



MARINA COAST
WATER DISTRICT

2024 Water, Wastewater & RW Rate Study

Preliminary Findings

February 22, 2024





Agenda

1. Rate Setting 101
2. Preliminary Financial Plan Findings
3. Rate Design Topics Preview



Requirements of Prop 218

Substantive Requirements:

- **Revenues shall not exceed funds** required to provide service; nor used for another purpose
- Amount **shall not exceed the proportional cost** of the service attributable to the parcel

Procedural Requirements

- Approval process includes 45-day notice, public hearing, and written majority protest. Does not require a voting process (unlike taxes).



The Rate Setting Process

Revenue Requirements

Compares the revenues of the utility to its expenses to determine the overall rate adjustment. Largely driven by capital program.

Cost-of-Service

Equitably allocates the revenue requirements between the customer classes. A customer class is a group such as residential or business

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



General Financial Plan Topics



Project Background

- **This study examines 5 cost centers:**
 - Marina Water
 - Marina Sewer
 - Ord Water
 - Ord Sewer
 - Recycled Water
- Each cost center incurs direct costs and indirect costs (allocated based on the Cost Allocation Plan)
- The last rate increase occurred in January 2023



District Operating Costs

- The financial plan uses FY 2022/23 actual expenses as the starting point for projecting costs over the next 10 years. There are exceptions when FY 2023/24 budget values are used, such as:
 - Salary and benefits
 - Legal fees
 - All “Cost Center 5” costs (recycled water)
 - Monterey One Water costs
- Recycled Water operating costs (cost sharing with Monterey One) are relatively new
- FY 2024/25 budget includes five new positions



Growth and Water Demands

Customer growth and water demands affect the financial forecast in several ways:

1. Capacity Charge revenue
2. Increase in water sales
3. Increase in water supply costs

The 2020 Urban Water Management Plan (UWMP) predicted the following increase in water demands:

Marina:	2020 to 2025 = 10% per year	⇒	2025-2030 = 3% per year
Ord:	2020 to 2025 = 19% per year	⇒	2025-2030 = 8% per year

Actual capacity charge revenue shows that growth over the past 3 years has been:

- Marina = 0.8% per year
- Ord = 5% per year



Cost Escalation Assumptions

- **Salaries and Benefits** – 10% in FY 2024/25 and 3% thereafter
- **Utilities (PG&E)** – 10% per year
- **Source of Supply** – Driven by both cost inflation and increases in water demand
 - 3.8% for Marina for next 5 years
 - 8.2% for Ord for next 5 years
- **Construction Cost Index** – 3%
- **All other costs** – 3% per year



Capital Improvement Program Goals

The District's recent CIP identified over \$144 million in capital project needs over the next 5 years (\$29 million per year)

Target Average annual spending by Cost Center:

