



FY 2014/15 Ord Community Compensation Plan

May 30, 2014

Meeting & Outreach efforts

- February 27th – Proposed Compensation Plan
 - Distributed to Joint Admin/WWOC
- March 5th – Joint Admin/WWOC Meeting
 - First discussion on proposed Compensation Plan
- April 2nd – Joint Admin/WWOC Meeting
 - Reviewed proposed Compensation Plan
 - Provided responses to questions received
- April 30th – WWOC Meeting
 - Submitted and reviewed revision to Compensation Plan
- May 7th - Joint Admin/WWOC Meeting
 - Presentation on 2013 Rate and Fee Study
 - Presentation of FY 2014/15 Ord Community Compensation Plan
- May 21st – Joint Admin/WWOC Meeting
 - Presentation of FY 2014/15 Ord Community Compensation Plan
 - No action was taken

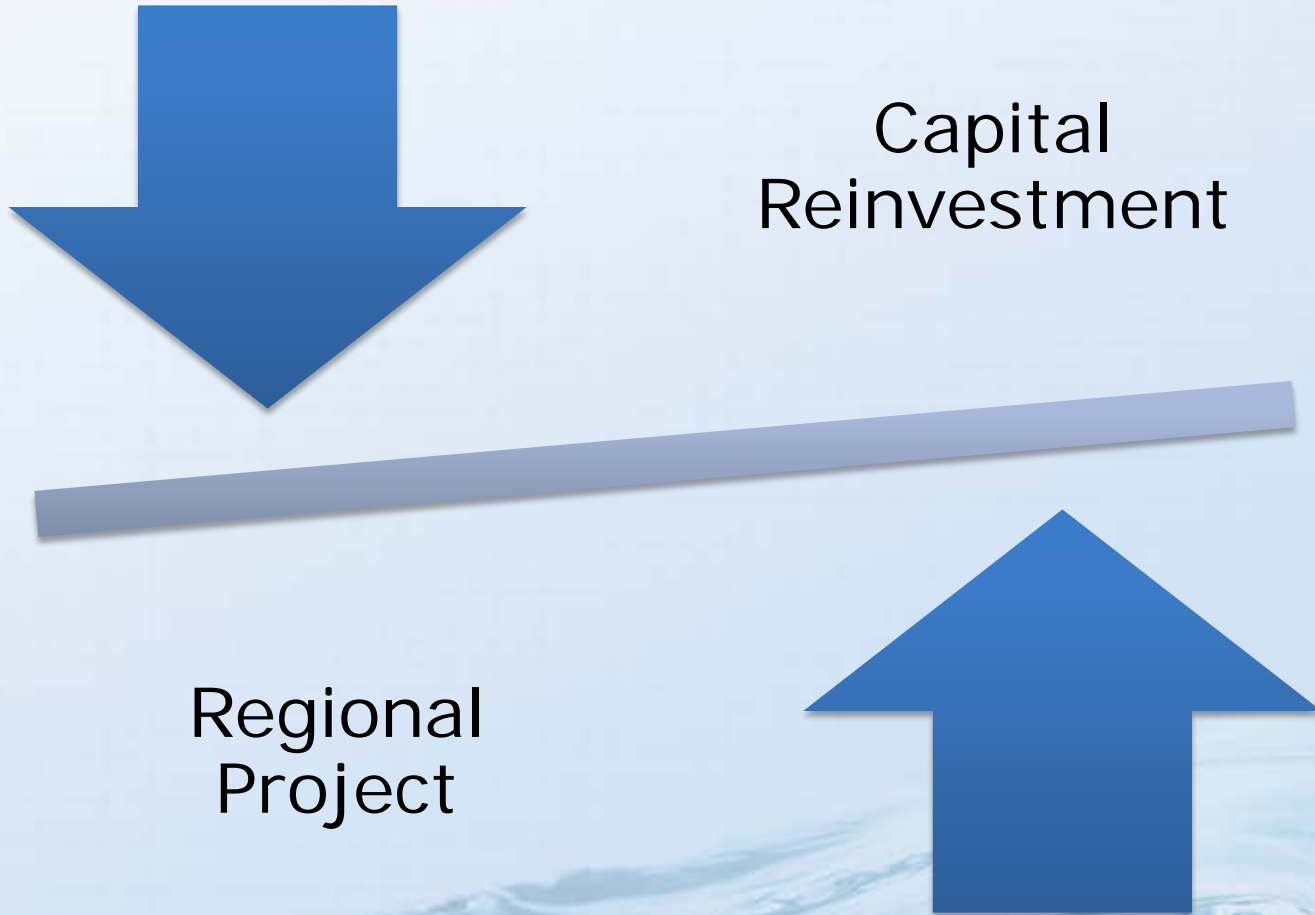
Proposed FY2014/15 Compensation Plan:

- Funds required on-going O&M
- Funds existing debt and coverage requirements
- Provides minimal PAYGO funding
 - Remaining CIP to be Capital Reserve funded
- Requires \$1M loan from Marina Water to cover O&M
- Expenditures supported by proposed 10% water revenue and 4% sewer revenue increase
 - Typical monthly water increase of \$12.37 based on 13 hcf
 - Monthly sewer increase of \$1.23

MCWD Ord System: Background & Statistics

- 3,092 accounts
- 208 miles of water / 112 miles of sewer
- 5 wells and 15 lift stations
- Total Ord asset value - \$141M
- Average life of asset – 47 years
- Annual depreciation - \$3M ($\$141\text{M} \div 47 \text{ yrs}$)
 - Standard to benchmark capital reinvestment
 - \$970 – Annual cost per account

Regional Project deferred funding of capital reinvestment



On Going Unfunded Needs are not unique to MCWD

“Taking care of Streets costs less than deferring & rebuilding”

*City of Marina
2014 Financial Compass*

“This [funding maintenance] can save communities millions of dollars”

*City of Marina
2014 Financial Compass*

ONGOING UNFUNDED NEEDS

Taking care of streets costs less than deferring & rebuilding.

This can save communities millions of dollars.

What's this chart tell us?

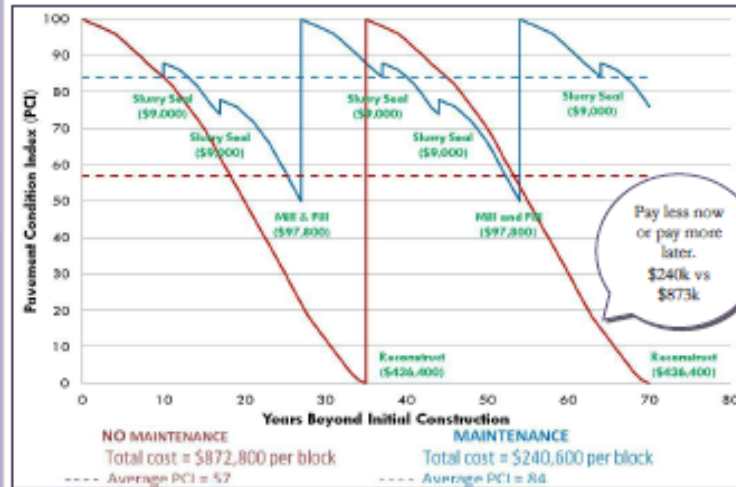
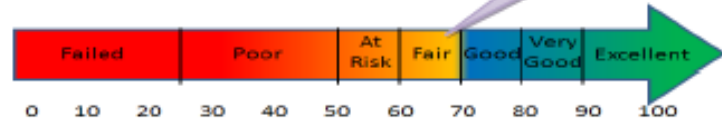
A maintained street costs about 72% less than unmaintained, failing streets.

PAVEMENT MANAGEMENT

Street Renewals: Pavement Condition Index (PCI)

Marina streets are currently in fair conditions. However, deferred maintenance is causing streets to deteriorate rapidly & cost much more. **Marina has \$17 million of pavement backlog.**

City PCI 65 or Fair



There is a significant impact of deferred maintenance and capital replacement

“Deferred maintenance is causing streets to deteriorate rapidly & cost much more”

*City of Marina
2014 Financial Compass*

- Less preventive maintenance on your systems **shortens asset life cycle** by as much as one-third
 - Would increase annual depreciation to \$4.5M
 - Roughly \$1,450/yr per account (an increase of \$500)
- Less preventive maintenance results in more emergency repairs, which are more costly than planned repairs

Standard practice, in most industries, is to annually adjust rates to maintain cost recovery and curtail large one-time increases

