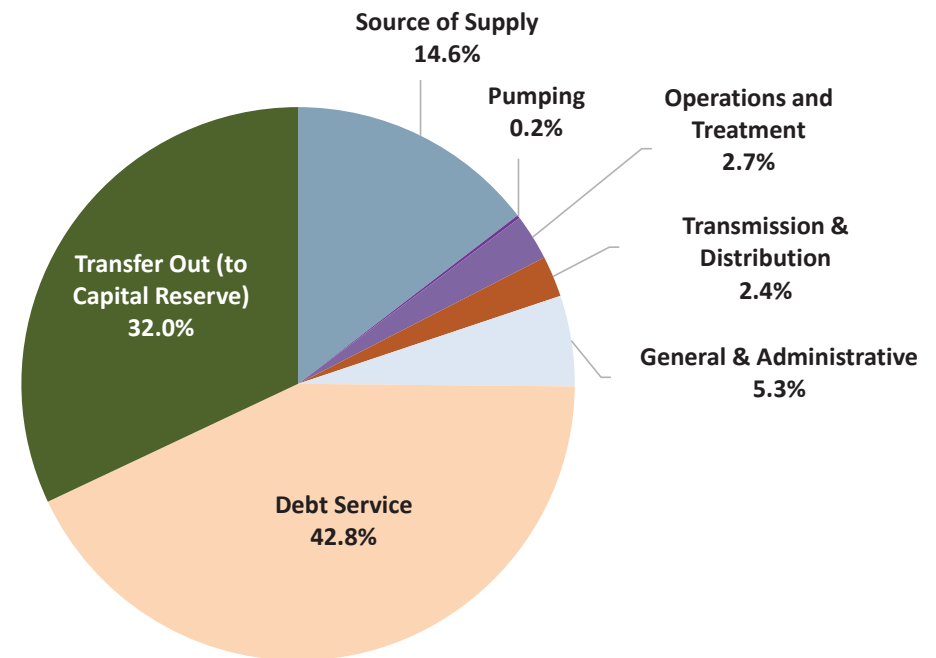
Recycled Water Sales	\$1,870,000
Non-Rate Revenue	
Miscellaneous	\$20,000
Interest Earnings	\$11,000
Debt Repayments	\$49,000
Novato Transfer In	\$483,000
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Total:	\$2,433,000