Marina Water \$6.5M

Ord Water \$16.6M

Marina Sewer \$3.4M

Ord Sewer \$1.6M

Recycled Water \$0.8M

TOTAL \$28.9M

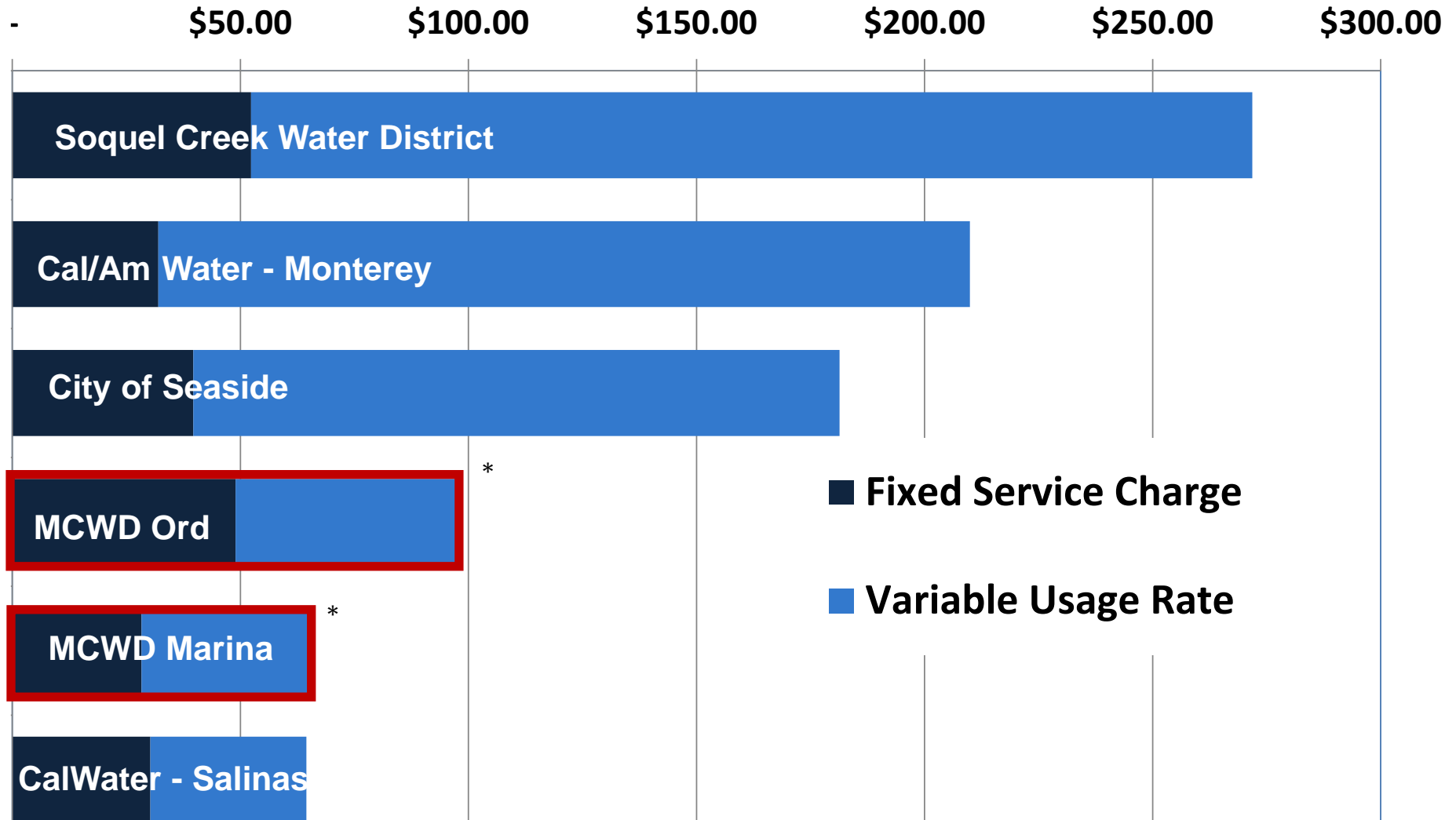




Water Cost Centers

Water Rate Survey

Monthly bills for Single Family Home with 10 HCF water usage



* Current rates



Ord Water Financial Plan

Ord Water Cash Reserves

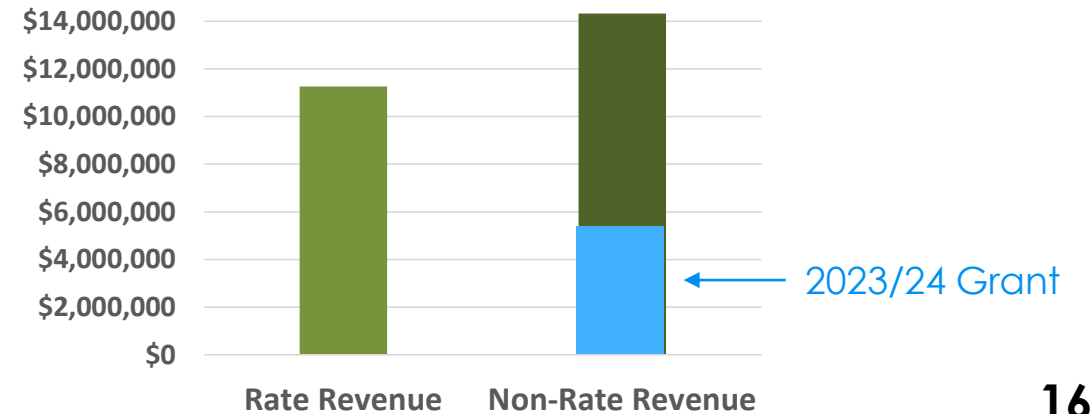
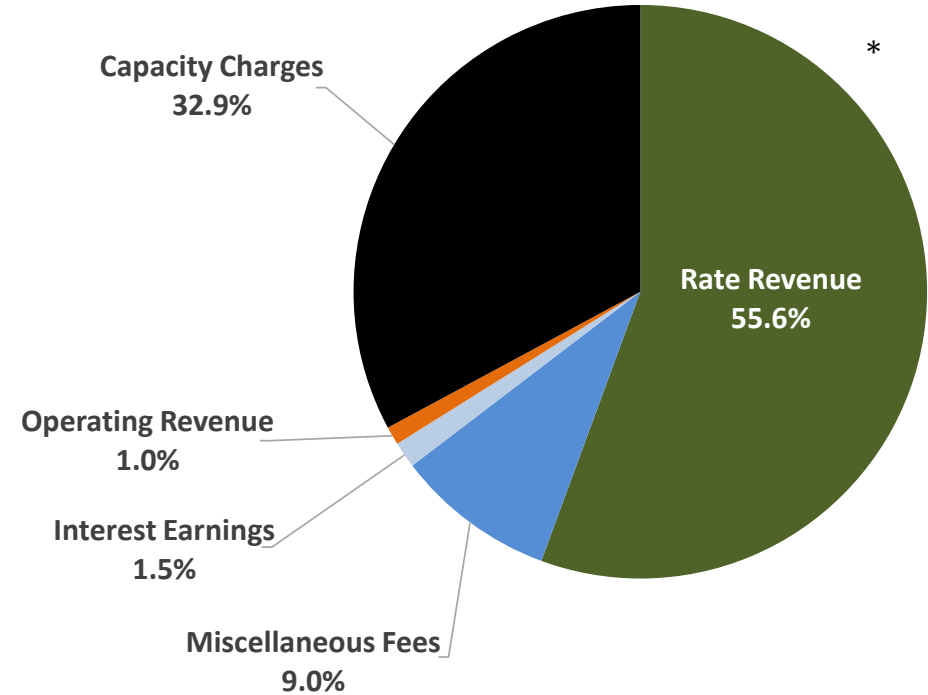
Fiscal Year beginning July 1, 2023

Unrestricted	
Operating Reserves	\$4,270,000
Administrative & General Fund	\$50,000
Capital Replacement & Impvnt Reserve	\$424,000
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Total Unrestricted:	\$4,744,000
Restricted	
Capacity Fee Reserve	\$5,000,000
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Total Reserves:	\$9,744,000

Ord Water Revenue

FY2023/24 Budget

Rate Revenue	\$11,259,000
Non-Rate Revenue	
Miscellaneous Fees	\$1,827,000
Interest Earnings	\$298,000
Operating Revenue	\$210,000
Grants	\$5,343,000
Capacity Charges	\$6,652,000
Total:	\$25,589,000



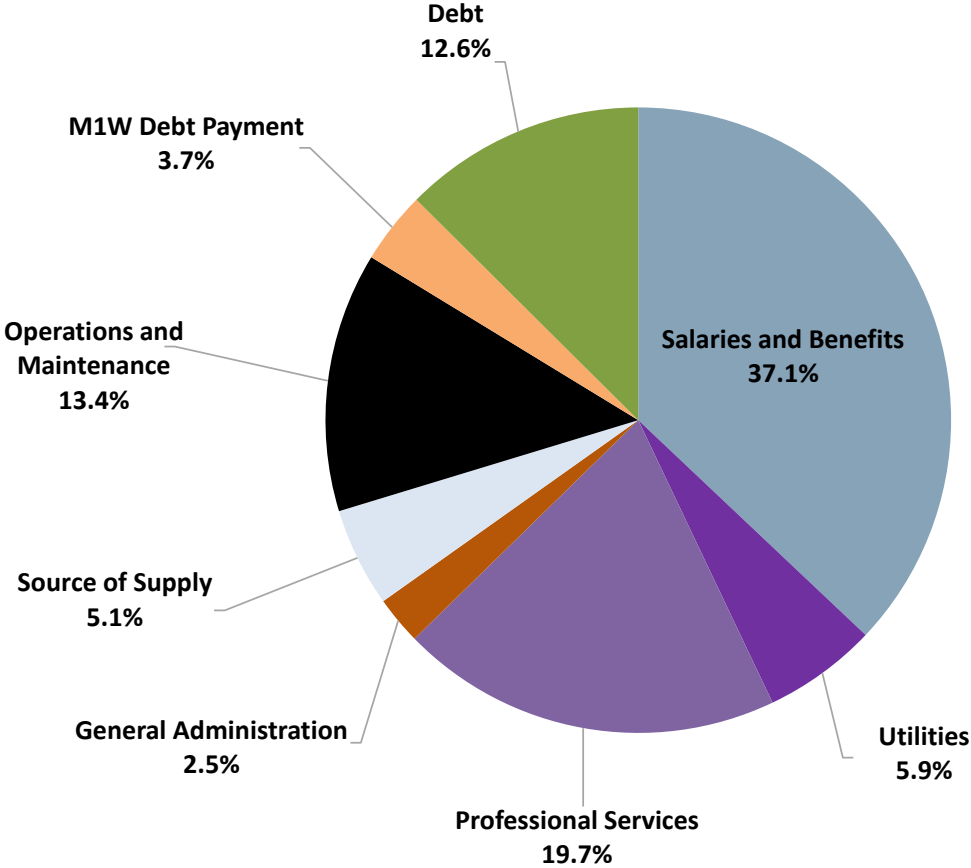
* Budgeted grant revenue excluded from pie chart