CAL STATE MONTEREY BAY STUDENT HOUSING

Get Started Current Residents Parents Connect With Us

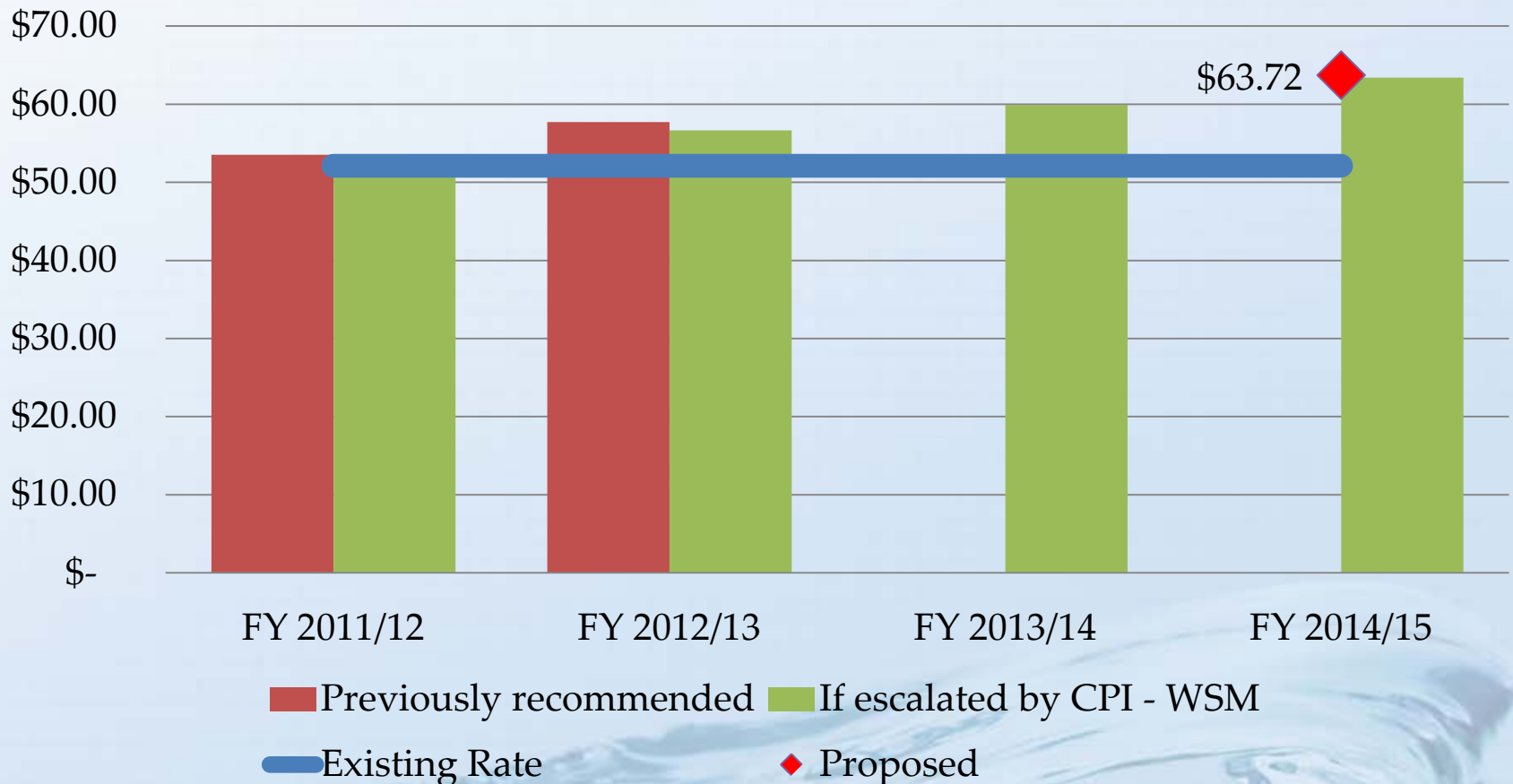
Student Housing & Residential Life »

Rates

To assist our students with their financial planning, Student Housing & Residential Life offers a rate lock structure for Main Campus. Rates typically increase by about 5 percent per year.

Proposed rate increases consistent with historical CPI-WSM* escalation

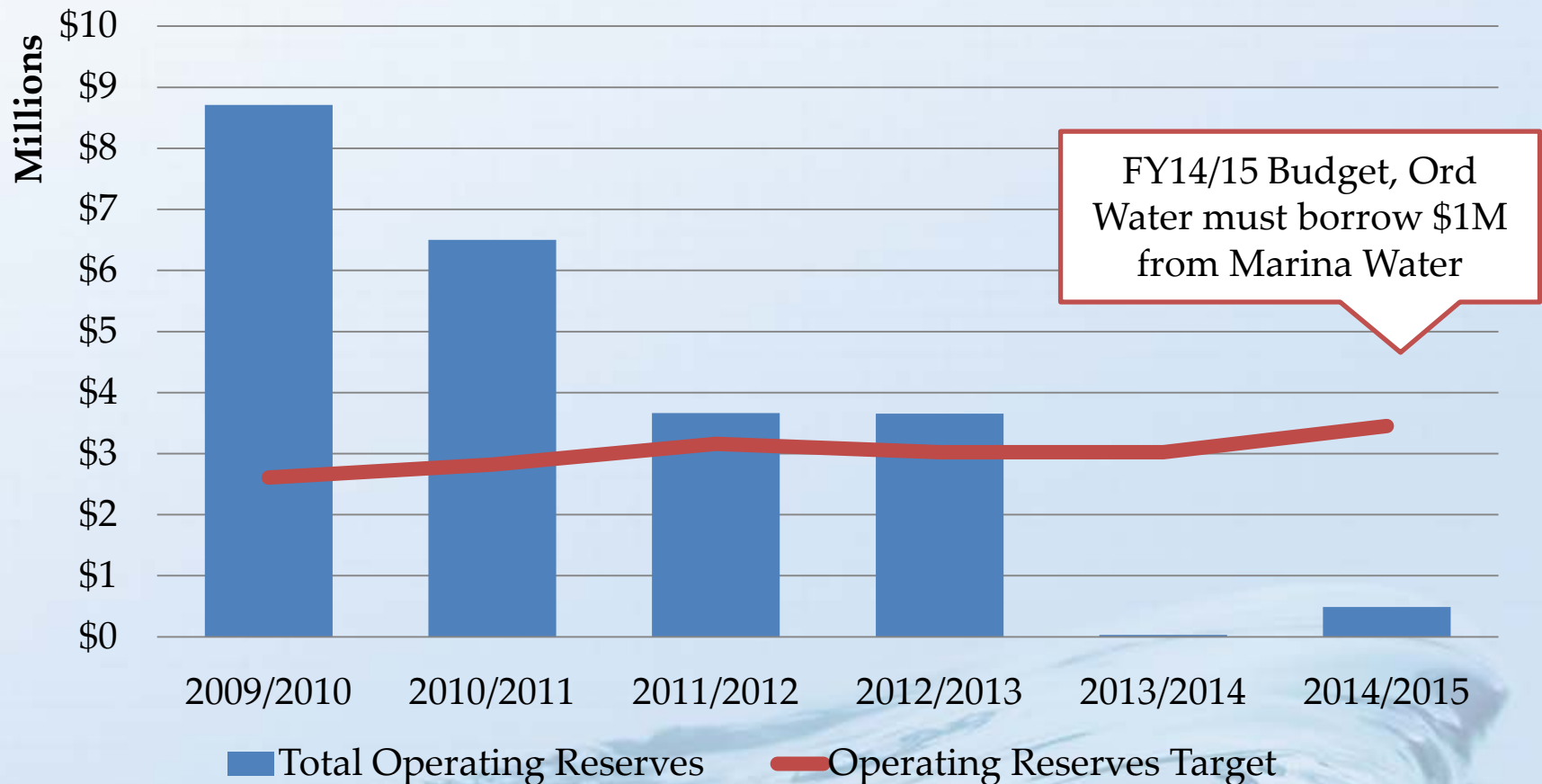
Typical Water Monthly Bill (13 hcf)



* Consumer Price Index - Water and Sewerage Maintenance (5yr rolling average)

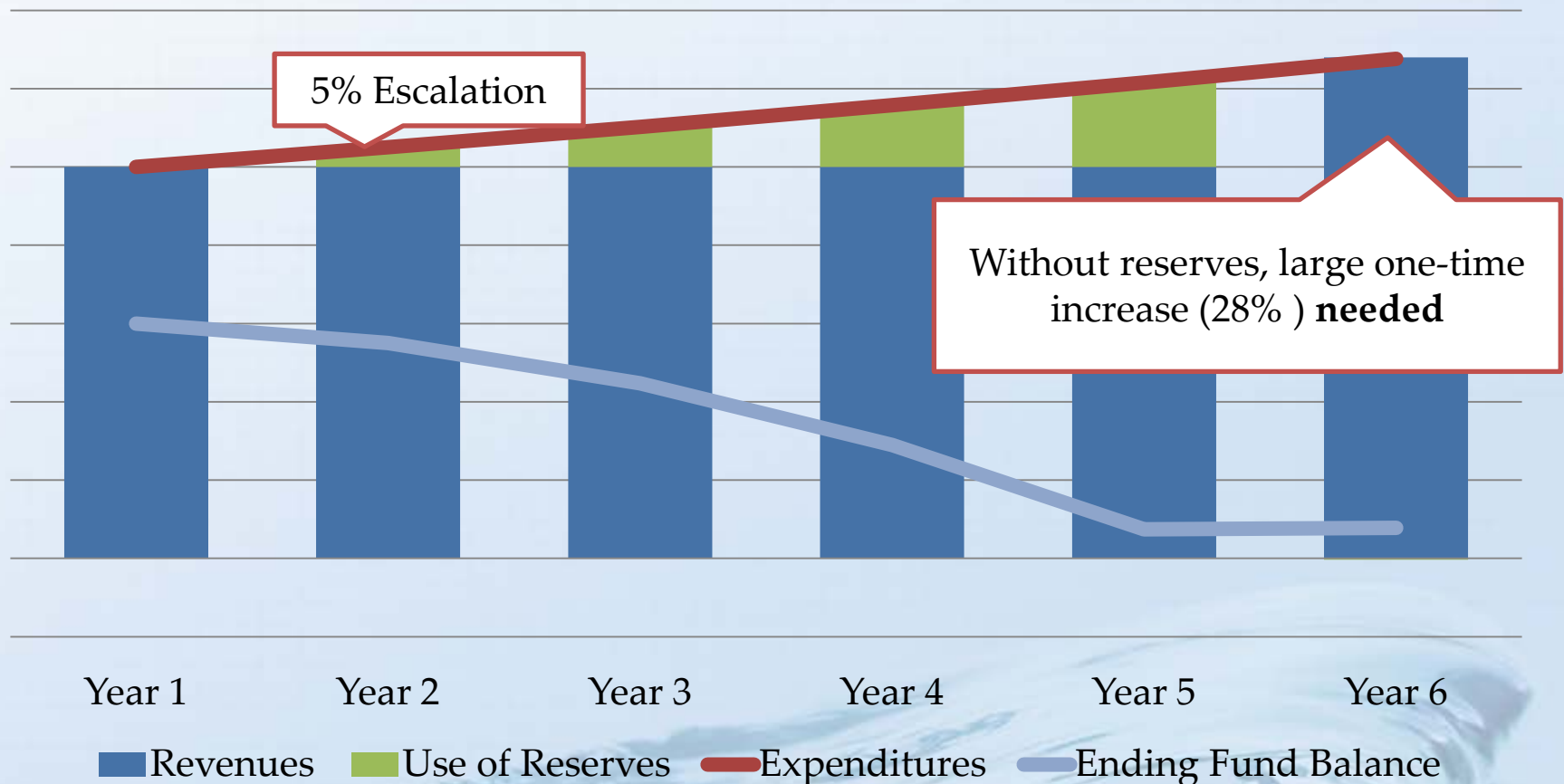
In-lieu of rate increase, reserves were utilized in order to maintain the necessary level of service

