

MONTE VISTA WATER DISTRICT

10575 Central Avenue, Montclair, California • (909) 624-0035

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NOTICE AND AGENDA OF FINANCE COMMITTEE MEETING

WEDNESDAY, OCTOBER 19, 2022 • 4:30 P.M.

Committee Members

Director Erwin – Chair

Board Auditor Martinez

Consistent with the provisions in Government Code section 54953(e)(2), the Finance Committee will conduct this meeting by video and teleconference. Interested members of the public may participate in the meeting to observe and/or provide public comment by using the access information listed above.

1. CALL TO ORDER / ROLL CALL

2. PUBLIC COMMENT

3. AGENDA CHANGES/ADDITIONS

4. DISCUSSION AND/OR ACTION ITEMS

A. Committee Meeting Minutes

Meeting Date: September 6, 2022

Recommendation: Approve as presented

B. Notice of Award: Financial Master Plan Rate Study

Presenter: Stephanie Reimer, Assistant General Manager / Chief Financial Officer

Recommendation: It is recommended that the Finance Committee recommend that the Board of Directors authorize the Board President and General Manager to enter into a professional services agreement with Carollo Engineers for a not-to-exceed amount of \$77,690 to update the District's Financial Master Plan.

5. ADJOURNMENT

DECLARATION OF POSTING

In accordance with the requirement of California Government Code §54954.2, this agenda has been posted in the display case at the gated entrance to our main office at 10575 Central Avenue, Montclair, California not less than seventy-two (72) hours prior to the meeting date and time above.

Written materials relating to open session agenda items, including those distributed to the majority of the Board of Directors after distribution of this agenda package, are available for public inspection during normal business hours at the District's main office, located at 10575 Central Avenue, Montclair, California.

Pursuant to the Americans with Disabilities Act, persons with a disability who require a disability-related modification or accommodation in order to participate in a meeting may request such modification or accommodation from the District's Board Secretary at (909) 624-0035 or by email at BoardSecretary@mvwd.org. Notification forty-eight (48) hours prior to the meeting will enable District staff to make reasonable arrangements to assure accessibility to the meeting.

**MINUTES OF THE REGULAR MEETING
OF THE FINANCE COMMITTEE
OF THE MONTE VISTA WATER DISTRICT
BOARD OF DIRECTORS**

September 6, 2022

DIRECTORS PRESENT

Philip Erwin, Director – Chair
Manny Martinez, Board Auditor

DIRECTORS ABSENT

None.

STAFF PRESENT

Justin Scott-Coe, General Manager
Stephanie Reimer, Assistant General Manager/Chief Financial Officer
A. William Schwartz, Director of Engineering, Operations, & Maintenance
Leah Nazaroff, Accounting Manager

OTHERS IN ATTENDANCE

Mark Panny, Carollo Engineers

ITEM 1: CALL TO ORDER

Director Erwin called the meeting to order at 4:30 p.m.

ROLL CALL

Mr. Scott-Coe stated that the Finance Committee (Committee) of the Board of Directors (Board) of the Monte Vista Water District (District) meeting will be conducted consistent with the provisions in Government Code section 54953(e)(2). Each Committee member confirmed their attendance and ability to hear the proceedings. Other attendees confirmed they could hear each Committee member. The Committee members and staff were reminded that any votes taken during the teleconference portion of the meeting must be taken by roll call vote. General Manager Scott-Coe provided brief instructions on appropriate conduct during the meeting.

ITEM 2: PUBLIC COMMENT

None.

ITEM 3: AGENDA CHANGES/ADDITIONS

None.

ITEM 4: DISCUSSION AND/OR ACTION ITEMS

A. Meeting Minutes: August 2, 2022

Upon motion by Board Auditor Martinez, and unanimously carried:

M22-09-01

MOVED: Approve as presented, as by roll call vote:

Director Erwin	abstain
Board Auditor Martinez	aye

B. Financial Projections Update: Capital Improvement Projects and Reserve Balance

Mr. Bill Schwartz and Ms. Stephanie Reimer provided brief presentations in support of staff’s recommendation.

The update was received and filed.

C. Implementation of Demand Reduction Rates

Ms. Stephanie Reimer and Mark Panny with Carollo Engineers provided brief presentations in support of staff’s recommendation.

Board Auditor Martinez questioned if there is a scheduled demand reduction rate increase for 2023 and if the proposed implementation is additional. Ms. Reimer confirmed that there is a scheduled increase for January 1, 2023.

Director Erwin inquired on how the increase will be reflected on the customer’s bill. Ms. Reimer stated that customers will be noticed of the rate increase and it would be reflected in the listed tiers included in the billing information.

Mr. Justin Scott-Coe added that a required 30-day notice will be provided to customers, after the implementation of the demand reduction rate increase has been approved, and a brief explanation will be included to provide further information on the cause.

Director Erwin suggested bringing the decision of the demand reduction rate increase to the Board. Mr. Scott Coe stated that the effective date will be reflected as January 1, 2023.