Ord Water Operating Expenses & Debt Service

FY2023/24 Budget

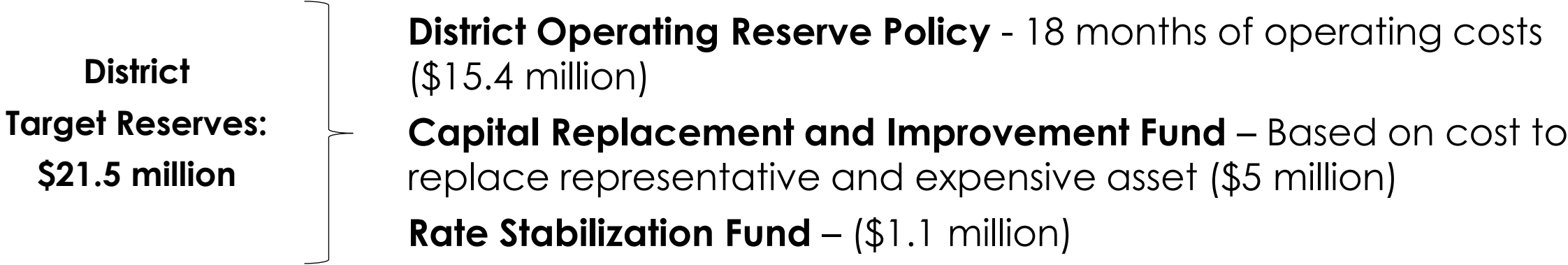
Salaries and Benefits	\$4,375,000
Utilities	\$695,000
Professional Services	\$2,332,000
General Administration	\$294,000
Source of Supply	\$605,000
Operations and Maintenance	\$1,585,000
M1W Debt Payment	\$440,000
Debt	\$1,482,000

Total Budget: \$11,808,000



Ord Water Reserve Policies

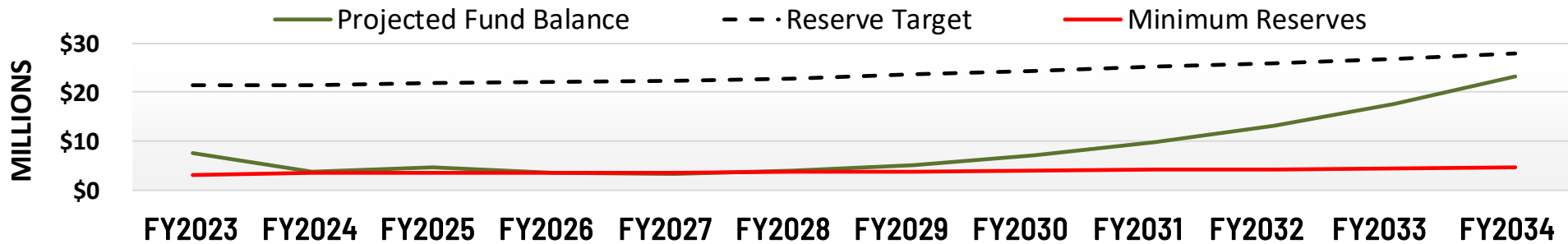
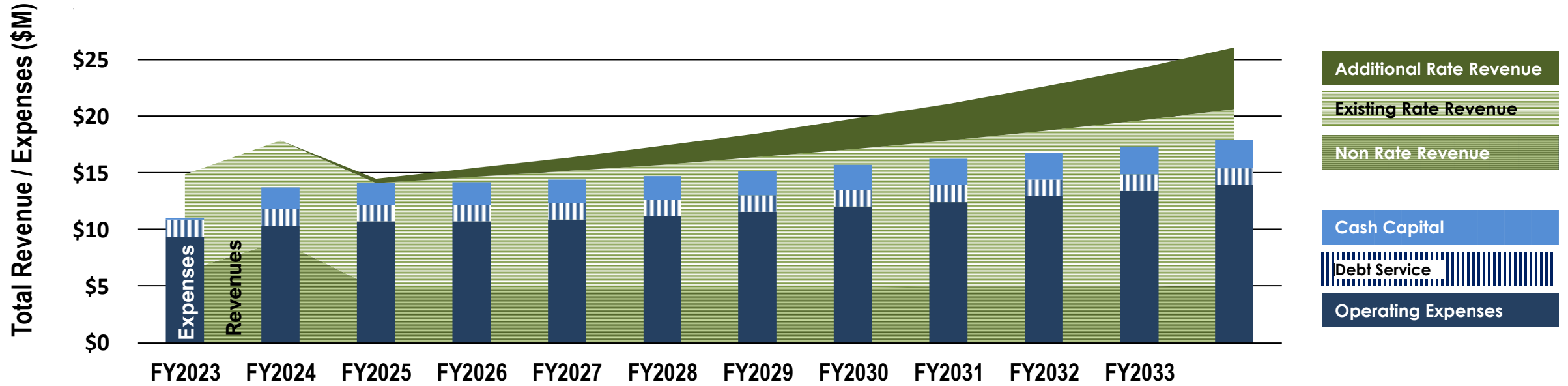
In addition to protecting the District against unforeseen circumstances, strong reserve policies contribute towards the District's credit rating.



Recommended Minimum Reserve (This reserve should always *plan* to be fully funded)
4 months of operating costs (\$3.4 million)

Ord Water Financial Forecast

Capital Spending: \$2.2 million per year (Target: \$16.6M)



Rate Revenue Increase: 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0%



Marina Water Financial Plan

Marina Water Cash Reserves

Fiscal Year beginning July 1, 2023

Unrestricted

Administrative & General Fund	\$50,000
Operating Reserves	\$3,651,000
Capital Replacement & Impvt Reserve	\$1,606,000

Total Unrestricted: \$5,307,000

Restricted

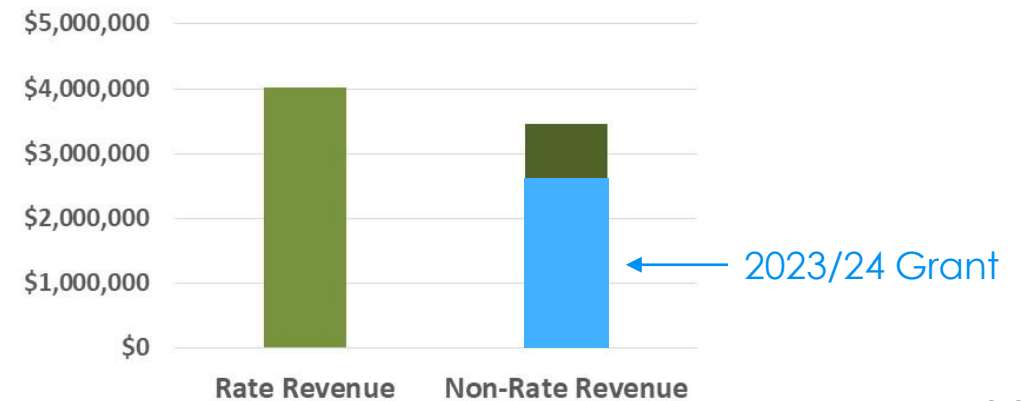
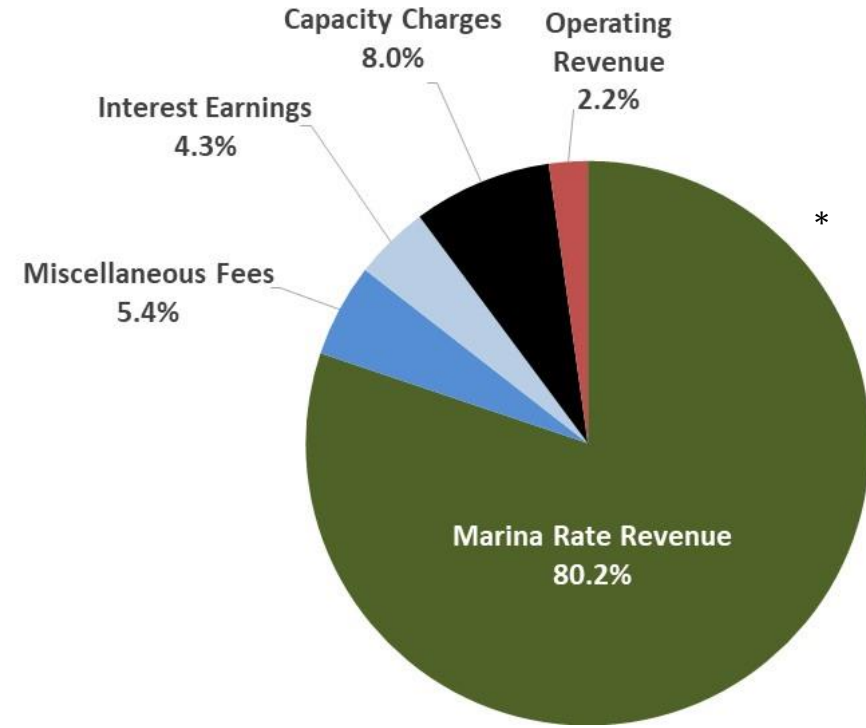
Capacity Fee Reserve	\$767,000
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Total Reserves: \$6,074,000

