



# Rate Setting Update: Proposed Rate Structure

March 14, 2023

Board of Director's Meeting



# Presentation Overview

- Review of Rate Setting Process
- Proposed Rate Structure
- Next Steps

# Your Water District – the longest running in California

**Mission:** *Manage our natural resources in a sustainable manner and provide reliable, high-quality drinking water at a reasonable price*

- Established in 1912 as state's first municipal water District
- 147 sq. mile service area covers central and southern Marin
- 191,000+ people served
- Nearly 8 billion gallons of water delivered annually
- As a public agency, the District does not make a profit – by law, we only charge customers the cost of providing reliable, high-quality drinking water



# Five Key Challenge Areas

## 1. **Water consumption is well-below long-term averages**

- Trend is expected to continue throughout the next rate cycle

## 2. **Ongoing annual baseline budget shortfall of ~\$20 million**

- Inflationary pressures
- Rate structure does not align with current demand patterns

## 3. **Water supply enhancement projects require additional funding**

- Short-term projects and longer-term plan was not funded in current rate structure

## 4. **Capital investments are an increasing priority due to aging infrastructure**

- Baseline budget creates a growing backlog of deferred maintenance
- Opportunity to use bond funding to address critical needs in short term

## 5. **Future Uncertainties**

- Climate Change/ Drought
- Economy/ Inflation

# Organizational Challenge: Marin Water is Unique

## Municipal Utility

- Not a business
- Not a municipal government (i.e. town, city, county)
- Not a non-profit organization

## California

- Proposition 218 governs the rate-setting process
- Climate change drives increased risk of drought and wildfire

## Marin County

- Topography -> requires more infrastructure to pump water over the hills
- Density -> Low population density reduces economics of scale
- Slow Growth -> Smaller population base to share costs; less benefit from new connection fees

## Marin Water

- Oldest municipal water district in California -> significant deferred maintenance
- Local Watershed Management and Water Treatment Operations
- Unlike many Bay Area water suppliers, Marin does not rely on the Sierras or the State Water Project

# Marin Water is Locally Sourced

- **75%** comes from Marin reservoirs  
(Combined total storage = 80,000 AF)
  - Mt. Tamalpais Watershed
  - Nicasio & Souldajule reservoirs
- **25%** is imported from Sonoma County\*
  - Russian River