Combined Ord Operating Reserves



Dependence on reserves, without increases, causes rate spikes and removes flexibility

Illustrative Potential Rate Impact





Financial Plan & Rate Study

May 30, 2014

 **carollo**
Engineers...Working Wonders With Water®

Rate & Financial Study Objectives

focused on:

- **5-10 year outlook** to smooth proposed increases as well as to provide greater operational and financial stability
- Identify **revenue requirements** to develop water and sewer rates for providing sufficient and predictable revenues to fund expenditures and reserves
- Prepare a **cost of service analysis** to evaluate the appropriate rates and charges that are consistent with legal requirements
- Design rates that **promotes conservation** to meet the State's 20 x 2020 requirements (SB 7x-7)

Cost of Service process includes three main analysis components

Revenue Requirement Analysis

- Compares the revenues to operating and capital costs to determine adequacy of the existing rates to recover costs

Cost of Service Analysis

- Allocates revenue requirements to various customer classes in a reasonable and equitable manner

Rate-Design Analysis

- Considers the structure of the rate design to collect the revenue requirements from each class of service

Rate setting process is complex due to diverse and competing objectives

Rate Design

- Cost of Service
- Prop. 218
- Conservation Objectives
- Affordability

Financial Stability

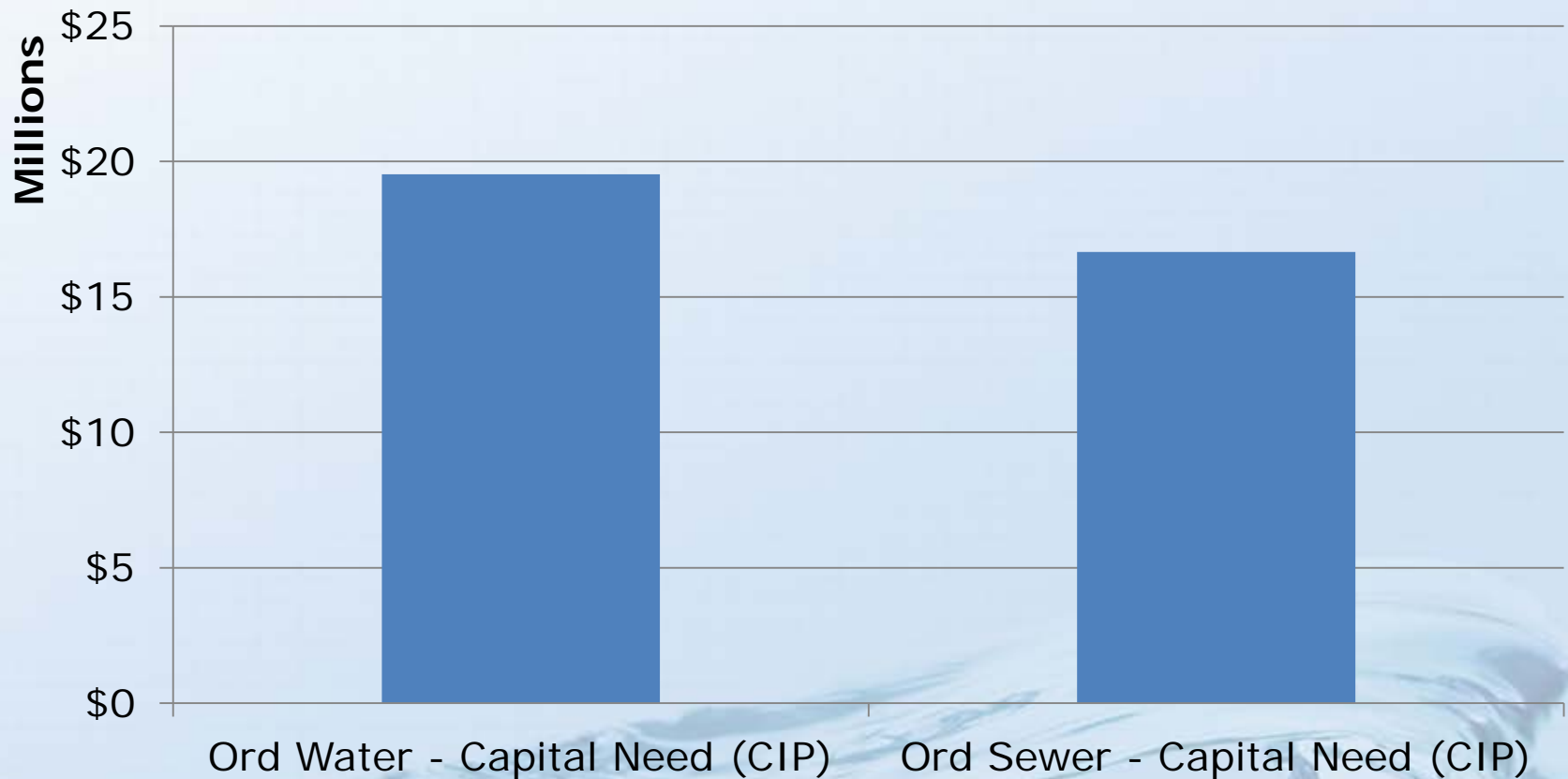
- Revenue Sufficiency
- Predictable & Stable Revenue
- Use of/ Ideal Reserve Levels

Capital Funding

- Short-term Needs
- Long-term Needs
- Proactive vs. Reactive

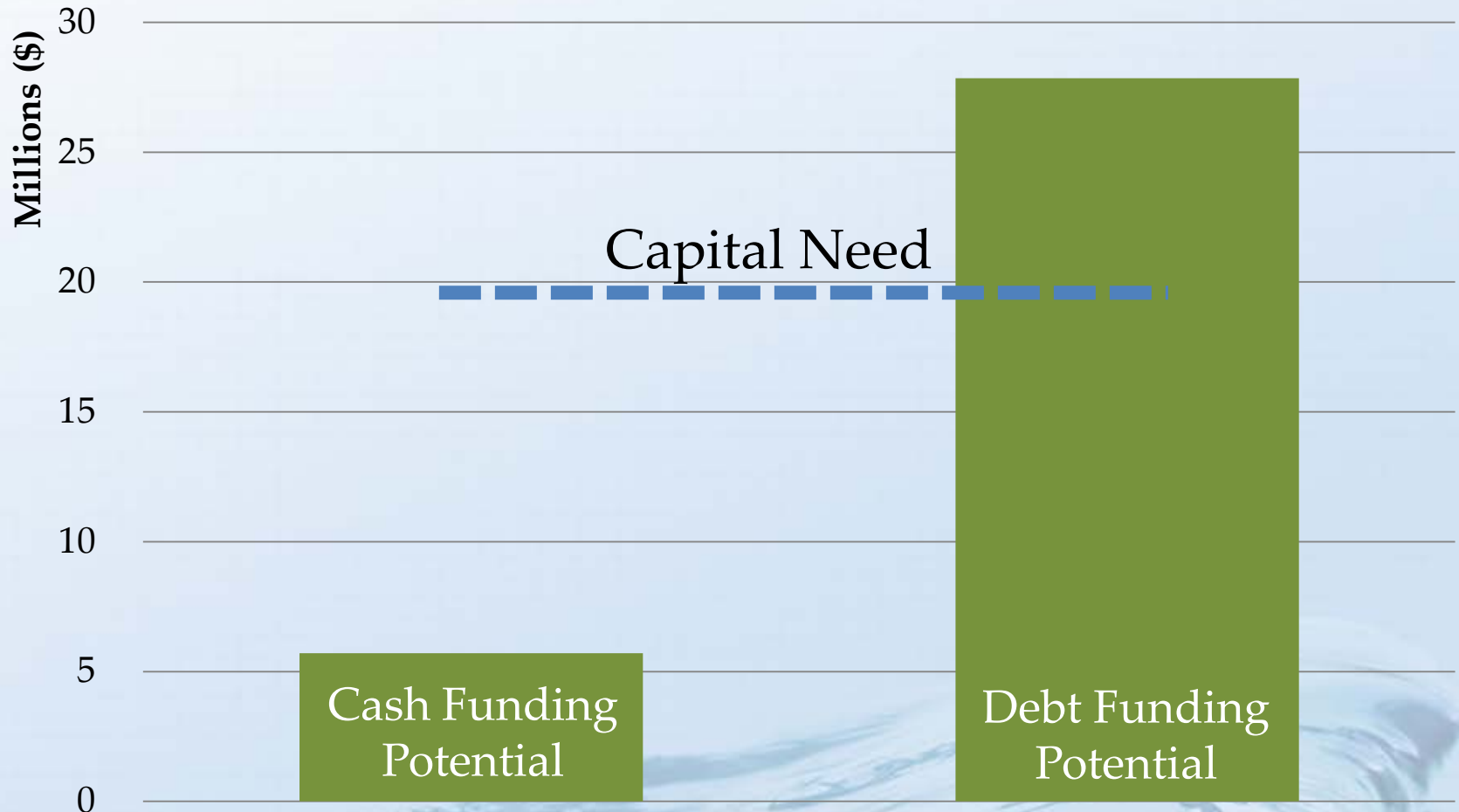
Forecasted five-year capital needs are significant driver of proposed revenue program

