



# Novato and Recycled Water Rate Study

## Findings Presentation

North Marin Water District

April 2, 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

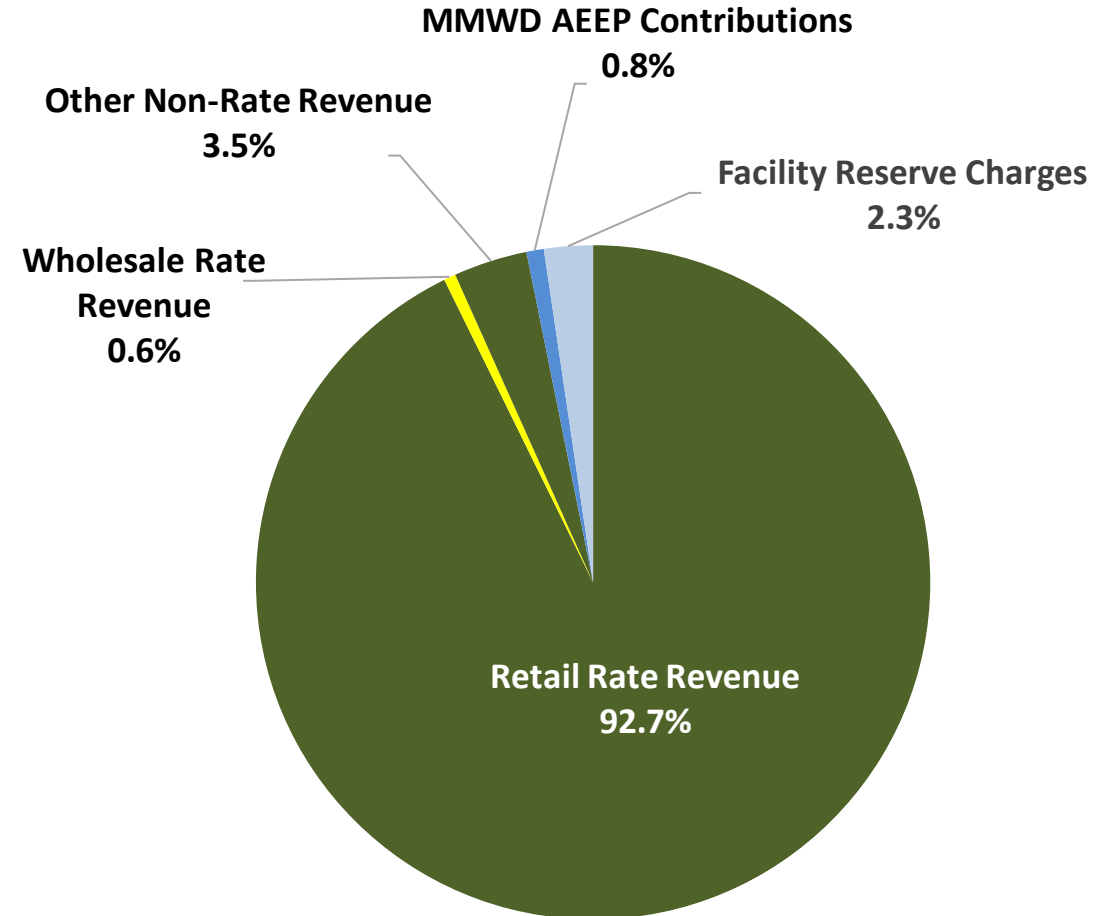
Beginning FY 2023/24

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
<b>Total Unrestricted:</b>	<b>\$28,332,000</b>
Restricted:	\$1,341,000
<b>Total Reserves:</b>	<b>\$29,673,000</b>
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
<b>Non-Rate Revenue</b>	
Interest Earnings	\$201,000
Facility Reserve Charges	\$575,000
Operating Revenue	\$307,000
Property Taxes	\$125,000
Miscellaneous	\$236,000
MMWD AEEP Contributions	\$205,000
<b>Total:</b>	<b>\$24,591,000</b>



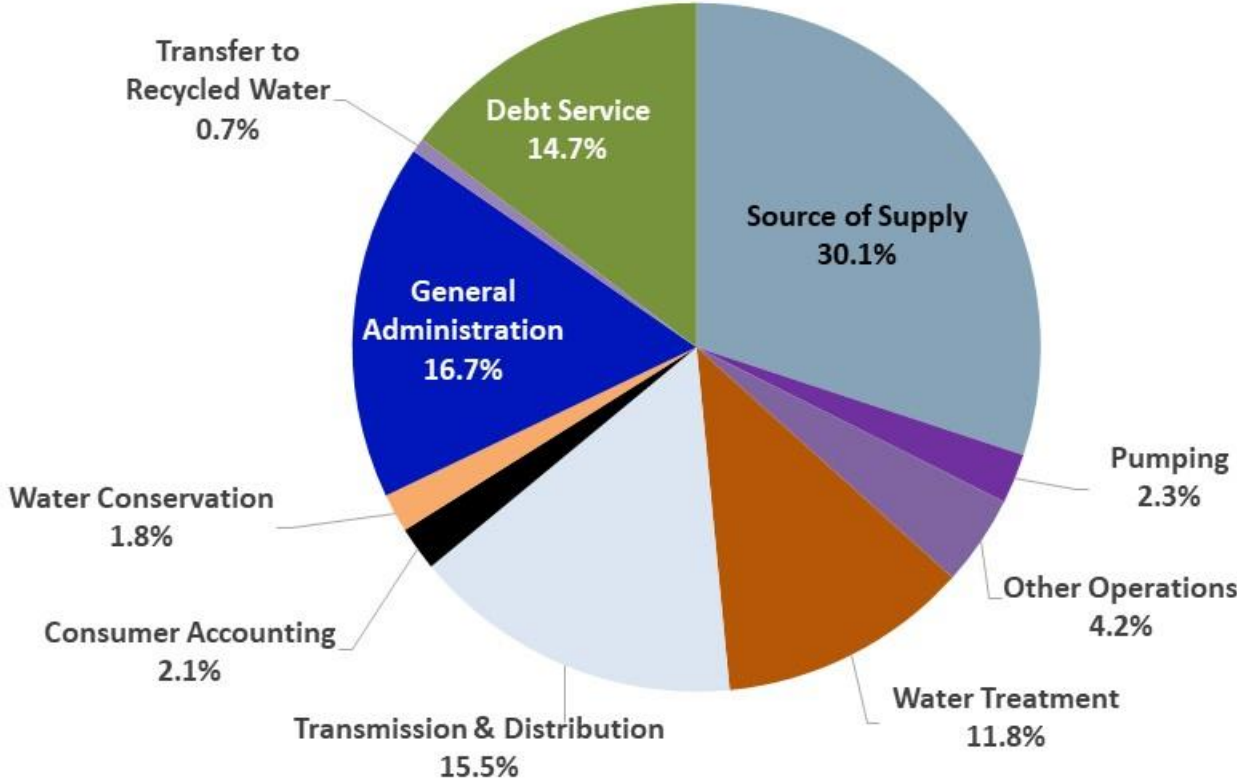
\* 2.0 billion gallons sold. Price per gallon = \$0.011

