



# **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
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Ord Water	\$16.6M
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Marina Sewer	\$3.4M
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Ord Sewer	\$1.6M
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Recycled Water	\$0.8M
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<b>TOTAL</b>	<b>\$28.9M</b>
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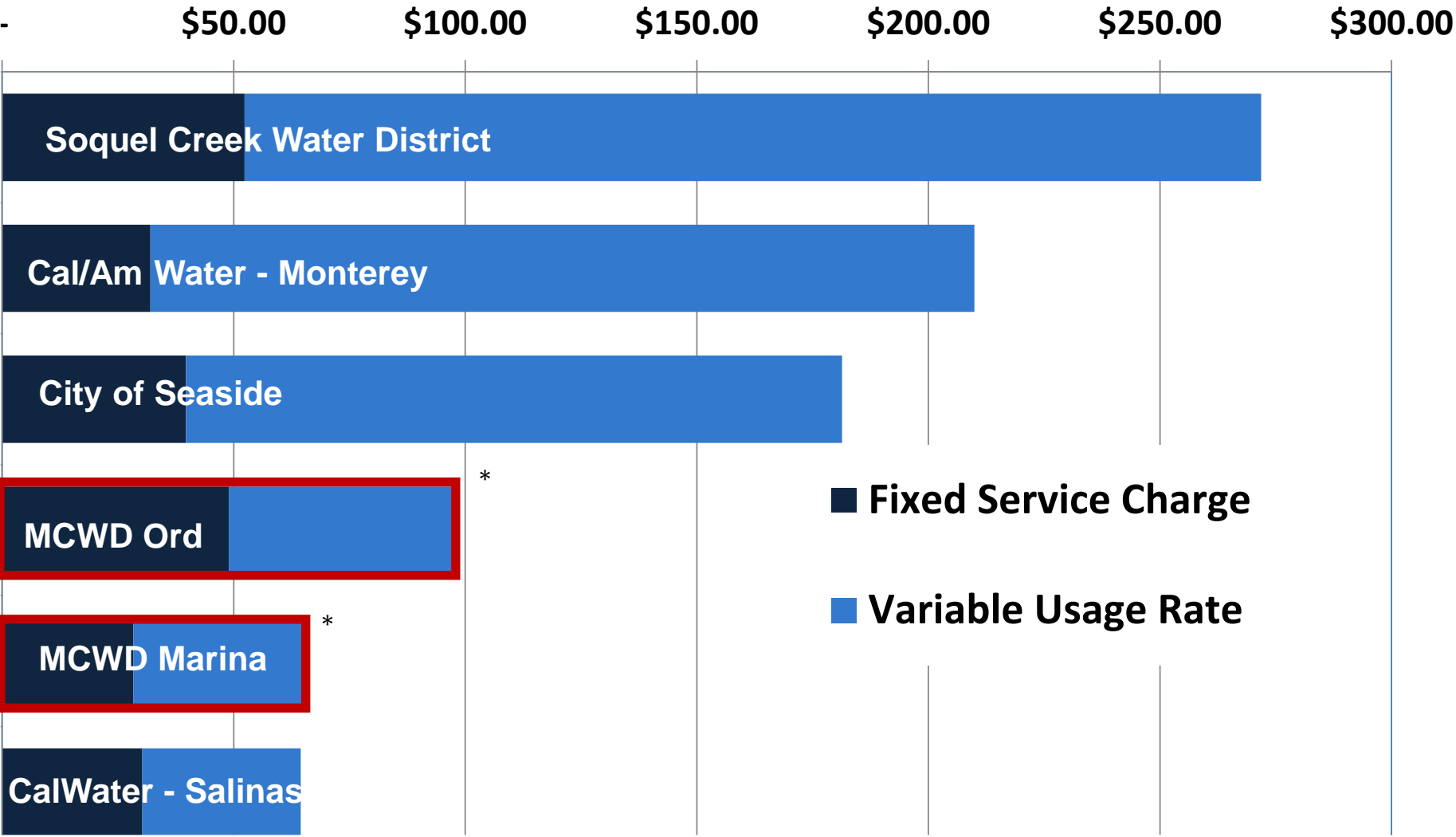




# Water Cost Centers

# Water Rate Survey

Monthly bills for Single Family Home with 10 HCF water usage



\* Current rates





# Ord Water Financial Plan

# Ord Water Cash Reserves

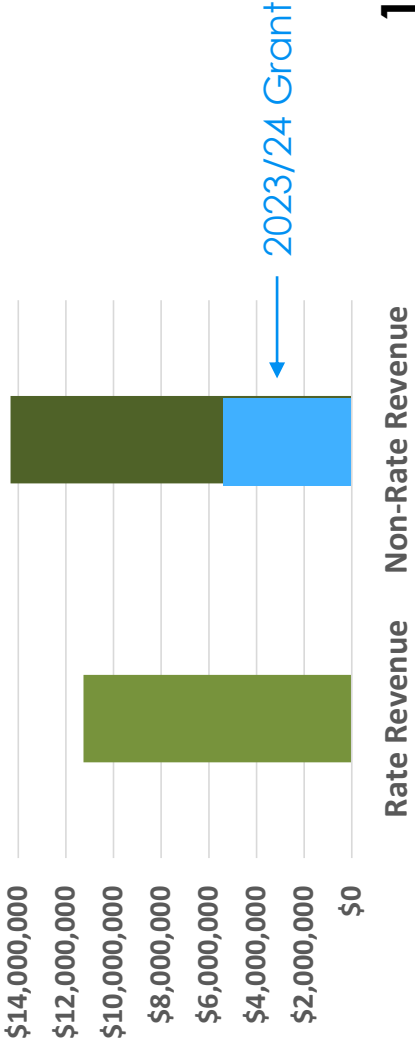
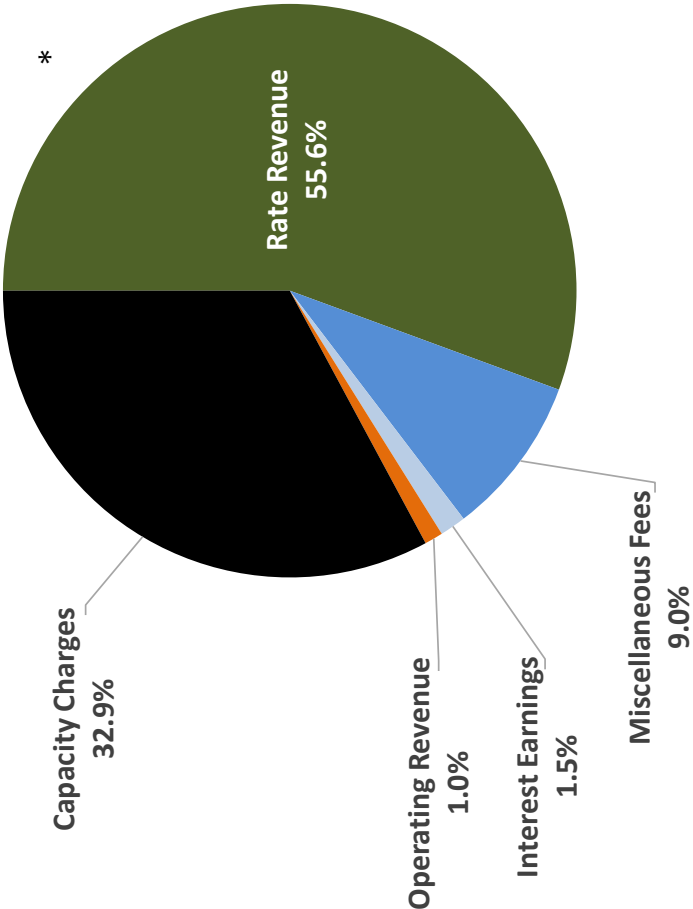
Fiscal Year beginning July 1, 2023