Five-Year Proposed Capital Improvement Program (Total)



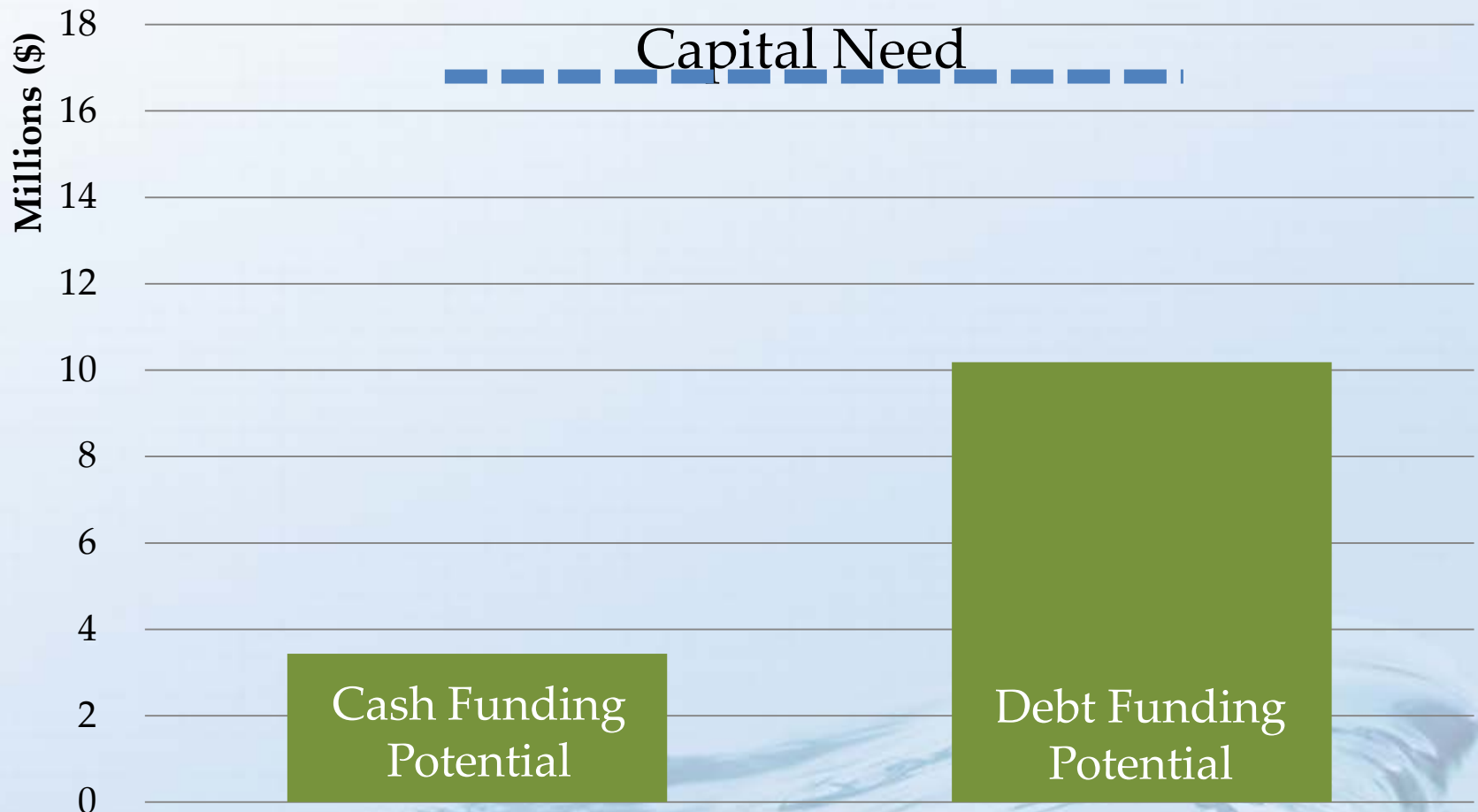
Debt funding potential is sufficient to fund identified Capital Program

Ord Water - 5yr Capital Outlook



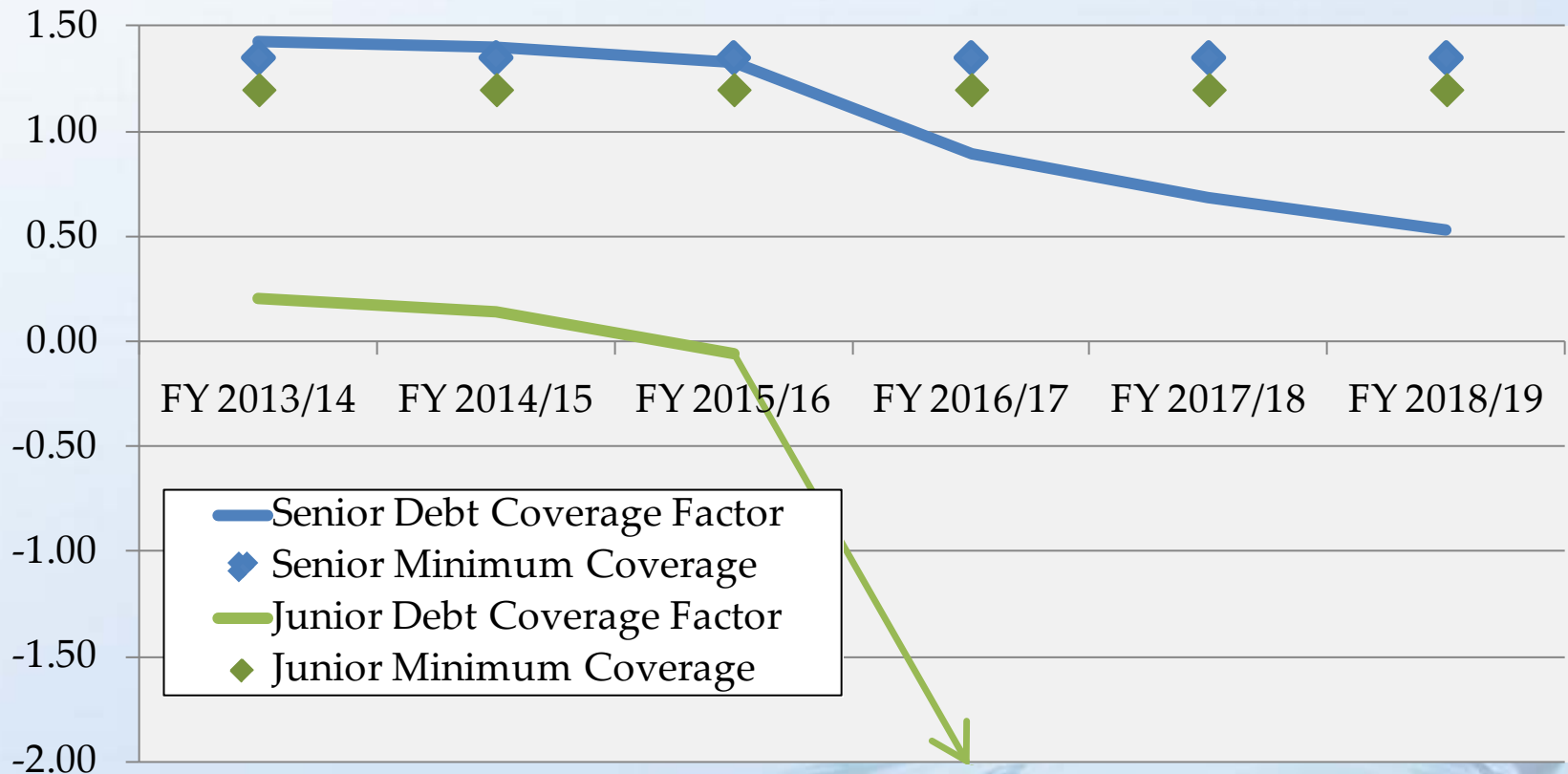
Debt funding only partially funds identified Capital Program

