

NOVATO SANITARY DISTRICT

Meeting Date: April 18, 2016

The Finance Committee of the Novato Sanitary District will hold a meeting at 10:00 AM, Monday, April 18, 2016 at the District offices, 500 Davidson Street, Novato.

AGENDA

1. AGENDA APPROVAL

2. PUBLIC COMMENT (PLEASE OBSERVE A THREE-MINUTE TIME LIMIT):

This item is to allow anyone present to comment on any subject not on the agenda, or to request consideration to place an item on a future agenda. Individuals will be limited to a three-minute presentation. No action will be taken by the Committee at this time as a result of any public comments made.

3. APPROVAL OF MINUTES:

- a. Consider approval of minutes of November 30, 2015 meeting.

4. 2016 SEWER SERVICE CHARGE STUDY:

- a. Review the Draft 2016 Sewer Service Charge Study report by Bartle Wells Associates (BWA), and direct staff to finalize the report.
- b. Recommend that the District Board accept the final report at its April 25, 2016 meeting.
- c. Recommend that the Board approve a maximum rate increase of \$21 per year per Equivalent Dwelling Unit (EDU) in each of the five Fiscal Years FY2016-17 through FY2020-21, at its April 25, 2016 meeting.

5. INFORMATIONAL ITEMS:

These items are for information only - no action will be taken on these items.

- a. Correspondence from North Marin Water titled "Notice of Proposed Rate Increase".

6. ADJOURNMENT

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the District at (415) 892-1694 at least 24 hours prior to the meeting. Notification prior to the meeting will enable the District to make reasonable accommodation to help ensure accessibility to this meeting.

Materials that are public records and that relate to an open session agenda item will be made available for public inspection at the District office, 500 Davidson Street, Novato, during normal business hours.

November 30, 2015

A regular meeting of the Finance Committee of Novato Sanitary District was held at 3:07 p.m., Monday, November 30, 2015, at the District office, 500 Davidson Street, Novato.

COMMITTEE MEMBERS PRESENT: Members Jerry Peters and William C. Long.

STAFF PRESENT: General Manager-Chief Engineer Sandeep Karkal, Finance Officer Laura Creamer, and Administrative Secretary Julie Swoboda.

ALSO PRESENT: Erik Brown, Technical Services Manager, Novato Sanitary District
Vikki Rodriguez, CPA, Vice President, Maze and Associates
Matt Goss, Customer Outreach and Support Manager, CalPERS
Mitch Barker, Executive Vice President, PARS*
Fred Hurst, Director, HighMark Capital Management*

*Joined the meeting at 4:37 p.m.

AGENDA APPROVAL: The agenda was approved as presented.

PUBLIC COMMENT: None.

APPROVAL OF MINUTES: The September 2, 2015 meeting minutes were approved as presented.

FISCAL YEAR (FY) 2014-15 DRAFT ANNUAL AUDIT:

- Receive report from independent auditor, Maze and Associates and review draft Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2015, and 2014, including draft audited financial statements. The General Manager introduced Ms. Vikki Rodriguez of Maze and Associates and stated that she would present the Comprehensive Annual Financial Report for the fiscal years ended June 30, 2015 and June 30, 2014.

Ms. Rodriguez presented an overview of the District's Annual Audit and stated that Maze and Associates had concluded, based on their audit, that there was a reasonable basis for rendering an unmodified (unqualified) opinion. She stated that the District's financial statements for the fiscal year ended June 30, 2015 are fairly presented, and conform to Generally Accepted Accounting Principles (GAAP). Ms. Rodriguez noted that the unmodified opinion is the highest rating given (cleanest possible opinion). She stated that there were no major reporting changes, no new pronouncements, and no material weaknesses when internal controls were reviewed. Ms. Rodriguez and the Committee Members discussed the implementation of Governmental Accounting Standards Board (GASB) Pronouncements. She stated that GASB 68 (Pension Liability) does not provide for an amortization period, and requires that an entity such as the District to recognize total pension liability on its annual financial statements. She stated that the District implemented GASB Statement No. 68 and No. 71 in fiscal year

ending June 30, 2015 and that GASB 68 required an adjustment to reduce the District's beginning net position by \$4,299,128.

The General Manager and Ms. Rodriguez discussed with the Committee the sensitivity of the proportionate share of the net pension liability to changes in the discount rate. It was noted that with the District's current discount rate of 7.5%, the net pension liability is \$3.3 million and that if the discount rate decreased to 6.5%, the net pension liability would increase to \$5.9 million.

Committee Members Long and Peters thanked Ms. Rodriguez for her presentation and the General Manager stated that she would return to the December 14th regular Board meeting to review the Annual Report with the full Board.

Ms. Rodriguez left the meeting at 3:20 p.m.

- Consider making a recommendation to the District Board to accept the audit and CAFR, subject to minor edits. Committee Member Long made a recommendation that the District Board accept the audit and CAFR, subject to minor edits, and Committee Member Peters concurred.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 45 ("GASB 45"), OTHER POST EMPLOYMENT BENEFITS (OPEB) – PREFUNDING OPTIONS:

- Receive verbal presentations on prefunding options for the District's OPEB liability from CalPERS and PARS, and provide direction to staff. The General Manager stated that at its September 2, 2015 meeting, the Finance Committee received a report titled "Valuation of Retiree Health Benefits, Report of GASB 45 Valuation as of July 1, 2015, prepared by Nick Franceschine of North Bay Pensions. He stated that as a follow-up by staff, the presentation was also made to the full Board at its September 14, 2015 meeting. At that meeting, the Committee had asked that staff bring forward at a future Finance Committee meeting, a side-by-side presentation by CalPERS and the Public Agency Retirement System (PARS) representatives of their individual investment options for prefunding alternatives.

