

MONTECITO

Water District

Cost of Service and Rate Design Study

March 16, 2020



Agenda

- Board Workshop #1 Recap
- Financial Plan
 - › Revenue Drivers
 - › Proposed Adjustments
- Fixed Charges
- Variable Charge
 - › Desal Options
- Next Steps and Schedule



Board Workshop #1 Recap

Policy Framework

- Policy objectives
 - › Minimize rate impacts and smooth rate shocks
 - › Promote water efficiency
 - › Develop equitable rates across customer classes
- Fixed / Variable revenue recovery
 - › Maintain split of 24% fixed and 76% variable
- Rates based on new baseline water demand
 - › 3,750 acre feet per year (AFY)



Board Workshop #1 Recap

Rate Options and Decisions

- Residential customer class
 - › Three tier rate structure
 - Tier 1 (Efficient indoor use) = 9 hcf
 - Tier 2 (Average summer) = 9 - 35 hcf
 - Tier 3 = 35+ hcf
 - › Combine SFR and MFR – minimal usage in MFR class
 - › Desal options to include or exclude Tier 1
- Agriculture customer class
 - › Will not pay for reliability of SWP or Desal water
 - Service will be interruptible



Financial Plan

Revenue Drivers

- Reserve targets
 - › Total target of \$5M
 - › \$500k each for Capital and Emergency reserves
 - › \$4.0M for Operating and Desal reserves combined
- Desal cost prefunding
 - › Approximately \$3.5M per year for 5 years
 - › Will cover Water Purchase Agreement through FY 2025
- Debt paydown of \$5M
 - › Which year should this be effective?
 - Raftelis and staff recommendation: FY 2024



Financial Plan Status Quo

| Fund Balances | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|---------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Beginning Balances | \$7,128,337 | \$7,594,527 | \$6,291,249 | \$4,536,535 | \$4,659,883 | (\$555,680) |
| Revenues | | | | | | |
| Rate Revenues | \$19,415,781 | \$19,512,860 | \$19,610,424 | \$19,708,476 | \$19,807,019 | \$19,906,054 |
| Revenue Adjustments | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other Revenue | \$803,989 | \$1,558,036 | \$1,563,173 | \$1,568,373 | \$1,295,665 | \$1,301,107 |
| Total - Revenues | \$20,219,770 | \$21,070,896 | \$21,173,597 | \$21,276,849 | \$21,102,684 | \$21,207,161 |
| Expenses | | | | | | |
| JPA O&M Expenses | \$7,836,423 | \$6,251,725 | \$7,116,782 | \$6,086,779 | \$6,138,440 | \$6,255,464 |
| Montecito O&M Expenses | \$6,513,695 | \$6,508,234 | \$6,480,343 | \$6,587,439 | \$6,536,204 | \$6,904,716 |
| Desal Prefunding | \$0 | \$3,525,199 | \$3,525,199 | \$3,525,199 | \$3,525,199 | \$3,525,199 |
| Debt Service | \$4,068,462 | \$3,524,317 | \$3,495,696 | \$2,839,383 | \$2,946,578 | \$3,062,737 |
| Debt Paydown | \$0 | \$0 | \$0 | \$0 | \$5,000,000 | \$0 |
| CIP Expenditures | \$1,335,000 | \$2,564,700 | \$2,310,290 | \$2,114,700 | \$2,171,825 | \$2,520,560 |
| Total - Expenses | \$19,753,579 | \$22,374,175 | \$22,928,311 | \$21,153,501 | \$26,318,247 | \$22,268,677 |
| Ending Balances | \$7,594,527 | \$6,291,249 | \$4,536,535 | \$4,659,883 | (\$555,680) | (\$1,617,196) |
| Reserve Target | \$5,000,000 | \$5,000,000 | \$5,000,000 | \$5,000,000 | \$5,000,000 | \$5,000,000 |



Financial Plan Proposed Adjustments

- “Revenue Adjustments” or annual gross rate revenue increases

| Fiscal Year | Revenue Adjustment | Effective Date |
|-------------|--------------------|----------------|
| 2021 | 2.8% | July 1, 2020 |
| 2022 | 2.8% | July 1, 2021 |
| 2023 | 2.8% | July 1, 2022 |
| 2024 | 2.8% | July 1, 2023 |
| 2025 | 2.8% | July 1, 2024 |

- Funds all O&M, Water Purchase Agreement, CIP, and debt service
- Reflects long-term consumer price index (CPI) increases
- Allows District to (1) meet \$5M reserve target in all years, (2) paydown \$5M in debt principal, and (3) meet debt coverage requirement in all years.