Ord Sewer - 5yr Capital Outlook



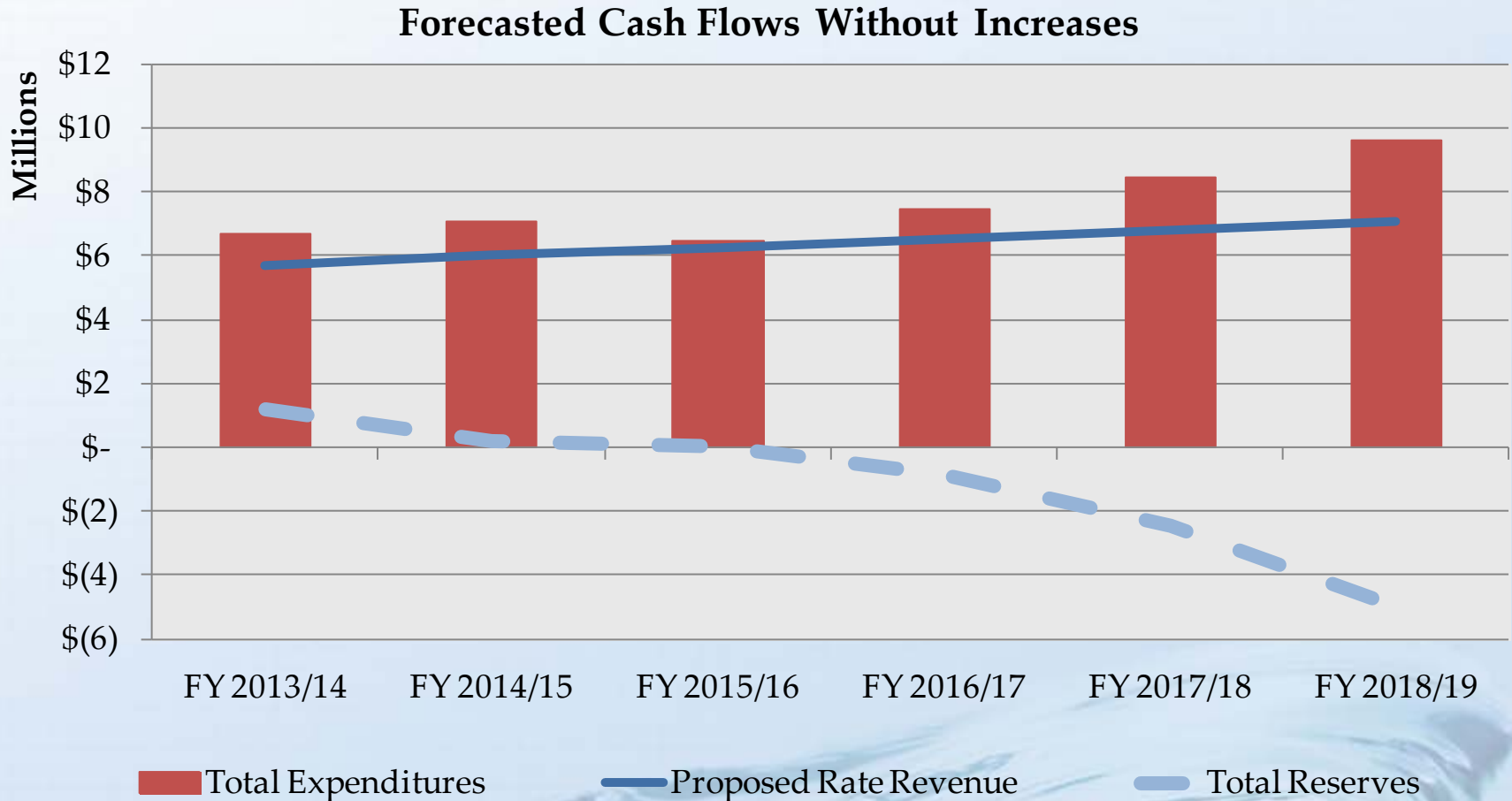
Approval of rate increases are necessary to comply with existing bond covenants

Ord Water Coverage Factor



* Based on 2013 Rate Study cash flow projections for Ord Water Cost Center assuming no revenue increases. Targets exceed legal DCSR of 1.25x and 1.10x for the 2006 Bond and 2010 Bond, respectively, to allow for continued debt funding.

Financial outcome without recommended increases is not an option

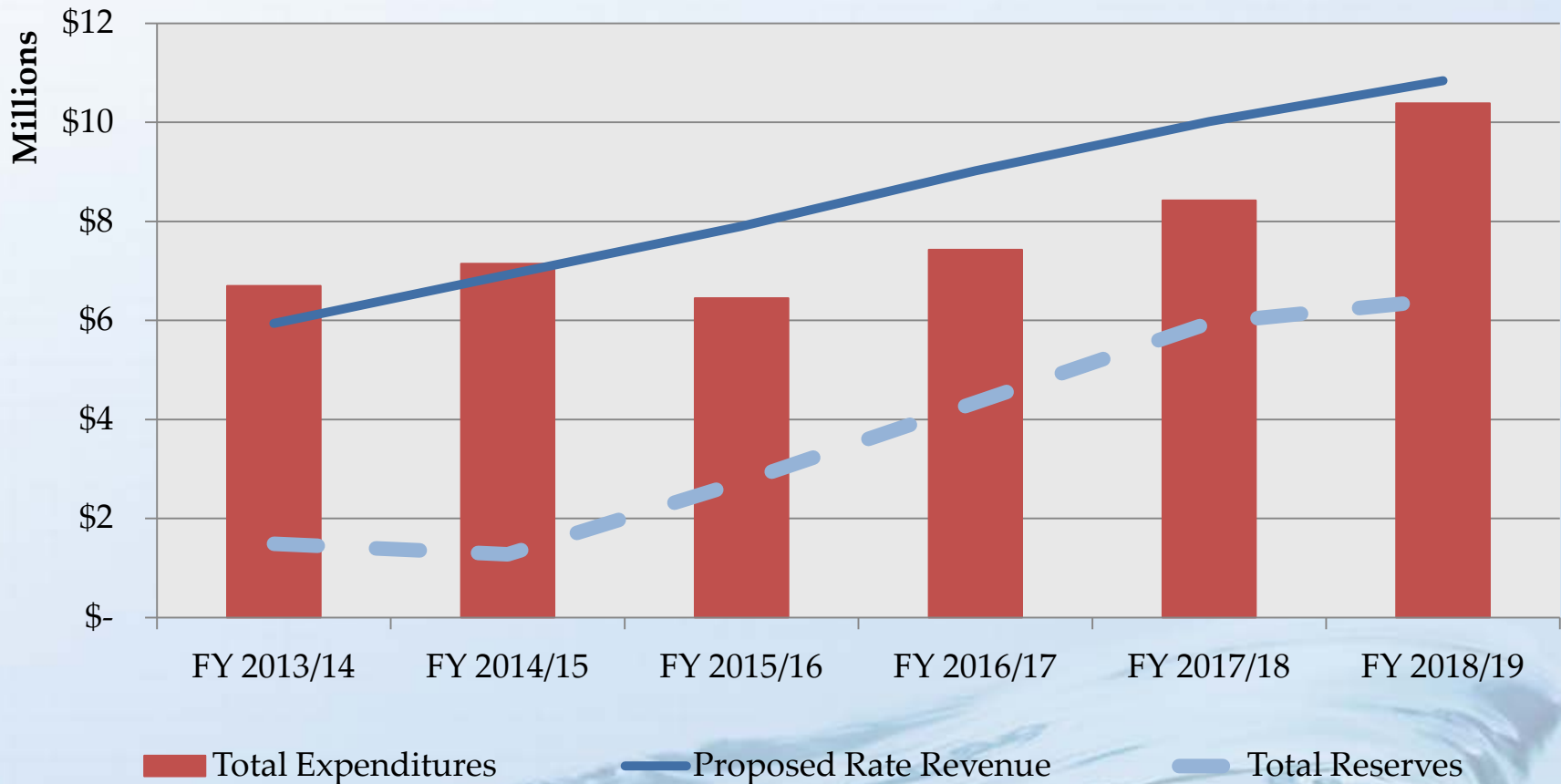


Facilities Agreement

7.1.2 - MCWD Will Recover Costs. MCWD will recover all of its direct and indirect, short term and long term costs of furnishing the facilities to the service area. MCWD shall not be required to take any action in connection with furnishing the facilities to the service area unless and until a source of funds is secured from the service area to pay in full in a reasonable manner consistent with normal accounting practices all of MCWD's direct and indirect, short term and long term costs of the action to be taken by MCWD, including costs of administration, operation, maintenance and capital improvements to provide adequate system capacity to meet existing and anticipated service demands.