The General Manager stated that CalPERS would provide the first presentation, and he introduced Matt Goss, CERBT Customer Outreach and Support. Mr. Goss gave a presentation titled "California Employers' Retiree Benefit Trust (CERBT) Features and Benefits". Committee Members and the General Manager engaged in discussion with Mr. Goss.

At 4:30 p.m., Committee Member Peters declared a ten minute break.

CalPERS representative Matt Goss left the meeting.

At 4:37 p.m., the meeting was reconvened.

The General Manager stated that PARS would make their presentation and he introduced Mitch Barker, Executive Vice President, Public Agency Retirement Services (PARS) and Fred Hurst, Director, Business Development, High Mark Capital. The PARS representatives provided a written presentation titled, "OPEB Pre-Funding and Pension Rate Stabilization Program (PRSP) using 115 Trust". Committee Members and the General Manager engaged in discussion with Mr. Barker and Mr. Hurst.

Mr. Barker and Mr. Hurst left the meeting at the conclusion of the discussion, 5:21 p.m.

The General Manager asked if the Board wished to provide direction to staff. He stated that the options presented by CalPERS and PARS are favorable and that it is imperative for the District to move forward with prefunding the District's projected GASB 45 liabilities. Committee Member Peters requested that the same presentations be given to the full Board at the December 14th Regular Board meeting. Committee Member Long agreed and the General Manager stated that he would arrange for the same presentations to be made at that Board meeting.

ADJOURNMENT: There being no new business to come before the Committee, the meeting was adjourned at 5:33 p.m.

Respectfully submitted,

Sandeep Karkal
Secretary

Julie Swoboda, Recording

NOVATO SANITARY DISTRICT FINANCE COMMITTEE AGENDA ITEM SUMMARY

TITLE: Service Charges: Set Date for Public Hearing	MEETING DATE: April 18, 2016 AGENDA ITEM NOS.: 4. a, b, & c.
RECOMMENDED ACTIONS: <ul style="list-style-type: none"> a. Review the Draft 2016 Sewer Service Charge Study report by Bartle Wells Associates (BWA), and direct staff to finalize the report. b. Recommend that the District Board accept the final report at its April 25, 2016 meeting. c. Recommend that the Board approve a maximum rate increase of \$21 per year per Equivalent Dwelling Unit (EDU) in each of the five Fiscal Years FY2016-17 through FY2020-21, at its April 25, 2016 meeting. 	
SUMMARY AND DISCUSSION: <p>The District last reviewed its sewer service charges in 2012, when it adopted rates for the four-year period from fiscal year (FY) 2012-13 through FY2015-16. That rate cycle ends with the current FY15-16 year, and it is necessary for the District to review its charges. The District retained Bartle Wells Associates (BWA) to review its sewer service charges, as BWA and its Principal Consultant, Tom Gaffney, have performed this work for the District over the last forty years, including the 2012 rate study, while consistently providing an understandable and defensible work product.</p> <p>The result of BWA's work is presented as the attached Draft 2016 Sewer Rate Study report. As background, the basis of the sewer service charge is to provide a reasonable nexus between sewer system costs and the charges to the benefited users of the system. The base unit is one service unit for a residential unit, referred to as an Equivalent Dwelling Unit or EDU. The charges for non-residential users are based on enclosed floor areas, flow, and strength factors. The attached BWA report discusses the rate structures in more detail.</p> <p>The BWA report also analyzes the District's projected operating and capital expenditures for the next five years, and recommends moderate rate increases of \$21/year/EDU, or \$1.75/month/EDU in each of the next five years from FY2016-17 through FY2020-21. This corresponds to average increases of 3.8% in FY2016-17, 3.7% in FY2017-18, 3.5% in FY2018-19, 3.4% in FY2019-20, and 3.3% in FY2020-21, or an average of about 3.5% over the five-year period.</p> <p>The following Committee actions are recommended:</p> <ul style="list-style-type: none"> a. Review the report, and direct staff to finalize it. b. Recommend that the District Board accept the final report at its regular April 25, 2016 meeting, and c. Recommend that the Board approve a maximum rate increase of \$21 per year per Equivalent Dwelling Unit (EDU) in each of the five Fiscal Years FY2016-17 through FY2020-21, at its April 25, 2016 meeting. 	
STRATEGIC PLAN INFORMATION: This item addresses Goal 4 (Well Planned Finances with a Long Range Outlook) of the latest Strategic Plan Update.	
DEPT. MGR.: lc, ssk	GENERAL MANAGER: SSK



TO: Sandeep Karkal, District Manager-Engineer
Novato Sanitary District

FROM: Tom Gaffney, Alison Lechowicz

DATE: April 13, 2016

SUBJ: **DRAFT** 2016 Sewer Rate Study

The Novato Sanitary District (District) has requested Bartle Wells Associates (BWA) provide a sewer rate study to analyze the District’s cost of service and recommend sewer service charges through fiscal year (FY) 2020/21. The proposed sewer service charges are shown below.

	Current	Proposed				
	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
Annual Cost per Equivalent Dwelling Unit	\$552	\$573	\$594	\$615	\$636	\$657

Includes \$2.00 per account charge from the County of Marin for collecting service charges on the property tax roll.

Table 1: Current and projected operating expenses. This table provides the District’s actual FY2014/15 operating expenses and budgeted expenses for FY2015/16 and FY2016/17. The District’s two largest operating costs are treatment and administration/engineering, which are projected to cost about \$3 million each annually. The District’s FY2015/16 total operating expense is budgeted at about \$9.8 million and the FY2016/17 budgeted operating cost is about \$10.0 million.