Financial Plan Proposed Adjustments

| Fund Balances | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|---------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Beginning Balances | \$7,128,337 | \$7,594,527 | \$6,837,609 | \$6,196,454 | \$8,022,101 | \$5,119,847 |
| Revenues | | | | | | |
| Rate Revenues | \$19,415,781 | \$19,512,860 | \$19,610,424 | \$19,708,476 | \$19,807,019 | \$19,906,054 |
| Revenue Adjustments | \$0 | \$546,360 | \$1,113,558 | \$1,702,299 | \$2,313,310 | \$2,947,342 |
| Other Revenue | \$803,989 | \$1,558,036 | \$1,563,173 | \$1,568,373 | \$1,295,665 | \$1,301,107 |
| Total - Revenues | \$20,219,770 | \$21,617,256 | \$22,287,156 | \$22,979,148 | \$23,415,994 | \$24,154,503 |
| Expenses | | | | | | |
| JPA O&M Expenses | \$7,836,423 | \$6,251,725 | \$7,116,782 | \$6,086,779 | \$6,138,440 | \$6,255,464 |
| Montecito O&M Expenses | \$6,513,695 | \$6,508,234 | \$6,480,343 | \$6,587,439 | \$6,536,204 | \$6,904,716 |
| Desal Prefunding | \$0 | \$3,525,199 | \$3,525,199 | \$3,525,199 | \$3,525,199 | \$3,525,199 |
| Debt Service | \$4,068,462 | \$3,524,317 | \$3,495,696 | \$2,839,383 | \$2,946,578 | \$3,062,737 |
| Debt Paydown | \$0 | \$0 | \$0 | \$0 | \$5,000,000 | \$0 |
| CIP Expenditures | \$1,335,000 | \$2,564,700 | \$2,310,290 | \$2,114,700 | \$2,171,825 | \$2,520,560 |
| Total - Expenses | \$19,753,579 | \$22,374,175 | \$22,928,311 | \$21,153,501 | \$26,318,247 | \$22,268,677 |
| Ending Balances | \$7,594,527 | \$6,837,609 | \$6,196,454 | \$8,022,101 | \$5,119,847 | \$7,005,674 |
| Reserve Target | \$5,000,000 | \$5,000,000 | \$5,000,000 | \$5,000,000 | \$5,000,000 | \$5,000,000 |



Fixed Charges Proposed Meter Charge

| Meter Size | Meter Count | Capacity Ratio | Proposed Charge | Current Charge | Difference (\$) |
|------------|-------------|----------------|-----------------|----------------|-----------------|
| 3/4-inch | 2,264 | 1.00 | \$46.86 | \$44.59 | \$2.27 |
| 1-inch | 1,605 | 1.72 | \$76.69 | \$74.34 | \$2.35 |
| 1 1/2-inch | 516 | 3.13 | \$135.04 | \$133.79 | \$1.25 |
| 2-inch | 218 | 5.00 | \$212.83 | \$237.84 | (\$25.01) |
| 3-inch | 15 | 17.50 | \$731.49 | \$535.14 | \$196.35 |
| 4-inch | 2 | 34.38 | \$1,431.67 | \$891.90 | \$539.77 |
| 6-inch | 5 | 78.13 | \$3,246.97 | \$1,486.51 | \$1,760.46 |

| Monthly Meter Charge | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|----------------------|------------|------------|------------|------------|------------|
| 3/4-inch | \$46.86 | \$48.18 | \$49.53 | \$50.92 | \$52.35 |
| 1-inch | \$76.69 | \$78.84 | \$81.05 | \$83.32 | \$85.66 |
| 1 1/2-inch | \$135.04 | \$138.83 | \$142.72 | \$146.72 | \$150.83 |
| 2-inch | \$212.83 | \$218.79 | \$224.92 | \$231.22 | \$237.70 |
| 3-inch | \$731.49 | \$751.98 | \$773.04 | \$794.69 | \$816.95 |
| 4-inch | \$1,431.67 | \$1,471.76 | \$1,512.97 | \$1,555.34 | \$1,598.89 |
| 6-inch | \$3,246.97 | \$3,337.89 | \$3,431.36 | \$3,527.44 | \$3,626.21 |