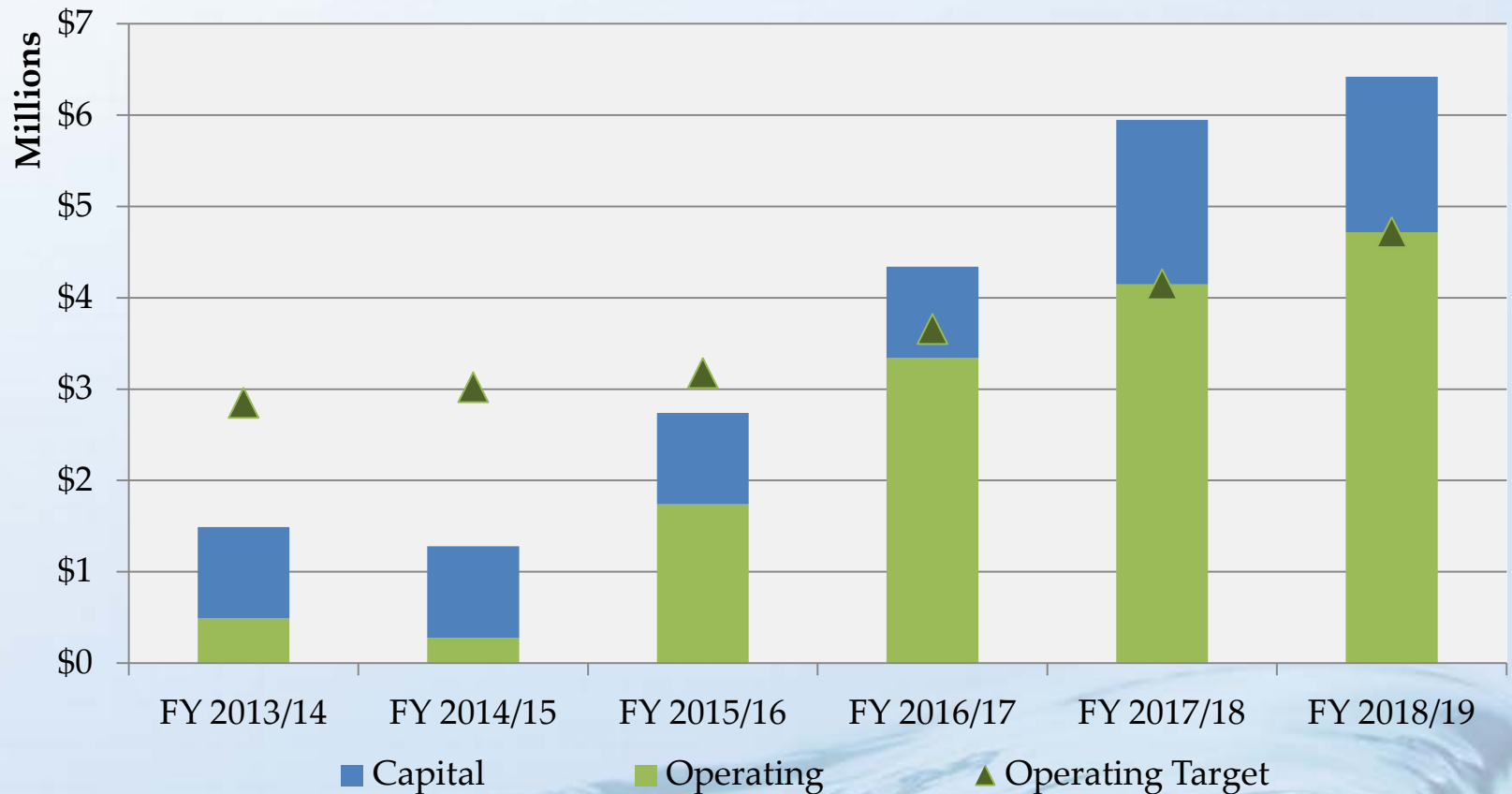
Gradual increases provide financial stability, ability to issue new debt, and fund adequate capital reinvestment

Ord Water Forecasted Cash Flows With Increases



Gradual increases enable rebuilding of reserves over the forecasted period

Ord Water Forecasted Fund Balances

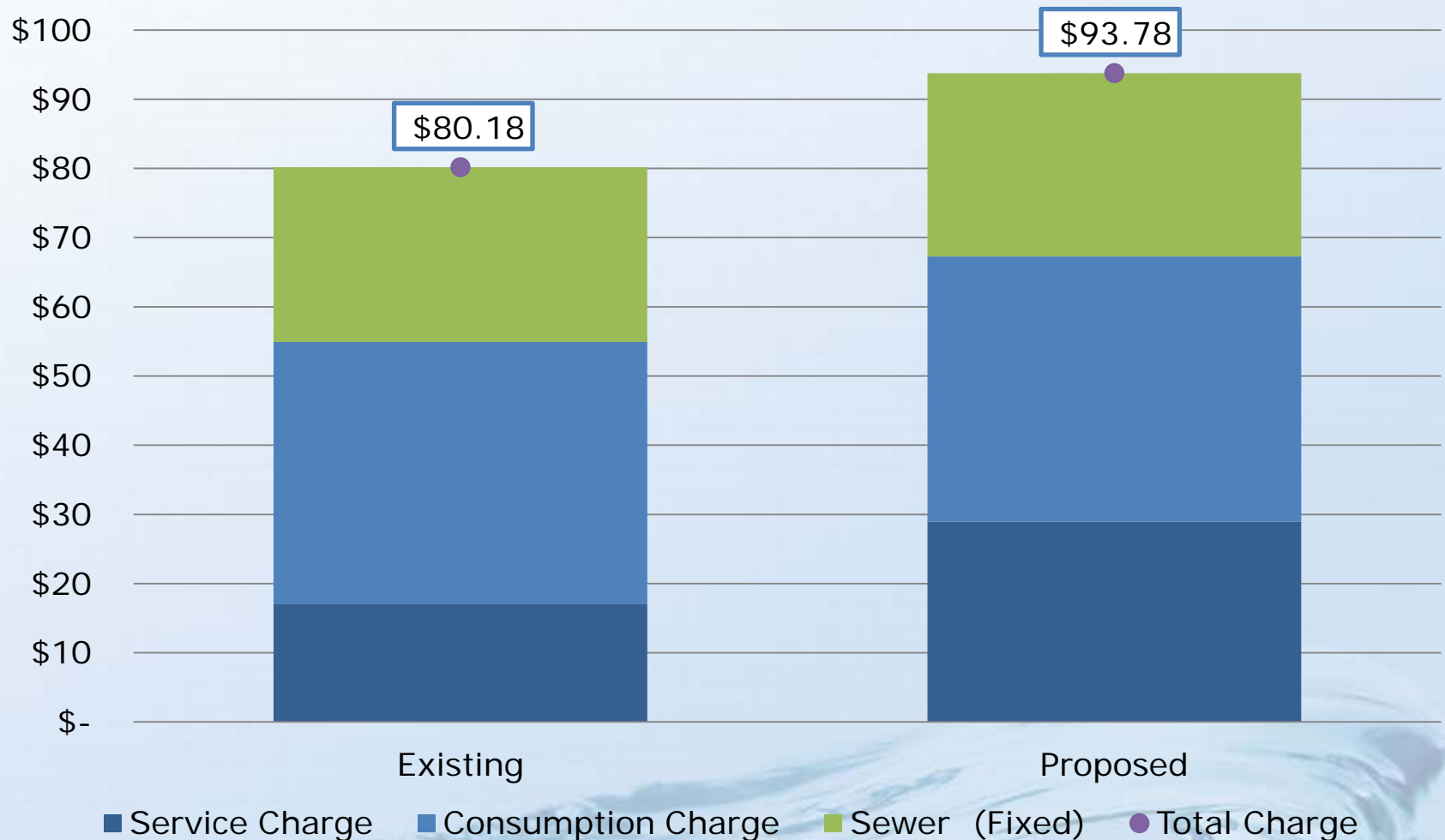


Resulting Proposed Ord Water and Sewer Rates

Description	Existing	FY 2013/ 2014	FY 2014/ 2015	FY 2015/ 2016	FY 2016/ 2017	FY 2017/ 2018
Consumption Rates (per hcf)						
0 to 8 hcf	\$2.33	\$2.22	\$2.60	\$2.97	\$3.40	\$3.68
9 to 16 hcf	3.27	3.40	3.98	4.56	5.22	5.65
16+ hcf	4.22	4.59	5.37	6.14	7.03	7.62
Monthly Service Charges						
5/8" - 3/4"	\$17.11	\$ 28.96	\$ 31.48	\$ 34.37	\$ 37.55	\$ 38.79
1"	42.76	45.18	49.11	53.62	58.57	60.51
1 1/2"	85.49	72.21	78.49	85.71	93.62	96.71
2"	136.78	104.64	113.74	124.20	135.66	140.14
3"	256.47	180.37	196.05	214.09	233.85	241.57
4"	427.45	288.45	313.52	342.36	373.96	386.31
6"	854.89	558.75	607.31	663.18	724.39	748.31
8"	1709.79	1,099.66	1,195.24	1,305.19	1,425.66	1,472.72
Flat Rate	\$84.34	\$ 98.36	\$112.65	\$127.29	\$143.94	\$153.99
Sewer (EDU)	\$ 25.26	\$ 26.49	\$ 27.55	\$ 28.65	\$ 29.80	\$ 32.18