Table 2: Capital improvement program. This table shows the District’s capital improvement and major replacement expenses for FY2015/16 and the subsequent five years. Annual capital expenses vary from about \$2.9 million to about \$4.1 million. FY2016/17 through FY2020/21, the capital costs total about \$16.7 million. Just under half of this amount is made up of collection system improvements. Table 2 does not include the annual costs related to retiring the outstanding State Revolving Fund loan or Certificates of Participation debt.

Table 3: State Revolving Fund Loan. In FY2007/08, the California State Water Resources Control Board issued a loan to the District of \$81 million through the State Revolving Fund (SRF) program. The loan funded an upgrade and expansion of the Novato Treatment Plant to treat the combined flow of the District’s wastewater treatment plants. The loan term is 20 years at an interest rate of 2.4%. Repayment began in FY2011/12. The annual payment is about \$5.4 million, and the loan payments extend through FY2030/31.

Table 4: Wastewater Certificates of Participation. In addition to the SRF loan, the District issued \$21.75 million of debt as Certificates of Participation (COPs) in FY2011/12 to finance collection system, pump station and additional treatment plant improvements. This issue sold for

an average interest rate of 4.11% and will be fully retired in FY2031/32. The annual debt service payments vary from about \$1.6 million to \$1.7 million over the next five years.

Table 5: Operating Cash Flow. Table 5 presents the wastewater operating expenses and projects the operating sewer service charge over the next five years. The District currently provides wastewater service to 29,288 equivalent dwelling units (EDUs) and projects annual growth of 40 new EDUs. The current operating service charge is \$302 plus \$2 annually for collection of the charge on the Marin County property tax roll. FY2015/16, the District expects to generate about \$8.9 million in operating service charges, including the county charge revenue. The District also collects about \$870,000 in miscellaneous revenues and about \$18,000 in interest earnings. In total, the District projects operating revenues of about \$9.8 million in FY2015/16.

At the current sewer service charge, revenues will not be adequate to fund operating cost increases over the next five years. Operating costs are budgeted at about \$9.8 million and are projected to increase to \$11.26 million by FY2020/21, an average annual increase of about 2.9%.

To meet operating costs, maintain reserves, and generate positive net revenues for debt coverage, BWA recommends that the District increase the operating wastewater service charge by \$10 per EDU annually through FY2020/21.

Table 6: Capital Cash Flow. Table 6 presents the wastewater capital expenses and projects the capital sewer service charge over the next five years. Capital revenues include capital service charges, property taxes, capacity fees, interest earnings, and miscellaneous revenues. Property taxes are projected to increase by 2% annually. Capacity fee revenues are projected to increase in FY2016/17 due to the Board-approved increase in the capacity fee from \$9,870 to \$10,860 per EDU. Into the future, the capacity fee is projected to increase 3% annually. This fiscal year, the District expects to generate about \$9.6 million in capital wastewater revenues.

Wastewater capital expenses are budgeted to be about \$10.4 million in FY2015/16 consisting of capital projects and debt service payments. The District expects to cash fund the capital improvement projects listed in Table 2. In addition, the District's annual debt service payments total about \$7.1 million annually.

The capital cash flow shown in Table 6 also includes a projection of the District's debt service coverage. Debt service coverage is calculated as the total revenues less operating expenses divided by the annual debt service payment. The minimum debt coverage ratio required by the District's debt agreements is 1.2 times the annual payment; however, the District prefers to maintain coverage of 1.4 times the annual payment.

To fund capital expenses, maintain reserves, and meet and exceed the District's debt service coverage target, BWA recommends that the capital wastewater service charge increase by \$11 per EDU annually.

Table 7: Summary of Projected Service Charges. The sum of projected capital and operating service charges is shown in Table 7. The total service charge is projected to increase by \$21 per EDU annually through FY2020/21, equal to about 3.5%, on average.

Table 8: Non-Residential Fixed Costs. For non-residential users, service charges are developed based on a combination of fixed costs and variable costs. The District last conducted a cost allocation to fixed and variable expense categories in 2007. For this rate update, the allocation of costs is held constant. Non-residential fixed costs are based on floor area flow factors for various customer classes. Flow factor charges are increased at the same rate as those developed for residential customers.

Table 9: Non-Residential Variable Costs. Non-residential user variable costs are assigned based on winter water consumption and estimated strength factors in accordance with guidelines developed in the State Water Resources Control Board's *Revenue Program Guidelines*. Future variable charges are increased at the same rate as those developed for residential customers.

Table 10: Service Charge Cost Comparison. This table shows a comparison of the District's sewer service charges with those of neighboring wastewater agencies. Where available, the future-year approved rate increases of other agencies are included. The Cities of Santa Rosa, Petaluma, and Rohnert Park bill for wastewater service based on metered water use. For these agencies, the sewer service charges are calculated based on assumed winter water use of 141.7 gallons per day (4,250 gallons monthly), which is equal to the District's winter water use.

The District's charges are currently on the lower end of surveyed agencies. Even if the proposed rate increases are implemented, the District's charges will remain on the lower end of the nearby agencies. Most likely, other agencies rates will also require upward adjustment within the same study period.