# Novato Enterprise Operating Expenses & Debt Service

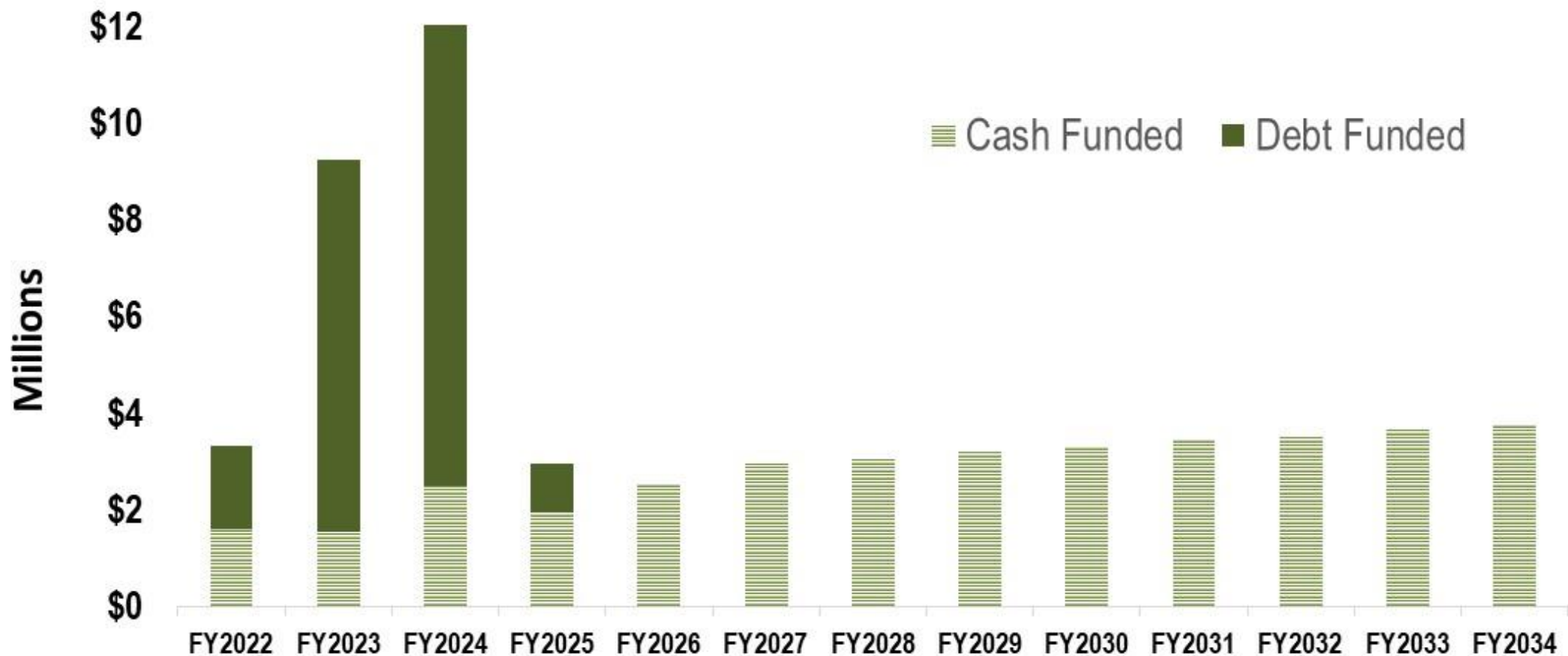
FY2023/24 Budget

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	\$150,000
Debt Service	\$3,253,000

**Total Budget: \$23,990,000**



# Novato Enterprise Capital Spending



**Average Historical PayGo (3 years): \$1.6 million**  
**Projected Average PayGo: \$3.5 million\***

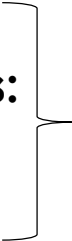
\* Assumes 75% execution rate on planned capital spending



# 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:**  
**\$11.2 million**



These reserves should always \*plan\* to be fully funded:

- Operating Reserve** (\$6.9 million in FY24, based on 4 months of operating costs)
- Other Post Employment Benefit (OPEB) Liability Reserve** (\$4.3 million)

**Target Reserves:**  
**\$17.2 million**

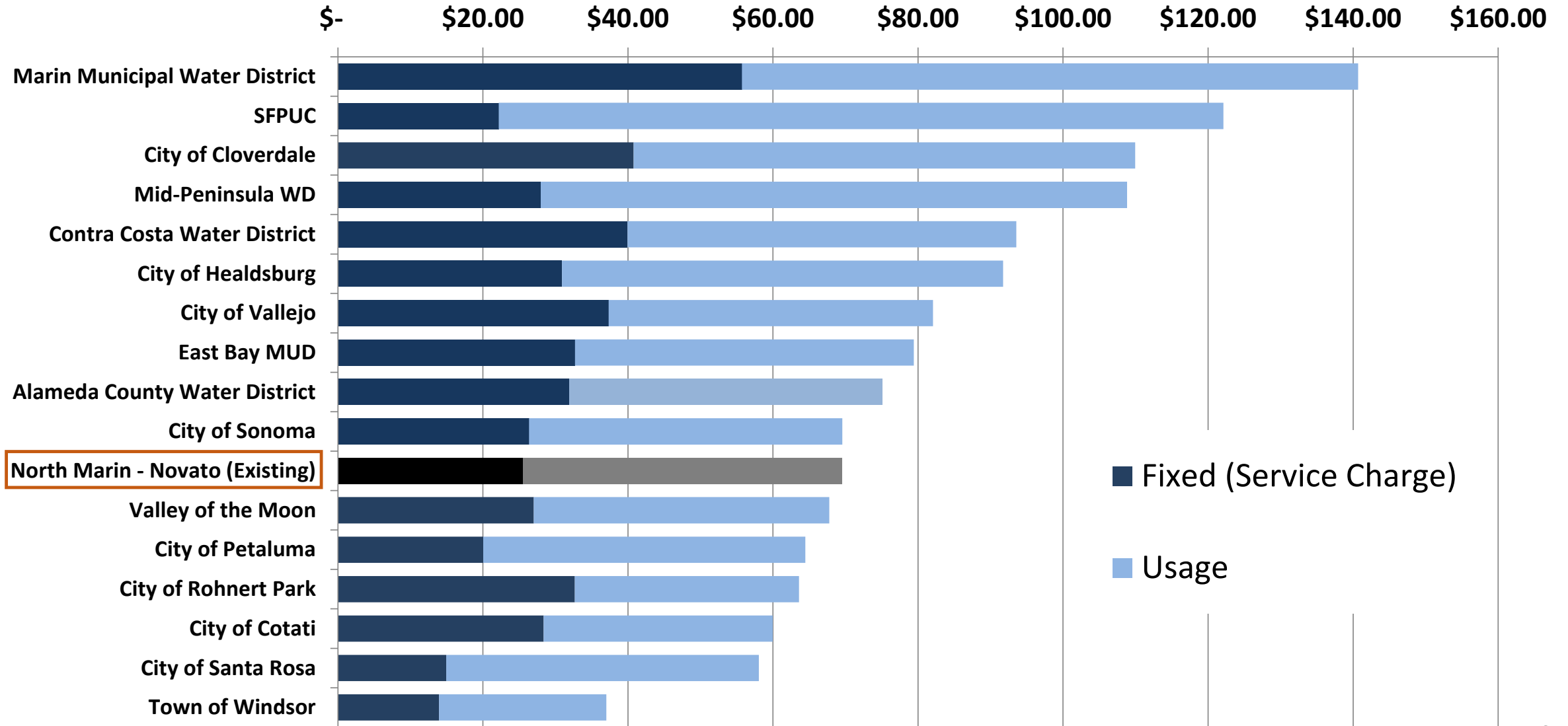


These reserves are designed to occasionally be drawn down:

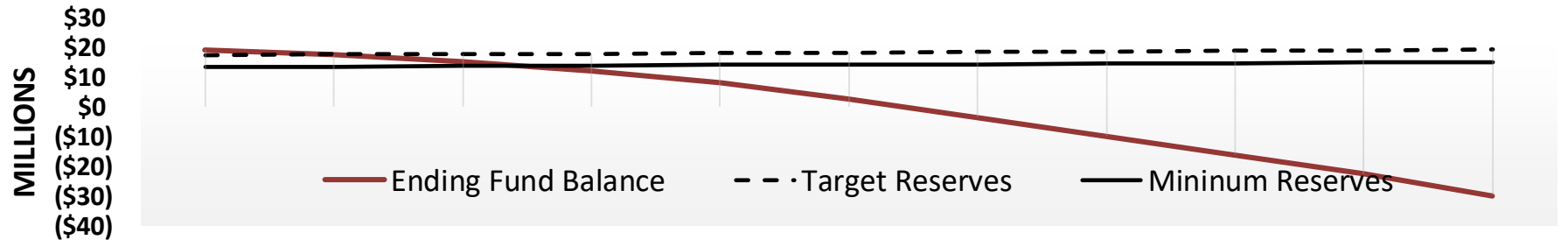
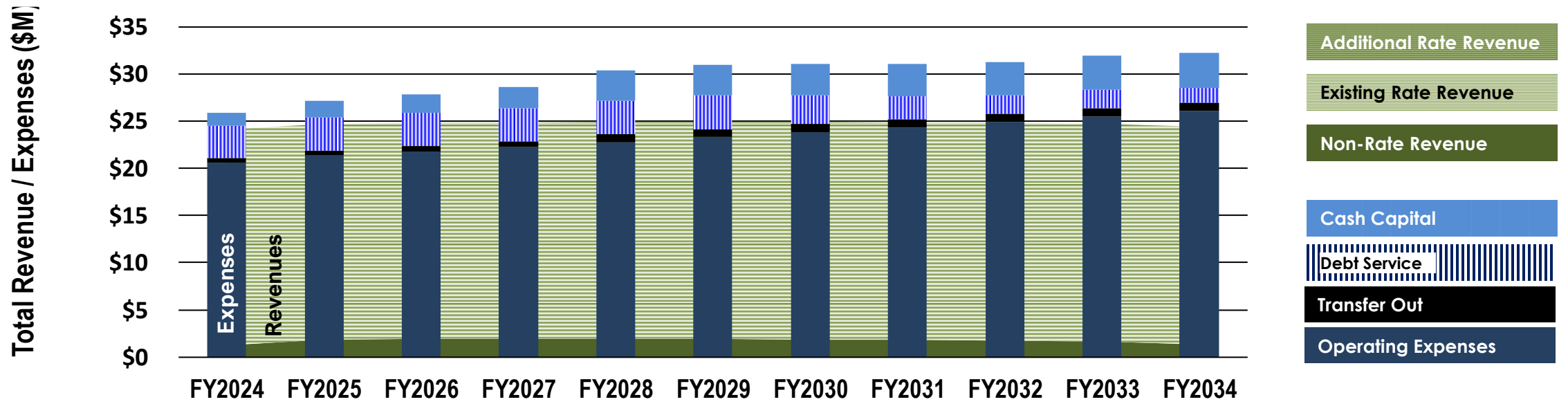
- Liability Contingency Reserve** (\$2.0 million)
- Maintenance Accrual Fund** (\$4.0 million)

# Survey – Single Family Homes

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



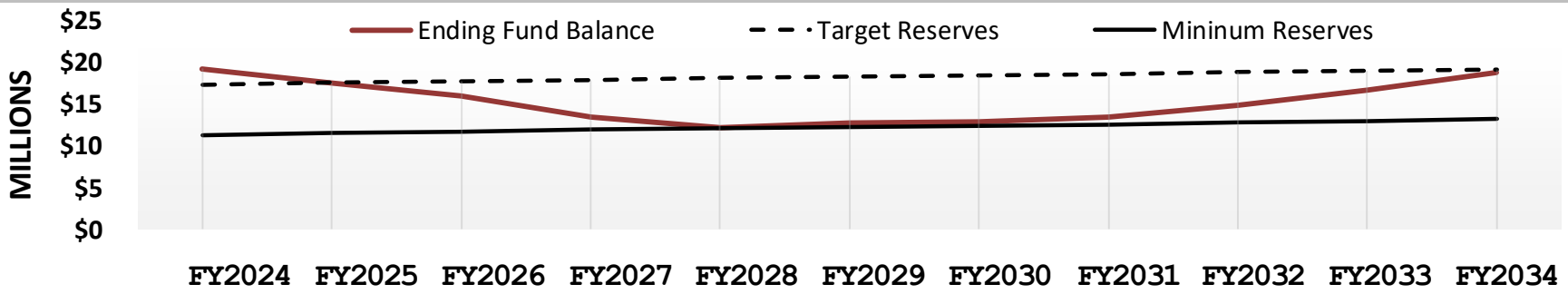
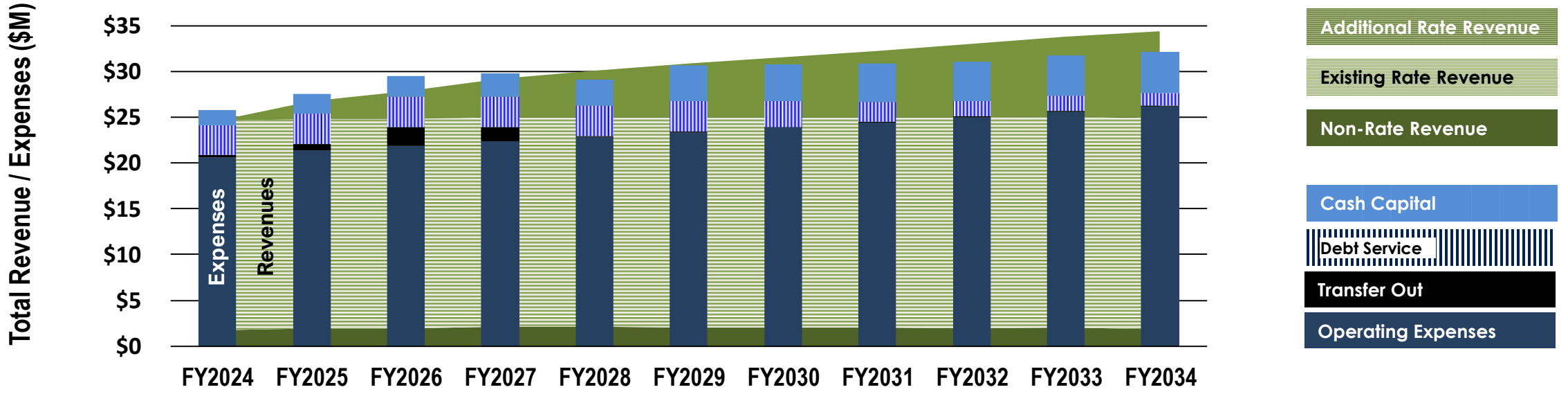
# Hypothetical Novato Enterprise Financial Forecast



	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Proposed Revenue Increases:	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt Coverage Ratio:	0.91	0.81	0.72	0.64	0.52	0.44	0.38	0.20	-0.10	-0.63	

\* 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.