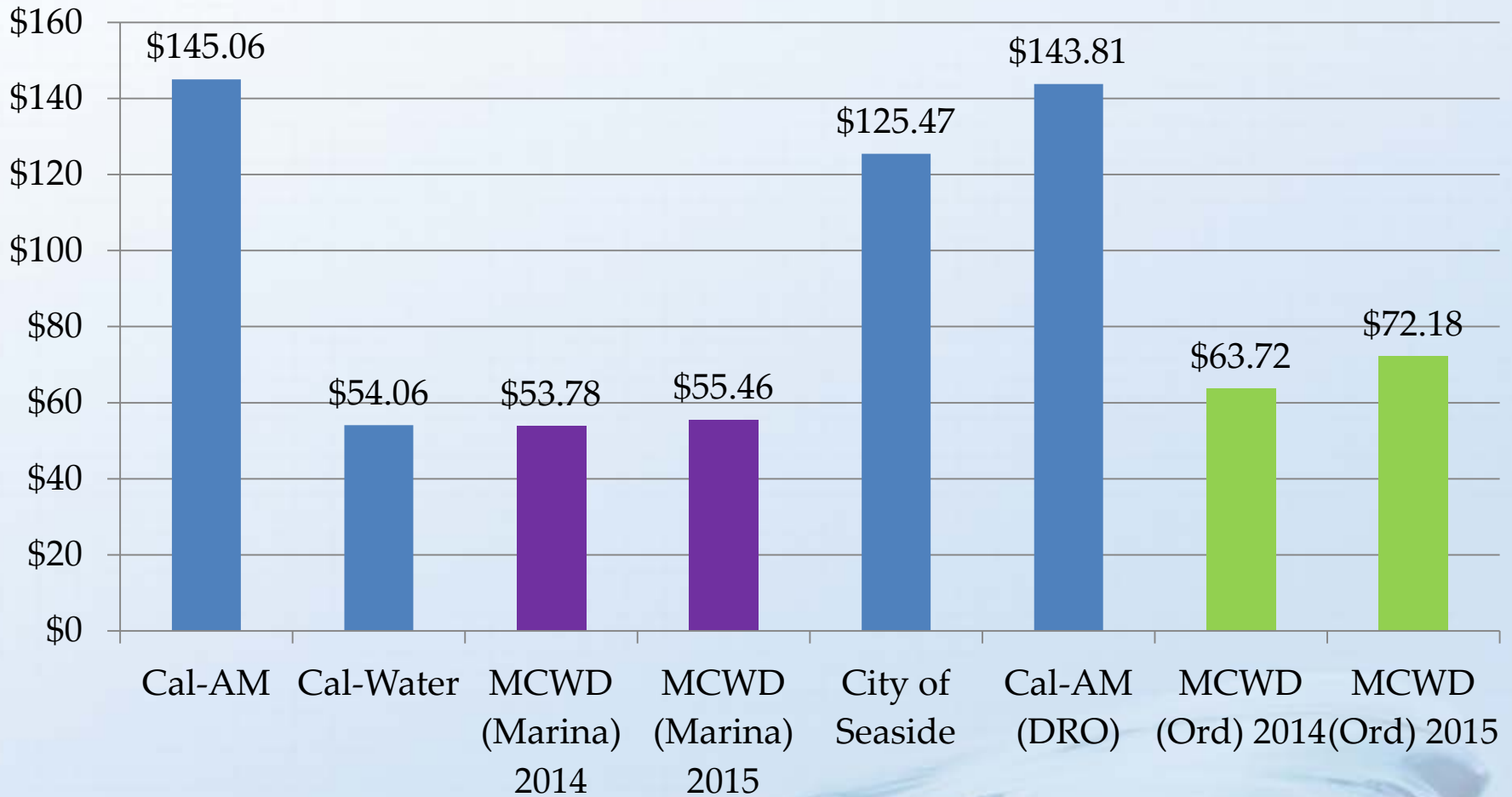
Typical Customer Impact Based on 13 Units (hcf) of Water

- Ord Water: \$12.37 increase
- Ord Sewer: \$1.23 increase

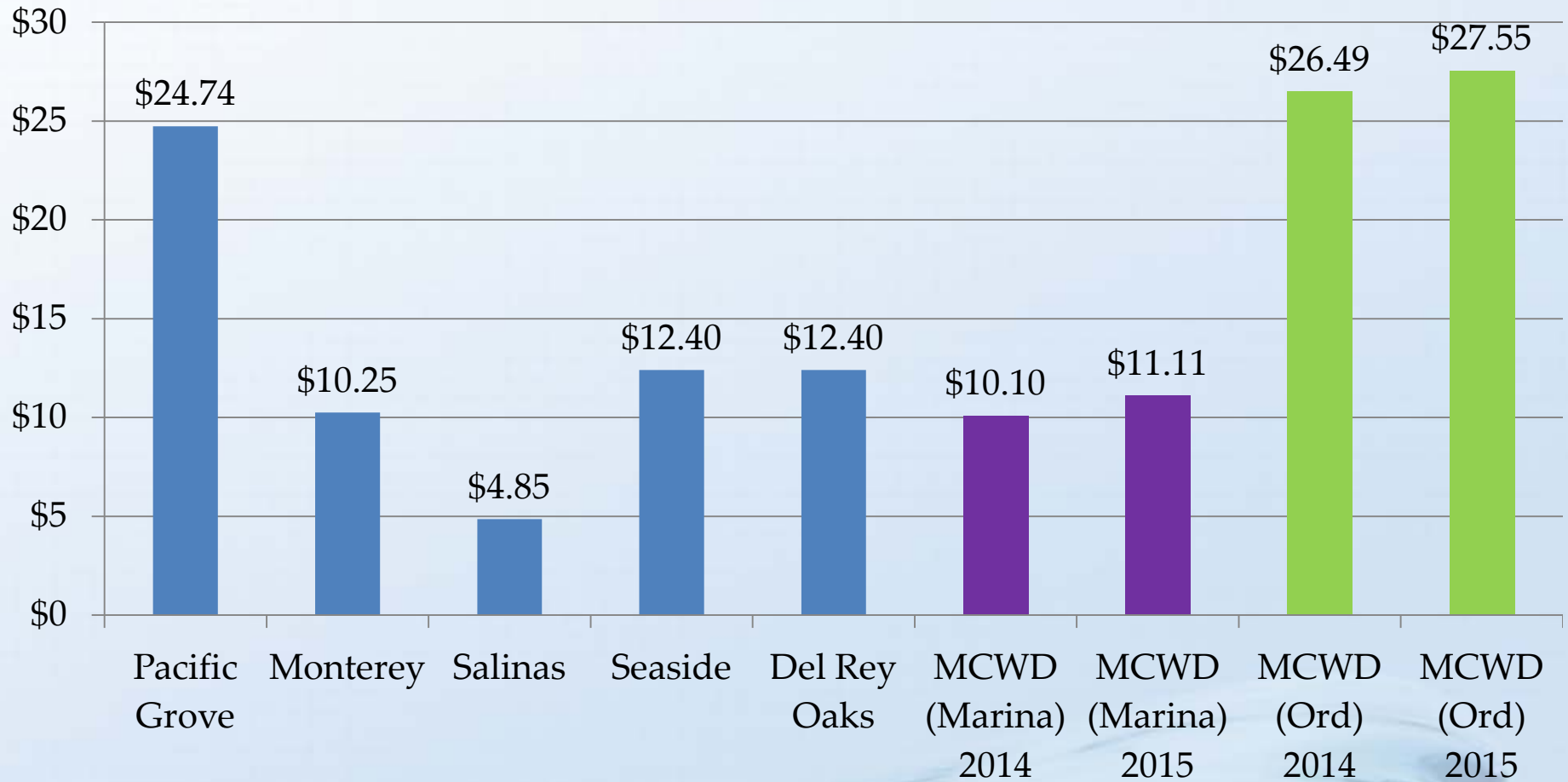


Water Rate Comparison

(Based on 13 hcf = hundred cubic feet)



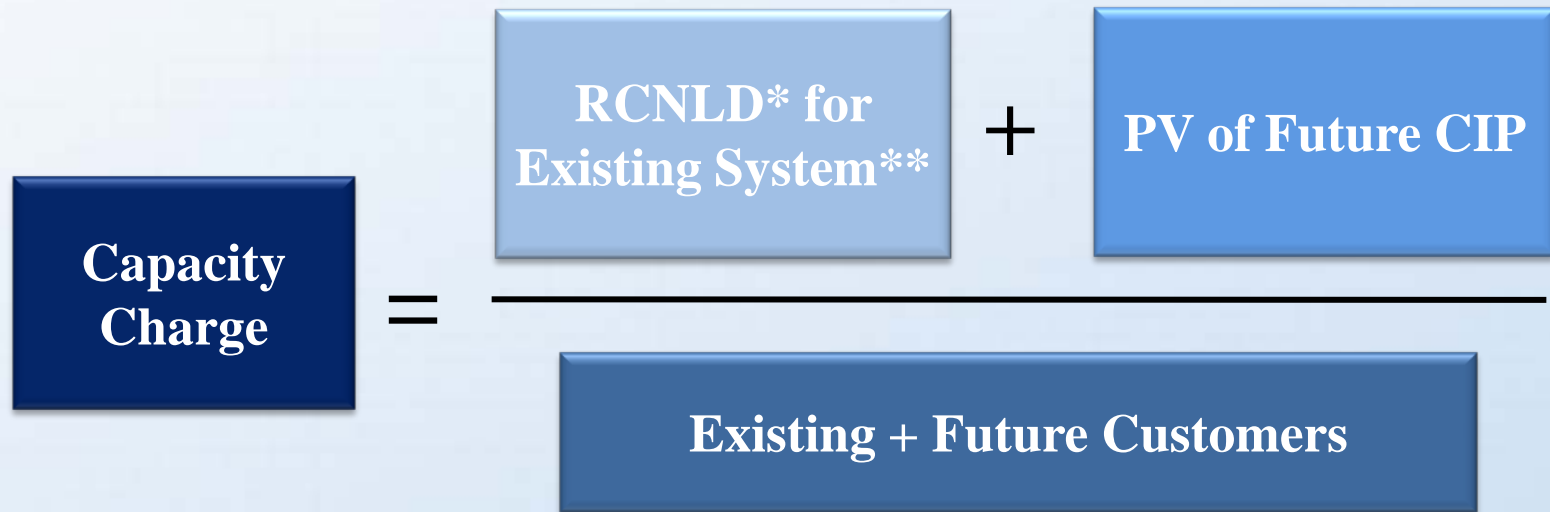
Wastewater Rate Comparison





Capacity Fees

Capacity Charge Structure



* Replacement Cost New Less Depreciation (RCNLD)