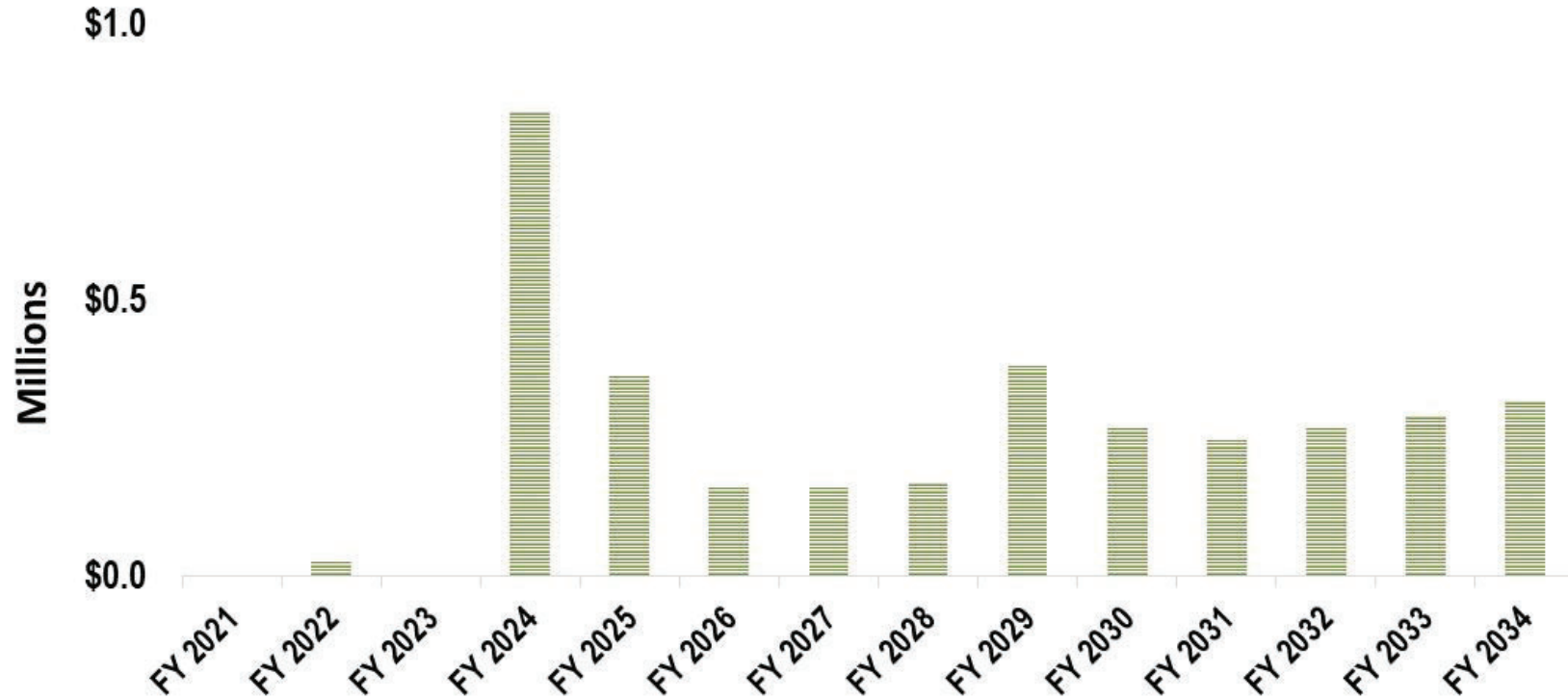
Recycled Water Operating Expenses & Debt Service

FY2023/24 Budget

Source of Supply	\$396,000
Pumping	\$5,000
Operations and Treatment	\$73,000
Transmission & Distribution	\$65,000
General & Administrative	\$144,000
Debt Service	\$1,163,000
Transfer Out (to Capital Reserve)	\$869,000
Total Budget:	\$2,715,000



Recycled Water Capital Spending



Average Historical (3 years): \$9 thousand
Projected Average: \$315 thousand

Recycled Water Reserve Policies

In addition to protecting the District against unforeseen circumstances, strong reserve policies also contribute towards the District's credit rating.

