
FINANCIAL PLAN AND RATE STUDY

Pending input from the District Board, this memo outlines preliminary findings and recommendations based on an updated five-year financial plan and rate study. All figures presented in this document are preliminary and subject to change based on further analysis/input.

The District engaged Carollo Engineers to perform a comprehensive financial plan and rate study for its water and sewer utilities. The study includes the development of a five-year financial plan and cost-based water user charges through a comprehensive cost of service and rate design analysis. The District serves approximately 30,000 residents through 8,000 connections in its Marina and former Fort Ord (Ord) community service areas. A financial model and rates were designed for each of the District's four primary cost centers, one for each service area and its respective utility system: Marina Water; Marina Sewer; Ord Water; and. Ord Sewer.

The comprehensive review included the following components:

- A review of the water and sewer utility revenue requirements incorporating:
 - Recent economic conditions that have influenced both the behavior of existing customers and the addition of new customers to the water and sewer systems.
 - Similarly, observed trends in water demands suggesting increased conservation beyond that forecasted in the previous rate study.
 - Various funding levels for capital improvements that provide funding for continued system rehabilitation and replacement, based on assumed rate thresholds
- Development of recommended water and sewer rates based on forecasted revenue requirements and an updated cost-of-service analysis for each cost center
 - Performed functional cost allocations for each cost center to develop reasonable cost nexus between the service provided and the benefit received.
 - Reviewed existing rate structure revenue sufficiency, customer equity, and revenue predictability
 - Recommends update to the District's rate to provide fire protection service
- Development of recommended water and sewer connection fees or one-time payment for new or upsized meters to purchase system capacity

- Fee defines a reasonable nexus between the fee and the cost to provide /construct capacity. Consistent with existing policy, fees are inflated annually based on historical Engineering News-Record (ENR) Construction Cost Index.

This study developed a five-year financial plan integrating these various elements to provide adequate and reasonable funding for the District's forecasted operating and capital needs.

As the rates have yet to be finalized, pending input and guidance from the District Board and staff, preliminary finding and recommendations are as follows:

Fundamental factors and assumptions that generate these results are:

- **Customer Growth:** For the Marina service area, growth for FY14 and FY15 is forecasted at 0.62%. With an assumed uptick in the economy, growth is expected to jump to a steady 1.69% for the remaining projection. The Ord system is forecasted to grow at an accelerated rate. Customer growth is 7.61% for FY14 and FY15, and slows to a 4.83% for the remainder of the study. Growth estimates from the District's 2010 Urban Water Management Plan were adjusted in light of continued economic difficulties for added conservatism. Marina's rate was reduced by 66% and Ord's reduced by only 25%.
- **Operating Budget:** Operating costs are expected to increase by 3% per annum. In addition to assumed inflation, costs are expected to increase as more water is delivered or with additional customers is increased by customer growth.
- **Debt:** The District currently has two outstanding debt services – 2006 Series Bond and 2010 Series Refunding Bond. The 2010 Series is subordinate to the 2006 Series and rates were set to meet all required rate covenant ratios. Although debt is allocated between the various cost centers, each cost center is not obligated to meet these debt requirements exclusively as the obligation is District wide. To provide increased equity between cost centers, each is allocated and designed to recover its respective share of the debt and associated debt coverage requirements.
 - Currently, Marina Sewer and Ord Water are significantly below its junior debt coverage requirements (on an individual basis). Nevertheless, throughout the analysis, the District is forecasted to maintain an appropriate combined coverage. Although improved by the proposed revenue increase, to minimize revenue increases in the first year (FY 14), Marina Sewer and Ord Water will remain under its individual junior debt coverage target. In subsequent years, all cost centers generate sufficient individual coverage ratios.
- **Capital Program:** Two capital-funding scenarios were developed. Given the same proposed revenue increases and recommended rates, Option #1 assumes the capital program supported purely on a cash basis – without issuing additional debt. Option #2

forecasts the capital funding available if the district were interested and available to issue new debt. As debt would enable the District to leverage existing revenues, Option #2 provides greater funding to capital projects.