**Table 1: Current and Projected Operating Expenses
Novato Sanitary District
2016 Sewer Rate Study**

	Actual Expenditures FY2014/15	Final Budget FY2015/16	Preliminary Budget FY2016/17
Collection	\$1,240,062	\$1,386,100	\$1,388,527
Treatment - Contract Operations	2,795,808	3,018,331	3,098,586
Reclamation	398,117	487,029	510,713
Laboratory	555,215	601,633	629,767
Pump Stations	679,829	814,633	869,203
Administration/Engineering	2,075,333	2,936,237	2,993,010
Hazardous Household Waste	289,587	402,501	409,787
Recycled Water	<u>100,353</u>	<u>117,000</u>	<u>120,510</u>
Totals	\$8,134,304	\$9,763,464	\$10,020,13

Source: District Budgets

Table 2: Capital Improvements Program FY2016/17-2020/21
Novato Sanitary District
2016 Sewer Rate Study

Project No.	Project Name	Budget 2015/16	Projected FY2016/17	Projected FY2017/18	Projected FY2018/19	Projected FY2019/20	Projected FY2020/21	FY2016/17 to FY2020/21
72403	Pump Station Rehab.	50,000	50,000	250,000	250,000	500,000	500,000	1,550,000
72508	N. Bay Water Reuse Authority	403,000	440,000	100,000	50,000	50,000	50,000	690,000
72706	Collection System Improvements	1,050,000	900,000	1,700,000	1,700,000	1,700,000	1,700,000	7,700,000
72706-1	Lateral Replacement Program	50,000	60,000	75,000	120,000	140,000	160,000	555,000
72707	Hamilton Wetlands/Outfall monitoring	22,500	10,000	10,000	10,000	10,000	10,000	50,000
72708	Cogeneration	20,000	20,000	20,000	20,000	20,000	20,000	100,000
72802	Annual Sewer Adj. for City Projects	10,000	10,000	10,000	10,000	10,000	10,000	50,000
72803	Annual Coll. Sys. Repairs (Spot Repairs)	200,000	200,000	200,000	200,000	200,000	200,000	1,000,000
72804	Annual Recl. Facilities Improvements	100,000	100,000	100,000	100,000	100,000	100,000	500,000
72805	Annual Treatment Plant Improvements	150,000	100,000	100,000	100,000	100,000	100,000	500,000
72806	Annual Pump Station Improvements	150,000	100,000	100,000	100,000	100,000	100,000	500,000
72808	Strategic Plan Update	10,000	20,000	20,000	20,000	20,000	20,000	100,000
72809	Novato Creek Watershed	15,000	10,000	10,000	10,000	10,000	10,000	50,000
73003	Admin Bldg. Upgrades/Maintenance Bldg.	740,000	250,000	50,000	20,000	20,000	20,000	360,000
73004	Odor Control & NTP Landscaping	50,000	50,000	50,000	50,000	50,000	50,000	250,000
73005	RWF Expansion	150,000	1,300,000	20,000	10,000	-	-	1,330,000
73006	NTP Corrosion Control	150,000	75,000	150,000	150,000	75,000	75,000	525,000
73090	Vehicle Replacement	25,000	400,000	25,000	25,000	25,000	400,000	875,000
Total		\$3,345,500	\$4,095,000	\$2,990,000	\$2,945,000	\$3,130,000	\$3,525,000	\$16,685,000

Table 3: SRF Loan Payments
Novato Sanitary District
2016 Sewer Rate Study

Original Loan Amount - \$81,328,983
Term - 20 years; 2.4% Interest

Date	Outstanding Principal	Interest Payment	Principal Payment	Total Annual Payment
FY2016/17	67,119,301	1,610,863	3,768,093	5,378,956
FY2017/18	63,351,209	1,520,429	3,858,527	5,378,956
FY2018/19	59,492,682	1,427,824	3,951,132	5,378,956
FY2019/20	55,541,550	1,332,997	4,045,959	5,378,956
FY2020/21	51,495,591	1,235,894	4,143,062	5,378,956
FY2021/22	47,352,529	1,136,461	4,242,495	5,378,956
FY2022/23	43,110,034	1,034,641	4,344,315	5,378,956
FY2023/24	38,765,719	930,377	4,448,579	5,378,956
FY2024/25	34,317,140	823,611	4,555,345	5,378,956
FY2025/26	29,761,795	714,283	4,664,673	5,378,956
FY2026/27	25,097,123	602,331	4,776,625	5,378,956
FY2027/28	20,320,497	487,692	4,891,264	5,378,956
FY2028/29	15,429,233	370,302	5,008,654	5,378,956
FY2029/30	10,420,579	250,094	5,128,862	5,378,956
FY2030/31	5,291,717	127,001	5,251,955	5,378,956

**Table 4: Wastewater Certificates of Participation - 2011
Novato Sanitary District
2016 Sewer Rate Study**

Payment Date	Principal	Rate	Interest	Period Debt Svc	Fiscal Year Debt Svc
08/01/16			387,874	387,874	
02/01/17	905,000	4.000%	387,874	1,292,874	1,680,748
08/01/17			369,774	369,774	
02/01/18	925,000	4.000%	369,774	1,294,774	1,664,548
08/01/18			351,274	351,274	
02/01/19	945,000	4.000%	351,274	1,296,274	1,647,548
08/01/19			332,374	332,374	
02/01/20	970,000	4.000%	332,374	1,302,374	1,634,748
08/01/20			312,974	312,974	
02/01/21	1,000,000	4.000%	312,974	1,312,974	1,625,948
08/01/21			292,974	292,974	
02/01/22	1,035,000	4.000%	292,974	1,327,974	1,620,948
08/01/22			272,274	272,274	
02/01/23	1,065,000	4.000%	272,274	1,337,274	1,609,548
08/01/23			250,974	250,974	
02/01/24	1,105,000	4.000%	250,974	1,355,974	1,606,948
08/01/24			228,874	228,874	
02/01/25	1,145,000	4.000%	228,874	1,373,874	1,602,748
08/01/25			205,974	205,974	
02/01/26	1,190,000	4.000%	205,974	1,395,974	1,601,948
08/01/26			182,174	182,174	
02/01/27	1,235,000	4.250%	182,174	1,417,174	1,599,348
08/01/27			155,930	155,930	
02/01/28	1,285,000	4.250%	155,930	1,440,930	1,596,860
08/01/28			128,624	128,624	
02/01/29	1,340,000	4.500%	128,624	1,468,624	1,597,248
08/01/29			98,474	98,474	
02/01/30	1,395,000	4.500%	98,474	1,493,474	1,591,948
08/01/30			67,086	67,086	
02/01/31	1,455,000	4.700%	67,086	1,522,086	1,589,173
08/01/31			32,894	32,894	
02/01/32	1,385,000	4.750%	32,894	1,417,894	1,450,788