*\*Based on long-term averages*



# Where does the Bay Area get its water?



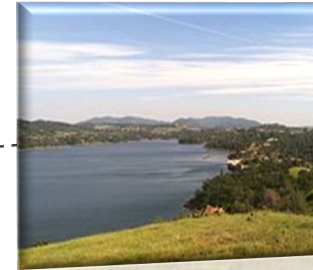
*Shasta: 4.5 million AF*



*Oroville: 3.5 million AF*



*Mokelumne: 620,000 AF*



*Hetch Hetchy: 633,000 AF*

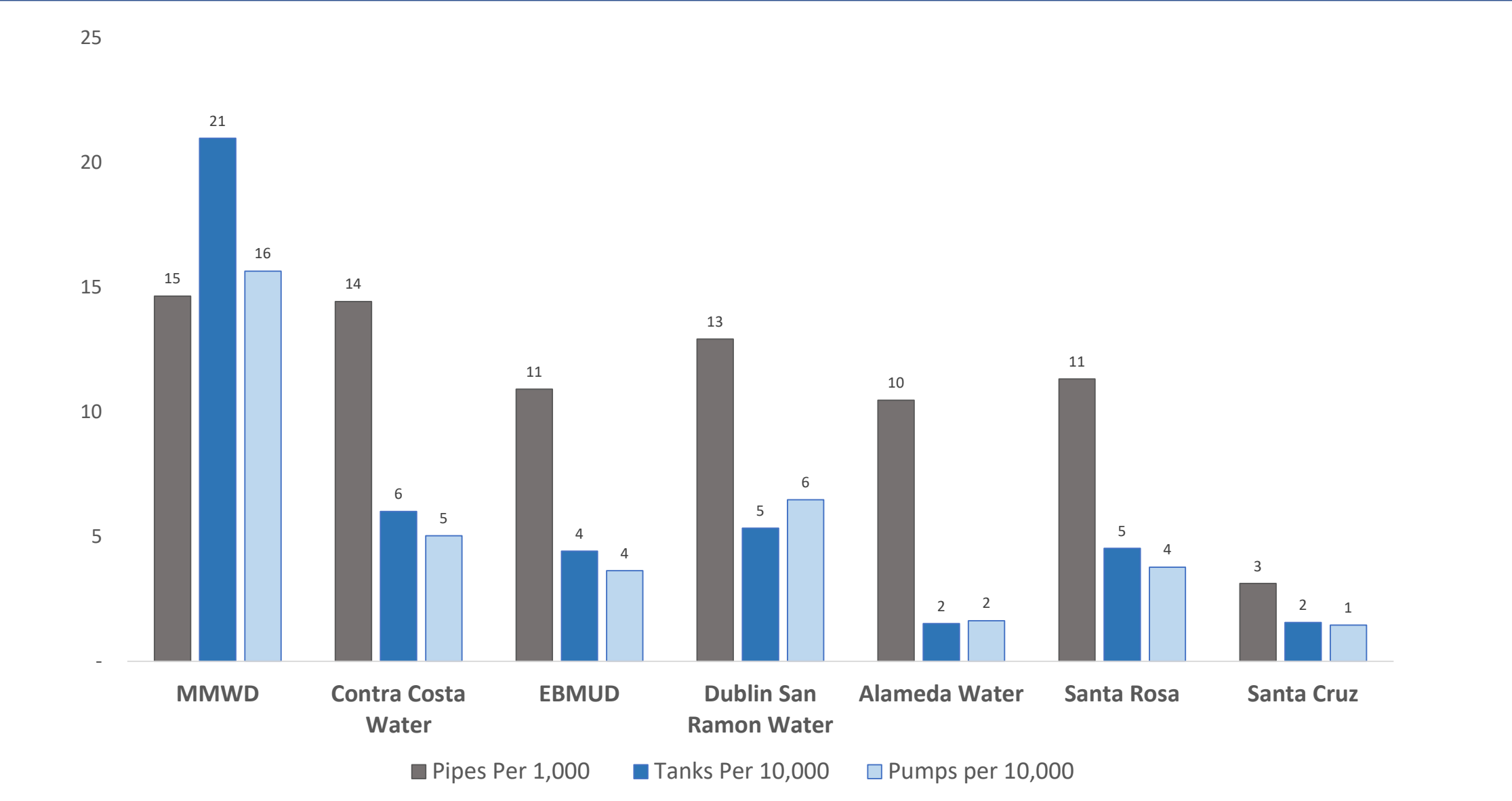


*San Luis: 2 million AF*



Map not to scale  
AF = Acre Feet

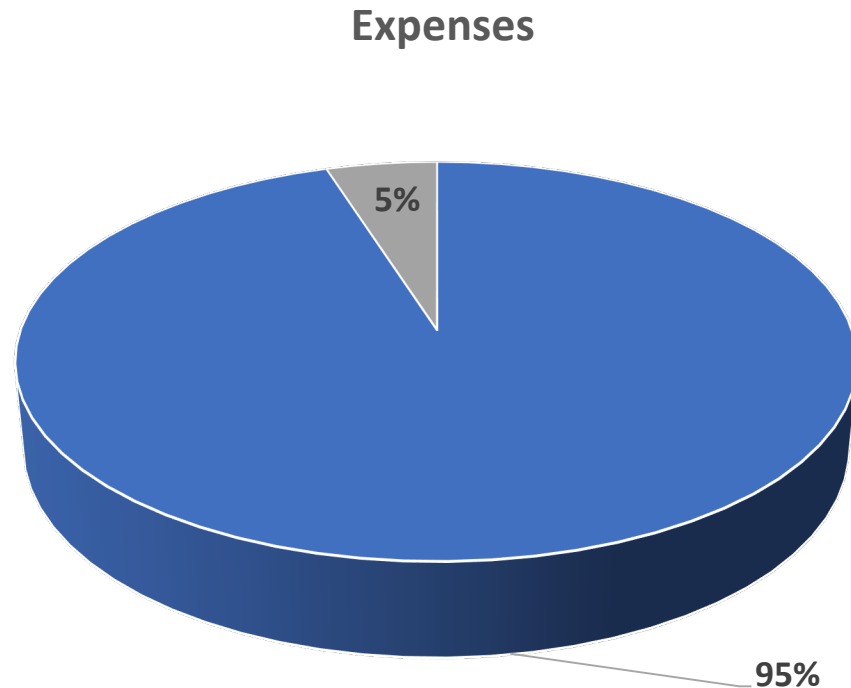
# Regional Infrastructure Ratios



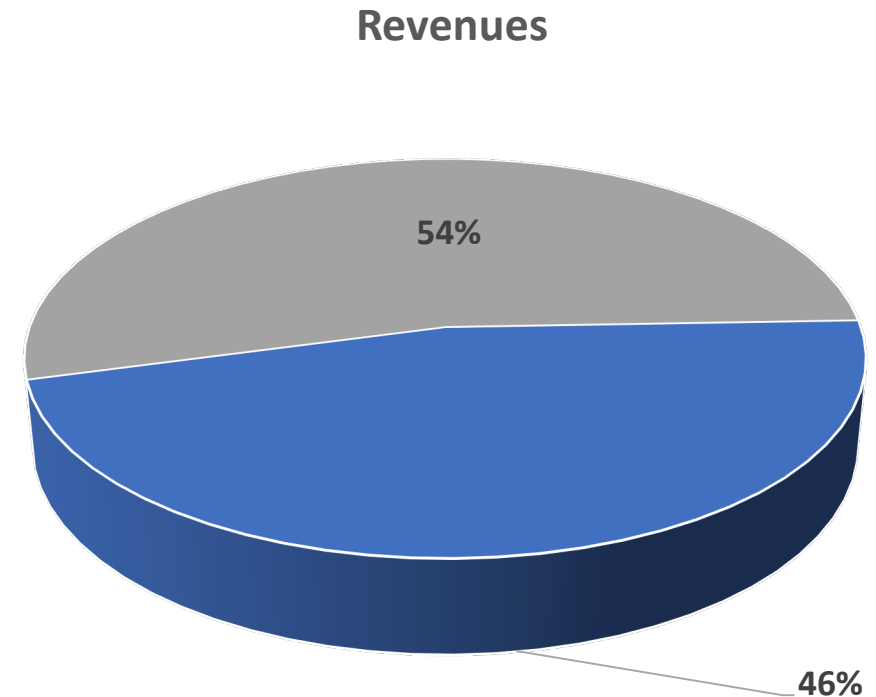


# Financial Challenge: Fixed Expenses vs. Variable Revenues

- Nearly all of the District's expenses are fixed
- More than half our revenues are dependent on the amount of water distributed to customers

