



**STAFF REPORT**

**SUBJECT:** Proposition 218 Customer Notification of Proposed Rate Increases

**SUBMITTED BY:** Krishna Kumar, General Manager  
Charles Duggan, Administrative Services Division Manager/Treasurer

**RECOMMENDED ACTION:** Authorize staff to mail notification of proposed increases to water service rates, fees and charges to real property owners and ratepayers via a special mailing, in accordance with the provisions of Article 13D Section (6)(a) of the California Constitution.

**EXECUTIVE SUMMARY:**

Based on the draft 2017 cost of service analysis update (COSA) by Carollo Engineers, which was presented to the Finance Committee at the January 26, 2017 meeting, staff seeks board approval to issue the notice of proposed rate increases to water service rates, fees and charges to property owners and ratepayers via a special mailing, in accordance with the provisions of Article 13D section (6) (a) of the California Constitution. The proposed rate adjustments include increasing the fixed Service Charge, fixed Watershed Management Fee and the Tier Rates for all customer classes. The proposed increases, effective July 1, 2017 and July 1, 2018, result in overall annual 7% increases in revenue for the District.

**BACKGROUND:**

The draft 2017 COSA is a five year analysis for the period from fiscal years 2017/18 - 2021/22 which includes a multi-year financial forecast, a projection of revenue requirements and rate review and analysis. The rate review and analysis includes modifications to the current rates to improve the District's revenue and financial stability and begin a "pay as you go" funding for the District's capital program.

The District is committed to efficiently providing high quality, reliable water service at the lowest possible rates for our customers, while protecting the water resources and public health of our community. As the oldest water District in California, it is critically important that the District continually invests in its water system and the assets it holds and keeps pace with inflation and other cost increases. Each year the District evaluates its infrastructure needs, programs, and operations and maintenance costs for the ensuing fiscal year. In December 2015, based upon the 2015 COSA completed by Carollo Engineers, the District restructured its rates to provide more revenue stability and implemented its Watershed Management Fee to continue to preserve the ecological health of Mt. Tam and downstream ecosystems. Based on the current draft 2017 COSA, the District has determined that an increase in water service rates, fees and charges is necessary to: recover current and projected

costs of operations and maintenance, including cost increases in purchased wholesale water, and continue the capital infrastructure improvements necessary to providing safe and reliable drinking water; maintain the operational and financial stability of the District; avoid operational deficits and depletion of reserves and continue to maintain our high levels of service.

### ***Operating Costs and Capital Improvement Program***

For sound financial operations of the District's water system, the revenues it generates must be sufficient to meet the expenditures, both operating and capital. Revenue needs are defined as the amount of revenues that must be recovered through water service rates, fees and charges to cover annual expenditures, which include operating and capital expenditures, less any offsetting revenues. Approximately eighty percent of the District's costs to operate and maintain its water system are fixed, meaning the costs remain the same regardless of water sales.

Over the past 20 years, the District has primarily used bond funding for building capital projects with no specific annual rate revenue (other than for interest payments on the bonds) for capital projects. Generating revenue through rates to pay a portion upfront of the annual capital infrastructure costs is fiscally responsible water management practice and is generally known as PAYGO (pay-as-you-go) funding. Prudent fiscal policy for accomplishing capital improvements is to maintain a roughly 50/50 split between bond funding and PAYGO, which ensures a) limited interest payments, b) a higher debt coverage ratio, and c) generational equity – the fair division of payment responsibility between current ratepayers (PAYGO) and future ratepayers (bond funding).

Anticipated District revenues from the proposed rate increases are projected to increase by \$4.9 million in FY 17/18 and \$5.2 million in FY 18/19, an average of approximately 7% each year. This additional revenue is the primary source of PAYGO funding of \$6 million in FY 17/18 and \$7 million in FY 18/19. This PAYGO approach enables the District to invest \$75.5 million in infrastructure improvements over the next 18 years, including \$9 million in water treatment plant upgrades (the first phase of a planned \$62 million investment), \$21 million in pipeline replacements, and \$5 million for storage tank replacements. These expenditures represent significant and necessary improvements to our aging infrastructure and which will in turn preserve the long term health of the District's aging water system..

### ***Proposition 218 Rate Setting and Cost of Service***

In California, rate setting must meet the requirements of California Constitution article 13D, section 6 (commonly referred to as Proposition 218), which requires that there be a nexus between the cost of providing water service and the District's water rates and charges. The draft 2017 COSA is an analytical tool that identifies the District's costs to provide water service and allocates those costs based on usage and impacts to the District's water system to the various customer classes and users.

Based on the draft 2017 COSA, the District's water service rates, fees and charges are structured to proportionally allocate the cost of providing water service. The rate structure has eight customer classes: (1) Single-Family; (2) Multi-Family; (3) Duplex; (4) Commercial; (5) Irrigation; (6) Recycled

Water; (7) Institutional and (8) Raw Water, i.e., customers who receive untreated water. The rate structure for the District’s water service has three components: (1) fixed Service Charge; (2) Tier Rates (variable volumetric Commodity Charge); and (3) Watershed Management Fee.