**Table 5: Operating Cash Flow
Novato Sanitary District
2016 Sewer Rate Study**

	Budget FY2015/16	Preliminary FY2016/17	Projected			
			FY2017/18	FY2018/19	FY2019/20	FY2020/21
Number of equivalent connections	29,288	29,328	29,368	29,408	29,448	29,488
New equivalent connections	40	40	40	40	40	40
Annual operating service charge	\$302	\$312	\$322	\$332	\$342	\$352
County's annual charge per account (1)	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Total annual operating service charge	\$304	\$314	\$324	\$334	\$344	\$354
Annual % Change year to year (2)		3.29%	3.18%	3.09%	2.99%	2.91%
Beginning total operating funds balance (3)	\$10,635,000	\$10,660,000	\$10,741,000	\$10,785,000	\$10,847,000	\$10,889,000
Operating revenues						
Operating service charges	\$8,904,000	\$9,209,000	\$9,515,000	\$9,822,000	\$10,130,000	\$10,439,000
Other revenues - 1% increase	867,000	876,000	885,000	894,000	903,000	912,000
Interest	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>19,000</u>	<u>19,000</u>	<u>19,000</u>
Total operating revenues	\$9,789,000	\$10,103,000	\$10,418,000	\$10,735,000	\$11,052,000	\$11,370,000
Operating expenses (4)						
Collection	\$1,386,000	\$1,389,000	\$1,433,000	\$1,490,000	\$1,527,000	\$1,566,000
Treatment - Contract Operations	3,018,000	3,099,000	3,187,000	3,277,000	3,370,000	3,466,000
Reclamation	487,000	511,000	532,000	555,000	578,000	601,000
Laboratory	602,000	630,000	649,000	668,000	688,000	709,000
Pump Stations	815,000	869,000	894,000	925,000	946,000	967,000
Administration (5)	2,936,000	2,993,000	3,137,000	3,204,000	3,335,000	3,369,000
Hazardous Household Waste	403,000	410,000	418,000	426,000	435,000	446,000
Recycled Water	<u>117,000</u>	<u>121,000</u>	<u>124,000</u>	<u>128,000</u>	<u>131,000</u>	<u>135,000</u>
Total operating expenses	\$9,764,000	\$10,022,000	\$10,374,000	\$10,673,000	\$11,010,000	\$11,259,000
Annual % Change year to year (6)		2.64%	3.51%	2.88%	3.16%	2.26%
Net annual revenues	\$25,000	\$81,000	\$44,000	\$62,000	\$42,000	\$111,000
Ending fund balance	\$10,660,000	\$10,741,000	\$10,785,000	\$10,847,000	\$10,889,000	\$11,000,000

1 - District collects an additional \$2 per account each year for the County's fee for collecting on the tax roll. County's fee has not changed since 1978.

2 - The average annual percentage change for the sewer service charge is 3.09% from FY2016/17 to FY2020/21.

3 - July 1, 2015 balance. Please note that the District receives no revenues from July until mid-December due to the County's tax collection schedule.

4 - Operating expenses projected based on current fiscal year budget.

5 - Includes retiree health benefits.

6 - The average annual percentage change for the total operating expenditures is 2.89%.

Source: Final Budget for Fiscal Year 2015/16 Including Preliminary Budget for Fiscal Year 2016/17

**Table 6: Capital Cash Flow
Novato Sanitary District
2016 Sewer Rate Study**

	Budget	Preliminary	Projected			
	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
Number of equivalent connections	29,288	29,328	29,368	29,408	29,448	29,488
New equivalent connections	40	40	40	40	40	40
Annual capital service charge	\$248	\$259	\$270	\$281	\$292	\$303
Annual % Change year to year (1)		4.44%	4.25%	4.07%	3.91%	3.77%
Connection charge - 3% increase	\$9,870	\$10,860	\$11,190	\$11,530	\$11,880	\$12,240
Beginning capital fund balance (2)	\$6,048,000	\$5,243,000	\$4,100,000	\$4,459,000	\$5,270,000	\$6,302,000
Capital revenues						
Capital service charges	\$7,263,000	\$7,596,000	\$7,929,000	\$8,264,000	\$8,599,000	\$8,935,000
Property taxes @ 2%	1,900,000	1,938,000	1,977,000	2,017,000	2,057,000	2,098,000
Capacity fees	395,000	434,000	448,000	461,000	475,000	490,000
Interest @ 0.467% (LAIF Feb 2016)	22,000	24,000	19,000	21,000	25,000	29,000
Other revenues	<u>26,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
Total annual funding	\$9,606,000	\$10,012,000	\$10,393,000	\$10,783,000	\$11,176,000	\$11,572,000
Capital expenses						
Treatment plant	\$1,260,000	\$1,795,000	\$390,000	\$350,000	\$265,000	\$265,000
Collection system (3)	1,335,000	1,570,000	2,010,000	2,055,000	2,075,000	2,470,000
Pump stations	200,000	150,000	350,000	350,000	600,000	600,000
Reclamation system	541,000	560,000	220,000	170,000	170,000	170,000
Other projects	<u>10,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
Subtotal capital projects	\$3,346,000	\$4,095,000	\$2,990,000	\$2,945,000	\$3,130,000	\$3,525,000
SRF Loan pmts (Table 3)	5,379,000	5,379,000	5,379,000	5,379,000	5,379,000	5,379,000
COP debt service (Table 4)	<u>1,686,000</u>	<u>1,681,000</u>	<u>1,665,000</u>	<u>1,648,000</u>	<u>1,635,000</u>	<u>1,626,000</u>
Total annual capital expense	\$10,411,000	\$11,155,000	\$10,034,000	\$9,972,000	\$10,144,000	\$10,530,000
Net annual revenues	-\$805,000	-\$1,143,000	\$359,000	\$811,000	\$1,032,000	\$1,042,000
Ending fund balance	\$5,243,000	\$4,100,000	\$4,459,000	\$5,270,000	\$6,302,000	\$7,344,000
Debt service coverage (4)	1.363	1.430	1.482	1.543	1.599	1.668