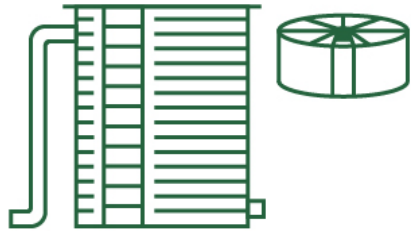


■ Fixed ■ Variable



■ Fixed ■ Variable

# What it takes to deliver water to our customers



## 24/7 Water Operations

Water treatment and distribution

Water quality testing

Emergency response



## Watershed Land Management

Wildfire resiliency/  
vegetation management

Forest and creek  
restoration

Ongoing maintenance  
and improvements



## Water System Care & Improvements

Ongoing  
maintenance

System improvements

Infrastructure  
investments for water  
system reliability



## Customer Service

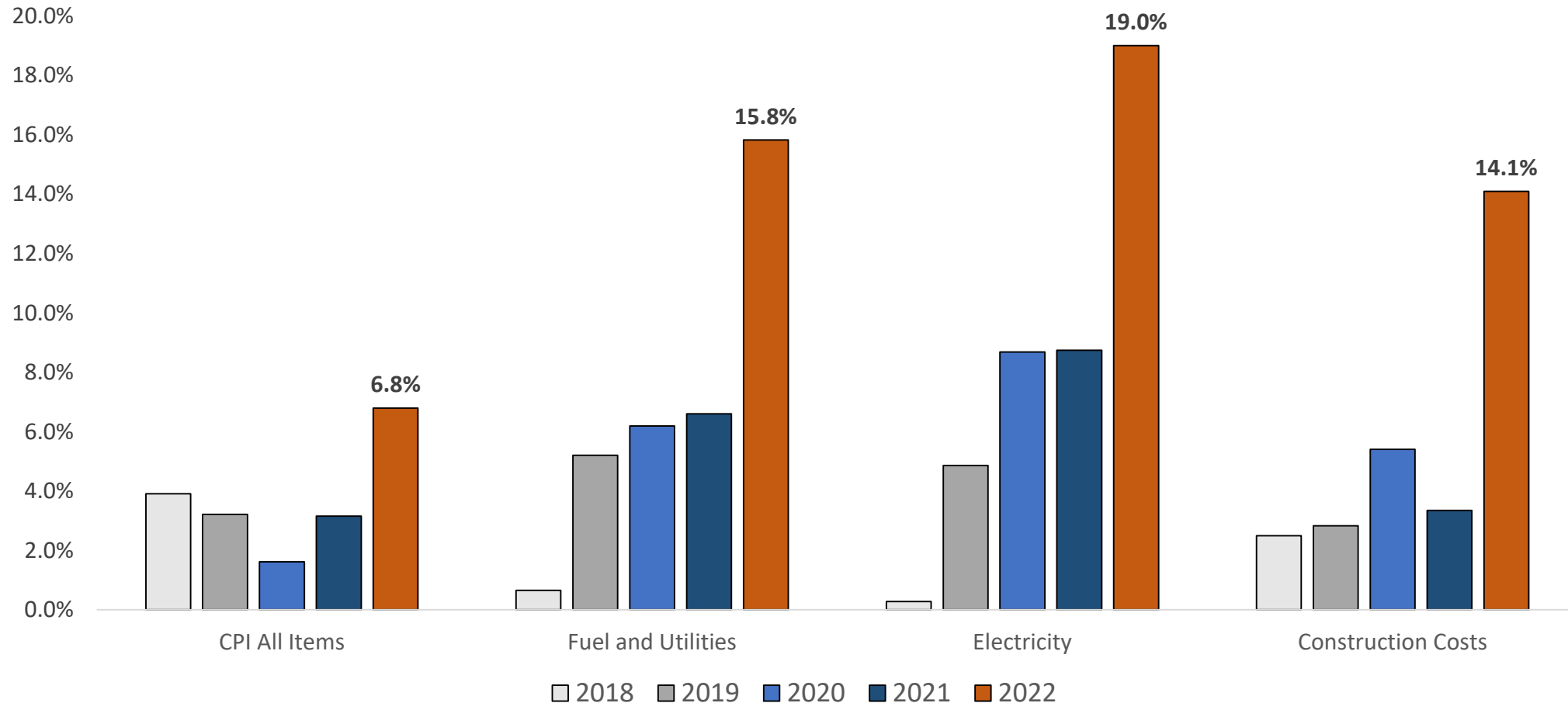
Billing and account  
assistance

Programs and  
outreach

# Financial Challenge: Inflationary Pressures

- Double digit increases are affecting core operational areas

## Bay Area Inflation Rates



# Examples of Inflation and Key Cost Drivers at Marin Water



## Purchased Water from Sonoma

Expecting 8-10% per year increases in the base rate for each of the next 4 years



## Paving contracts

Costs more than doubled for paving projects since 2020 due to increasing local jurisdiction requirements to repair streets after pipeline projects



## Welded Steel Pipe

Costs have increased 17% per year from 2020 to 2022



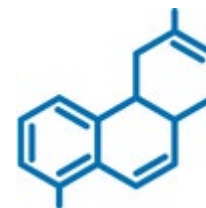
## Insurance

Premiums have risen over 50% since 2021 due to increased statewide wildfire risk and litigation trends



## Water Meters

Prices are up over 90% since 2021 for basic analog meters



## Water Treatment Chemicals

20% increase in unit costs last bidding cycle



# Rate Setting Process

# Why a rate increase is needed

Strengthen water supply reliability in the face of extreme droughts

Build upon water & wildfire resiliency efforts on the Mt. Tam Watershed

Keep pace with rising costs of operating expenses & invest in aging infrastructure

Replenish reserves to remain prepared for future events outside District control

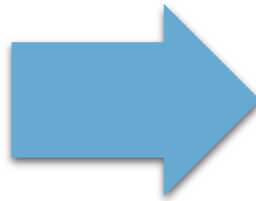
These initiatives require additional funding through local water rates

# Rate Setting Process

- Proposition 218 outlines the process by which all service fees charged by local governments in California
  - Rates cannot exceed cost of providing service
  - Cost recovery methodology must be proportional to customer base

## Cost of Service Analysis\*

- Recent Trends
- Rate Structure
- Revenue Requirement:
  - Operations & Maintenance
  - Capital Improvements
  - Water Supply Enhancement Projects
  - Fiscal Sustainability

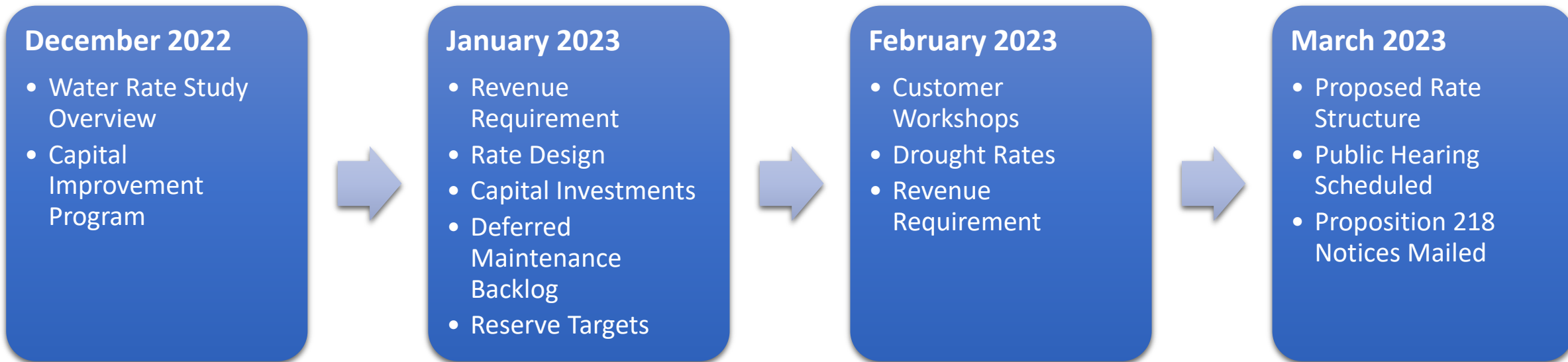


## Public Outreach & Engagement

- Board Meetings
- Customer Workshops
- Website
- Bill Inserts
- District E-News
- News Releases/Media
- Social Media
- Mailed Notice\*
- Public Hearing\*

*\*proposition 218 requirements*

# Rate Setting Process Recap





# Discount Programs Available to Customers

- The District will continue to provide a variety of robust financial support programs to customers who need assistance in paying their water bill