**Proposed Rate Alternatives for 2017/18 and 2018/19**

At the January 26<sup>th</sup> Finance Committee meeting staff presented two alternative rate proposals for analysis, one with a single 7% rate increase across all rate components and another one with a larger increase to the Watershed Management Fee. As a result of this analysis, for a 5/8<sup>th</sup> inch connection, the former resulted in the Watershed Management Fee increasing by \$0.37 and the later resulted in an increase of \$2.60. After receiving Board input, a third alternative was considered with a moderate increase to the Watershed Management Fee which resulted in an increase of \$ 0.98 (from \$8.80 to \$9.78) for a 5/8<sup>th</sup> inch connection and a lower across the board percentage increase to all water service rates, fees and charges. That third alternative was analyzed by the Carollo and that alternative is the basis of the latest draft of 2017 COSA.

The proposed rate adjustments include increasing the fixed Service Charge, fixed Watershed Management Fee and the Tier Rates for all customer classes. The proposed increases, effective for water used as of July 1, 2017 and July 1, 2018, respectively result in overall annual 7% increases in revenue for the District.

As a result of the proposed rates, fees, and charges for water service, the bill for the average single family residential customer, with a 5/8-inch water meter<sup>1</sup> and using 12,716 gallons in a two month period (17 CCF)<sup>2</sup>, will increase by approximately \$2.90 per month effective July 1, 2017 and \$4.09 per month effective July 1, 2018 as shown in the table below:

**Average Single Family Bill Impact**

Item	Current Rate	Proposed Rates	
		July 1, 2017	July 1, 2018
Service Charge	33.85	36.79	39.41
Watershed Management Fee	8.80	9.78	10.41
Commodity Charge	<u>67.32</u>	<u>69.19</u>	<u>74.12</u>
2-Month Bill Amount	109.97	115.76	123.94
Difference		5.79	8.18
<b>1-Month Bill Amount</b>	<b>54.99</b>	<b>57.88</b>	<b>61.97</b>
Difference		2.90	4.09
<b>Price per Gallon</b>	<b>\$0.01</b>	<b>\$0.01</b>	<b>\$0.01</b>

The corresponding monthly increases for an average single family residential customer using a 1” meter will be \$4.35 effective July 1, 2017 and \$5.30 effective July 1, 2018.

1 76% of households have a 5/8-inch water meter.

2 One CCF is 748 gallons. 17 CCFs or 12,716 gallons for a two month period is equivalent to 53 gallons per capita per day for a 4-person household.

**Proposition 218 Noticing Requirements**

Proposition 218, a state proposition approved by California voters in 1996, added Article 13D to the California Constitution which requires voter approval prior to the imposition of general taxes, assessments, and certain user fees, and includes water rate increases. Ratepayers and property owners must be informed in writing of the proposed rate increase, the date, time and location of the public hearing on the proposed rate increase, and the process to file a written protest prior to the scheduled public hearing. Subdivision (a) of Section 6 of the California Constitution’s Article 13 D requires that 45 days must elapse from the time the notices are mailed until the public hearing on the proposed rate increase.

The draft Proposition 218 Notice is attached for board review. Staff worked to make the notice user friendly and easy to understand. The draft notice includes a full recitation of all of proposed rates for FY 2017/18 and 2018/19, the reasons for and the basis upon which the rates are calculated and a perforated protest portion that District consumers may remove and submit to the District. With board authorization to issue the Proposition 218 notice, a special mailing notifying property owners and ratepayers of the proposed increase to water service rates, fees and charges by letter will begin.

The Draft 2017 COSA will be finalized at the time of the public hearing on the proposed rates (currently scheduled for May 16, 2017). In the interim, staff will conduct a public workshop on the proposed rate increase and draft 2017 COSA on April 11, 2017. Below is the proposed schedule for the Proposition 218 notification, public workshop and public hearing.

Date	Meeting	Milestone/Venue
March 7 <sup>th</sup>	Board	Board Consideration to issue Prop 218 Notice
April 11 <sup>th</sup>	Public Rate Workshop	Corte Madera Community Center
May 16 <sup>th</sup>	Board (Public Hearing)	Consideration of rate increase
June 6 <sup>th</sup>	Board	Adoption of FY 18 & FY 19 budget

**Monthly Billing**

Staff plans to separately bring another agenda item to seek board approval for implementing monthly billing outlining the cost benefit aspects of that approach. Assuming board approval, staff is prepared to roll out monthly billing effective for water usage beginning July 1, 2017, to coincide with the adoption of the new rates.

**STRATEGIC PLAN ALIGNMENT:** The requested action aligns with the District’s Strategic Goal 2: Financial Stewardship – We will prudently manage the public resources entrusted to us and Strategy 1: Ensure financial planning is sufficient to address MMWD needs and risks.

<b>REVIEWED BY:</b> A.S. Division Manager/Treasurer	<input checked="" type="checkbox"/>	NA	<input type="checkbox"/>
General Counsel	<input checked="" type="checkbox"/>	NA	<input type="checkbox"/>
General Manager	<input checked="" type="checkbox"/>	NA	<input type="checkbox"/>

**ATTACHMENTS:**

- 1. DRAFT PROPOSITION 218 NOTICE OF PUBLIC HEARING**
- 2. DRAFT COST OF SERVICE STUDY IS AVAILABLE AT THE DISTRICT’S WEBSITE AT [HTTP://WWW.MARINWATER.ORG/DOCUMENTCENTER/HOME/VIEW/4722](http://www.marinwater.org/documentcenter/home/view/4722)**
- 3. PROPOSED BUDGET FY17/18 AND FY18/19 AVAILABLE AT THE DISTRICT’S WEBSITE [HTTP://WWW.MARINWATER.ORG/DOCUMENTCENTER/HOME/VIEW/4723](http://www.marinwater.org/documentcenter/home/view/4723)**