1 - The average annual percentage change for the sewer service charge is 4.09% from FY2016/17 to FY2020/21.

2 - July 1, 2015 balance. Please note that the District receives no revenues from July until mid-December due to the County's tax collection schedule.

3 - Includes lateral replacements, vehicles, spot repairs, and other collection system improvements.

4 - The District prefers to maintain debt service coverage of 1.4 (or greater) times the annual debt service payment.

Source: Final Budget for Fiscal Year 2015/16 Including Preliminary Budget for Fiscal Year 2016/17

**Table 7: Summary of Projected Sewer Service Charges
Novato Sanitary District
2016 Sewer Rate Study**

Annual Cost per Equivalent Dwelling Unit

	Current	Projected				
	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
Operating	\$304	\$314	\$324	\$334	\$344	\$354
% increase		3.3%	3.2%	3.1%	3.0%	2.9%
Capital	\$248	\$259	\$270	\$281	\$292	\$303
% increase		4.4%	4.2%	4.1%	3.9%	3.8%
Total	\$552	\$573	\$594	\$615	\$636	\$657
Annual increase		\$21	\$21	\$21	\$21	\$21
% increase		3.8%	3.7%	3.5%	3.4%	3.3%

**Table 8: Non-Residential Fixed Costs
Novato Sanitary District
2016 Sewer Rate Study**

User Type	Floor Area Flow Factor	Charge Per Square Foot					
		Current	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
Base Charge/square foot	1.0	\$0.23	\$0.24	\$0.25	\$0.26	\$0.27	\$0.27
Office	1.0	0.23	0.24	0.25	0.26	0.27	0.27
Retail	1.0	0.23	0.24	0.25	0.26	0.27	0.27
Public office buildings	1.0	0.23	0.24	0.25	0.26	0.27	0.27
School classrooms/admin	1.0	0.23	0.24	0.25	0.26	0.27	0.27
Churches	1.0	0.23	0.24	0.25	0.26	0.27	0.27
Meeting halls w/kitchens	1.0	0.23	0.24	0.25	0.26	0.27	0.27
Auto service stations	1.0	0.23	0.24	0.25	0.26	0.27	0.27
Supermarkets	1.0	0.23	0.24	0.25	0.26	0.27	0.27
Auditoriums theaters	1.0	0.23	0.24	0.25	0.26	0.27	0.27
Gymnasium w/showers	1.0	0.23	0.24	0.25	0.26	0.27	0.27
Hotels/motels (1)	1.0	0.23	0.24	0.25	0.26	0.27	0.27
Mortuary	1.0	0.23	0.24	0.25	0.26	0.27	0.27
Medical offices	1.3	0.30	0.31	0.32	0.33	0.35	0.36
Veterinary offices	1.3	0.30	0.31	0.32	0.33	0.35	0.36
Dental offices	1.3	0.30	0.31	0.32	0.33	0.35	0.36
Hospitals	1.3	0.30	0.31	0.32	0.33	0.35	0.36
Cafeteria/dining area	2.0	0.46	0.48	0.50	0.51	0.53	0.55
Restaurants/cafes	2.0	0.46	0.48	0.50	0.51	0.53	0.55
Bakeries	2.0	0.46	0.48	0.50	0.51	0.53	0.55
Ice cream/yogurt shops	2.0	0.46	0.48	0.50	0.51	0.53	0.55
Delicatessens	2.0	0.46	0.48	0.50	0.51	0.53	0.55
Laundry & laundromats	3.0	0.69	0.72	0.74	0.77	0.80	0.82