## Medical Disability Discount

*Waives certain fees, discounts additional water usage*

**400** currently enrolled customers



## Waiver Program Based on Income

*Subtracts water charges and fees from qualifying customers' bills*

**1,000** currently enrolled customers



## Super Saver Program

*Provides a discount worth up to \$8 for the lowest 5% of water users*

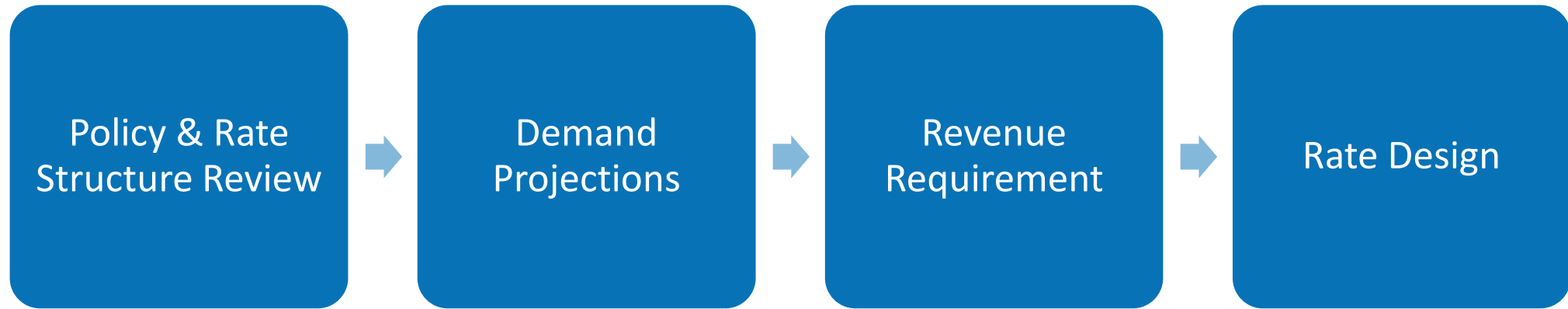
**3,000** benefitting customers



# **Cost of Service Analysis**

## Determination of Revenue Requirement and Funding Priorities

# Cost of Service Analysis: Step by Step Approach



Key step in determining  
Districtwide funding priorities

# Components of Revenue Requirement

- Baseline Budget: Funding for existing service levels and Capital Improvement Plan
  - Currently facing \$20 million shortfall due to rate design and inflationary impacts
    - Requires use of reserves and temporary cost reduction strategies
  - Capital Improvement Plan baseline budget of \$20 million creates a growing backlog of deferred maintenance
- Investments and Service Enhancements to Strengthen the Organization
  - Water supply enhancements
  - Large system-critical 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

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

- The District’s current rate structure produces an ongoing budgetary shortfall for existing (baseline) services under current demand levels
  - Due to inflation, the annual deficit increases throughout the 4 year rate cycle
- Reserves have been utilized to offset the revenue impacts of the drought
  - Will need to be replenished by at least \$2.5 million per year

# Financial Plan Scenario: Baseline Budget + All 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 Enhancements	\$11.6	\$11.6	\$11.6	\$11.6
Critical Infrastructure Projects	\$8.8	\$8.8	\$8.8	\$8.8
Deferred Capital Backlog	\$23.9	\$23.9	\$23.9	\$23.9
Service Level Enhancements	\$1.5	\$1.4	\$1.5	\$1.5
Reserves and IT Systems	\$5.5	\$8.5	\$8.5	\$8.2
<b>Total Revenue Requirement</b>	<b>\$72.0</b>	<b>\$81.1</b>	<b>\$86.5</b>	<b>\$91.9</b>
<i>Annual % change</i>	<i>73%</i>	<i>5%</i>	<i>3%</i>	<i>3%</i>

# Recommended Financial Plan: Revenue Requirement for Targeted Investments over 4 year planning period

## Water Supply Resiliency Enhancements

- Electrify Soulajule Reservoir (\$6.4M)
- Phoenix Lake-Bon Tempe Connection (\$4.4M)
- Roadmap Implementation and Pre-Design (\$10.9M)
- Conservation Program (\$6.8M)
- Water Supply Project Reserve (\$10.0M)
- Maximize Sonoma Water (\$9.6M)

## Capital Infrastructure and IT Systems

- Scaled Up Backlog Reduction Funding (\$30.0M)
- Debt Service for Large System-Critical Projects (\$10.4M)
- SAP Replacement and AMI Expansion (\$10.7M)

## Service Enhancements

- Watershed Fire Fuel Mitigation – BFFIP (\$2.0M)
- Ranger Trainee (\$0.8M)
- Organizational Training and Development (\$0.8M)
- Valve Exercising Crew (\$0.9M)

# Rate Structure: Focus Areas

## **Update rate model to reflect current demand patterns and cost of service**

- Reduce residential tier breaks to align with current demand patterns
- Reduce fixed fees as a percentage of customer bills
- Increase volumetric charges to provide enhanced funding

## **Simplify the rate structure**

- Improve customer understanding
- Give customers greater control of their monthly bill
- Encourage conservation
- Eliminate seasonal tiers for residential customers

## **Apply a long-term lens**

- Incremental approach to change where possible
- Goal of stable and predictable future rate increases
- Incorporate drought rates



# Cost of Service Analysis

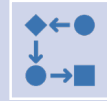
Marin Municipal Water District

Bartle Wells Associates:

- Independent public finance advisory firm founded in 1964



**Overview and Objectives**



**Rate Study Process**



**Financial Plan**



**Rate Structure Modifications and Proposed Rates**



**Next Steps**



**Questions and Discussion**

# District Financial Overview



- Water rates are the primary source of revenue
- Rates need to be set at levels adequate to fund the cost of providing service
- Marin Water is facing financial challenges that will require rate increases
  - Recent drought caused operating deficit and required the use of reserves due to increased expenses and reduced revenues
  - Continued repair and replacement of the District's aging infrastructure
  - Water supply reliability and enhancement projects are needed

# Rate Study Objectives



**Financial Sufficiency**



**Legal Compliance (Prop. 218)**



**Rates Aligned with District Objectives**



**Customer Focus**



# Proposition 218



- **Voter-approved constitutional amendment 1996**
  - Added Articles 13C & 13D to the California Constitution
- **Substantive requirements for property-related charges**
  - Rates cannot exceed cost of providing service
  - Proportionate cost recovery (fair and equitable)
- **Procedural requirements for rate increases**
  - Mail notice of rate increases to all property owners/customers
  - Hold public hearing at least 45 days after the mailing
  - Rates are subject to “majority protest”

# Rate Study Overview



- **Financial Plans**
  - Fund long-term operating, debt service and capital needs
- **Cost of Service Rate Analysis**
  - Evaluate rate alternatives
  - Develop updated rates that reflect the cost of service and meet annual revenue requirements
- **District and Community Input Throughout Project**
  - Incorporated input from staff and Board
  - District held 4 community workshops