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

# Ord Water Revenue

## FY2023/24 Budget

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



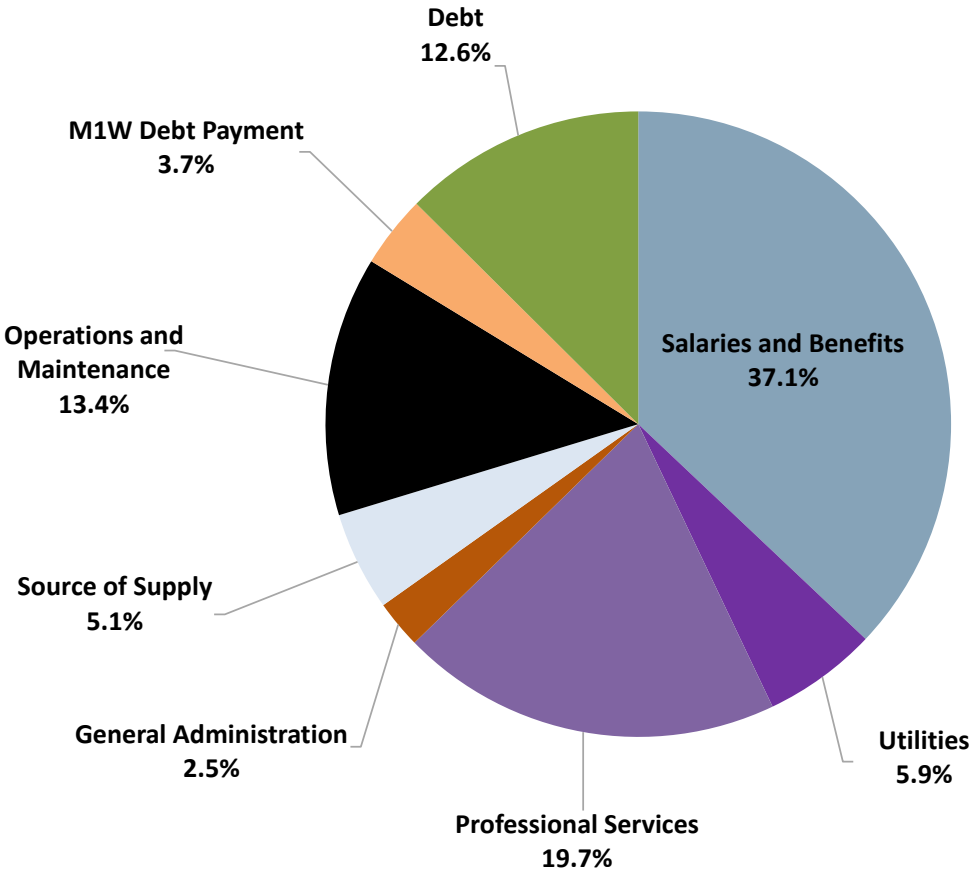
\* Budgeted grant revenue excluded from pie chart



# Ord Water Operating Expenses & Debt Service

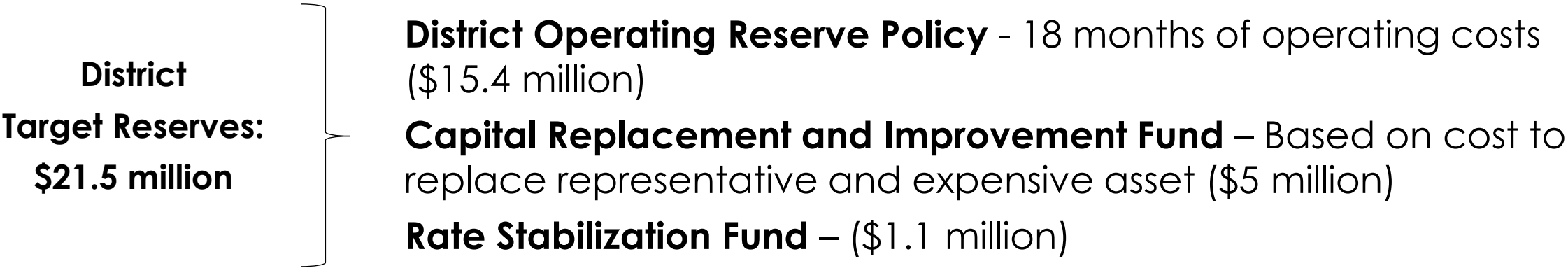
FY2023/24 Budget

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
<b>Total Budget:</b>	<b>\$11,808,000</b>