1 – Not including restaurants

Table 9: Non-Residential Variable Charge

*Novato Sanitary District
DRAFT 2016 Sewer Rate Study*

**(water use and strength factors)
 Novato Sanitary District
 2016 Sewer Rate Study**

User Type	Strength Factor	Current Charge	Charge Per Hundred Cubic Feet (1)				
			FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
Base Charge/square foot	1.0	\$3.00	\$3.11	\$3.23	\$3.34	\$3.46	\$3.57
Office	1.0	3.00	3.11	3.23	3.34	3.46	3.57
Retail	1.0	3.00	3.11	3.23	3.34	3.46	3.57
Public office buildings	1.0	3.00	3.11	3.23	3.34	3.46	3.57
School classrooms/admin	1.0	3.00	3.11	3.23	3.34	3.46	3.57
Churches	1.0	3.00	3.11	3.23	3.34	3.46	3.57
Auto service stations	1.0	3.00	3.11	3.23	3.34	3.46	3.57
Auditoriums theaters	1.0	3.00	3.11	3.23	3.34	3.46	3.57
Gymnasium w/showers	1.0	3.00	3.11	3.23	3.34	3.46	3.57
Hotels/motels (2)	1.0	3.00	3.11	3.23	3.34	3.46	3.57
Medical offices	1.0	3.00	3.11	3.23	3.34	3.46	3.57
Veterinary offices	1.0	3.00	3.11	3.23	3.34	3.46	3.57
Dental offices	1.0	3.00	3.11	3.23	3.34	3.46	3.57
Hospitals	1.0	3.00	3.11	3.23	3.34	3.46	3.57
Laundries & laundromats	1.4	4.20	4.36	4.52	4.68	4.84	5.00
Meeting halls w/kitchens	1.4	4.20	4.36	4.52	4.68	4.84	5.00
Cafeteria/dining area	2.2	6.52	6.77	7.02	7.26	7.51	7.76
Restaurants/cafes	2.2	6.52	6.77	7.02	7.26	7.51	7.76
Supermarkets	2.2	6.52	6.77	7.02	7.26	7.51	7.76
Bakeries	2.2	6.52	6.77	7.02	7.26	7.51	7.76
Ice cream/yogurt shops	2.2	6.52	6.77	7.02	7.26	7.51	7.76
Delicatessens	2.2	6.52	6.77	7.02	7.26	7.51	7.76
Mortuary	2.2	6.52	6.77	7.02	7.26	7.51	7.76

1 – One hundred cubic foot is 748 gallons. Charges based on historical winter water consumption.

2 – Not including restaurants

**Table 10: Cost Comparison with Neighboring Agencies
Annual Sewer Service Charges per Equivalent Dwelling Unit
Novato Sanitary District
2016 Sewer Rate Study**

AGENCY	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Sanitary District No. 5 - Belvedere	\$1,985					
Sausalito-Marín City Sanitary Dist - Sausalito	\$1,308	\$1,340	\$1,377	\$1,414		
Tamalpais Community Service District	\$1,111					
Sanitary District No. 5 - Tiburon	\$1,034					
Sanitary District No. 1 - City of Larkspur	\$1,012					
City of Santa Rosa (1)	\$940	\$948	\$957	\$965	\$973	\$980
City of Petaluma (1)	\$865					
San Rafael Sanitation District	\$788	\$830	\$863			
Las Gallinas Valley Sanitary District	\$748	\$837	\$870	\$900	\$929	
Sanitary District No. 1 - Ross Valley	\$743					
City of Mill Valley	\$685					
City of Rohnert Park (1)	\$671					
NOVATO SANITARY DISTRICT	\$552	\$573	\$594	\$615	\$636	\$657
Vallejo Sanitation & Flood Control District	\$520					
Town of Corte Madera (S.D. #2)	\$500					
Napa Sanitation District	\$483	\$555	\$638	\$676	\$710	\$739

1 - Based on 4,250 gallons of monthly sewer flow



April 1, 2016

NMWD Account # Multiple

*****SCH 5-DIGIT 94945 16545 P3 T69 70
Novato Sanitary District
500 Davidson St
Novato CA 94945-3328



999 Rush Creek Place
P.O. Box 146
Novato, CA 94948

PHONE
415.897.4133

EMAIL
info@nmwd.com

WEB
www.nmwd.com

Re: Notice of Proposed Water Rate Increase

Dear Customer:

The North Marin Water District’s mission is to provide an adequate supply of safe, reliable and high-quality water to our customers at reasonable cost consistent with good conservation practices and minimum environmental impact. To fulfill this mission, NMWD must generate revenue sufficient to cover its cost of operations.

Accordingly, the North Marin Water District is proposing an increase in the cost of water which averages \$2.85 per month (5%) for the typical Novato customer, effective June 1 of 2016. In addition, should the state mandated drought regulations remain in effect, implementation of a Temporary Drought Revenue Recovery Surcharge (Drought Surcharge) is proposed, adding \$1.00 per 1,000 gallons for all residential water use exceeding 300 gallons per day, and \$1.00 per 1,000 gallons for all non-residential water use. The State will consider rescission or adjustment of the mandatory drought regulations in May 2016.

This letter provides details on the need for the increase and information about the public hearing where public comment will be taken prior to a vote by the District Board of Directors on the proposed water rate increase and Drought Surcharge.

You can determine the increase in your annual water cost based on your personal water use over the past year from our website. Insert your NMWD account number and the name on your account into the Rate-Increase Model on NMWD’s website at https://www.nmwd.com/account_balance.php

REASON FOR THE PROPOSED INCREASE

Higher Water Cost: The Sonoma County Water Agency (SCWA), which provides 80% of Novato’s water supply, is increasing the rate it charges NMWD for Russian River water by 6.6% effective July 1, 2016. In addition, the State mandated Emergency Water Conservation Regulation has reduced Novato water consumption by over 30%, compared to the 2013 base year, significantly reducing the water sales revenue used to operate and maintain the Novato water system.

Water System Infrastructure Maintenance: The Novato water system includes 326 miles of pipeline, 38 million gallons of finished water storage distributed across 33 tanks, 26 pump stations, 13 pressure regulating stations, over 2,600 fire hydrants and a multitude of valves, all of which require ongoing maintenance. The District is now 68 years old, and much of the pipeline installed in the early years is nearing the end of its useful life requiring future replacement.