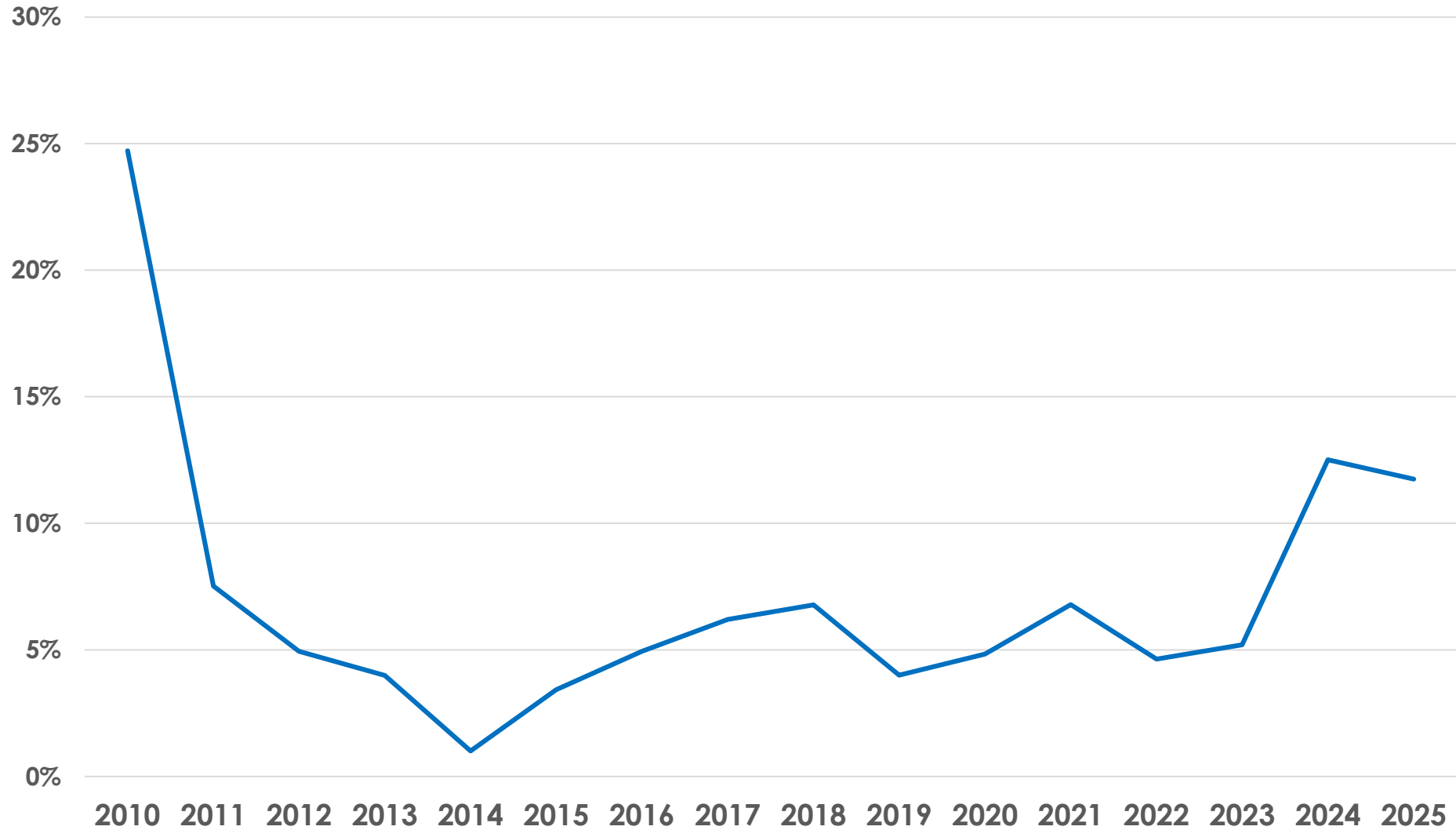
# Proposed Novato Enterprise Financial Forecast



	Proposed					Projected				
Rate Revenue Increases:	8.5%	6.0%	6.0%	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Debt Coverage Ratio:	1.48	1.68	1.89	2.04	2.13	2.48	3.31	4.41	4.76	5.87

\* 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.

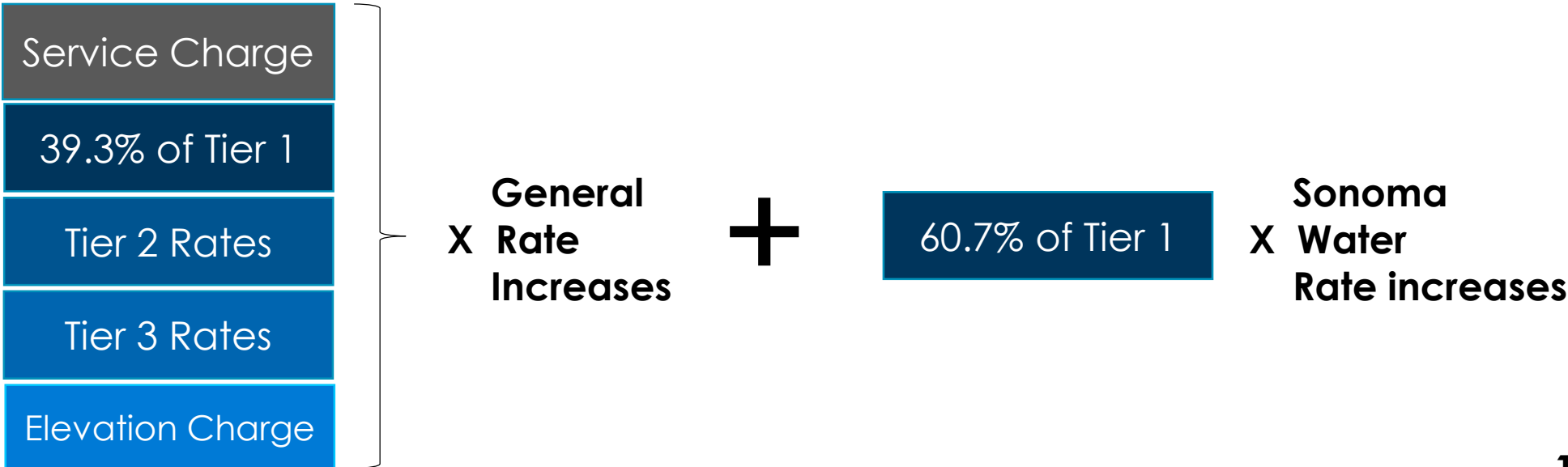
# Sonoma Water Rates



# 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:	6%	39.3%	2.36%
Sonoma Water Rate Increase:	12%	60.7%	7.28%
	<b>Total Tier 1 Rate Increase:</b>		<b>9.64%</b>

Service Charges and Tier 2 rates would increase by 6% 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

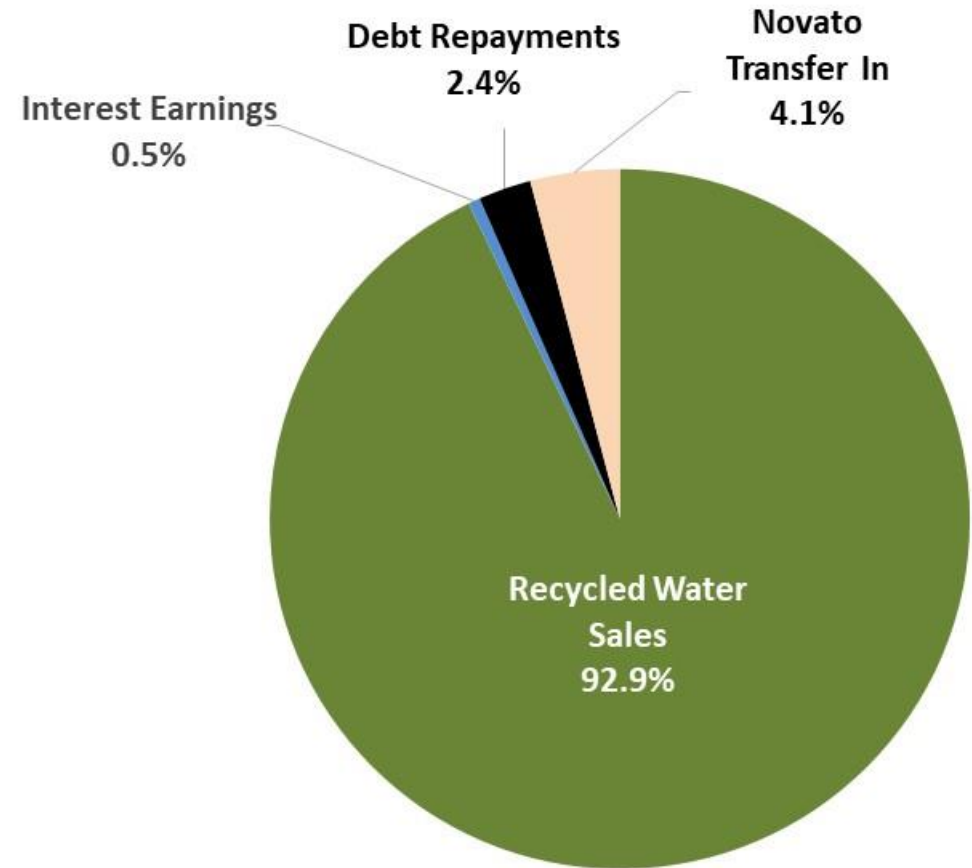
Cash	\$206,000
Operating Reserve Fund	\$241,000
<b>Total Unrestricted:</b>	<b>\$447,000</b>
Restricted	\$1,105,000
Capital Replacement & Expansion Fund	\$3,062,000
<b>Total Reserves:</b>	<b>\$4,614,000</b>