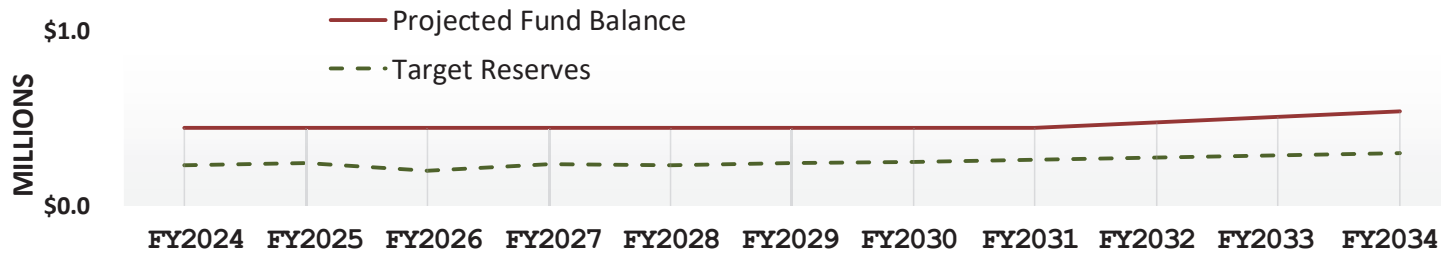
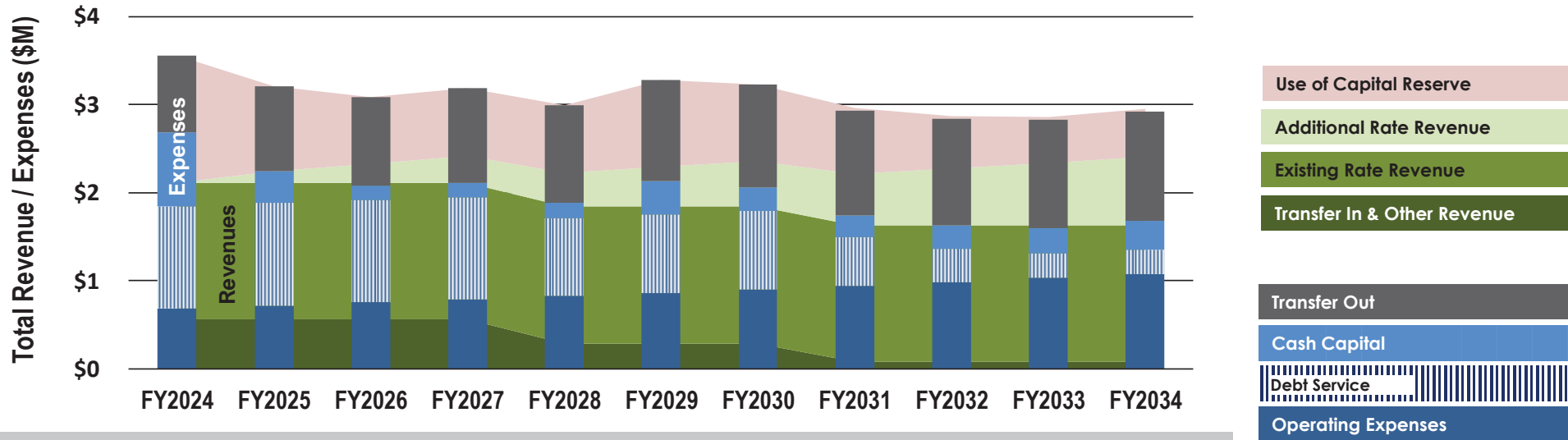
Operating Reserve (established District reserve policy)

- Reserve in the event of unexpected changes to cash flow or operating costs
- Current target: 4 months (approximately \$225 thousand)

Capital Reserve Fund

- Supports volatility of capital spending and provides emergency funds in the event of asset failure.
- Previous recommendation: equal to current annual depreciation expense (\$474 thousand)
- Current recommendation: Maintain North Marin's portion of the Capital Replacement fund at a level of at least \$500 thousand (and eliminate existing Capital Reserve Fund policy)

Recycled Water Fund Financial Forecast



Proposed Revenue Increases: 8.5% 5.0% 5.0% 4.0% 4.0% 3.0% 3.0% 3.0% 3.0% 3.0%

* Rate increases are tied to Novato potable water rate increases

Cost of Service Study and Rate Structure Redesign

Rate Structure Updates

1. Tiered rates
 - Relative Price
 - Water Allocation
2. Fixed vs. Variable Revenue
3. Elevation Surcharge
4. Proposed: Pass-through provision for wholesale water costs