- **Reserve Funding:** Departing from existing District policy, Carollo recommends a reduction in both operating and capital reserve levels. By unrestricting these reserves, the
 - **Capital Reserve:** To mitigate potential rate increases, it is recommended that each cost center's capital reserve minimum be set at \$0.25 M down from the existing \$1.0 M. This adjustment enables the immediate funding of capital projects, without affecting rates.
 - **Operating Reserve:** Based on the District's climate and the District's financial stewardship, a reduced operating reserve is manageable. It is recommended that the District adjust its operating reserve to a 3-month (90 day) minimum target, down from the 6-month (180 day) target. Given existing reserve levels, this provides increased flexibility to minimize rate increase in the near term.

Proposed Water and Sewer Rates

After performing a detailed consumption analysis and reviewing the District's existing rate structure, Carollo does not recommend structural changes at this time. Although consumption is significantly different from forecasted in the 2008 study, the existing tier allocations (amount of water in each tier) remain reasonable and are well understood by the community.

Based on cost-of-service practices, one recommendation is to modify the meter Service Charge methodology. Currently the charge does not distinguish between meter related costs and "account" type costs that do not increase based on meter size (e.g., customer billing and meter reading). This change is reflected in the rate structures and its impact is illustrated by the recommended decrease in the meter charges greater than 3/4". This decrease will affect roughly 12% of the District's accounts.

Marina Water

- Based on assumed expenditures and forecasted existing revenues, overall required revenue should be increased by 3.0% per year. Of the cost centers, Marina Water has the best financial position and is able to fully fund proposed capital projects.

Table 1 Proposed Rates FY 2013/14 Through FY 2017/18						
Marina Coast Water District						
Comprehensive Rate Study and Financial Plan						
Description	FY 2012/ 2013	FY 2013/ 2014	FY 2014/ 2015	FY 2015/ 2016	FY 2016/ 2017	FY 2017/ 2018
Marina Service Area Water Consumption Rates (per hcf)						
Existing						
0 to 8 hcf	\$2.29	\$2.49	\$2.58	\$2.66	\$2.74	\$2.82
9 to 16 hcf	2.79	2.85	2.96	3.04	3.13	3.23
16+ hcf	5.09	5.01	5.19	5.35	5.51	5.67
Marina Service Area Water Service Charges (monthly)						
Existing						
Meter Size	\$18.85	\$19.28	\$20.00	\$20.60	\$21.21	\$21.84
5/8" - 3/4"	47.09	31.10	32.27	33.23	34.22	35.24
1 1/2"	94.19	50.82	52.72	54.29	55.91	57.58
2"	150.68	74.47	77.25	79.56	81.93	84.38
3"	282.52	129.69	134.54	138.56	142.69	146.95
4"	470.87	208.50	216.30	222.76	229.41	236.26
6"	941.75	405.61	420.78	433.34	446.27	459.60
8"	1,883.49	800.05	829.97	854.75	880.26	906.55
Capacity Fee	\$5,450	\$8,627	\$8,932	\$9,246	\$9,572	\$9,910

Marina Sewer

- Based on assumed expenditures and forecasted existing revenues, overall required revenue should be increased by 10% throughout the study period. These increases are necessary to generate a positive cash flow, meet coverage requirements, and to partially fund capital improvements.

Table 2 Proposed Rates FY 2013/14 Through FY 2017/18 Marina Coast Water District Comprehensive Rate Study and Financial Plan						
Description	FY 2012/ 2013	FY 2013/ 2014	FY 2014/ 2015	FY 2015/ 2016	FY 2016/ 2017	FY 2017/ 2018
Sewer (Per EDU)	\$9.15	\$9.87	\$11.11	\$12.22	\$13.44	\$14.78
Capacity Fee	\$3,950	\$3,348	\$3,466	\$3,588	\$3,714	\$3,845