# Recycled Water Revenue

FY2023/24 Budget

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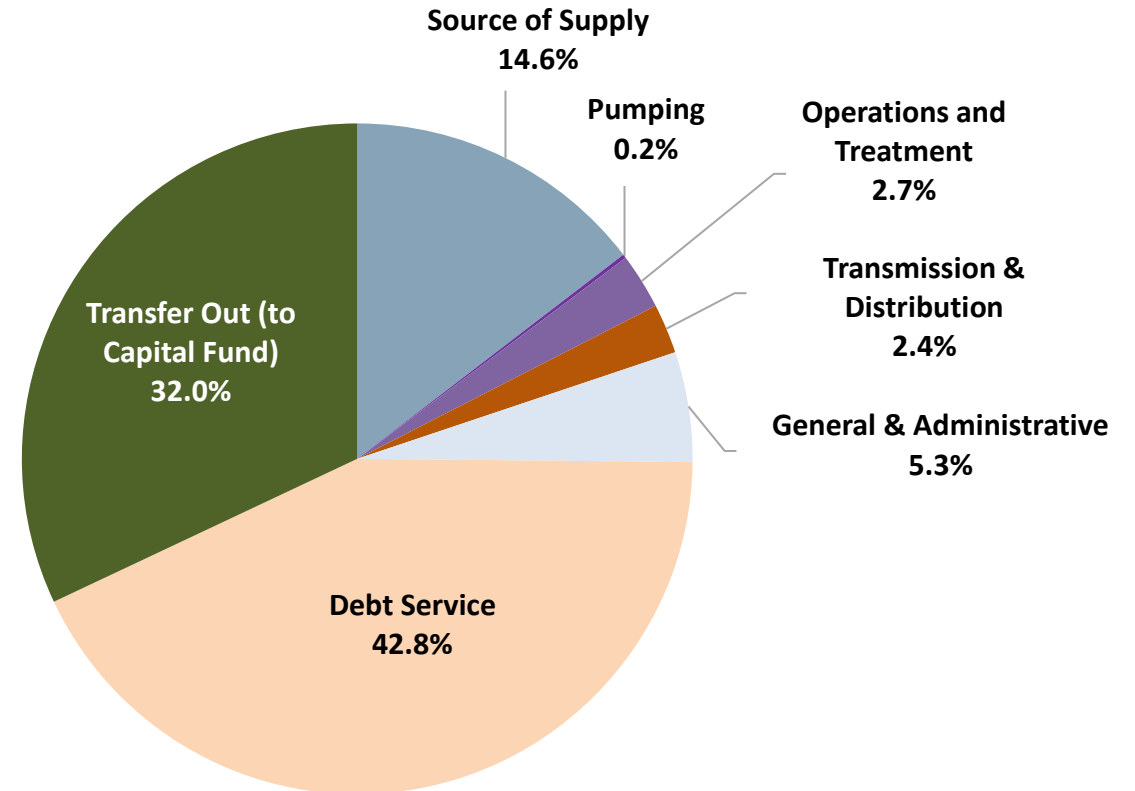
Recycled Water Sales	\$1,870,000
<b>Non-Rate Revenue</b>	
Miscellaneous	\$20,000
Interest Earnings	\$11,000
Debt Repayments	\$49,000
Novato Transfer In	\$83,000
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<b>Total:</b>	<b>\$2,033,000</b>



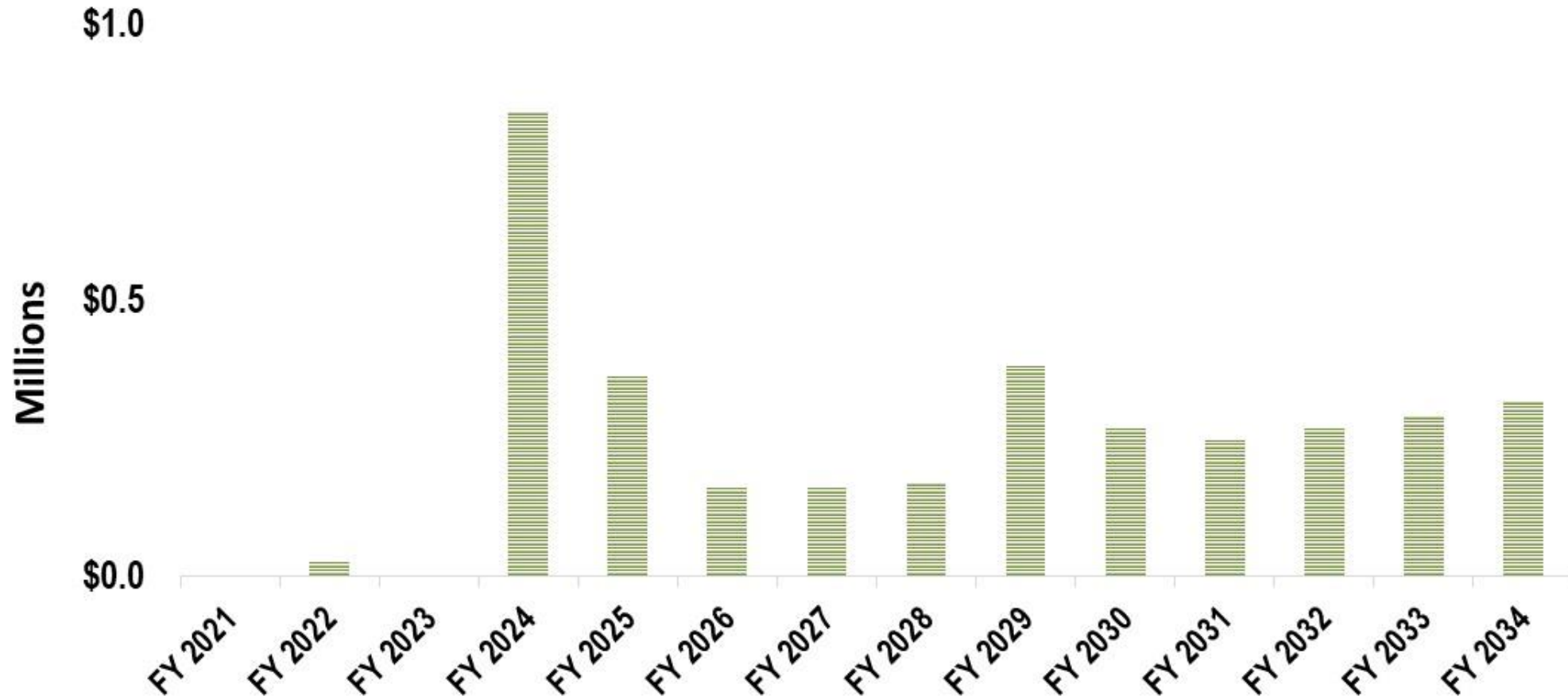
# Recycled Water Operating Expenses & Debt Service

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
<b>Total Budget:</b>	<b>\$2,715,000</b>