# Ord Water Reserve Policies

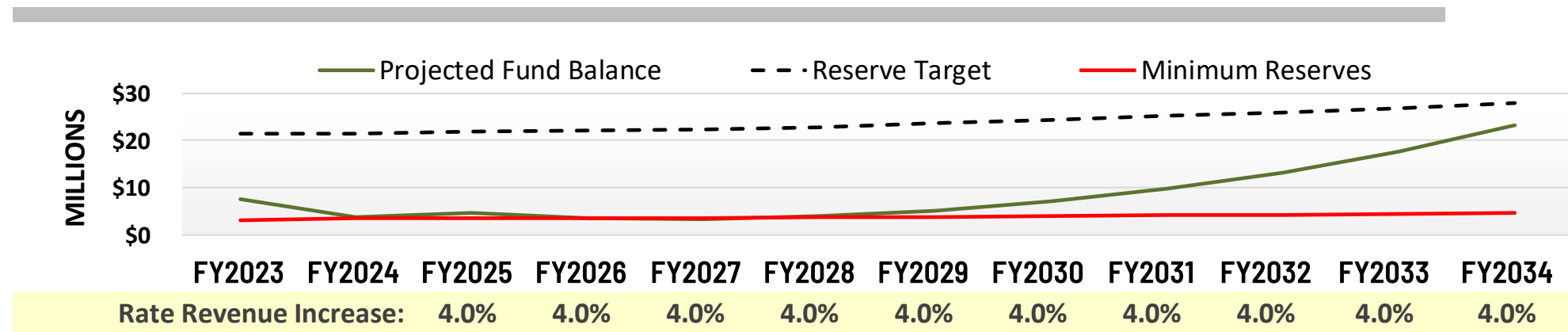
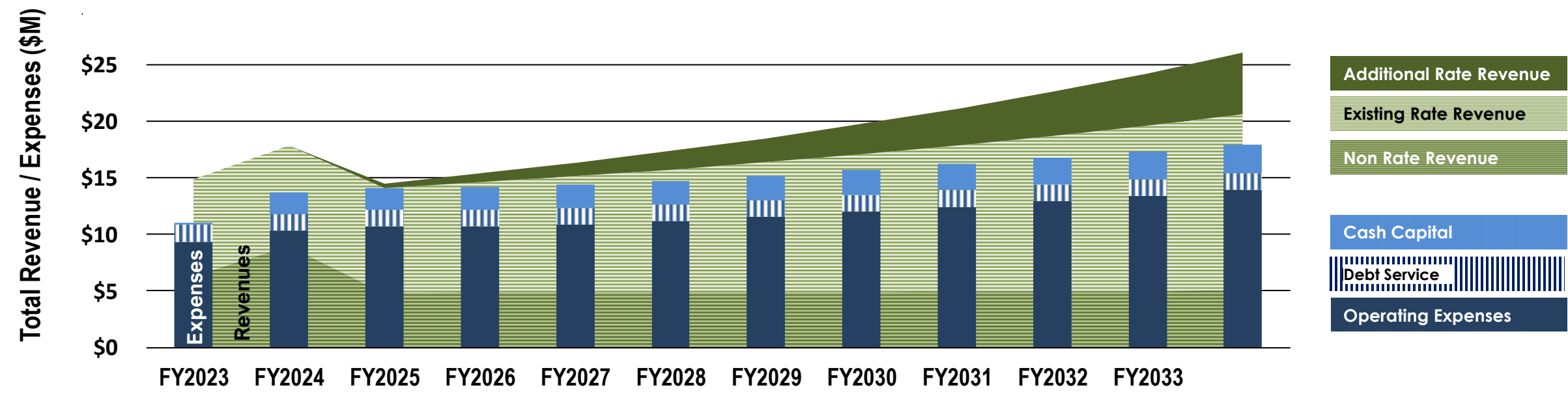
In addition to protecting the District against unforeseen circumstances, strong reserve policies contribute towards the District’s credit rating.



**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)





# Marina Water Financial Plan

# Marina Water Cash Reserves

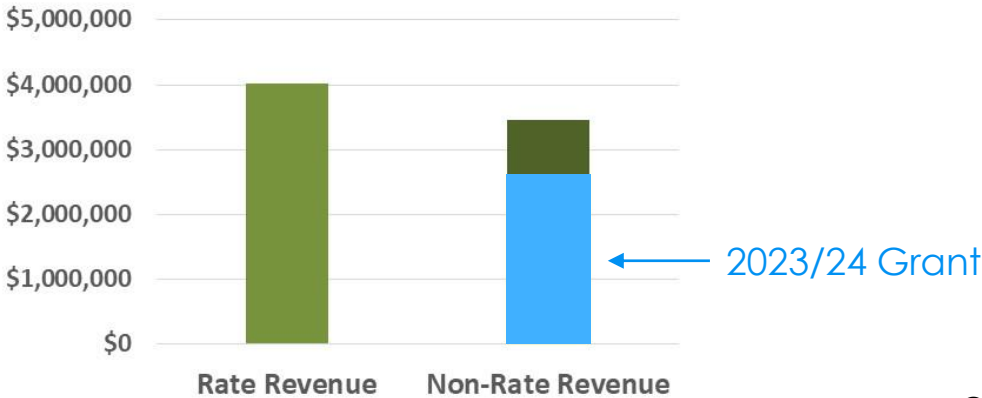
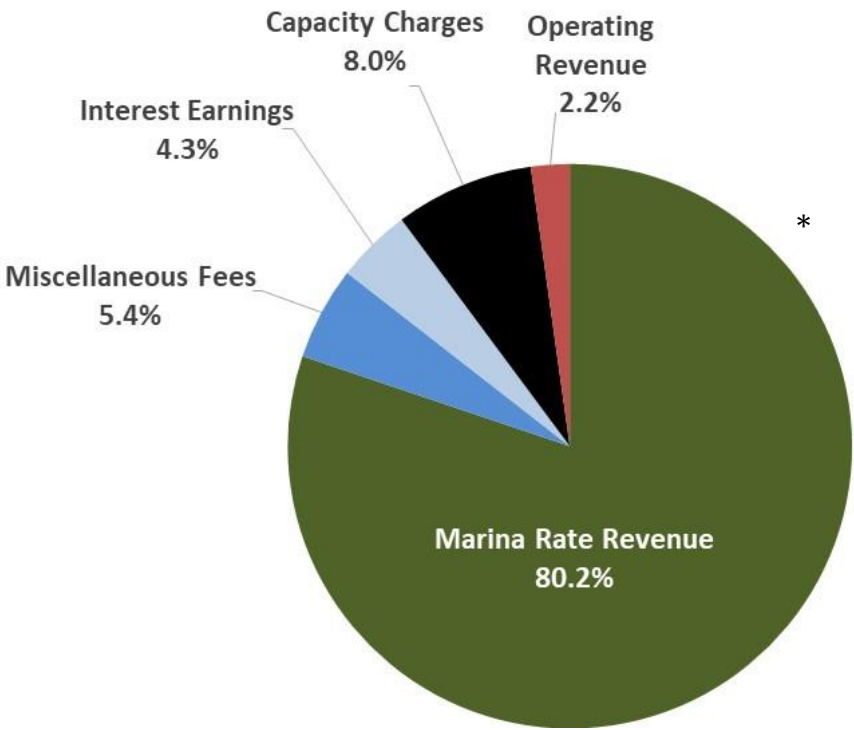
Fiscal Year beginning July 1, 2023

<b>Unrestricted</b>	
Administrative & General Fund	\$50,000
Operating Reserves	\$3,651,000
Capital Replacement & Impvt Reserve	\$1,606,000
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<b>Total Unrestricted:</b>	<b>\$5,307,000</b>
<b>Restricted</b>	
Capacity Fee Reserve	\$767,000
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<b>Total Reserves:</b>	<b>\$6,074,000</b>