Fixed Charges

Proposed Private Fireline Charge

| Fire Line Size | Fireline Count | Fire Ratio | Proposed Charge | Current Charge | Difference (\$) |
|----------------|----------------|------------|-----------------|----------------|-----------------|
| 2-inch | 4 | 0.06 | \$19.35 | \$37.50 | (\$18.15) |
| 4-inch | 55 | 0.34 | \$91.89 | \$49.28 | \$42.61 |
| 6-inch | 37 | 1.00 | \$256.70 | \$61.68 | \$195.02 |
| 8-inch | 10 | 2.13 | \$540.96 | \$84.93 | \$456.03 |

| Monthly Private Fire Charge | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|-----------------------------|----------|----------|----------|----------|----------|
| 2-inch | \$19.35 | \$19.90 | \$20.46 | \$21.04 | \$21.63 |
| 4-inch | \$91.89 | \$94.47 | \$97.12 | \$99.84 | \$102.64 |
| 6-inch | \$256.70 | \$263.89 | \$271.28 | \$278.88 | \$286.69 |
| 8-inch | \$540.96 | \$556.11 | \$571.69 | \$587.70 | \$604.16 |



Water Usage Rates

Proposed Desal Option 1 – Exclude Tier 1

| Customer Class | Monthly Tier (hcf) | Base | Peaking | Desal | SWP | Local Supply | Treatment | Conservation | Proposed Charge | Current Charge | Diff (\$) |
|----------------|--------------------|--------|---------|--------|--------|--------------|-----------|--------------|-----------------|----------------|-----------|
| Residential | | | | | | | | | | | |
| Tier 1 | 9 | \$2.45 | \$0.41 | \$0.00 | \$2.50 | \$0.54 | \$0.65 | \$0.00 | \$6.56 | \$8.85 | (\$2.29) |
| Tier 2 | 35 | \$2.45 | \$0.86 | \$3.53 | \$2.50 | \$1.14 | \$0.65 | \$0.00 | \$11.14 | \$9.43 | \$1.71 |
| Tier 3 | 35+ | \$2.45 | \$1.55 | \$3.53 | \$2.50 | \$1.32 | \$0.65 | \$0.30 | \$12.31 | \$10.51 | \$1.80 |
| Commercial | | \$2.45 | \$0.57 | \$2.36 | \$2.50 | \$0.99 | \$0.65 | \$0.09 | \$9.63 | \$9.78 | (\$0.15) |
| Institutional | | \$2.45 | \$1.53 | \$2.36 | \$2.50 | \$0.99 | \$0.65 | \$0.09 | \$10.58 | \$9.78 | \$0.80 |
| Agriculture | | \$2.45 | \$1.31 | \$0.00 | \$0.00 | \$0.99 | \$0.65 | \$0.09 | \$5.50 | \$6.45 | (\$0.95) |
| Non-Potable | | \$1.80 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$1.80 | \$1.40 | \$0.40 |

| Water Usage Rates (\$/hcf) | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|----------------------------|---------|---------|---------|---------|---------|
| Residential | | | | | |
| Tier 1 | \$6.56 | \$6.75 | \$6.94 | \$7.14 | \$7.34 |
| Tier 2 | \$11.14 | \$11.46 | \$11.79 | \$12.13 | \$12.47 |
| Tier 3 | \$12.31 | \$12.66 | \$13.02 | \$13.39 | \$13.77 |
| Commercial | \$9.63 | \$9.90 | \$10.18 | \$10.47 | \$10.77 |
| Institutional | \$10.58 | \$10.88 | \$11.19 | \$11.51 | \$11.84 |
| Agriculture | \$5.50 | \$5.66 | \$5.82 | \$5.99 | \$6.16 |
| Non-Potable | \$1.80 | \$1.86 | \$1.92 | \$1.98 | \$2.04 |