# 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.

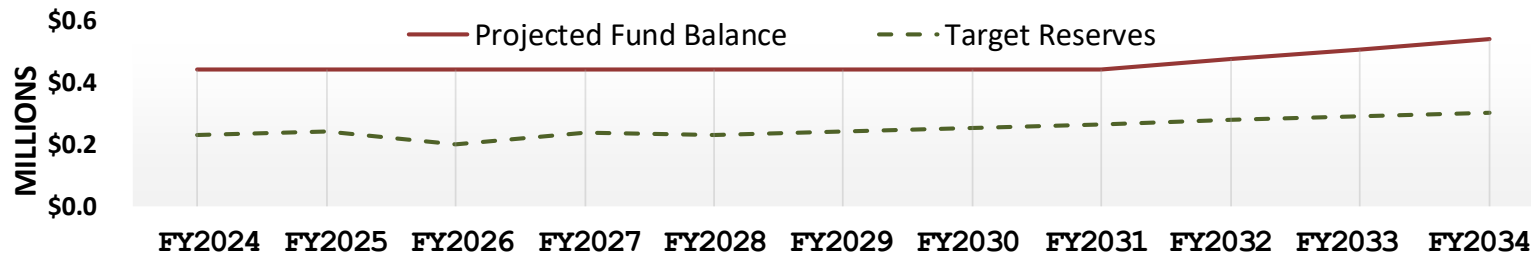
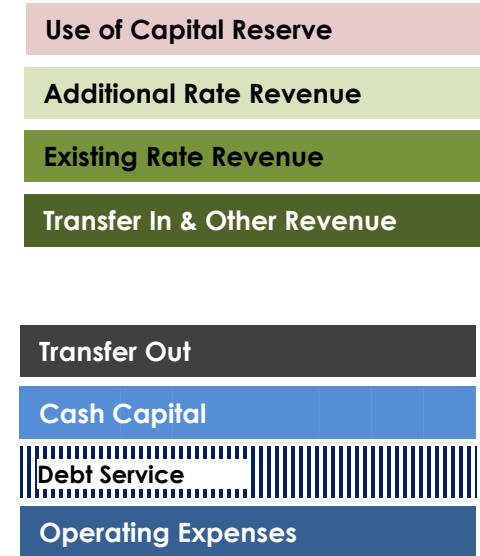
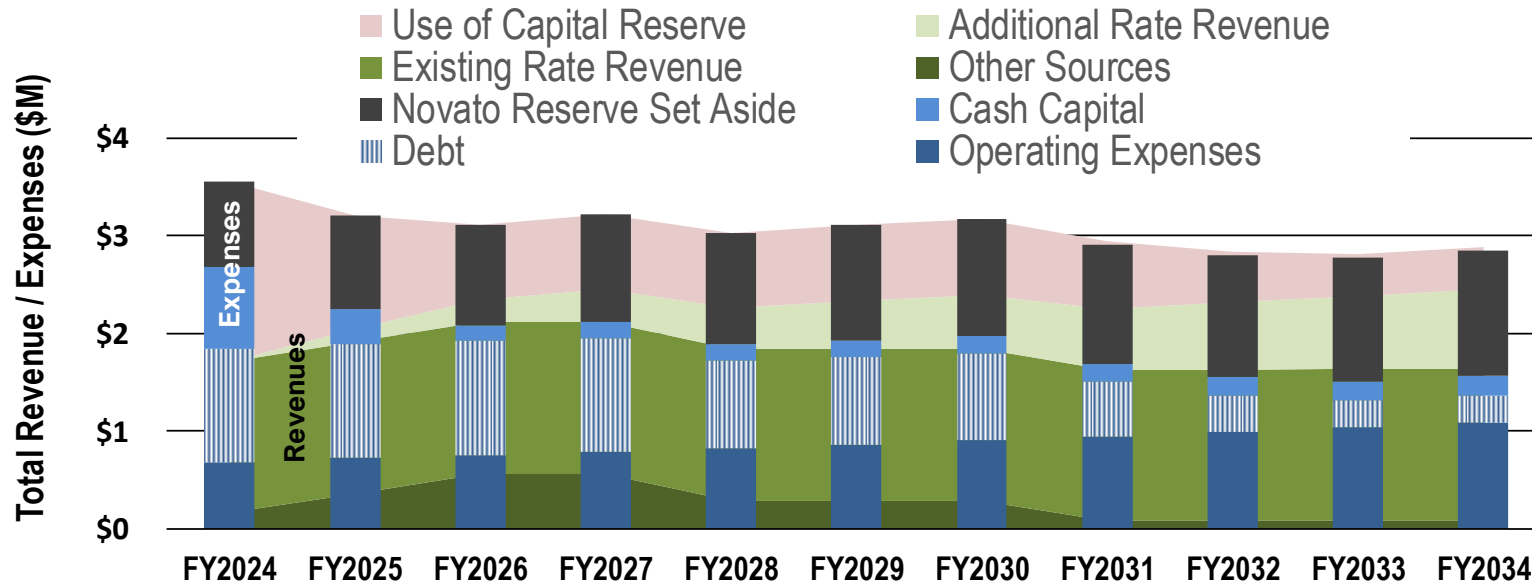
## **Operating Reserve** (established District reserve policy)

- 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 *					Projections				
Proposed Revenue Increases:	8.5%	6.0%	6.0%	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Combined DCR:	1.48	1.68	1.89	2.04	2.13	2.48	3.31	4.41	4.76	5.87

\* Rate increases are tied to Novato potable water rate increases



# **Cost of Service Study and Rate Structure Redesign**

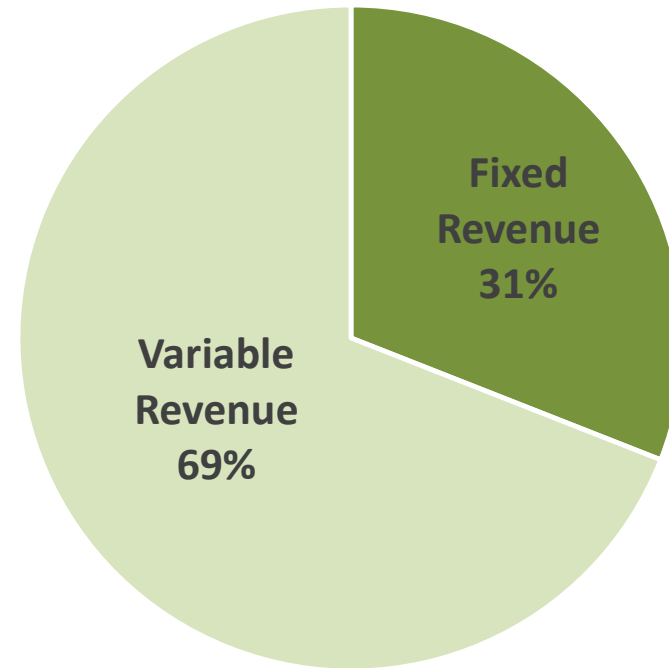
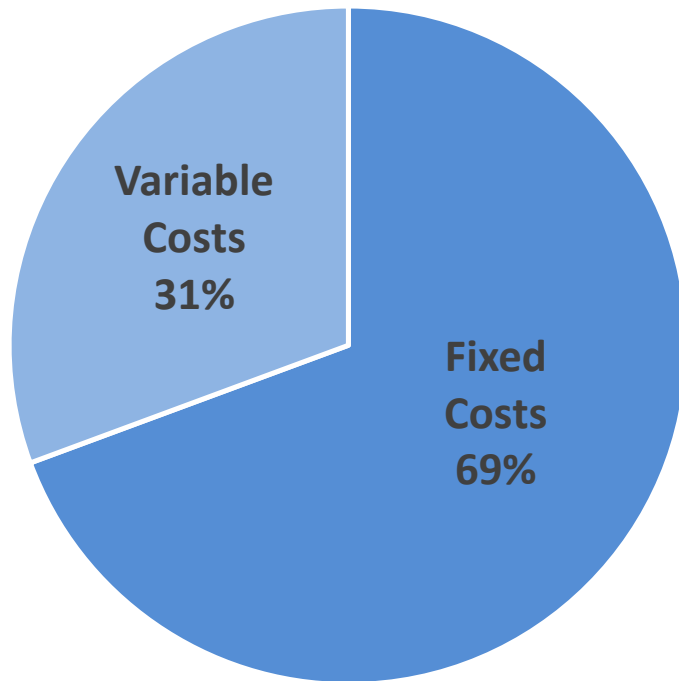
# Rate Structure Updates