** Value does not include any Conveyed Assets

Capacity Charge Cost Basis

- Current Asset Value
 - Escalated Asset Replacement Values
 - Does not include conveyed assets
 - Plus: Applicable Reserves & Other Assets
 - Less: Depreciation
 - Less: Debt Principal
- Future CIP
 - Present Value of CIP
 - Includes Total Capital Improvements
- Meter Equivalent Projections
 - Population Growth (Based on UWMP Projections)
 - Total Meter Equivalents (in 2030)

System Capacity Charges

Description	Existing (\$25 month surcharge)	Proposed (No surcharge)
System Capacity Charges (per EDU)		
Ord Water	\$5,750	\$8,010
Ord Sewer	\$2,150	\$3,322

* Charges reflect updated asset valuation and financial records



Closing Remarks / Questions

FORA's approval of the Compensation Plan

- Complies with Facilities Agreement
- Enables future debt (minimizes upfront capital costs)
- Funds Updated Water & Sewer System Master Plans
- Funds development of Asset Management program
- Funds / Incentivizes conservation programs
- Funds less expensive, preventive maintenance program

- Failure to endorse will continue to jeopardize day-to-day operations and will restrict ability to plan and construct new water sources



Extra Slides

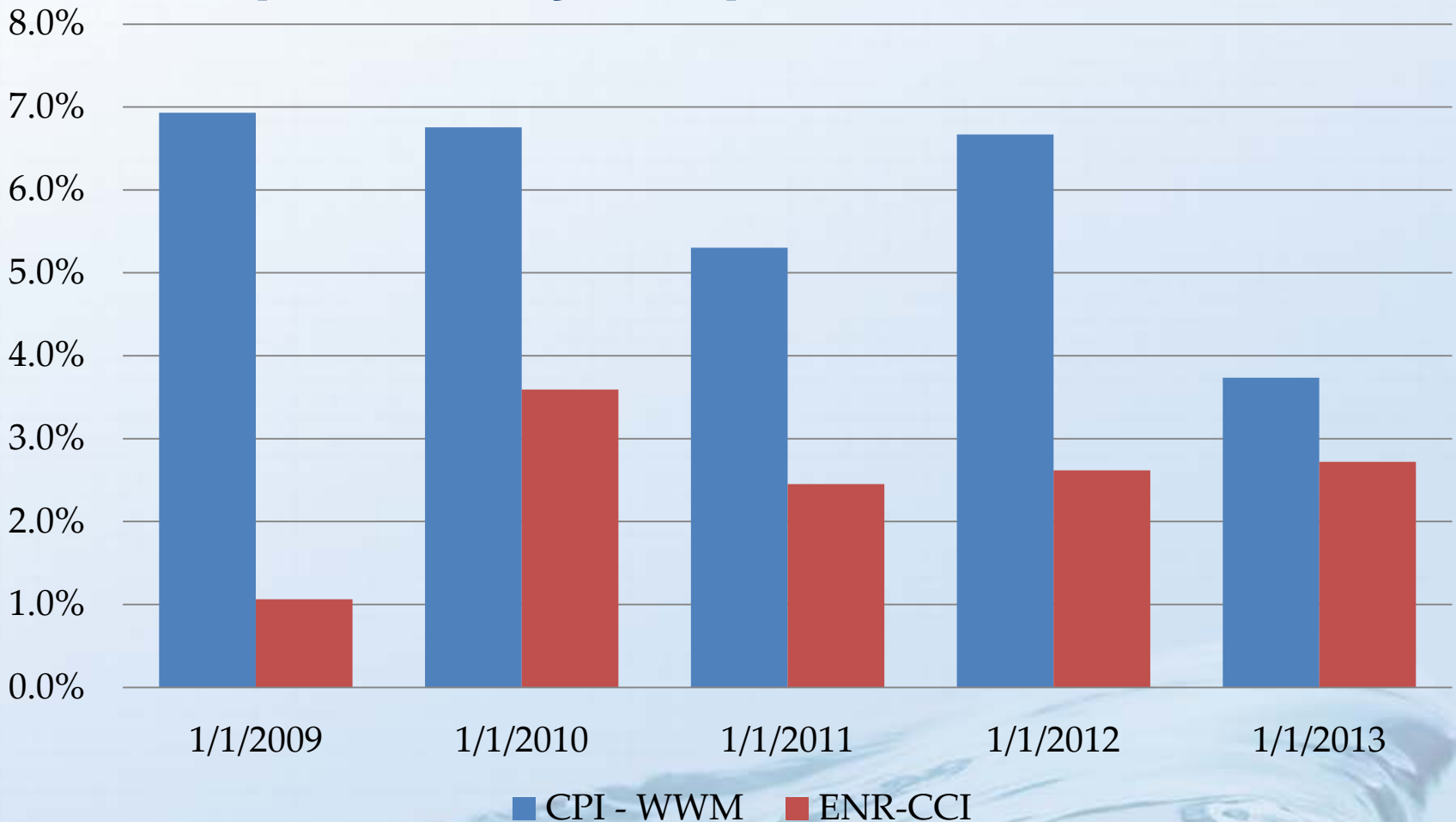
Conservation does not impact overall sizing of system needs

	Normal		10% Conservation	
Fire Flow (FF)	1,500 GPM Residential			
Max Day Flow (MD)	1,152 GPM		1,037 GPM	
FF + MD	2,652 GPM		2,537 GPM	
Pipe Size	8-inch	12-inch	8-inch	12-inch
Velocity	16.9 fps	7.5 fps	16.2 fps	7.2 fps

- Recommended Max Day Plus Fire Flow velocity is 15 fps

- Max Day Flow adjusted from City of Seaside 2015 water demand (768x1.5), Table 4.4, MCWD 2006 Ord Water Master Plan
- Flow expressed in gallons per minute (GPM)
- Velocity express in feet per second (fps)

Historical Engineering News Record (ENR) and Consumer Price Index (CPI) escalators exceed previously adopted rates

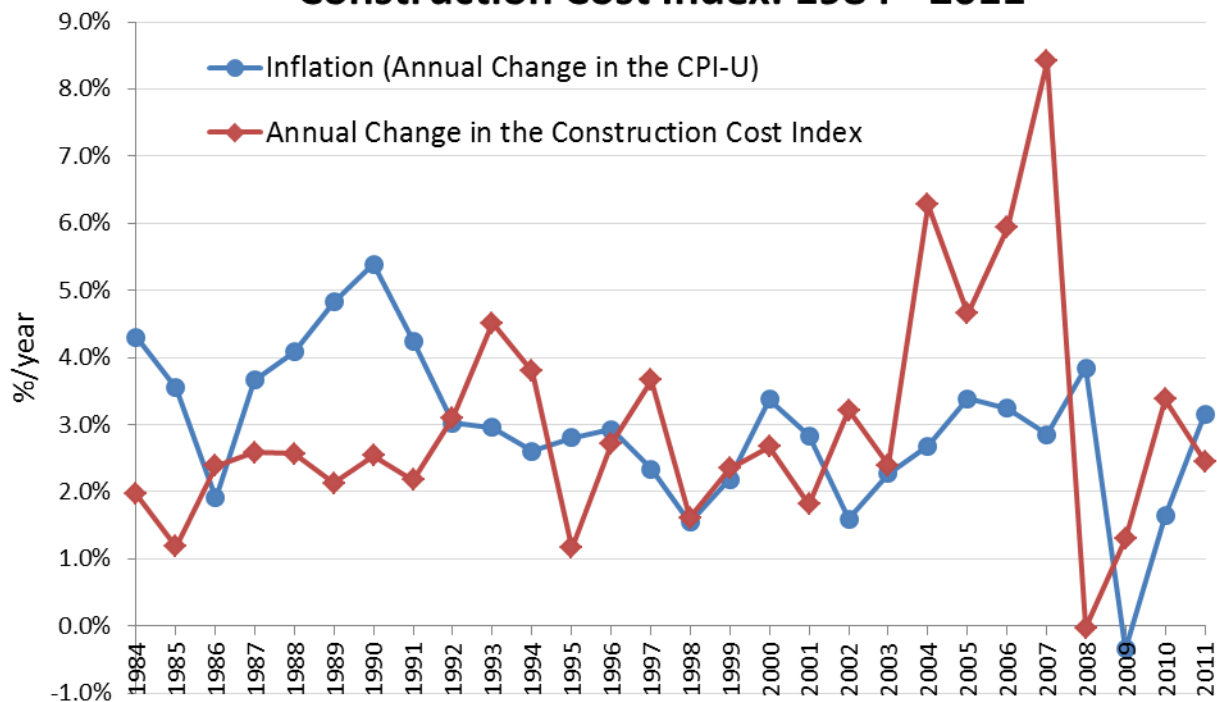


ENR vs CPI

- The **Consumer Price Indexes (CPI)** tracks monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services
- The basket includes a combination of food, beverages, housing, apparel, transportation, medical care, etc.
- CPI has little to do with the cost of building and maintaining water or sewer infrastructure
- **ENR (Engineering News-Record)** tracks the change in price for a specific combination of construction labor, steel, concrete, cement and lumber

ENR vs CPI

Annual Changes to CPI-U ("Inflation") and Construction Cost Index: 1984 - 2011



Data Sources: Bureau of Labor Statistics, Engineering News-Record ENR.com, InflationData.com, USDA Natural Resources Conservation Services

System Capacity Charges

Description	Existing (\$25 Monthly Surcharge)	Original Proposed	Revised Proposed*
System Capacity Charges (per EDU)			
Ord Water	\$5,750	\$15,669	\$8,010
Ord Sewer	\$2,150	\$7,636	\$3,322

* Charges reflect updated asset valuation and financial records