Existing Water Rates

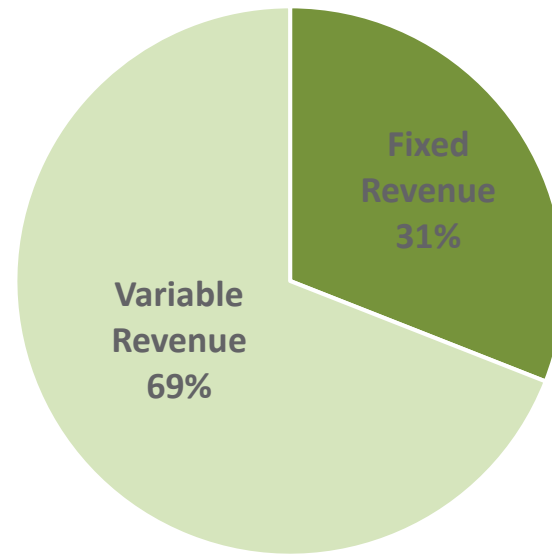
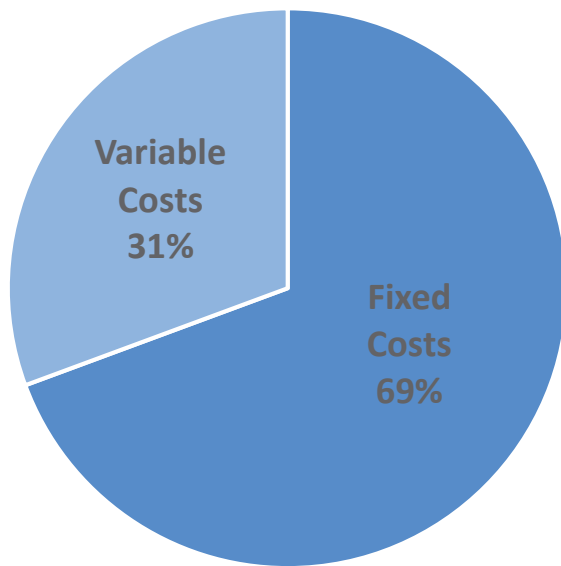
☐ Water Usage “Quantity” Rate:

- ✓ 3 Tiers for Residential
 - Allocation increases with dwelling units
- ✓ Seasonal rates for Commercial (Non-Residential)
- ✓ Raw water rate
- ✓ Recycled Water rate
- ✓ Elevation Surcharge
- ✓ Drought Surcharge*

☐ Fixed Service Charge by Meter size

* Not part of the current study

Novato Enterprise
Fixed & Variable Rate Revenues
vs.
Fixed & Variable Costs
(current)



Novato

Fixed vs. Variable Revenue

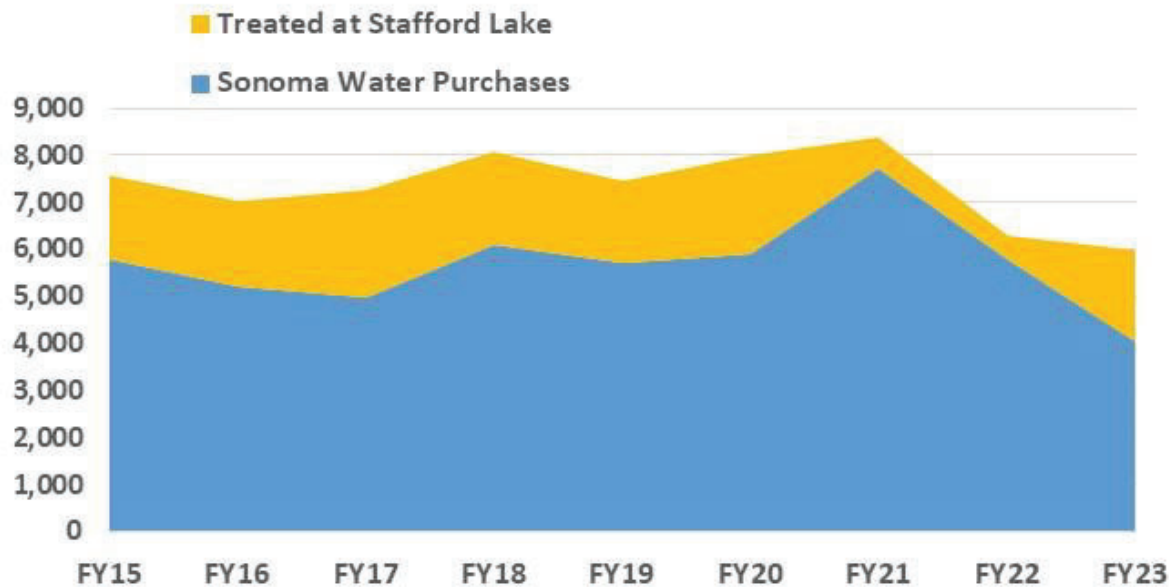
	Fixed Revenue	Variable Revenue
Current:	31%	69%
Proposed:	34%	66%