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

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



# Novato

## Fixed vs. Variable Revenue

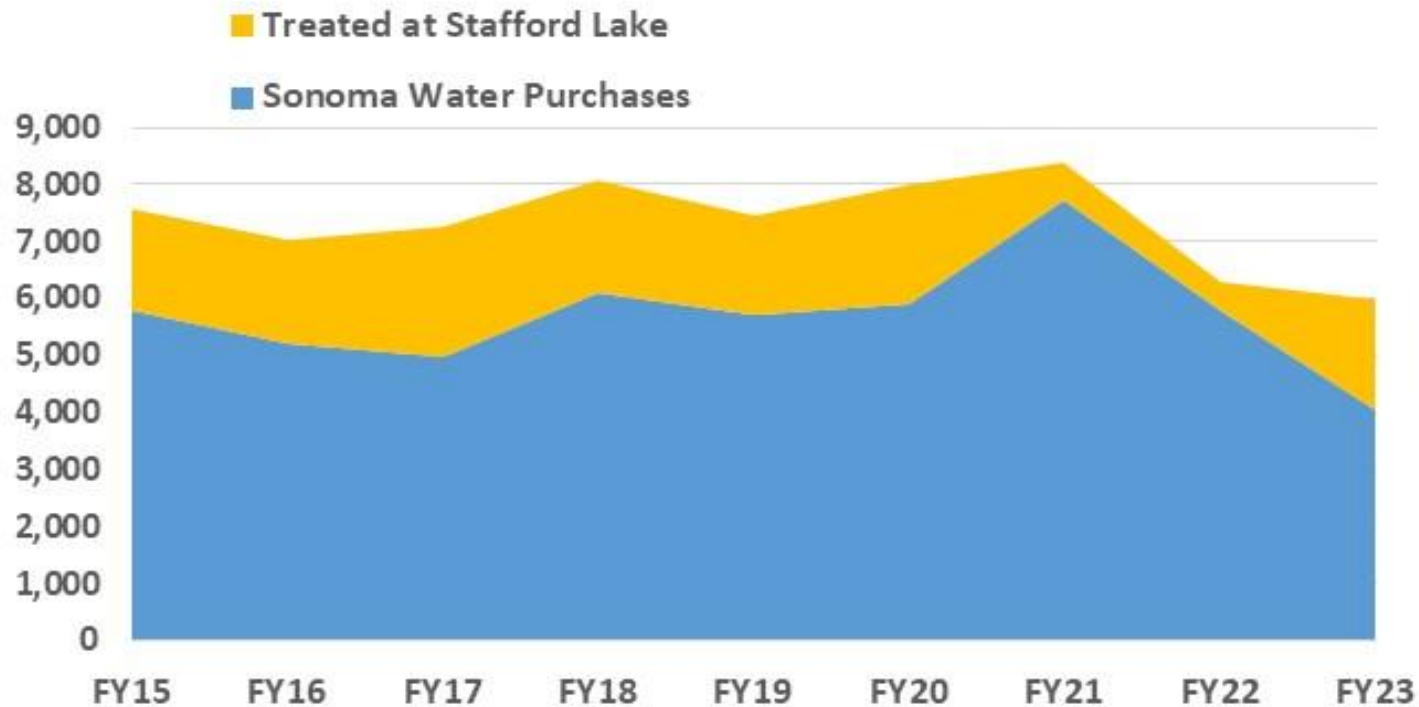
	<b>Fixed Revenue</b>	<b>Variable Revenue</b>
<b>Current:</b>	31%	69%
<b>Proposed:</b>	34%	66%

# Recycled Water Fixed vs. Variable Revenue

	<b>Fixed Revenue</b>	<b>Variable Revenue</b>
<b>Current:</b>	9%	91%
<b>Proposed:</b>	19%	81%

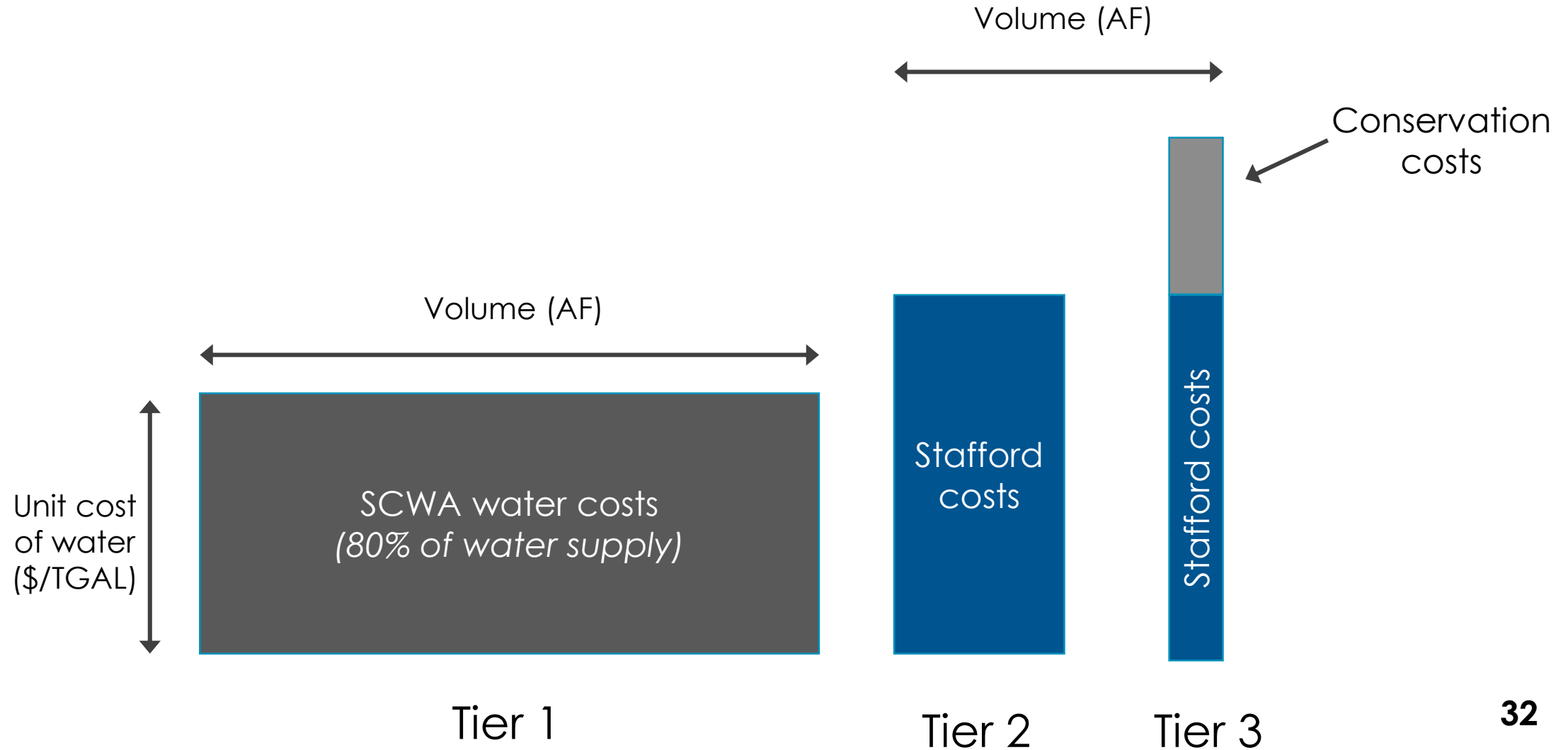
# Structuring tiered usage rates based on SCWA & Stafford water costs

- ✓ 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	897,200	897,200	\$0.40	(na)	(na)	(na)
Zone B:	60 - 200	132	3.3	945,700	3,120,810	\$1.32	\$0.93	\$0.92	-1.1%
Zone C:	200+	294	7.4	162,400	1,193,640	\$2.94	\$2.58	\$2.54	-1.6%
		<b>Total:</b>	<b>Total:</b>	<b>2,005,300</b>	<b>5,211,650</b>				

# 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		
	<u>Uniform</u>		
Commercial Zone A	\$7.54		
Commercial Zone B	\$8.46		
Commercial Zone C	\$10.08		
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>
Residential Zone A	\$7.01	\$9.16	\$13.55
Residential Zone B	\$7.93	\$10.08	\$14.47
Residential Zone C	\$9.55	\$11.70	\$16.09
Recycled Water	\$6.75		
Raw Water	\$3.53		
Temporary Meter	\$10.08		

#### BIMONTHLY SERVICE CHARGE

Potable Water	PROPOSED
5/8"	\$58.39
1" Fire*	\$58.39
1"	\$105.73
1.5"	\$184.63
2"	\$279.31
3"	\$531.79
4"	\$815.83
6"	\$1,604.83
8"	\$2,078.23