RATE COMPARISON

NMWD's rates remain reasonable. You can assess this for yourself by comparing NMWD's cost of water service to 16 counterpart Bay Area water agencies (see Urban Area Water Cost Comparison on page 5 of this letter). The comparison shows that the typical cost of service for a Novato single-family residence is just below the median of our counterpart agencies.

PROPOSED RATE INCREASE

A table showing the existing rates and charges, and the amounts proposed, is included on page 4 of this letter.

Residential Accounts: It is proposed that a commodity rate increase of 7% for all water used be implemented effective June 1, 2016. No increase in the bimonthly service charge is proposed. For the typical Novato single-family residence, the proposed increase in the total cost of water (commodity charge plus bimonthly service charge) is 5%. The proposed increase would add \$2.85 per month (\$5.70 per bimonthly bill) to the cost of water for a typical single-family residence beginning June 2016.

Non-Residential Accounts (Commercial, Institutional & Irrigation): It is proposed that an increase in the commodity rate of 7% for all water used be implemented effective June 1, 2016. No increase in the bimonthly service charge is proposed. The increase for non-residential customers will vary based upon water use. In Novato the median non-residential account uses more water than the median residential account, but would still see an increase in the total cost of water (commodity charge plus bimonthly service charge) of 5%. You can determine the increase in your annual water cost based on your consumption over the past year from our website. See the boxed area above for instructions.

PROPOSED TEMPORARY DROUGHT REVENUE RECOVERY SURCHARGE

On June 1, 2015, California enacted an Emergency Water Conservation Regulation mandating reduced water use statewide. Novato was ordered to reduce consumption by 24%. Since June 1 Novato water use has fallen over 30%. The reduction in water consumption has significantly reduced the revenue required to operate and maintain the water system. In response, effective June 1, 2016, a temporary Drought Surcharge for each 1,000 gallons of potable water use is proposed as follows:

Residential Accounts: Use exceeding 300 gallons per day per dwelling unit..... \$1.00
Commercial, Institutional & Irrigation Accounts: All Use..... \$1.00

The Drought Surcharge would add \$0.90 per month (1.6%) on average to the typical residential water bill and \$9.00 per month (12%) on average to the typical non-residential water bill.

The State mandated Emergency Water Conservation Regulation is currently scheduled to remain in effect through October 31, 2016, but will be reviewed by the State in May. Collection of the proposed temporary Drought Surcharge will be

suspended at the time the State Regulation is rescinded.

You can determine the impact of the proposed Drought Surcharge on your annual water cost based on your consumption over the past year from our website. See the boxed area above for instructions.

WATER RATE PUBLIC HEARING

A public hearing will be held at the NMWD office (999 Rush Creek Place, Novato) at 7:00 p.m. on Tuesday, May 17, 2016, to consider enactment of an increase averaging 5%, and enactment of a temporary Drought Surcharge, both effective June 1, 2016.

HOW TO PARTICIPATE

You are invited to present oral or written testimony on these proposals at the public hearing. You have the right to protest these proposed rate increases. If you do, you must submit your protest in writing, even if you plan to attend the public hearing. If written protests are submitted by a majority of the affected property owners or customers, the proposed increases will not be imposed.

Your written protest must be received prior to the close of the May 17, 2016 public hearing. Written protests must be signed by the property owner or customer of record and must include a description of the parcel (parcel number) or NMWD account number. Send or deliver written protests to:

District Secretary
North Marin Water District
PO Box 146
Novato, CA 94948

For more information visit NMWD's website at www.nmwd.com or call the District Secretary at (415) 897-4133.

Sincerely,



Chris DeGabriele
General Manager

NOVATO WATER CHARGES

A BI-MONTHLY SERVICE CHARGE OF:	Existing	Proposed	%
	6/1/15	6/1/16	Increase
STANDARD 5/8-INCH METER	\$30.00	\$30.00	0%
1 -inch residential meter for fire sprinklers	\$34.00	\$34.00	0%
1 -inch meter	\$60.00	\$60.00	0%
1.5 -inch meter	\$73.00	\$73.00	0%
2 -inch meter	\$114.00	\$114.00	0%
3 -inch meter	\$227.00	\$227.00	0%
4 -inch meter	\$364.00	\$364.00	0%
6 -inch meter	\$761.00	\$761.00	0%
8 -inch meter	\$1,134.00	\$1,134.00	0%
PLUS A QUANTITY RATE OF:			
<u>Residential rate for each 1,000 gallons</u>	<u>Rate</u>	<u>Rate</u>	
First 615 gallons per day	\$4.46	\$4.77	7%
616 - 1,845 gallons per day	\$7.11	\$7.61	7%
Use in excess of 1,845 gallons per day.....	\$12.38	\$13.25	7%
<u>Rate for each 1,000 gallons for all other potable water accounts</u>			
Commercial, institutional & irrigation accounts - 11/1-5/31.....	\$4.92	\$5.26	7%
Commercial, institutional & irrigation accounts - 6/1-10/31.....	\$5.28	\$5.65	7%
<u>Rate for each 1,000 gallons for non-potable water</u>			
Recycled Water	\$4.92	\$5.26	7%
Raw (Untreated) Water	\$2.03	\$2.17	7%
PLUS AN ELEVATION ZONE RATE FOR EACH 1,000 GALLONS OF:			
<u>Zone</u> <u>Elevation</u>	<u>Rate</u>	<u>Rate</u>	
A 0 through 60 feet.....	\$0.00	\$0.00	-
B 60 feet - 200 feet.....	\$0.53	\$0.57	7%
C 200 feet +.....	\$1.71	\$1.83	7%
Hydrants or Temporary Service.....	\$6.99	\$7.48	7%