Recycled Water Fixed vs. Variable Revenue

	Fixed Revenue	Variable Revenue
Current:	9%	91%
Proposed:	13%	87%

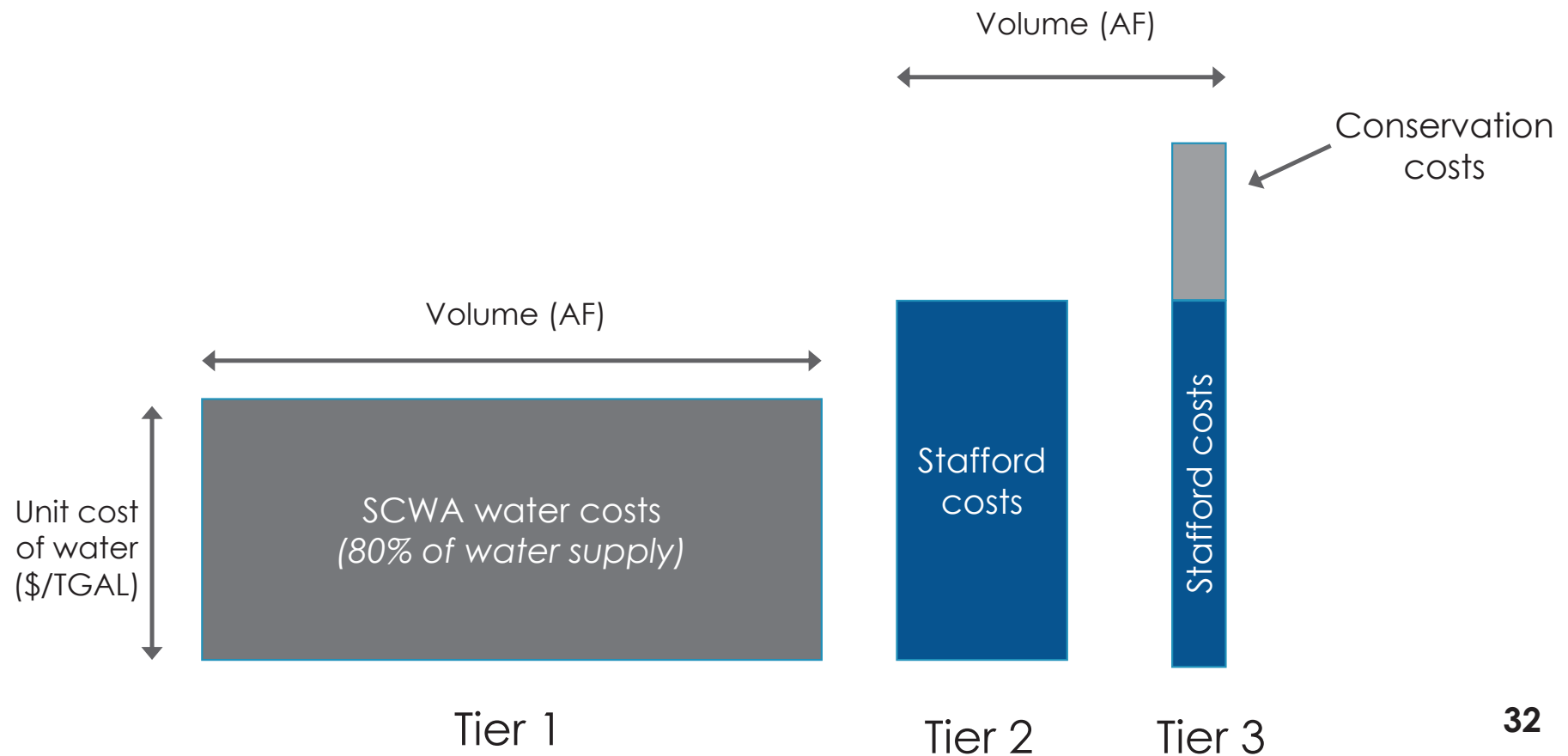
Structuring tiered usage rates based on SCWA & Stafford water costs