# Financial Challenges

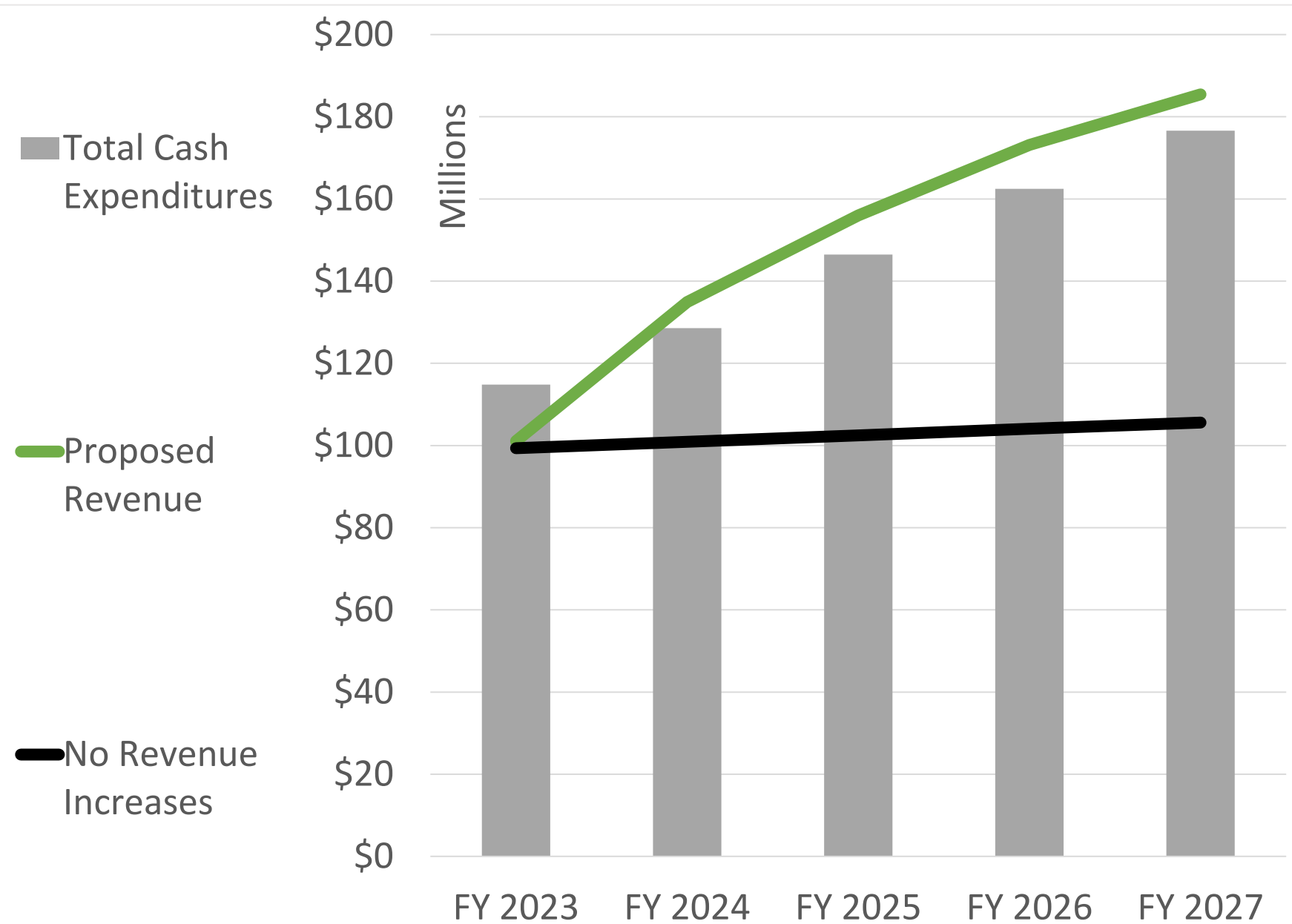
*BWA developed updated financial projections to identify funding needs & evaluate rate increases*

- Projected deficit of \$27 million with no rate increase in FY 2023/24
- Aging infrastructure & capital improvement needs
  - Water system upgrades, water supply enhancements, repairs & replacements needed to maintain reliable operations
  - Over \$200 million over the next 4 years
- Wholesale (Sonoma) water rate increases projected at 8.5% per year over the next 4 years
- Operating cost inflation
  - Annual rate adjustments needed to keep rates in line with escalating costs (electricity, materials, insurance, etc.)
- Position the District to pursue future water supply enhancement and reliability projects