# Marina Water Revenue

## FY2023/24 Budget

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

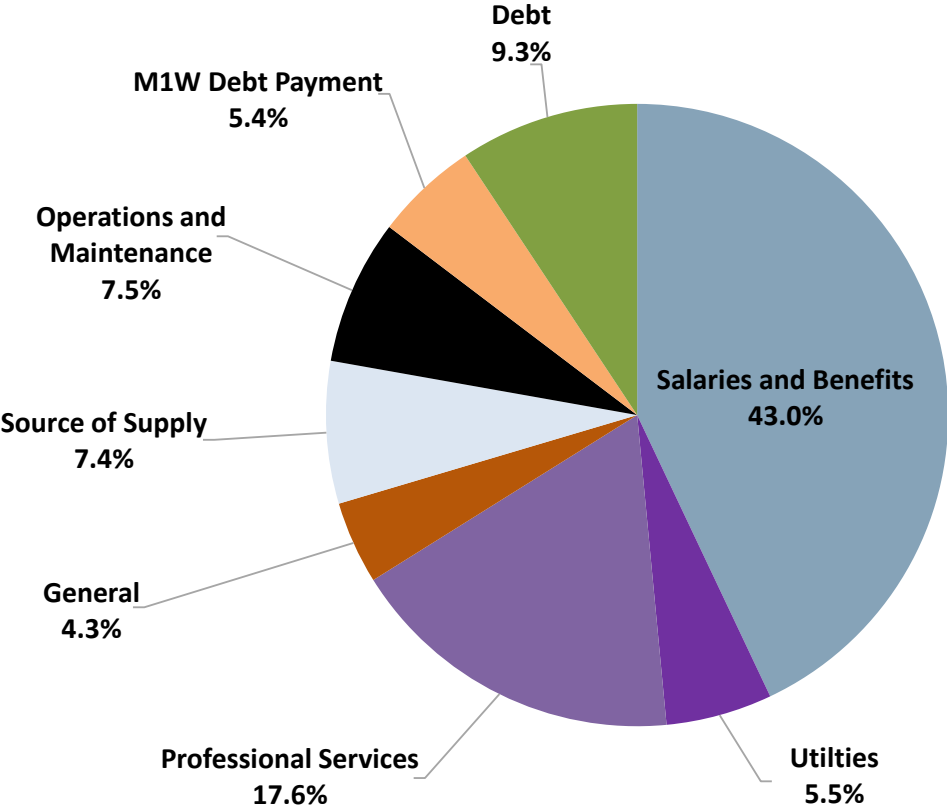


\* Budgeted grant revenue excluded from pie chart

# Marina Water Operating Expenses & Debt Service

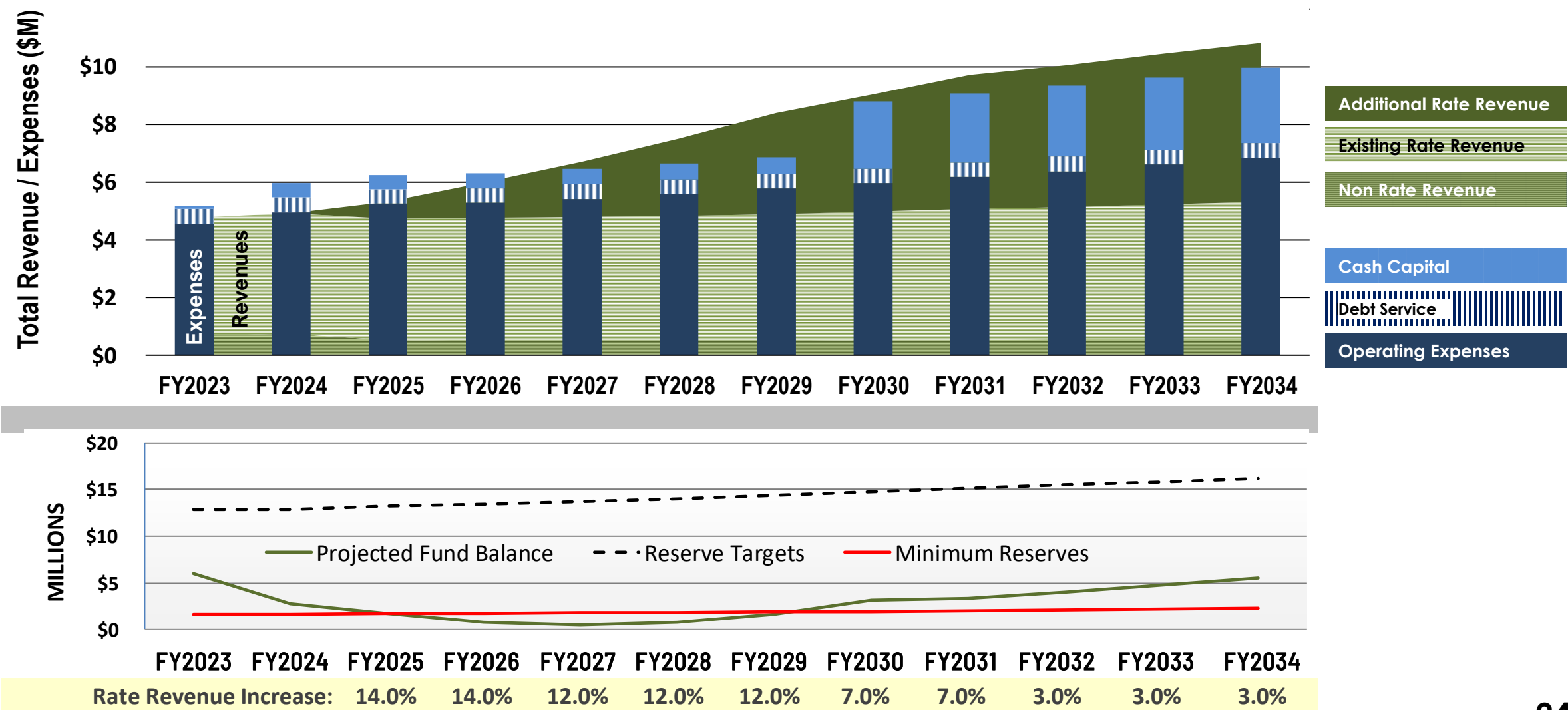
FY2023/24 Budget

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
<b>Total Budget:</b>	<b>\$5,467,000</b>



# Marina Water Financial Forecast

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







# 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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<b>Total Unrestricted:</b>	<b>\$652,000</b>
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## Restricted