Marina Water Revenue

FY2023/24 Budget

Marina Rate Revenue	\$4,010,000
Non-Rate Revenue	
Miscellaneous Fees	\$268,000
Interest Earnings	\$215,000
Capacity Charges	\$398,000
Operating Revenue	\$111,000
Grants	\$2,457,000
Total:	\$7,459,000

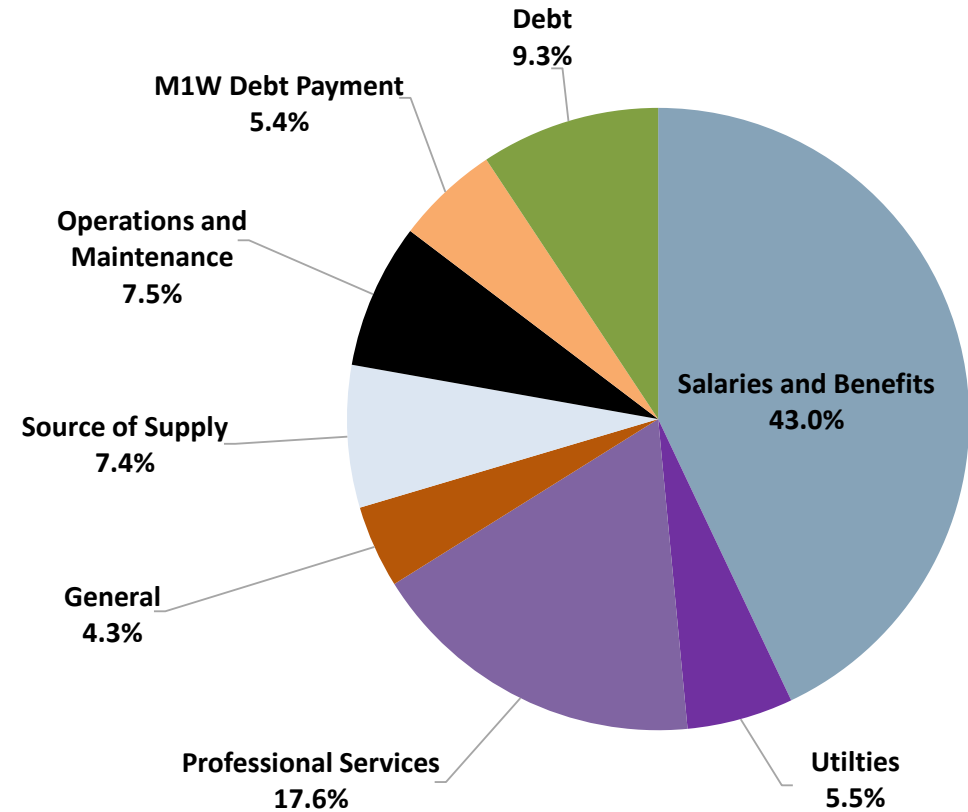


* Budgeted grant revenue excluded from pie chart

Marina Water Operating Expenses & Debt Service

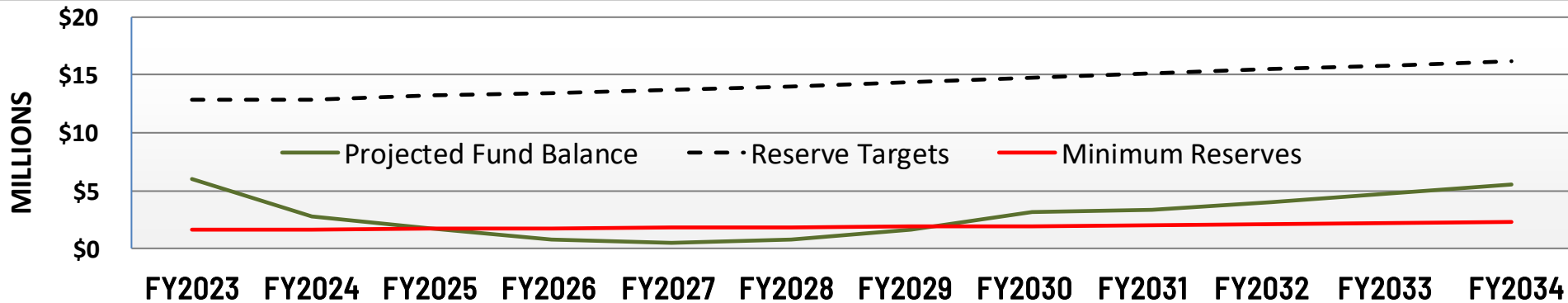
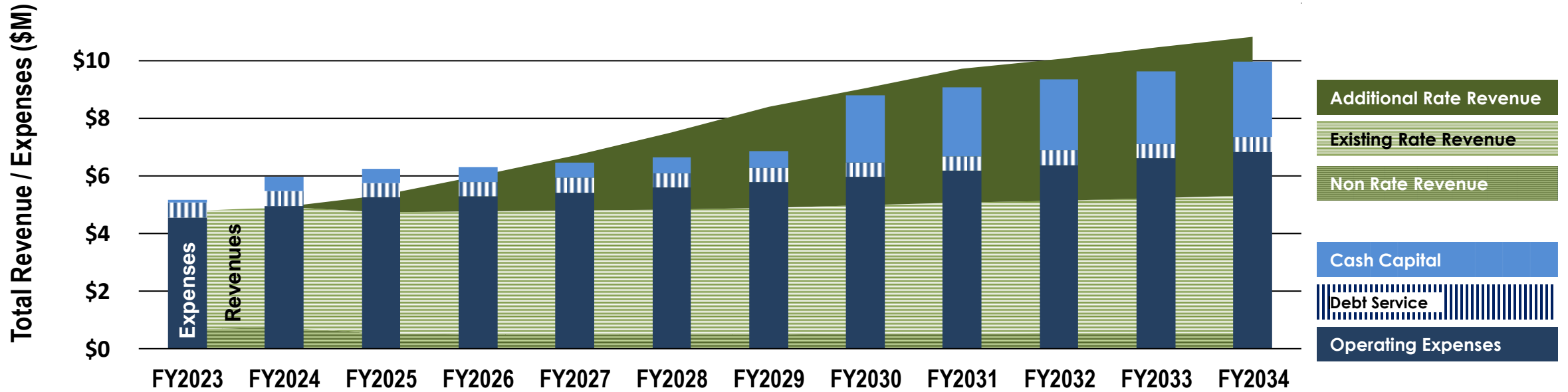
FY2023/24 Budget