Ord Water

- Based on assumed expenditures and forecasted existing revenues, overall required revenue should be increased by 10% from FY14 through FY17. The increases are cash flow driven, as without the recommended increases, the cost center would be using reserves to offset insufficient revenues.
- **Existing and Proposed Rates**

Table 3 Proposed Rates FY 2013/14 Through FY 2017/18 Marina Coast Water District Comprehensive Rate Study and Financial Plan						
Description	FY 2012/ 2013	FY 2013/ 2014	FY 2014/ 2015	FY 2015/ 2016	FY 2016/ 2017	FY 2017/ 2018
Ord Service Area Water Consumption Rates (per hcf)						
	Existing					
0 to 8 hcf	\$2.33	\$2.31	\$2.68	\$2.96	\$3.29	\$3.46
9 to 16 hcf	3.27	3.45	3.97	4.36	4.81	5.03
16+ hcf	4.22	4.59	5.27	5.76	6.33	6.59
Ord Service Area Water Service Charges (monthly)						
Meter Size	Existing					
5/8" - 3/4"	\$17.11	\$22.96	\$24.14	\$24.90	\$25.78	\$25.34
1"	42.76	36.70	38.59	39.79	41.20	40.50
1 1/2"	85.49	59.59	62.67	64.62	66.91	65.76
2"	136.78	87.06	91.55	94.41	97.75	96.07
3"	256.47	151.21	159.01	163.96	169.77	166.86
4"	427.45	242.75	255.27	263.23	272.55	267.88
6"	854.89	471.69	496.02	511.49	529.61	520.52
8"	1,709.79	929.84	977.81	1,008.29	1,044.02	1,026.10
Flat Rate	\$84.34	\$90.46	\$103.23	\$113.10	\$124.31	\$129.55
Capacity Fee	\$5,750	\$14,442	\$14,931	\$15,457	\$16,002	\$16,566

Ord Sewer

- Based on assumed expenditures and forecasted existing revenues, overall required revenue should be increased by 4% through FY17, increasing to 8% in FY18. Increase will provide the cost center with sufficient cash flow to meet debt coverage obligations, generate positive cash flows, and partially fund capital projects.
- **Existing and Proposed Rates**

Table 4 Proposed Rates FY 2013/14 Through FY 2017/18 Marina Coast Water District Comprehensive Rate Study and Financial Plan						
Description	FY 2012/ 2013	FY 2013/ 2014	FY 2014/ 2015	FY 2015/ 2016	FY 2016/ 2017	FY 2017/ 2018
Sewer (Per EDU)	\$25.26	\$26.23	\$27.55	\$28.65	\$29.80	\$32.18
Capacity Fee	\$2,150	\$6,441	\$6,668	\$6,903	\$7,146	\$7,398

Fire Meter Service Charges

As part of the suite of services provided by the District, numerous accounts have a water line connection to the City's water system that is specifically for fire protection or has been upsized based on building codes. Fire Service Charges are assessed to private protection meters. Currently, the District charges a uniform rate of \$20 for commercial fire meters. Residential customers that have been upsized to a 1" meter (from a 5/8" or 3/4" meter), pay the existing 1" meter service charge.

The proposed methodology is designed to reflect the design and operation of the water system that is specifically available for fire protection. The recommended charge is based on the diameter of the line that connects their fire protection system to the District's water system. Based on the preliminary cost of service analysis and allocation assumptions, the table below provides the proposed monthly charges. Under this methodology, upsized residential meters would pay the proposed 1" fire meter charge and the proposed 3/4" meter service charge.

Table 5 Proposed Rates FY 2013/14 Through FY 2017/18 Marina Coast Water District Comprehensive Rate Study and Financial Plan			
Meter Size	Existing	Proposed Marina Water	Proposed Ord Water
5/8" - 3/4"	\$20.00	\$1.39	\$1.62
1"	20.00	4.05	4.72
1 1/2"	20.00	8.63	10.05
2"	20.00	15.51	18.07
3"	20.00	25.06	29.19
4"	20.00	53.40	62.21
6"	20.00	155.11	180.70
8"	20.00	330.55	385.08