Capacity Fee Reserve	\$135,000
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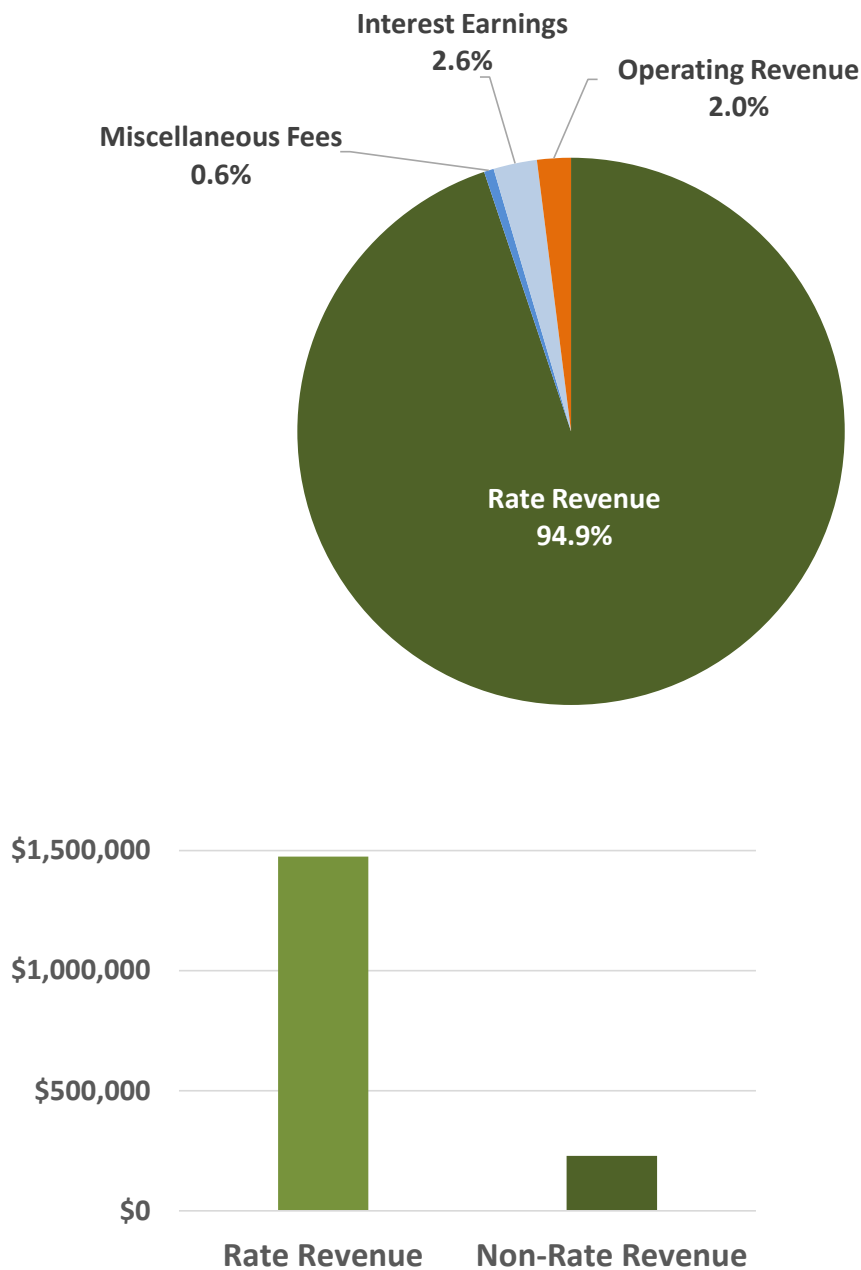
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<b>Total Reserves:</b>	<b>\$787,000</b>
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# Marina Sewer Revenue

## FY2023/24 Budget

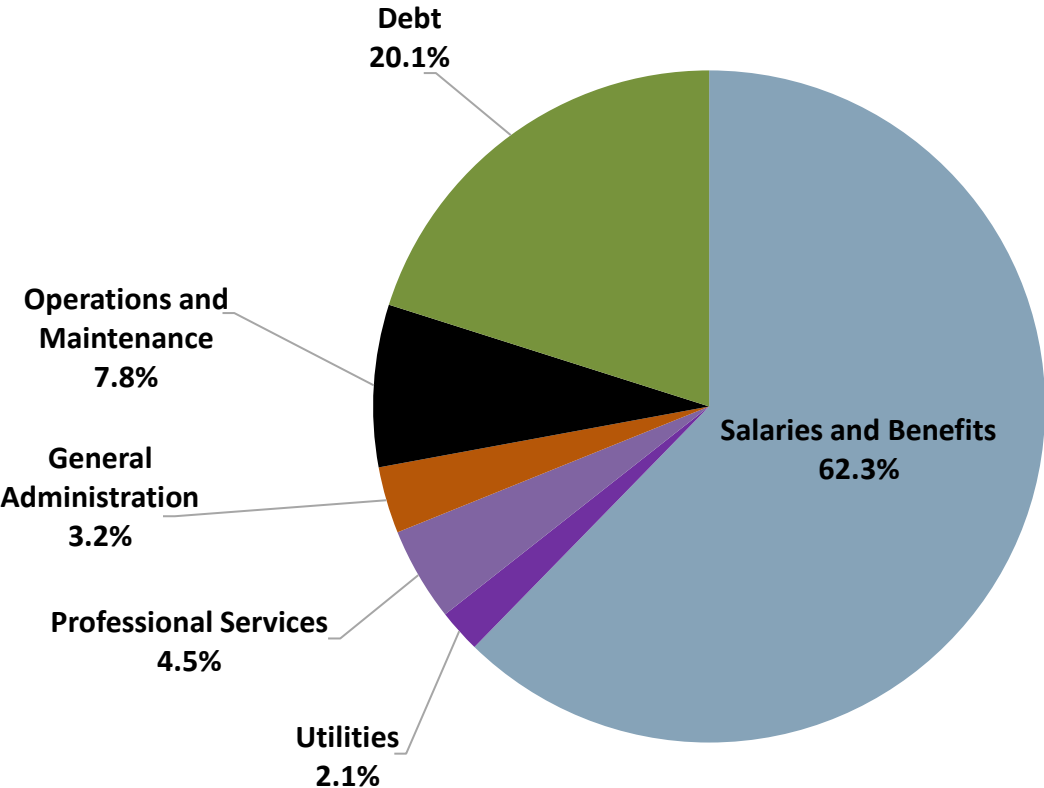
Rate Revenue	\$1,475,000
<b>Non-Rate Revenue</b>	
Miscellaneous Fees	\$9,000
Interest Earnings	\$40,000
Operating Revenue	\$31,000
Capacity Charges	\$148,000
<b>Total:</b>	<b>\$1,703,000</b>