Salaries and Benefits	\$2,349,000
Utilities	\$302,000
Professional Services	\$963,000
General	\$235,000
Source of Supply	\$404,000
Operations and Maintenance	\$412,000
M1W Debt Payment	\$293,000
Debt	\$509,000
Total Budget:	\$5,467,000



Marina Water Financial Forecast

Capital Spending: \$500K per year near-term, then \$2M per year (Target: \$6.5M)



Rate Revenue Increase: 14.0% 14.0% 12.0% 12.0% 12.0% 7.0% 7.0% 3.0% 3.0% 3.0%



Sewer Cost Centers



Marina Sewer Financial Plan

Marina Sewer Cash Reserves

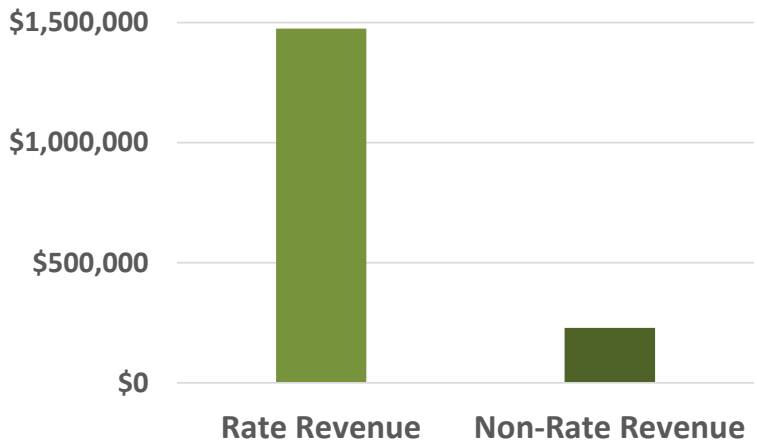
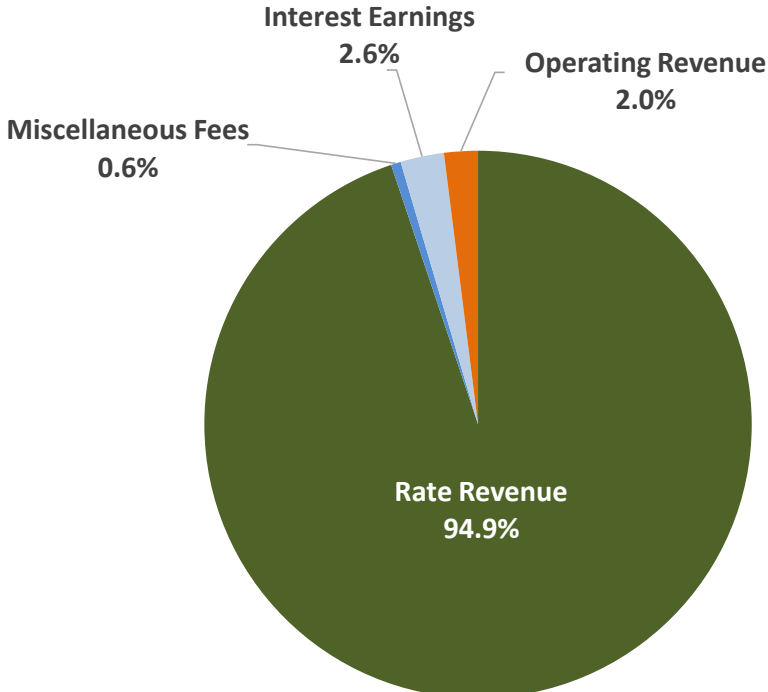
Fiscal Year beginning July 1, 2023

Unrestricted	
Operating Reserves	\$214,000
Administrative & General Fund	\$50,000
Capital Replacement & Impvt Reserve	\$388,000
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Total Unrestricted:	\$652,000
Restricted	
Capacity Fee Reserve	\$135,000
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Total Reserves:	\$787,000

Marina Sewer Revenue

FY2023/24 Budget

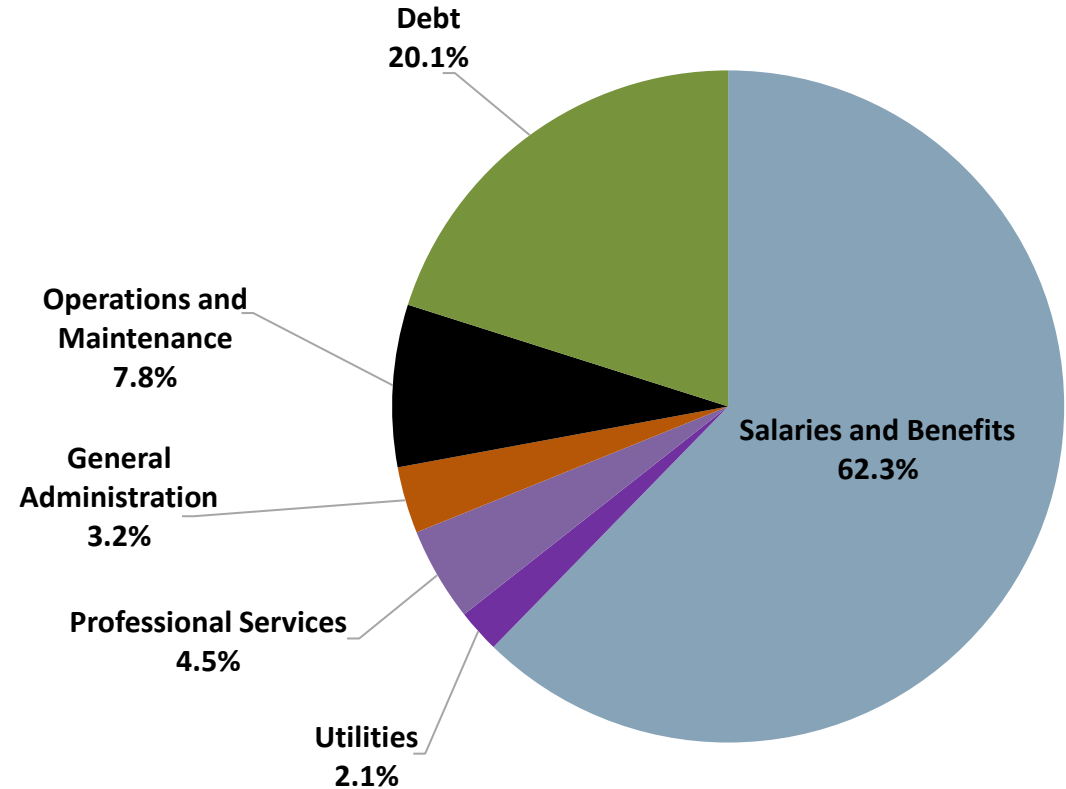
Rate Revenue	\$1,475,000
Non-Rate Revenue	
Miscellaneous Fees	\$9,000
Interest Earnings	\$40,000
Operating Revenue	\$31,000
Capacity Charges	\$148,000
Total:	\$1,703,000