#### BIMONTHLY SERVICE CHARGE

Recycled Water	PROPOSED
5/8"	\$85.08
1"	\$188.97
1.5"	\$362.12
2"	\$569.90
3"	\$1,123.98
6"	\$3,478.82

\* Upsized due to fire requirements

	CURRENT		
	<u>Winter</u>	<u>Summer</u>	
	\$6.77	\$9.44	
	\$7.70	\$10.37	
	\$9.35	\$12.02	
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>
	\$6.77	\$7.67	\$9.44
	\$7.70	\$8.60	\$10.37
	\$9.35	\$10.25	\$12.02
	\$7.38		
	\$3.60		
	\$8.60		

	CURRENT
	\$51.01
	\$51.01
	\$91.11
	\$157.95
	\$238.16
	\$452.04
	\$692.65
	\$1,361.04
	\$1,762.07

	CURRENT
	\$57.71
	\$101.49
	\$174.47
	\$262.03
	\$495.54
	\$1,487.94

	CHANGE					
	<u>Winter</u>		<u>Summer</u>			
	\$0.77	11%	-\$1.90	-20%		
	\$0.76	10%	-\$1.91	-18%		
	\$0.73	8%	-\$1.94	-16%		
	<u>Tier 1</u>		<u>Tier 2</u>	<u>Tier 3</u>		
	\$0.24	4%	\$1.49	19%	\$4.11	44%
	\$0.23	3%	\$1.48	17%	\$4.10	40%
	\$0.20	2%	\$1.45	14%	\$4.07	34%
	-\$0.63	-9%				
	-\$0.07	-2%				
	\$1.48	17%				

	CHANGE	
	\$7.38	14.5%
	\$7.38	14.5%
	\$14.62	16.0%
	\$26.68	16.9%
	\$41.15	17.3%
	\$79.75	17.6%
	\$123.18	17.8%
	\$243.79	17.9%
	\$316.16	17.9%

	CHANGE	
	\$27.37	47.4%
	\$87.48	86.2%
	\$187.65	107.6%
	\$307.87	117.5%
	\$628.44	126.8%
	\$1,990.88	133.8%

# Bill Impacts – Single Family

	Meter Size	Bimonthly Water Usage (TGAL)		Bimonthly Bill		Change		
				Current	Proposed			
<b>Single Family</b>	5/8"	Low	4.5	\$81.48	\$89.94	10.4%	\$8.46	70% of all accounts
		Median	9.0	\$111.94	\$121.48	8.5%	\$9.54	
		High	27.0	\$243.95	\$271.91	11.5%	\$27.96	
	1"	Low	10.8	\$164.23	\$181.44	10.5%	\$17.21	1% of all accounts
		Median	21.6	\$242.63	\$269.79	11.2%	\$27.15	
		High	64.8	\$612.21	\$760.32	24.2%	\$148.11	

# Bill Impacts – Multi Family (23% of accounts)

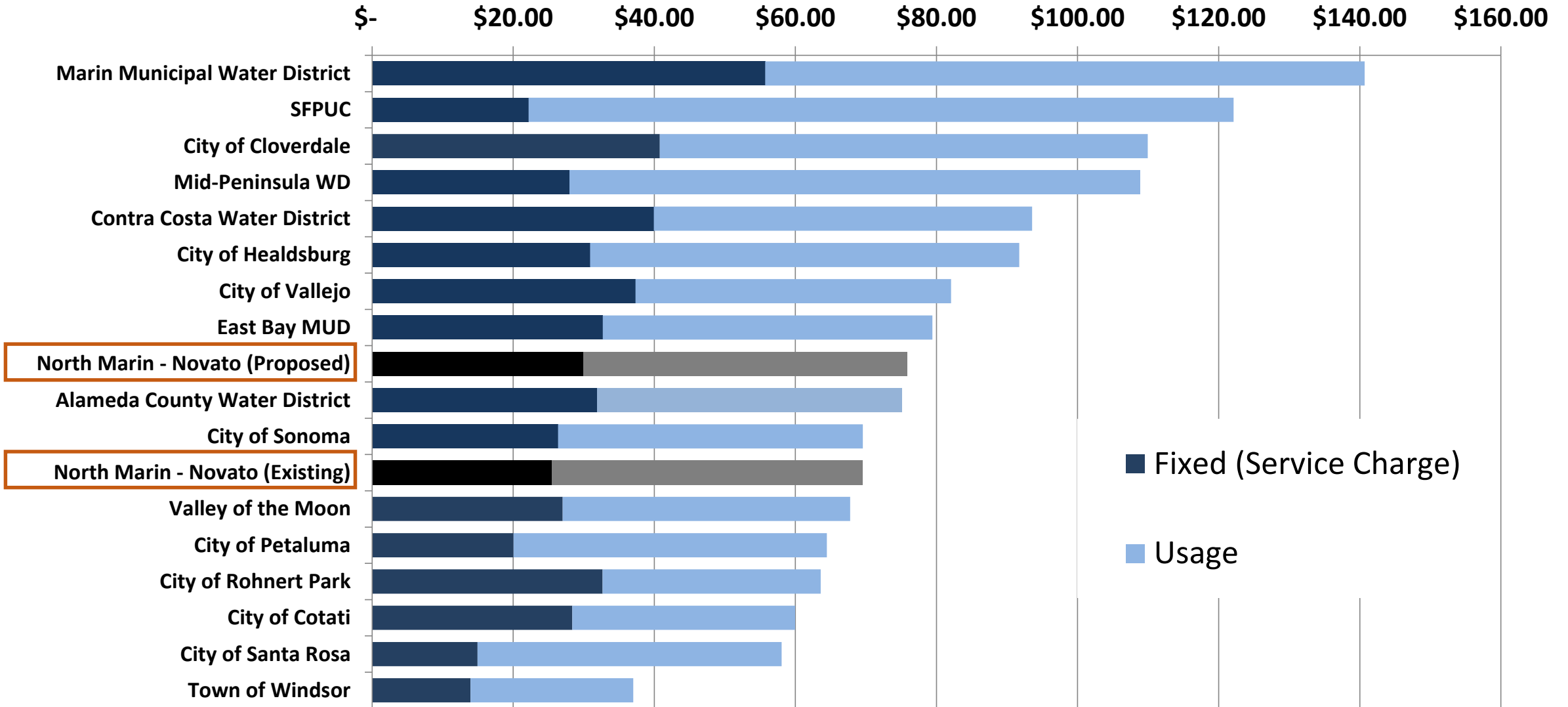
	Meter Size	Average Usage	Current	Proposed	Change	
4 Units	1"	31.7	\$305.72	\$327.95	7.3%	\$22.23
<b>Multi-</b> 8 Units	1"	30.5	\$297.60	\$319.54	7.4%	\$21.94
<b>Family</b> 16 Units	1.5"	68.7	\$623.05	\$666.22	6.9%	\$43.17
62 Units	2"	122.7	\$1,068.84	\$1,139.44	6.6%	\$70.60

# Bill Impacts – Commercial (6% of accounts)

Meter Size	Bimonthly Water Jsage (TGAL)	Summer Bill <small>(with average seasonal use by meter size)</small>			<small>(with average seasonal use by meter size)</small>			Annual Total		
		Current	Proposed	Change	Current	Proposed	Change	Current	Proposed	Change
5/8"	3	\$82.29	\$83.38	1.3%	\$73.45	\$83.38	13.5%	\$454	\$500	10.2%
1"	11	\$193.13	\$187.21	-3.1%	\$164.27	\$187.21	14.0%	\$1,029	\$1,123	9.2%
1.5"	25	\$394.18	\$373.32	-5.3%	\$327.37	\$373.32	14.0%	\$2,064	\$2,240	8.5%
2"	48	\$690.95	\$640.97	-7.2%	\$562.88	\$640.97	13.9%	\$3,569	\$3,846	7.7%
3"	187	\$2,214.59	\$1,939.59	-12.4%	\$1,716.07	\$1,939.59	13.0%	\$11,044	\$11,638	5.4%

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