# Marina Sewer Operating Expenses & Debt Service

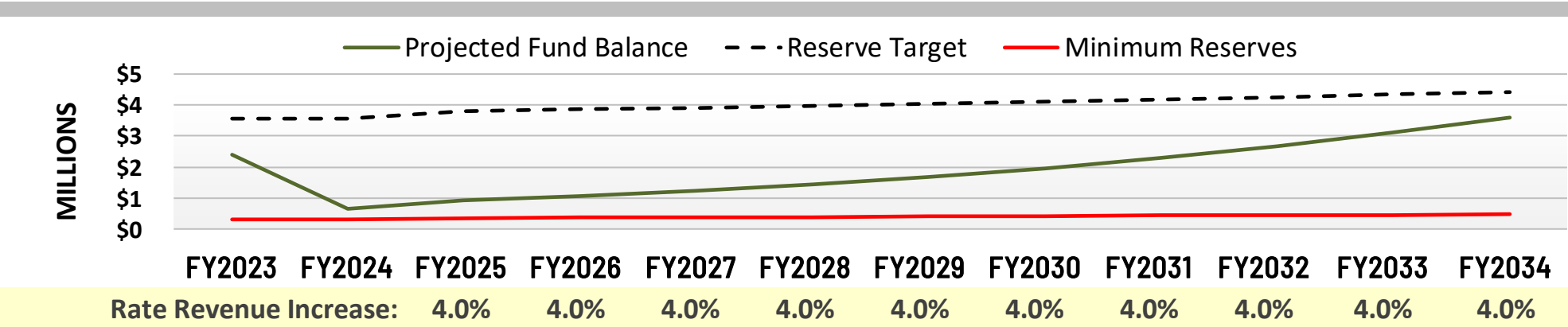
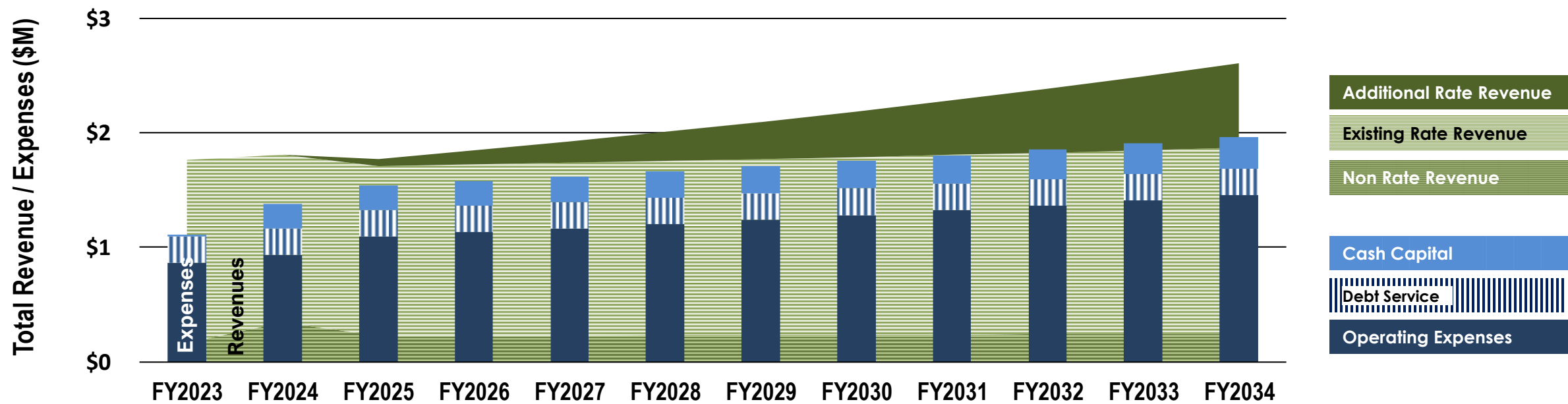
FY2023/24 Budget

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



# Marina Sewer Financial Forecast

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





# Ord Sewer Financial Plan

# Ord Sewer Cash Reserves

Fiscal Year beginning July 1, 2023

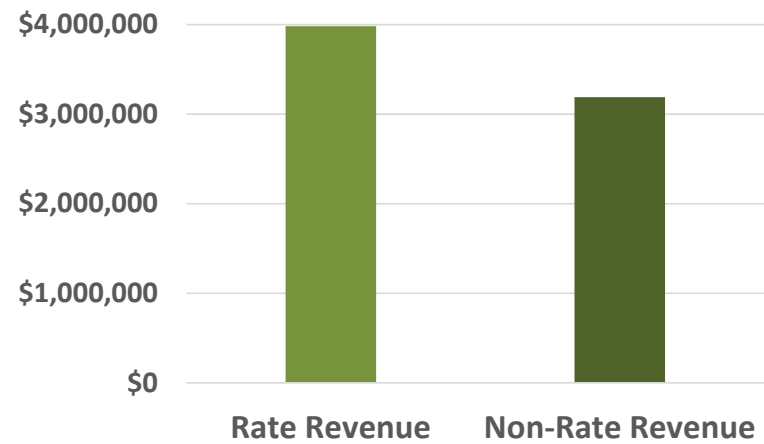
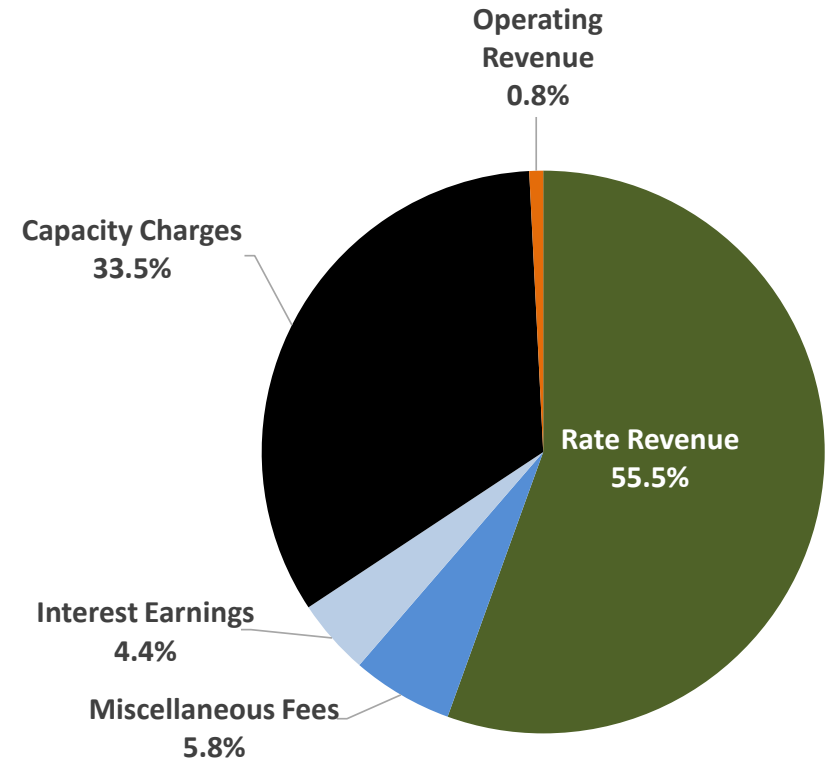
Unrestricted	
Administrative & General Fund	\$50,000
Operating Reserves	\$3,286,000
Capital Replacement & Impvt Reserve	\$998,000
Total Unrestricted:	\$4,334,000
Restricted	
Capacity Fee Reserve	\$2,980,000
Total Reserves:	\$7,314,000