Marina Sewer Operating Expenses & Debt Service

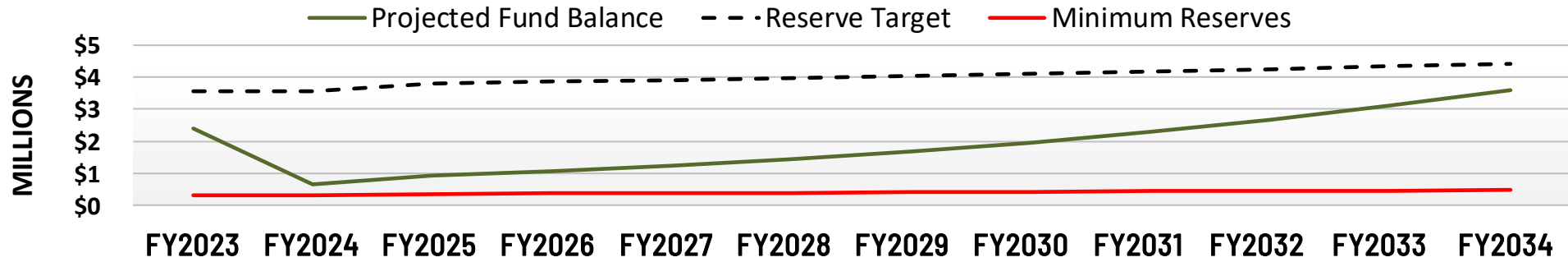
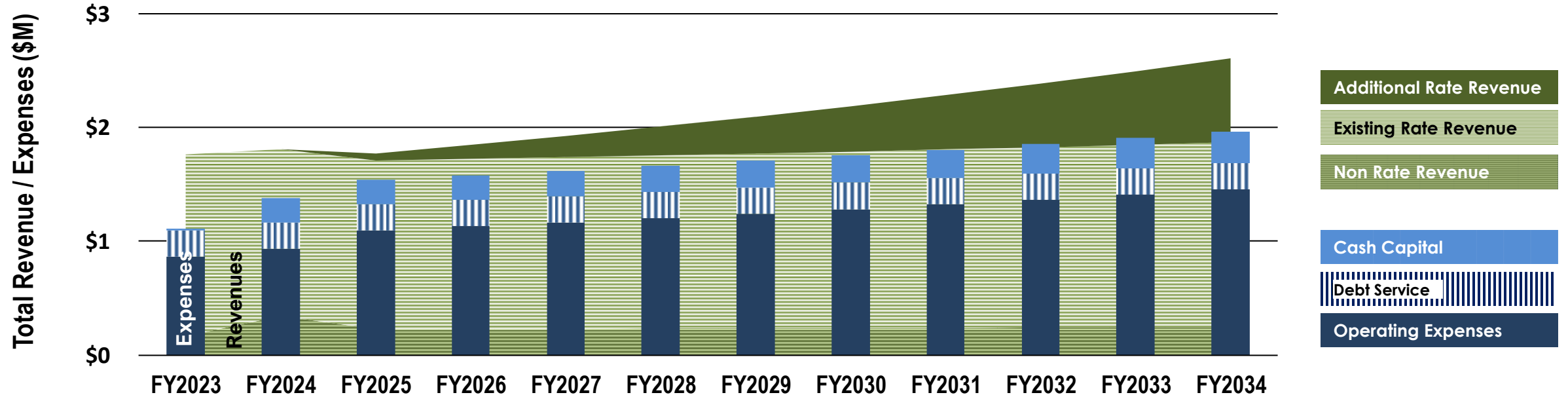
FY2023/24 Budget

Salaries and Benefits	\$719,000
Utilities	\$24,000
Professional Services	\$52,000
General Administration	\$37,000
Operations and Maintenance	\$90,000
Debt	\$232,000
Total Budget:	\$1,154,000



Marina Sewer Financial Forecast

Capital Spending: \$238 thousand per year (Target: \$3.4M)



Rate Revenue Increase: 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0%



Ord Sewer Financial Plan

Ord Sewer Cash Reserves

Fiscal Year beginning July 1, 2023

Unrestricted

Administrative & General Fund	\$50,000
Operating Reserves	\$3,286,000
Capital Replacement & Impvt Reserve	\$998,000

Total Unrestricted: \$4,334,000

Restricted

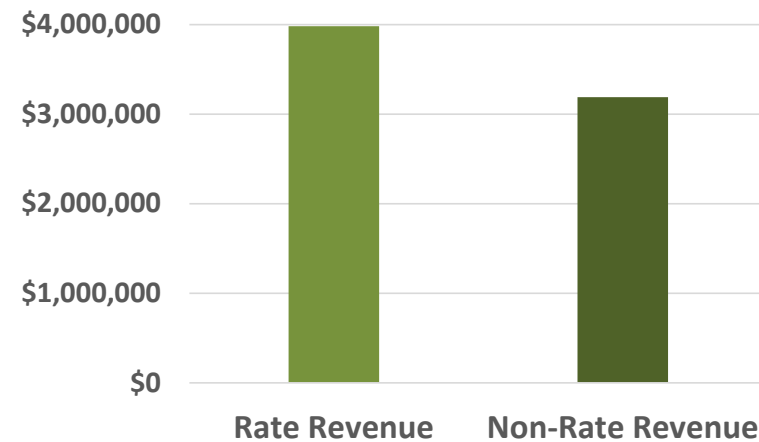
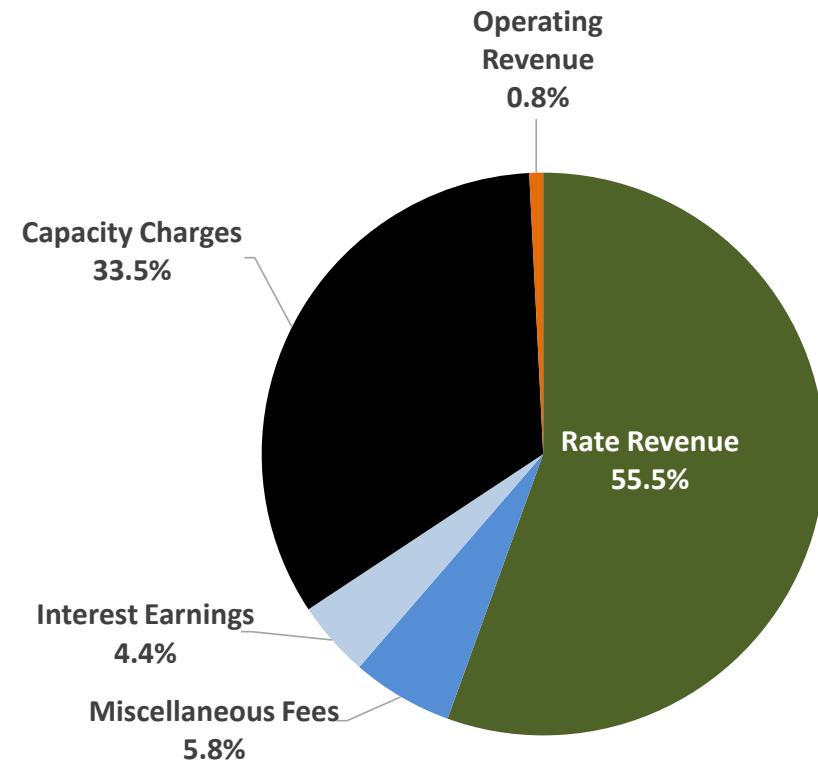
Capacity Fee Reserve	\$2,980,000
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Total Reserves: \$7,314,000