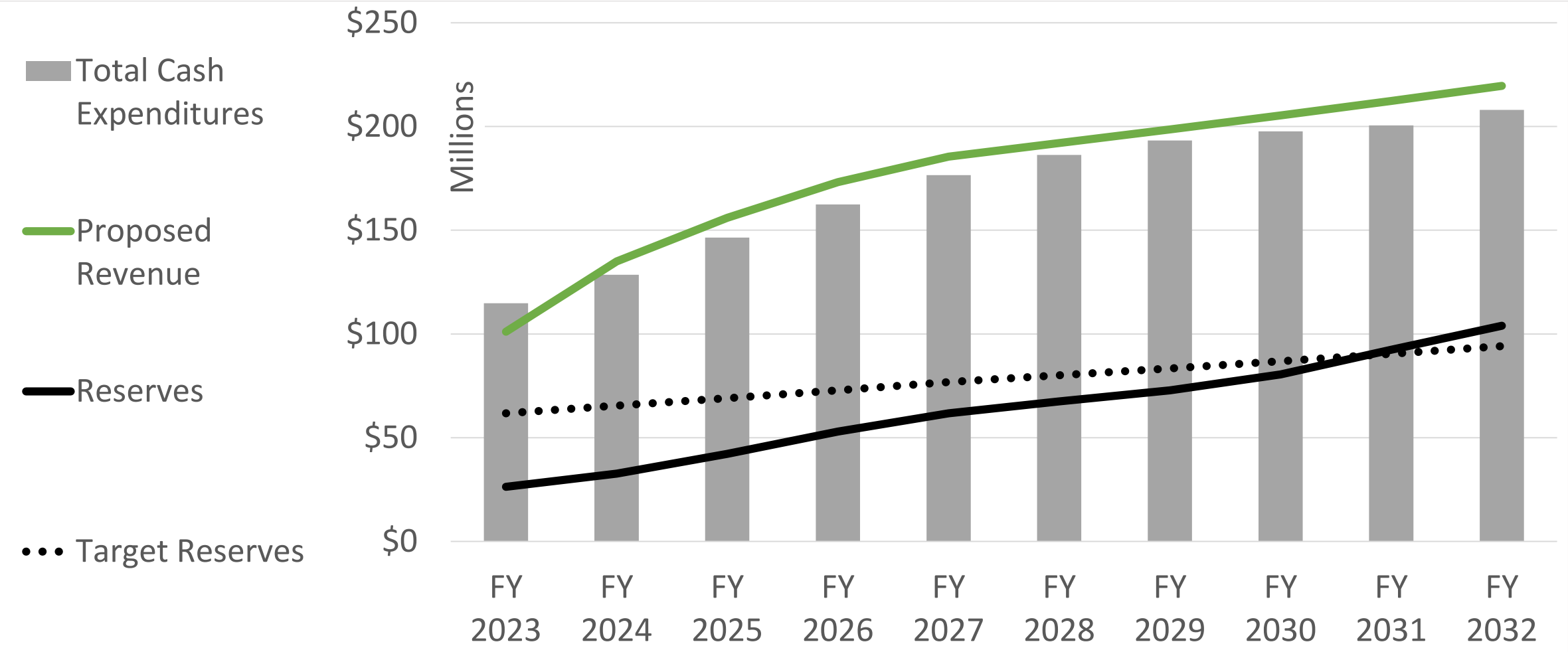
# District Cashflow Projections

Lines = Annual Revenue  
Columns = Annual Expenditures

Required Rate	FY 2024	FY 2025	FY 2026	FY 2027
Revenue Increases	\$33,400,000	\$17,600,000	\$13,400,000	\$8,200,000



# 10-Year Projected Financial Plan





# Existing Water Rates



## Fixed bi-monthly charges based on meter size

- **Base Water Charge (Service Charge)**
- **Capital Maintenance Fee (CMF)**
- **Watershed Management Fee (WMF)**
- **Private Fire Line Service Charge**

## Volumetric charges based on water use

- **Residential, Duplex & Multi-Family:** 4 tier, inclining block rate structure based on fixed blocks
- **Commercial, Institutional, Irrigation, Single Family Irrigation, & Recycled:** 3 tier, inclining block rate structure with blocks based on % of water allotment
- **Raw Water:** Uniform rate

# Rate Structure Recommendations

1. Residential: Align tiers to reflect current water demands and costs
  - Adjust tier breakpoints
  - Remove tier seasonality because static tiers already reflect seasonality of use
2. Adopt drought rates tied to Water Shortage Contingency Plan
3. Reduce fixed fees as a proportion of customer bills
  - Recover Watershed Management Fee volumetrically
  - Service charge to increase based on projected inflation
  - Capital Maintenance Fee to increase based on projected inflation
  - Adjust Single-Family and Duplex meter equivalents for fixed charges



# Water Rate Structure Recommendations

4. Update Recycled water rate structure to reflect new operating agreement
5. Consolidate customer classes to reflect similar usage patterns and costs
  - Combine Single-Family Residential and Duplex classes
  - Combine Single-Family Irrigation class with the Commercial, Institutional & Irrigation class

*Rate structure adjustments will result in a range of bill impacts reflecting the proportionate cost to provide service to each customer*

# Recommended Fixed Service Charge

## Bi-Monthly Fixed

Charges	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
<i>Meter Size</i>	<i>Existing</i>	<i>Proposed</i>	<i>Proposed</i>	<i>Proposed</i>	<i>Proposed</i>
<b>Service Charge</b>					
<i>SFR + Duplex</i>					
5/8"	\$ 44.62	\$ 48.04	\$ 50.44	\$ 52.96	\$ 55.61
3/4"	57.09	61.99	65.09	68.34	71.76
1"	82.01	72.46	76.08	79.88	83.87
1.5"	144.30	142.22	149.33	156.80	164.64
2"	219.05	222.45	233.57	245.25	257.51
<i>All Other Customer Classes (Except Private Fire Lines)</i>					
5/8"	\$ 44.62	\$ 48.04	\$ 50.44	\$ 52.96	\$ 55.61
3/4"	57.09	65.48	68.75	72.19	75.80
1"	82.01	100.36	105.38	110.65	116.18
1.5"	144.30	187.57	196.95	206.80	217.14
2"	219.05	292.22	306.83	322.17	338.28
3"	455.77	710.82	746.36	783.68	822.86
4"	804.63	1,408.48	1,478.90	1,552.85	1,630.49
6"	1,763.97	2,454.97	2,577.72	2,706.61	2,841.94
8"	3,009.87	4,722.38	4,958.50	5,206.43	5,466.75
10"	4,754.13	6,989.78	7,339.27	7,706.23	8,091.54



# Recommended Fixed Service Charges (continued)

## Bi-Monthly Fixed

Charges	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
<i>Meter Size</i>	<i>Existing</i>	<i>Proposed</i>	<i>Proposed</i>	<i>Proposed</i>	<i>Proposed</i>
<b>Capital Maintenance Fee</b>					
<i>SFR + Duplex</i>					
5/8"	\$ 30.42	\$ 31.50	\$ 33.08	\$ 34.73	\$ 36.47
3/4"	45.61	44.11	46.32	48.64	51.07
1"	76.03	53.56	56.24	59.05	62.00
1.5"	152.07	116.57	122.40	128.52	134.95
2"	243.32	189.03	198.48	208.40	218.82
<i>All Other Customer Classes (Except Private Fire Lines)</i>					
5/8"	\$ 30.42	\$ 31.50	\$ 33.08	\$ 34.73	\$ 36.47
3/4"	45.61	47.26	49.62	52.10	54.71
1"	76.03	78.76	82.70	86.84	91.18
1.5"	152.07	157.52	165.40	173.67	182.35
2"	243.32	252.04	264.64	277.87	291.76
3"	532.26	630.10	661.61	694.69	729.42
4"	958.09	1,260.19	1,323.20	1,389.36	1,458.83
6"	2,129.09	2,205.34	2,315.61	2,431.39	2,552.96
8"	3,649.85	4,253.15	4,465.81	4,689.10	4,923.56
10"	5,778.95	6,300.97	6,616.02	6,946.82	7,294.16

# Recommended Tier Allotments

## Single-Family Residential & Duplex Tier Allotments

Tiers	Existing Summer	Existing Winter	Proposed Summer/ Winter
	<i>CCF</i>	<i>CCF</i>	<i>CCF</i>
Tier 1	0 - 26	0 - 21	0 - 15
Tier 2	27 - 59	22 - 48	16 - 25
Tier 3	60 - 99	49 - 80	26 - 80
Tier 4	100+	81+	81+