Water Usage Rates

Proposed Desal Option 2 – Include Tier 1

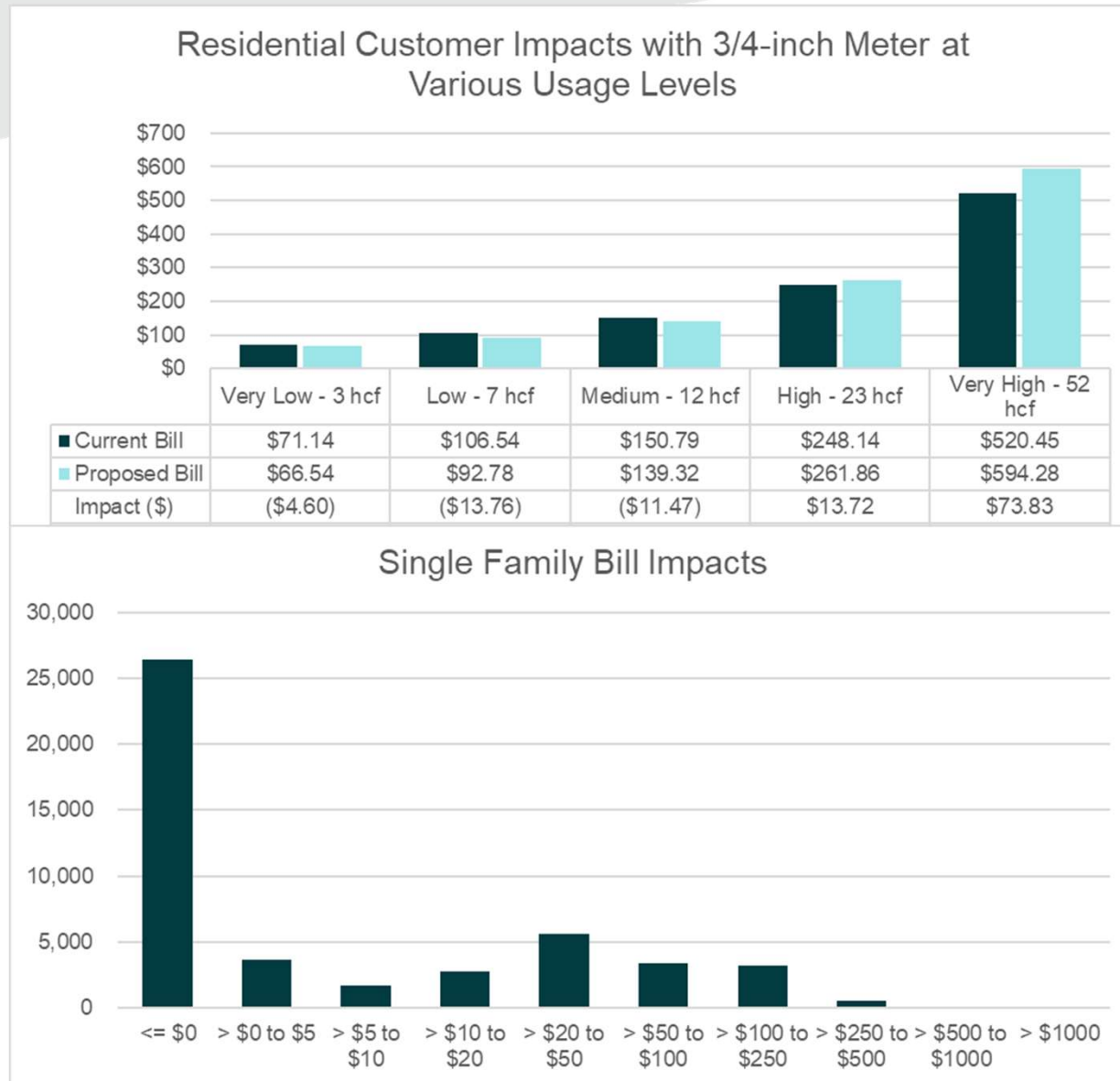
| Customer Class | Monthly Tier (hcf) | Base | Peaking | Desal | SWP | Local Supply | Treatment | Conservation | Proposed Charge | Current Charge | Diff (\$) |
|----------------|--------------------|--------|---------|--------|--------|--------------|-----------|--------------|-----------------|----------------|-----------|
| Residential | | | | | | | | | | | |
| Tier 1 | 9 | \$2.45 | \$0.41 | \$2.36 | \$2.50 | \$0.54 | \$0.65 | \$0.00 | \$8.92 | \$8.85 | \$0.07 |
| Tier 2 | 35 | \$2.45 | \$0.86 | \$2.36 | \$2.50 | \$1.14 | \$0.65 | \$0.00 | \$9.97 | \$9.43 | \$0.54 |
| Tier 3 | 35+ | \$2.45 | \$1.55 | \$2.36 | \$2.50 | \$1.32 | \$0.65 | \$0.30 | \$11.15 | \$10.51 | \$0.64 |
| Commercial | | \$2.45 | \$0.57 | \$2.36 | \$2.50 | \$0.99 | \$0.65 | \$0.09 | \$9.63 | \$9.78 | (\$0.15) |
| Institutional | | \$2.45 | \$1.53 | \$2.36 | \$2.50 | \$0.99 | \$0.65 | \$0.09 | \$10.58 | \$9.78 | \$0.80 |
| Agriculture | | \$2.45 | \$1.31 | \$0.00 | \$0.00 | \$0.99 | \$0.65 | \$0.09 | \$5.50 | \$6.45 | (\$0.95) |
| Non-Potable | | \$1.80 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$1.80 | \$1.40 | \$0.40 |