- ✓ Tier prices are based on the difference in unit cost between SCWA vs. Stafford
- ✓ Tier allocation will be based on the availability of water from those two sources.



5-Year Average Ratio: 80/20

Basis for Residential Tiered Water Rates



Recommendation: Replace Seasonal Commercial Rates with Uniform Rates

- Historically the District has charged higher rates during the Summer to reflect the higher cost of treated Stafford Lake water.
- The “season” for using Stafford Lake water does not adequately align with the Summer rate season
- The proposed uniform rate is equal to the average usage rate paid by residential customers (after accounting for all Tier 1, 2 and 3 water sold)

Elevation Zone Charge

Proposed Approach: Use the known cost relationship to pump a different elevations to allocate current pumping costs (which includes operating costs, G&A, debt & capital)

	(a)		(b)	(c)	(d)	(e)	(f)	(g)	(h)
	Elevation Range (ft)	Average Elevation (ft)	Elevation "Factor"	Water Usage (TGAL)	"Scaled" TGALs	Cost per TGAL	Current Charge (per TGAL)	Proposed Surcharge (per TGAL)	Increase (%)
Zone A:	0 - 60	40	1.0	897,182	897,182	\$0.39	(na)	(na)	(na)
Zone B:	60 - 200	132	3.3	945,693	3,120,788	\$1.29	\$0.93	\$0.90	-3.2%
Zone C:	200+	294	7.4	162,414	1,193,740	\$2.87	\$2.58	\$2.48	-3.9%
	Total:		Total:	2,005,289	5,211,710				

Proposed Rates (Year 1)

Residential Tier Allocations (average gal/day)

Current & Proposed:

Tier 1: 0 to 262
 Tier 2: 262 to 720
 Tier 3: Above 720

Seasonal Commercial Rates:

Current Summer Rates:

July, August & September

Proposed:

Uniform Year-Round

QUANTITY CHARGE (per TGAL)

	PROPOSED			CURRENT		CHANGE			
	Uniform			Winter	Summer	Winter		Summer	
Commercial Zone A	\$7.45			\$6.77	\$9.44	\$0.68	10%	-\$1.99	-21%
Commercial Zone B	\$8.35			\$7.70	\$10.37	\$0.65	8%	-\$2.02	-19%
Commercial Zone C	\$9.93			\$9.35	\$12.02	\$0.58	6%	-\$2.09	-17%
	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 3			
Residential Zone A	\$7.06	\$8.55	\$12.49	\$6.77	\$7.67	\$9.44	\$0.29	4%	\$0.88 11%
Residential Zone B	\$7.96	\$9.45	\$13.39	\$7.70	\$8.60	\$10.37	\$0.26	3%	\$0.85 10%
Residential Zone C	\$9.54	\$11.03	\$14.97	\$9.35	\$10.25	\$12.02	\$0.19	2%	\$0.78 8%
Recycled Water	\$7.20			\$7.38			-\$0.18	-2%	
Raw Water	\$3.41			\$3.60			-\$0.19	-5%	
Temporary Meter	\$9.45			\$8.60			\$0.85	10%	