## Multi-Family Residential Tier Allotments

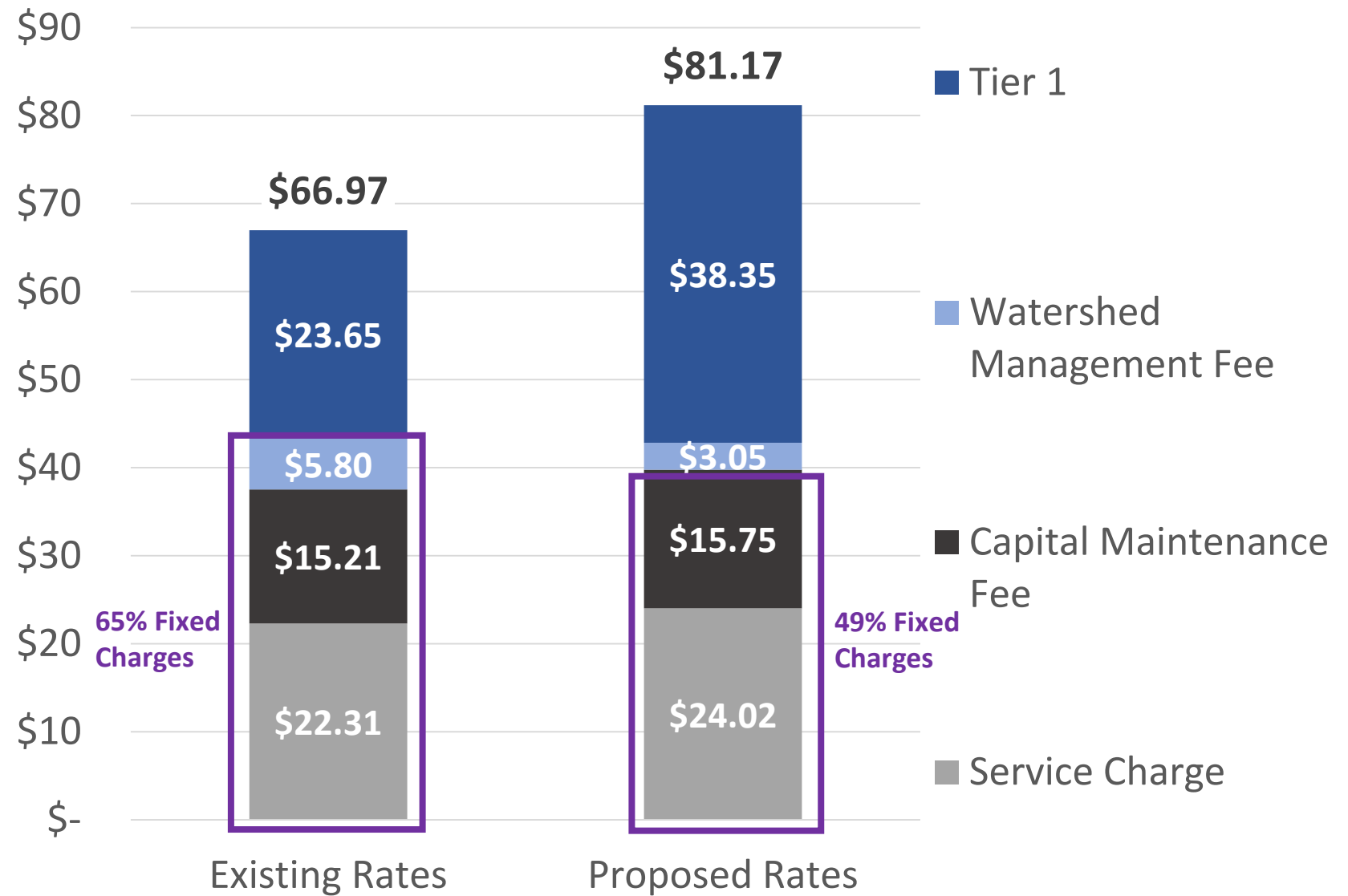
Tiers	Existing Summer	Existing Winter	Proposed Summer/ Winter
	<i>CCF</i>	<i>CCF</i>	<i>CCF</i>
Tier 1	0 - 10	0 - 10	0 - 10
Tier 2	11 - 20	11 - 18	11 - 20
Tier 3	21 - 28	19 - 26	21 - 28
Tier 4	29+	27+	29+

# Recommended Volumetric Water Rates

Volumetric Charges (\$ per CCF)	FY 2023 Existing	FY 2024 Proposed	FY 2025 Proposed	FY 2026 Proposed	FY 2027 Proposed
<b>Watershed Maintenance Volumetric Rate</b>					
All Use	N/A	\$ 0.61	\$ 0.62	\$ 0.64	\$ 0.66
<b>Single-Family and Duplex Volumetric Rates</b>					
Tier 1	\$ 4.73	\$ 7.67	\$ 9.16	\$ 10.24	\$ 10.86
Tier 2	8.19	10.02	11.96	13.38	14.19
Tier 3	13.78	16.19	19.33	21.62	22.92
Tier 4	22.15	24.77	29.58	33.08	35.07
<b>Multi-Family Residential Volumetric Rates</b>					
Tier 1	\$ 4.82	\$ 8.19	\$ 9.78	\$ 10.94	\$ 11.60
Tier 2	8.11	10.30	12.30	13.76	14.59
Tier 3	12.85	14.94	17.84	19.95	21.15
Tier 4	21.56	19.69	23.51	26.29	27.87
<b>Commercial, Institutional, Irrigation, Single-Family Irrigation Volumetric Rates</b>					
Tier 1	\$ 4.62	\$ 8.42	\$ 10.05	\$ 11.24	\$ 11.92
Tier 2	12.37	15.29	18.26	20.42	21.65
Tier 3	18.53	16.09	19.21	21.48	22.77
<b>Recycled Water Rates</b>					
Tier 1	\$ 3.70	\$ 5.43	\$ 5.63	\$ 5.84	\$ 6.06
Tier 2	11.49	5.43	5.63	5.84	6.06
Tier 3	21.35	5.43	5.63	5.84	6.06
<b>Raw Water Rates</b>					
All Use	\$ 4.31	\$ 5.32	\$ 6.35	\$ 7.10	\$ 7.53