# Ord Sewer Revenue

## FY2023/24 Budget

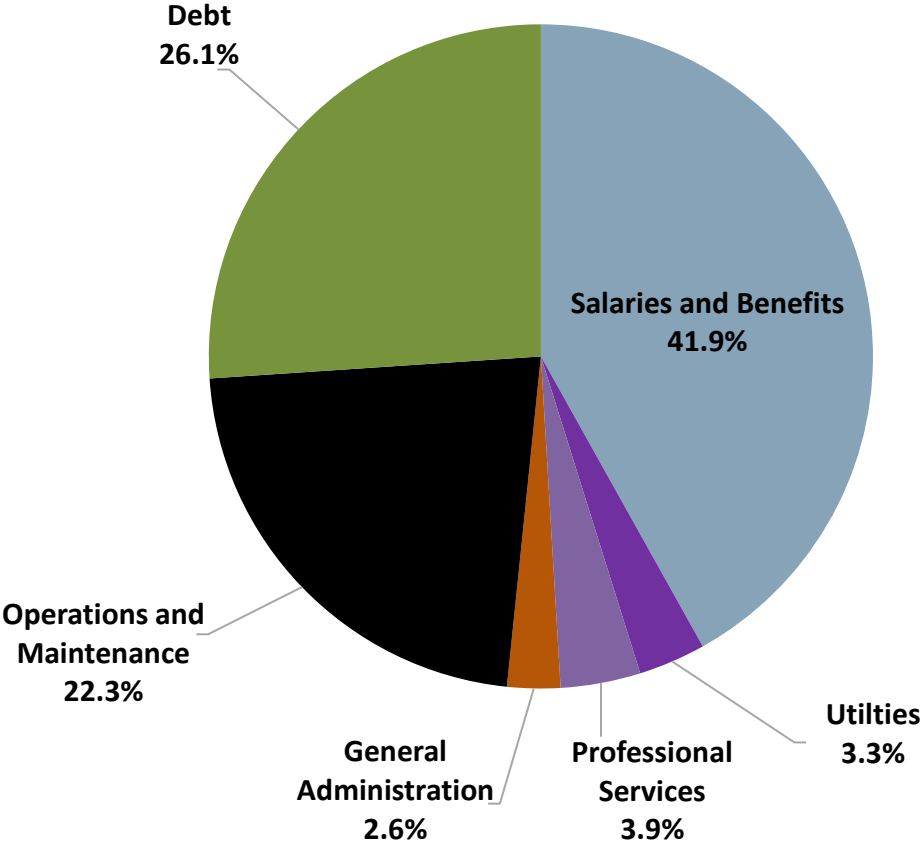
Rate Revenue	\$3,981,000
<b>Non-Rate Revenue</b>	
Miscellaneous Fees	\$417,000
Interest Earnings	\$313,000
Capacity Charges	\$2,403,000
Operating Revenue	\$57,000
<b>Total:</b>	<b>\$7,171,000</b>



# Ord Sewer Operating Expenses & Debt Service

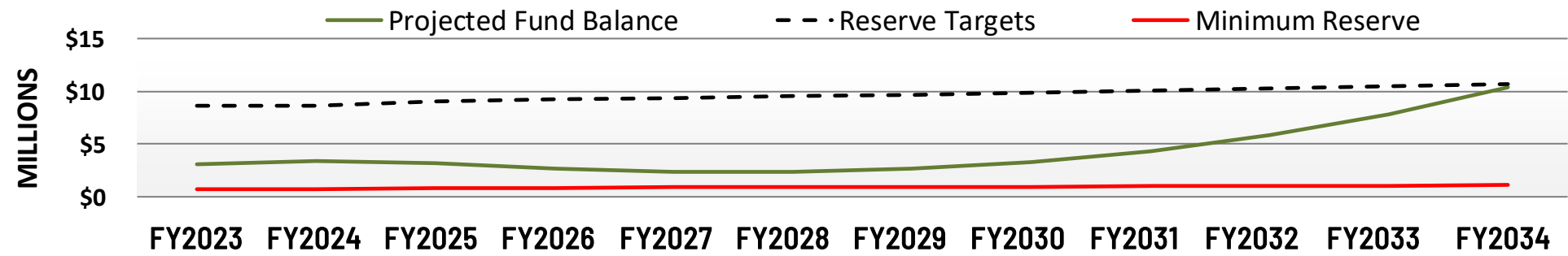
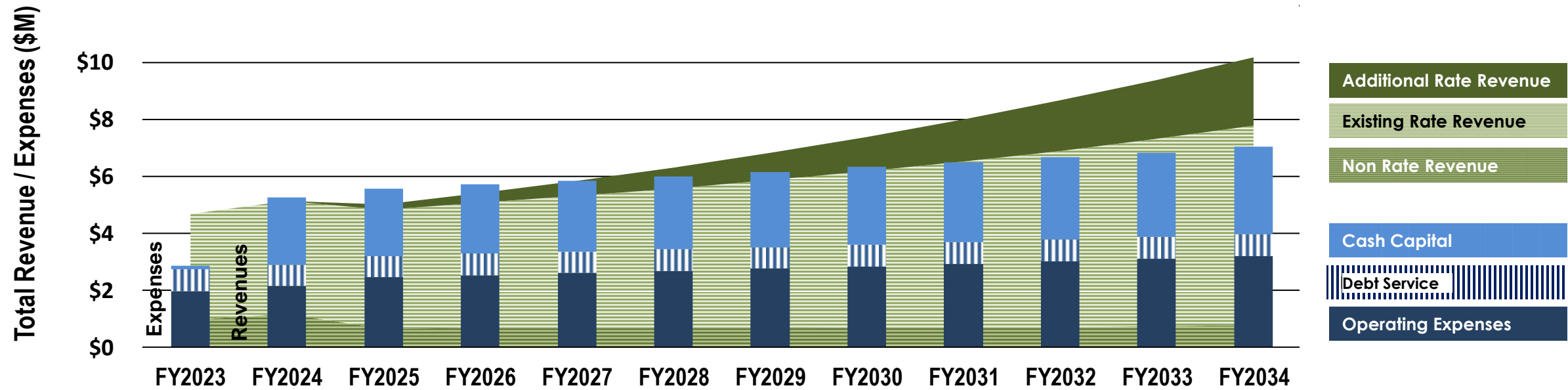
FY2023/24 Budget