BIMONTHLY SERVICE CHARGE

Potable Water	PROPOSED	CURRENT	CHANGE
5/8"	\$59.91	\$51.01	\$8.90 17.4%
1" Fire*	\$59.91	\$51.01	\$8.90 17.4%
1"	\$108.23	\$91.11	\$17.12 18.8%
1.5"	\$188.75	\$157.95	\$30.80 19.5%
2"	\$285.38	\$238.16	\$47.22 19.8%
3"	\$543.06	\$452.04	\$91.02 20.1%
4"	\$832.95	\$692.65	\$140.30 20.3%
6"	\$1,638.20	\$1,361.04	\$277.16 20.4%
8"	\$2,121.35	\$1,762.07	\$359.28 20.4%

BIMONTHLY SERVICE CHARGE

Recycled Water	PROPOSED	CURRENT	CHANGE
5/8"	\$89.41	\$57.71	\$31.70 54.9%
1"	\$154.59	\$101.49	\$53.10 52.3%
1.5"	\$263.21	\$174.47	\$88.74 50.9%
2"	\$393.56	\$262.03	\$131.53 50.2%
3"	\$741.16	\$495.54	\$245.62 49.6%
6"	\$2,218.46	\$1,487.94	\$730.52 49.1%

* Upsized due to fire requirements

Bill Impacts – Single Family

Meter Size	Monthly Water Usage (TGAL)		Bimonthly Bill		Change	
			Current	Proposed		
5/8"	Low	2.3	\$55.97	\$61.73	10.3%	\$5.76
	Median	4.5	\$86.44	\$93.50	8.2%	\$7.06
	High	13.5	\$218.45	\$237.38	8.7%	\$18.94
1"	Low	5.4	\$118.67	\$130.36	9.9%	\$11.69
	Median	10.8	\$197.08	\$215.37	9.3%	\$18.29
	High	32.4	\$566.66	\$669.83	18.2%	\$103.18

70% of all accounts

1% of all accounts

Bill Impacts – Multi Family (23% of accounts)

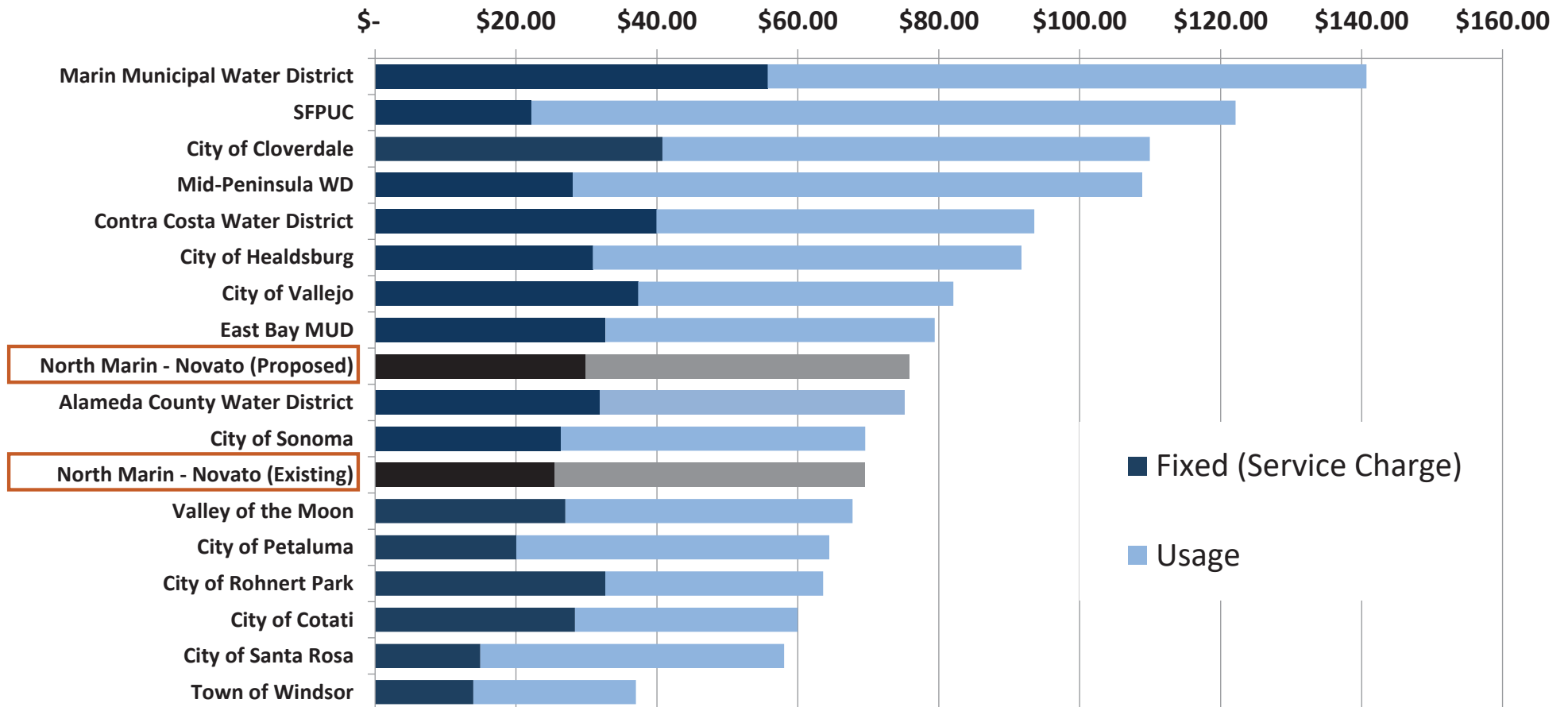
	Average Water		Current	Proposed	Change	
	Meter Size	Usage				
4 Units	1"	31.7	\$260.18	\$278.06	6.9%	\$17.88
8 Units	1"	30.5	\$251.73	\$269.12	6.9%	\$17.39
16 Units	1.5"	68.7	\$543.84	\$579.15	6.5%	\$35.31
62 Units	2"	122.7	\$949.56	\$1,008.75	6.2%	\$59.18