# Median Single-Family Monthly Cost Comparison



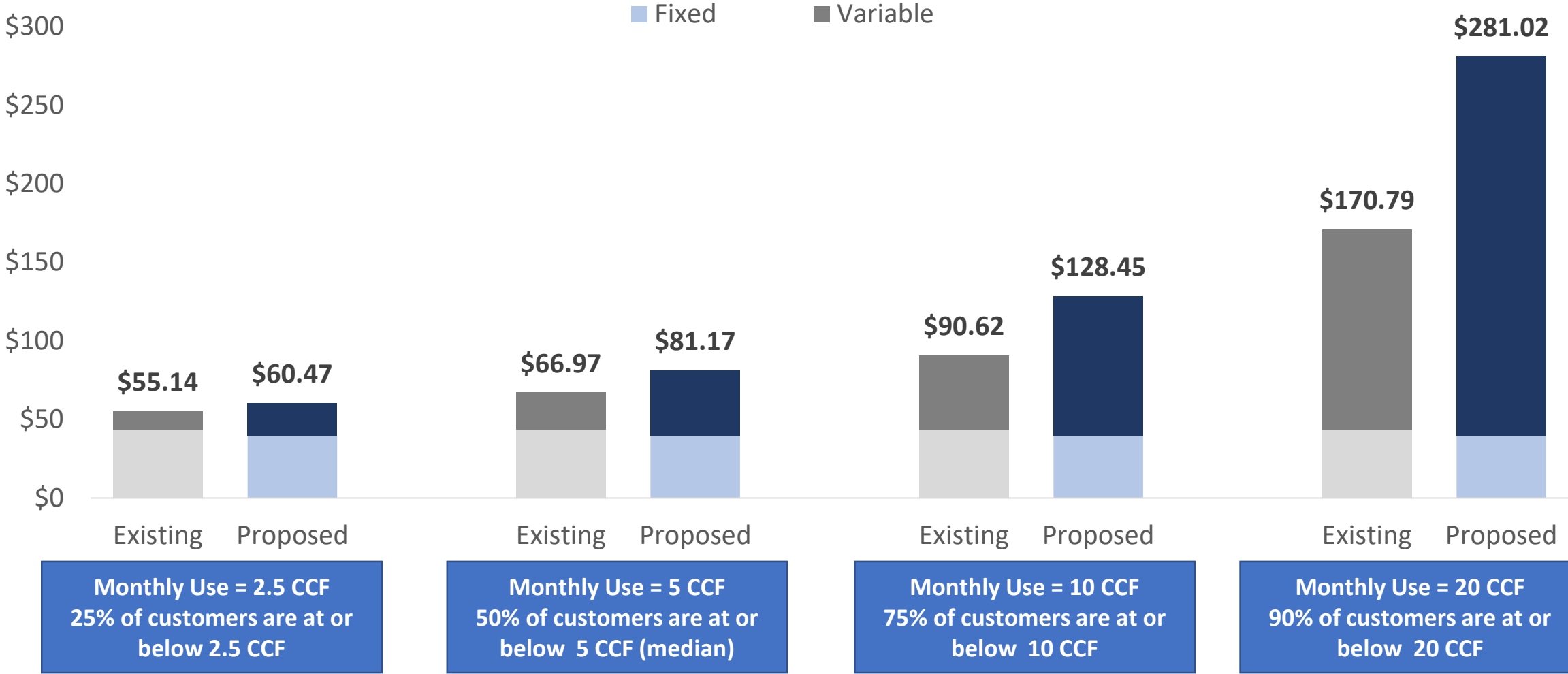
**Median Customer Monthly Water Cost  
Monthly Water Use of 5 CCF  
Meter Size 5/8"**



# Monthly Single-Family Water Cost Impacts



Includes Service Charge, CMF and WMF for 5/8" meter



# Recommended Maximum Temporary Drought Rates

## Temporary Drought Surcharges Applied to All Volumetric Rates

Drought Stage	FY 2024	FY 2025	FY 2026	FY 2027
1 - Voluntary				
2 - Voluntary	22.0%	23.0%	23.0%	23.0%
3 - Mandatory	39.0%	39.0%	40.0%	40.0%
4 - Mandatory	61.0%	61.0%	62.0%	62.0%
5 - Mandatory	91.0%	92.0%	93.0%	93.0%

### Stage 2 Temporary Drought Rate Example

Single-Family & Duplex Rates	FY 23/24 Non-Drought Rate	FY 23/24 Stage 2 Drought Rate
	(\$/CCF)	(\$/CCF)
Tier 1	\$7.67	\$9.36
Tier 2	\$10.02	\$12.22
Tier 3	\$16.19	\$19.75
Tier 4	\$24.77	\$30.22


# Summary



- Evaluated policy objectives, customers demands and system costs
- Proposed rates include rate structure adjustments and reflect the projected cost of service to each customer
- Proposed rate increases are needed to support operating, debt service and capital needs
- Proposed rates eliminate deficit in 2024 and position the District to implement near-term and long-term water supply enhancement projects
- Proposed rates include temporary drought rates

# Website: [marinwater.org/2023RateSetting](http://marinwater.org/2023RateSetting)

## Understanding Your Bill



**MARIN WATER**  
220 Nellen Avenue  
Corte Madera, CA 94925-1105

Name  
Address  
City, State Zip

Billing Inquiries: 415.945.1400  
Water Emergencies: 415.945.1500

**ACCOUNT INFORMATION**  
Customer Number:  
Service Number:  
Billing Date:  
Service Address:

**IMPORTANT INFORMATION**  
**Need Help Paying Your Bill?**  
We understand that these are difficult times. Rest assured that during the COVID-19 crisis, we will not shut off your water due to nonpayment and there will be no late fees if you fall behind. We offer income-based discounts and payment plans. Visit [MarinWater.org](http://MarinWater.org) or contact Customer Service at 415.945.1400.

**ACCOUNT DETAILS**

Previous Balance:	54.71
Payments - Thank You (5/7/20):	-54.71
Adjustments:	0.00

**WATER USAGE**

Meter Read Date:	02/02/2020 - 04/03/2020				
Service Number	Meter Size	Prior Reading	Current Reading	Water Use Units*	

Marin Water has a two-month billing cycle, which means your bill covers two months of water service. Billed amounts are based on water usage during the previous two months.

A previously approved increase in rates and fees took effect on July 1, 2022. If you are having difficulty paying your bills, we offer discount programs and payment plans. If you have a question about your water bill, please contact our Customer Service Department.

**Contact Info**

Customer Service  
Ph: 415.945.1400  
[Email](#)

## 2023 Water Rate Setting

### Understand Your Current Water Bill – Quick Link Resources

- [Current Rates & Fees](#)
- [How your current bill is calculated](#)
- [Rate calculator](#)
- [2019 Cost of Service Analysis](#)
- [2017 Cost of Service Analysis](#)

### Frequently Asked Questions

#### Why is a rate adjustment needed?

Since Marin Water last updated its rate structure in 2019, historic challenges have dramatically impacted the District's financial outlook. Much like the rest of the country and world, Marin Water has been impacted by the effects of inflation and supply chain disruptions.

As a result, costs for many of the materials to repair or replace critical water infrastructure have seen double-digit

# Recap and Next Steps

- Cost of Service analysis is complete
  - Revenue Requirement includes funding for top District priorities
    - Water Supply Enhancement
    - Scaled up funding to address the infrastructure backlog
    - Debt Service for Large Capital Projects
    - Targeted service enhancements (BFFIP, Ranger Trainee, Training Manager)
    - Critical technology replacement projects (SAP and AMI) and Reserve Replenishment
- Structural changes include:
  - Reduced fixed fees for most customers with smaller sized meters
  - Lower Single Family Residential Tier Breaks
- Customer rate impacts will be reflected in Proposition 218 notices next month
  - Public Hearing planned for May 2023