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



# 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

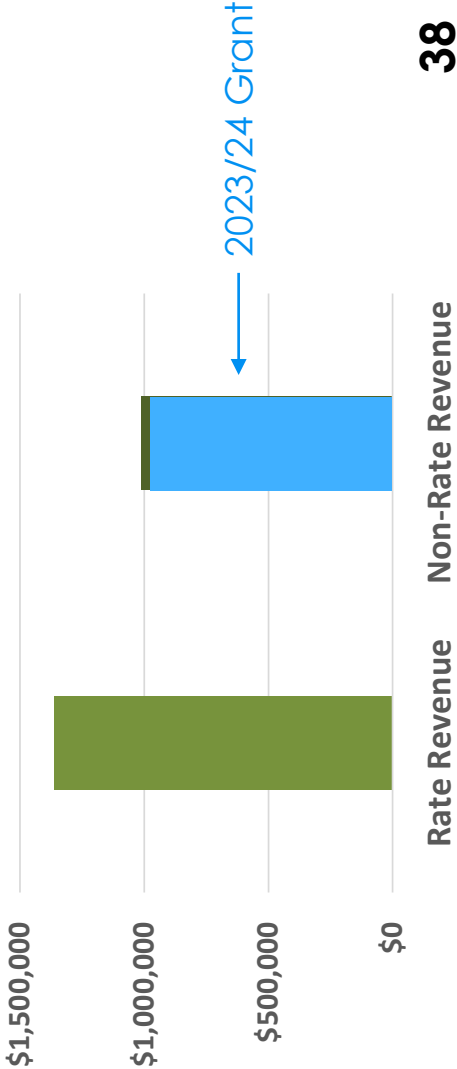
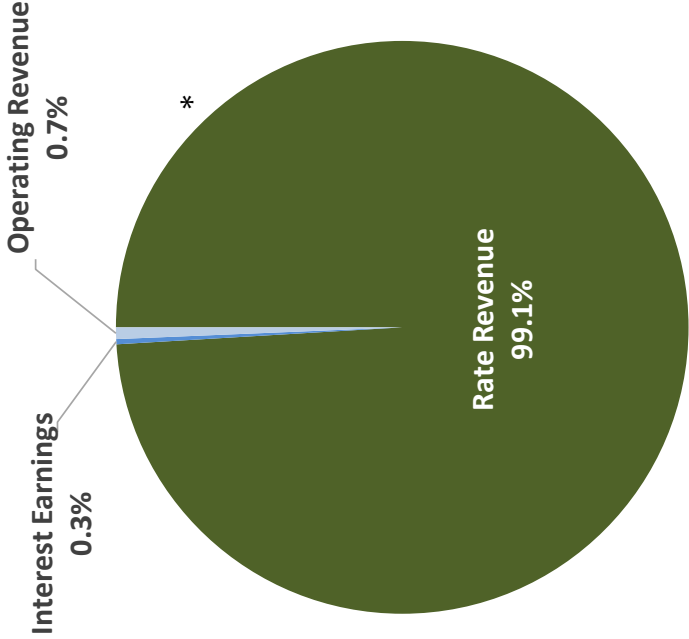
Fiscal Year beginning July 1, 2023

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Operating Reserves	\$123,000
<hr/>	
<b>Restricted</b>	
<hr/>	
Capacity Fee Reserve	\$7,522,000
Debt Service - RUWAP	\$229,000
<hr/>	
<b>Total Restricted</b>	<b>\$7,751,000</b>
<b>Total Reserves:</b>	<b>\$7,874,000</b>

# Recycled Water Revenue

## FY2023/24 Budget

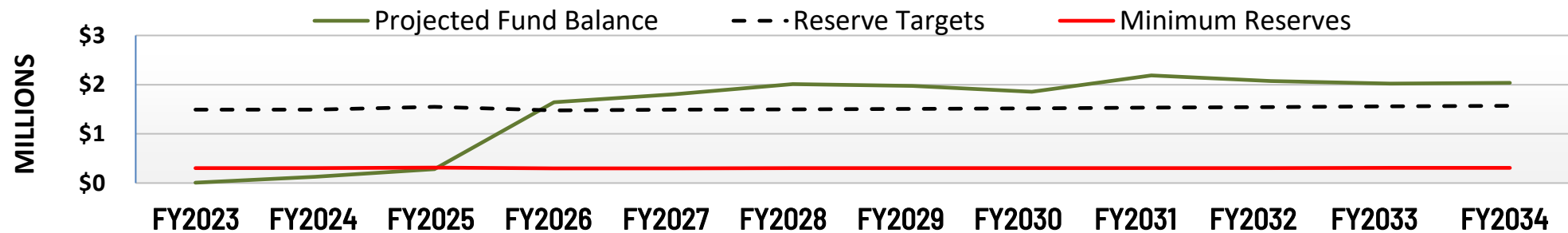
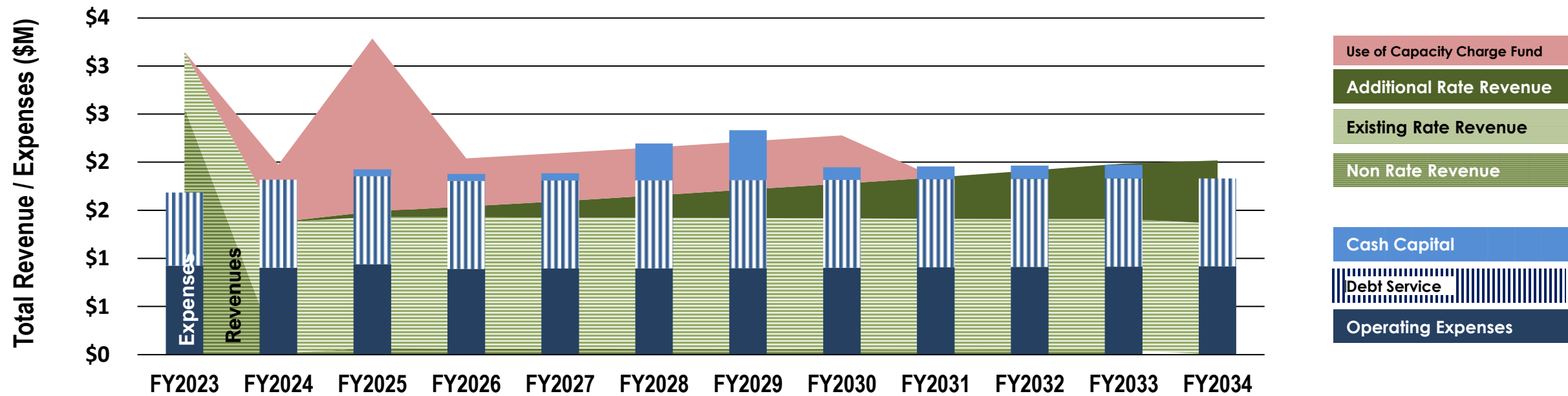
Rate Revenue	\$1,363,000
<b>Non-Rate Revenue</b>	
Interest Earnings	\$4,000
Operating Revenue	\$9,000
Grants	\$1,000,000
<b>Total:</b>	<b>\$2,376,000</b>



\* 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