| Water Usage Rates (\$/hcf) | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|----------------------------|---------|---------|---------|---------|---------|
| Residential | | | | | |
| Tier 1 | \$8.92 | \$9.17 | \$9.43 | \$9.70 | \$9.98 |
| Tier 2 | \$9.97 | \$10.25 | \$10.54 | \$10.84 | \$11.15 |
| Tier 3 | \$11.15 | \$11.47 | \$11.80 | \$12.14 | \$12.48 |
| Commercial | \$9.63 | \$9.90 | \$10.18 | \$10.47 | \$10.77 |
| Institutional | \$10.58 | \$10.88 | \$11.19 | \$11.51 | \$11.84 |
| Agriculture | \$5.50 | \$5.66 | \$5.82 | \$5.99 | \$6.16 |
| Non-Potable | \$1.80 | \$1.86 | \$1.92 | \$1.98 | \$2.04 |



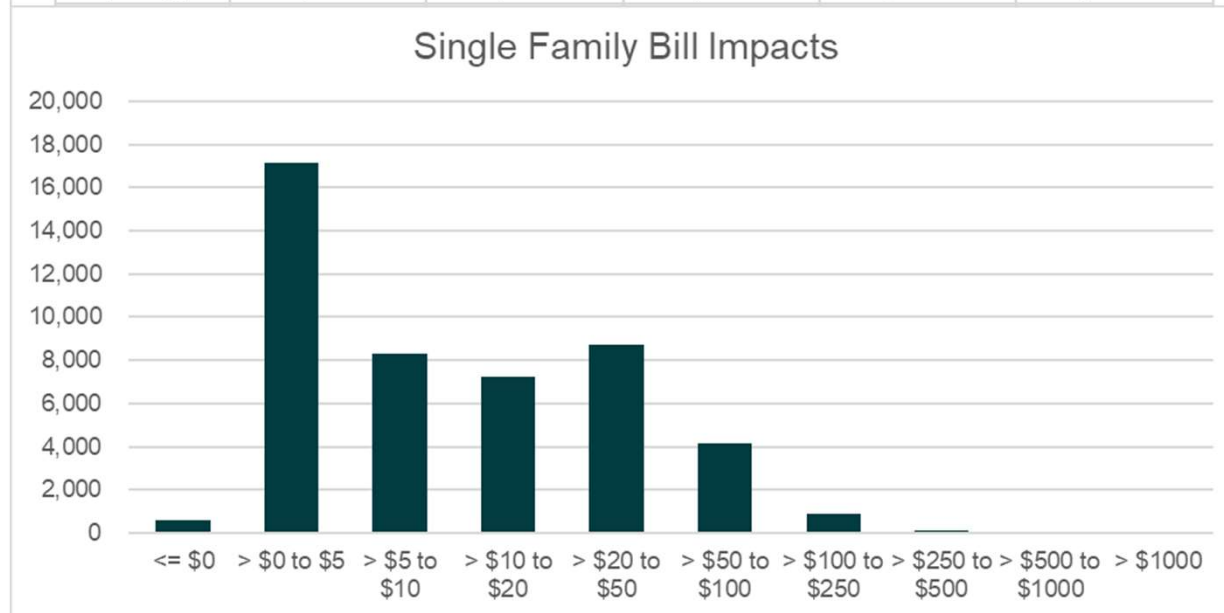