Bill Impacts – Commercial (6% of accounts)

Meter Size	Average Monthly Water Usage (TGAL)	<u>Summer Bill</u> (with average seasonal use by meter size)			<u>Winter Bill</u> (with average seasonal use by meter size)			<u>Annual Total</u>		
		Current	Proposed	Change	Current	Proposed	Change	Current	Proposed	Change
5/8"	3	\$82.29	\$84.60	2.8%	\$73.45	\$84.60	15.2%	\$454	\$508	11.8%
1"	11	\$193.13	\$188.74	-2.3%	\$164.27	\$188.74	14.9%	\$1,029	\$1,132	10.1%
1.5"	25	\$394.18	\$375.18	-4.8%	\$327.37	\$375.18	14.6%	\$2,064	\$2,251	9.0%
2"	48	\$690.95	\$642.72	-7.0%	\$562.88	\$642.72	14.2%	\$3,569	\$3,856	8.0%
3"	187	\$2,214.59	\$1,934.05	-12.7%	\$1,716.07	\$1,934.05	12.7%	\$11,044	\$11,604	5.1%

Survey – Single Family Homes

Monthly Bill for typical water usage (6,500 gallons per month)



NMWD Low Income Rate Assistance (LIRA) Program

- Simple application/managed in-house
- PG&E CARE eligibility (1-2 person household \$39,440 or less)
- Currently 371 Customers Enrolled (\$15/bill/customer for a total cost to the District of \$33,390/year)
- Non-rate revenue
- Proposed Increase (doubling) to \$30/bill/customer - effective July 1, 2024

Schedule

- | | |
|---|------------------------|
| ✓ Water Management Ad-Hoc Committee Meeting #1 | Jan 18 th |
| ✓ Water Management Ad-Hoc Committee Meeting #2 | Feb 15 th |
| ✓ Board Meeting - Draft Recommendation Presentation | March 13 th |
| ❑ Board Meeting - Final Recommendation Presentation | April 2 nd |
| ❑ Public Hearing to enact new water rates | June 18 th |
| ❑ Implement new water rates | July 1 st |