Ord Sewer Revenue

FY2023/24 Budget

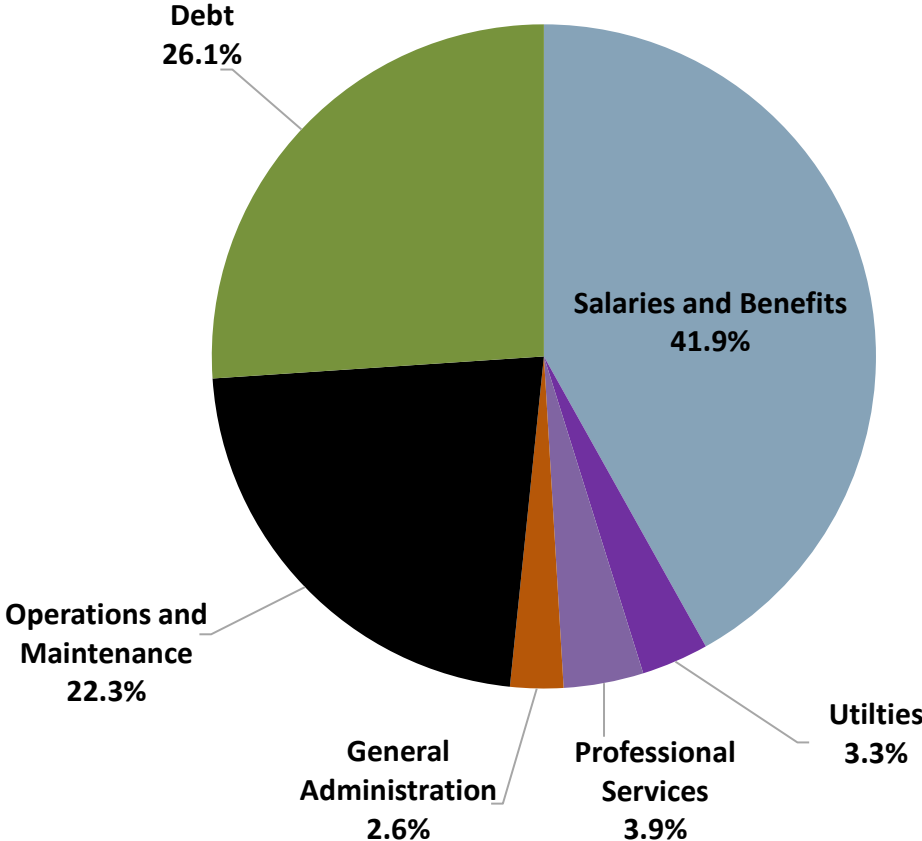
Rate Revenue	\$3,981,000
Non-Rate Revenue	
Miscellaneous Fees	\$417,000
Interest Earnings	\$313,000
Capacity Charges	\$2,403,000
Operating Revenue	\$57,000
Total:	\$7,171,000



Ord Sewer Operating Expenses & Debt Service

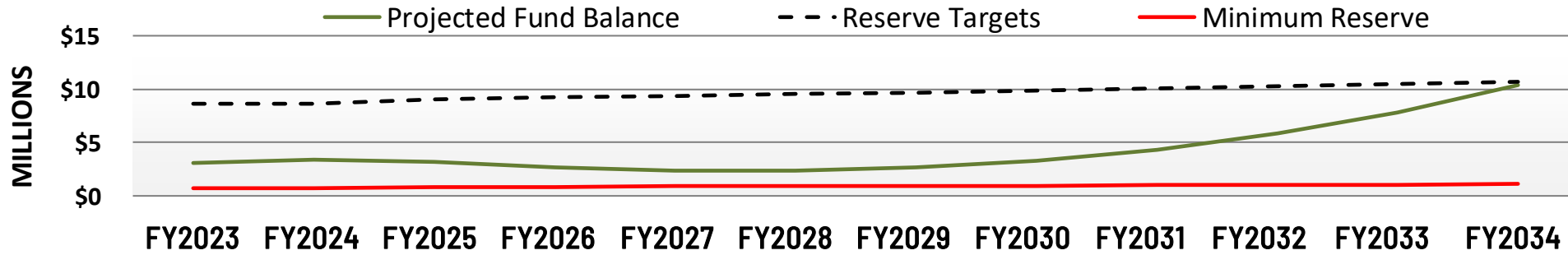
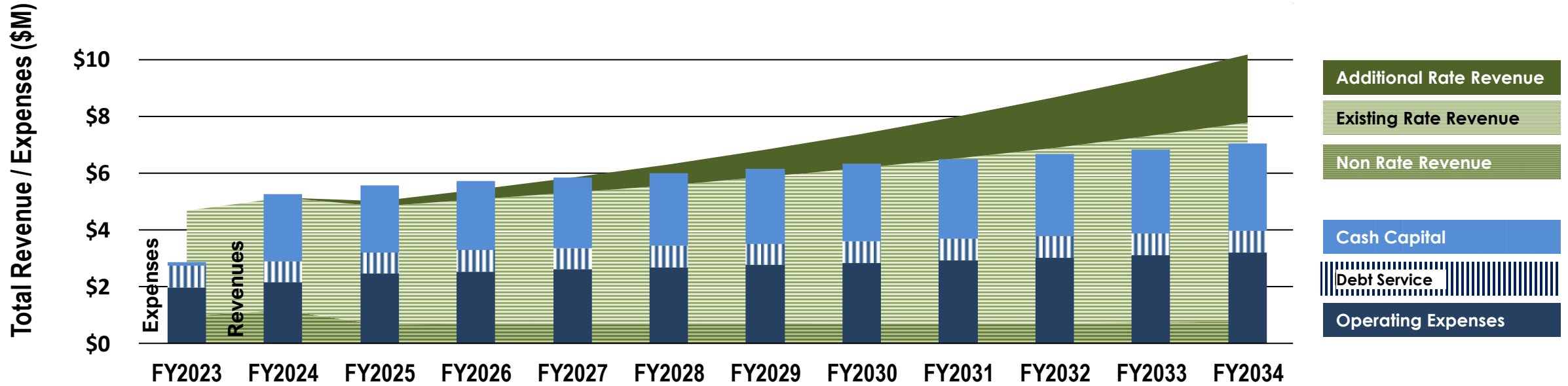
FY2023/24 Budget

Salaries and Benefits	\$1,217,000
Utilities	\$95,000
Professional Services	\$113,000
General Administration	\$75,000
Operations and Maintenance	\$648,000
Debt	\$757,000
Total Budget:	\$2,905,000



Ord Sewer Financial Forecast

Capital Spending: \$2.7M per year (Target: \$1.6M)



Rate Revenue Increase: 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0%



Recycled Water Financial Plan

Recycled Water Cash Reserves

Fiscal Year beginning July 1, 2023

Operating Reserves	\$123,000
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Restricted	
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Capacity Fee Reserve	\$7,522,000
Debt Service - RUWAP	\$229,000