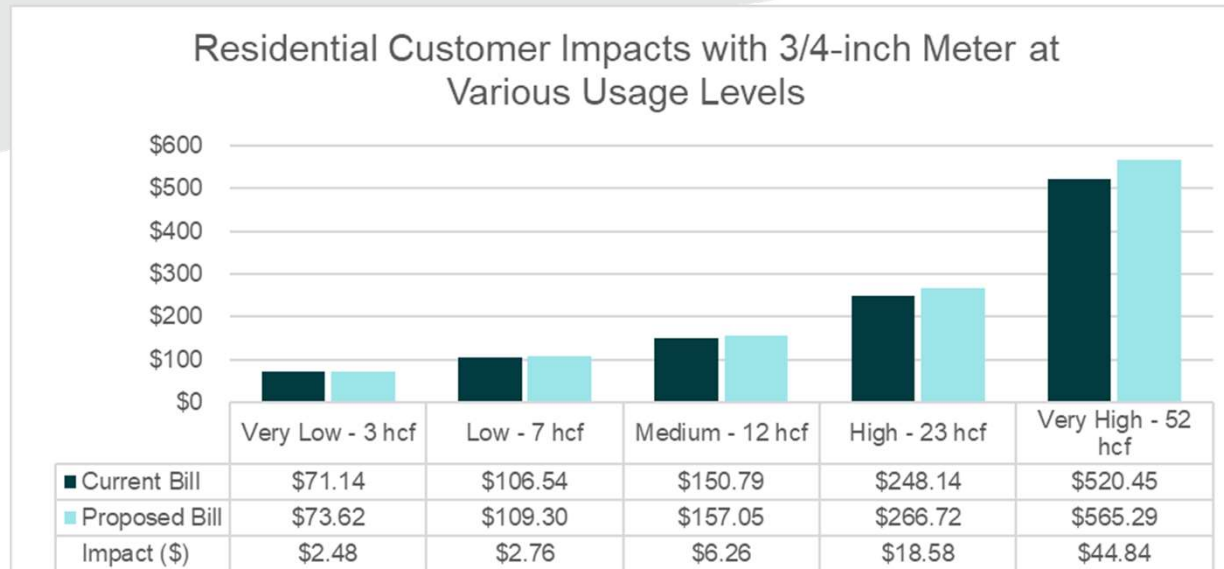
Rate Impacts

Proposed Desal Option 1 – Exclude Tier 1



Rate Impacts

Proposed Desal Option 2 – Include Tier 1



Next Steps and Schedule

| Next Steps | Date/Time Frame |
|---|----------------------|
| Board Workshop to Select Rates (if necessary) | April 7, 2020 |
| Draft Study Report | March-April 17, 2020 |
| Final Study Report (Deadline) | May 8, 2020 |
| Mail Prop 218 Notices (Deadline) | May 11, 2020 |
| Public Meeting (MWD Open House) | June 3, 2020 |
| Public Hearing to Adopt Proposed Rates | June 25, 2020 |
| Rates Effective | July 1, 2020 |





Thank you!

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