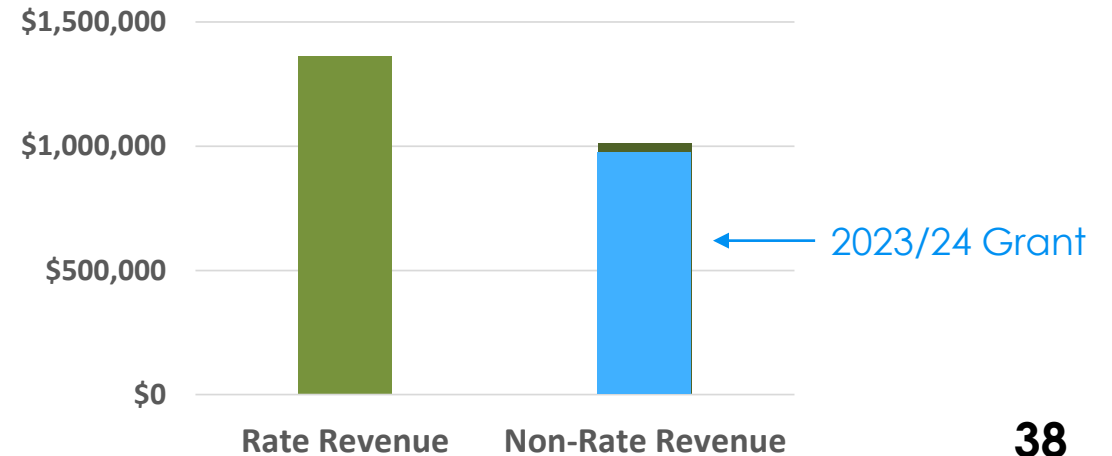
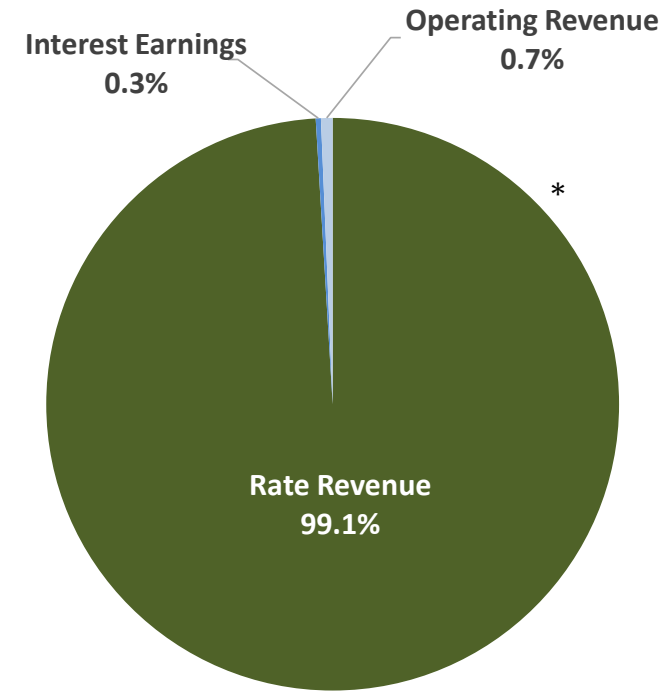
Total Restricted	\$7,751,000
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Total Reserves:	\$7,874,000
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Recycled Water Revenue

FY2023/24 Budget

Rate Revenue	\$1,363,000
Non-Rate Revenue	
Interest Earnings	\$4,000
Operating Revenue	\$9,000
Grants	\$1,000,000
Total:	\$2,376,000

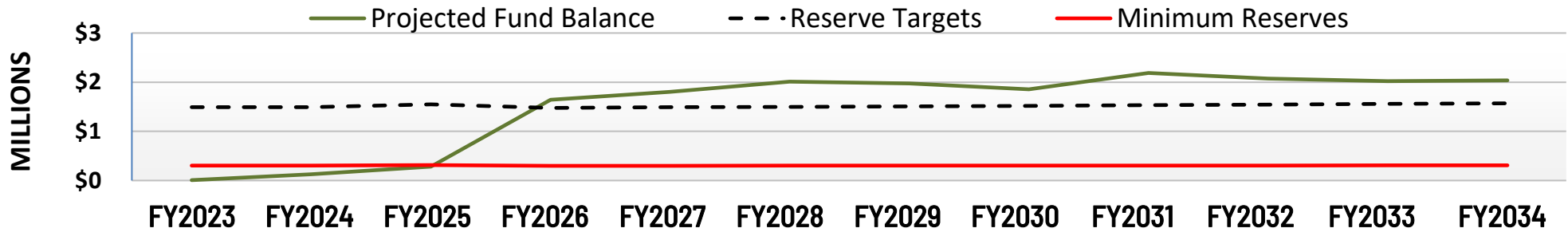
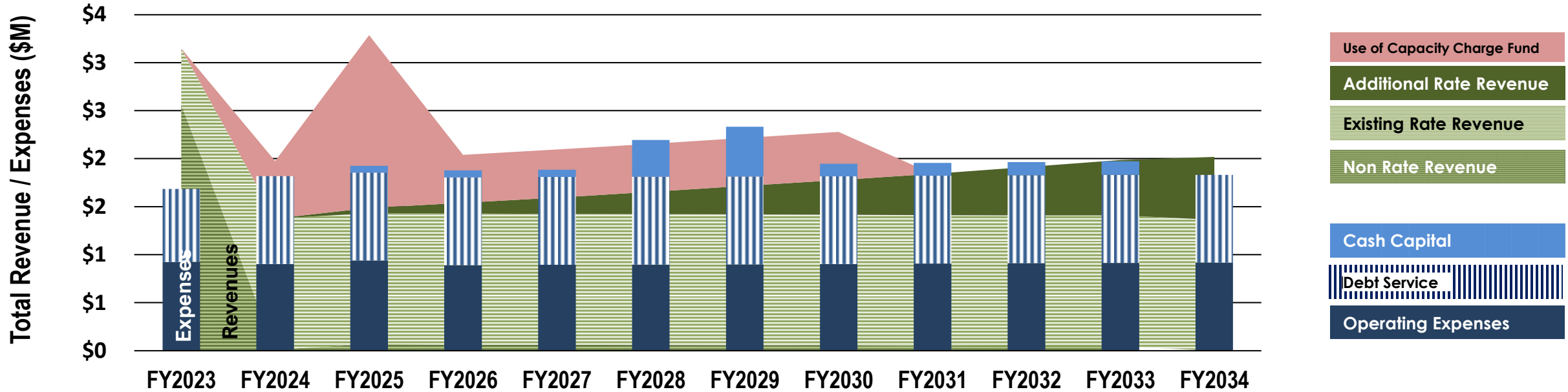


* Budgeted grant revenue excluded from pie chart

Recycled Water Financial Forecast

Capital Spending: \$130K per year

(Target: \$800K)



Rate Revenue Increase: 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0% 4.0%



Recap: Preliminary Financial Plan Findings

- 1) These scenarios are informational only and represent base level of funding
- 2) Most rate increases shown are limited to inflationary adjustments and will result in under-funded capital programs
- 3) The scenarios will meet reserve targets after 10 years
- 4) Bill impacts will also be affected by proposed changes to the rate structure (see next slides)



Rate Design Topics



Water Rates

Current rates (all customers):

- Fixed Service Charge based on meter size
- Tiered Consumption Charge
 - All customers receive 10 HCF of Tier 1 water per month

Recommendation:

- Charge a uniform rate to commercial and multifamily customers
 - Uniform rate will be equal to the average consumption rate paid by single family customers
- Increase proportion of fixed revenue



Sewer Rates

Current rates are fixed

- Residential: Fixed charge per dwelling unit
- Commercial: Fixed charge per EDU (equivalent dwelling unit)

Recommendation:

- Develop sewer rates with a fixed charge and a variable rate based on actual water usage
- Increase proportion of fixed revenue



Next Steps

- Review capital spending projections and complete Financial Plans
- Complete billing data analysis and rate design
- Review with Staff to determine next steps
- Present revised findings to Board in March
- Public outreach and public meetings in March
- Refine and set final rates in April and send Prop. 218 notices
- Approve new rates in June Hearing and go into effect July 1