Director Erwin spoke his concerns regarding the backseat placement of the pipeline replacement project over the years and believed it should be a priority.

Upon motion by Director Erwin, seconded by Board Auditor Martinez, and unanimously carried:

M22-09-02

MOVED: Recommend that the Board of Directors approve the implementation of Demand Reduction Rates effective January 1, 2023, as by roll call vote:

Director Erwin	aye
Board Auditor Martinez	aye

ITEM 5: ADJOURNMENT

Upon motion by Board Auditor Martinez, seconded by Director Erwin, and unanimously carried:

M22-09-03

MOVED: Approved to adjourn the meeting, as by roll call vote:

Director Erwin	aye
Board Auditor Martinez	aye

There being no further business, Director Erwin adjourned the meeting at 5:26 p.m.

Respectfully submitted,

Justin M. Scott-Coe
General Manager/Secretary

DRAFT



Justin Scott-Coe, PhD
GENERAL MANAGER

October 19, 2022

Honorable Finance Committee
Monte Vista Water District

SUBJECT: Notice of Award: Financial Master Plan Rate Study

STAFF RECOMMENDATION:

It is recommended that the Finance Committee recommend that the Board of Directors authorize the Board President and General Manager to enter into a professional services agreement with Carollo Engineers for a not-to-exceed amount of \$77,690 to update the District's Financial Master Plan.

PRIOR BOARD ACTION:

On February 13, 2019, the Board of Directors authorized the Board President and General Manager to enter into an agreement in an amount not-to-exceed \$84,000 with Carollo Engineers to update the District's Financial Master Plan.

FINANCIAL IMPACT:

The Fiscal Year Ending 2023 Amended Budget provides funding for this activity under Account Number 568.400 – Professional Services. The total line-item budget amount is \$519,850. Year-to-date expenditures total \$34,173.

CONSISTENCY WITH STRATEGIC PLAN GOALS/INITIATIVES:

Strategic Goal 5: Maintain responsible stewardship of District funds to address future needs.



10575 Central Avenue, Post Office Box 71 • Montclair, CA 91763 • (909) 624-0035 • FAX (909) 624-4725 • www.mvwd.org

Sandra S. Rose
PRESIDENT

G. Michael Milhiser
VICE PRESIDENT

Manny Martinez
DIRECTOR / BOARD AUDITOR

Philip L. Erwin
DIRECTOR

Tony Lopez
DIRECTOR

BACKGROUND:

In 1997, the Monte Vista Water District's (District) Board of Directors (Board) made a long-term commitment to provide the District's customers with a safe, reliable, and efficient water system. The foundation for this commitment has been built on two integrated plans. The first is the Capital Improvement Plan (CIP) that identifies the long-term capital needs of the District for the next 30 years. The second component is the Financial Master Plan (FMP) that establishes the long-term financial structure necessary to ensure a stable and adequate funding mechanism for all District operations, as well as funding for the CIP's implementation.

Since then, program funding has been implemented through a series of adopted resolutions adjusting both the commodity rate and the readiness-to-serve charges. In January 2009, the District published its current Domestic Water Master Plan, which was a revision to the 30-year CIP. In March 2011, the District published its first Recycled Water Master Plan having funded its initial pipeline connection through a loan provided by the Inland Empire Utilities Agency. In June 2012, the Board adopted a rate resolution, Resolution 662-12, covering a three-year period beginning January 1, 2013. Then, in June 2015, the Board adopted Resolution 698-16 covering a four-year period beginning January 14, 2016. Most recently, the Board adopted Resolution 760-20 in November 2019, with the last year of rate increases effective January 1, 2023.

Under the District's Purchasing Policy, competitive solicitation requirements may be waived for a single-source procurement where 1) there is a compelling reason for only one source of professional services, and/or 2) it is in the best interest of the District to extend or renew a contract from a previous contract period based on satisfactory service, reasonable prices, avoidance of start-up costs, avoidance of interruptions to District business, or good business practices.

DISCUSSION:

The District faces a unique set of challenges going into this rate study. It will be important for the District to revisit all three of the master components (CIP, Recycled Water, and FMP). In addition, to appropriately address rates for the future, the Financial Master Plan Rate Study (Rate Study) will focus on the significant challenges facing the District including water quality issues necessitating treatment, supply constraints due to the ongoing drought, and other regulatory requirements.

Carollo Engineers (Carollo) completed the District's 2016 and 2019 FMP updates and rate studies. Staff continues to utilize the 2019 rate model built by Carollo and seek out their professional services on various projects over the last several years, including updates to the District's connection fees and analysis used to support implementation of Demand Reduction Rates. The upcoming Rate Study will update the existing financial model with current demand data, consider new state efficiency standards, conduct a sensitivity analysis utilizing the current three-year drought, and evaluate demand reduction rates, pass-through charges, operating costs, and capital needs.

Staff recommends the District enter into a single source contract with Carollo for the upcoming rate study based on satisfactory service, reasonable prices, and avoidance of costs to build a new financial model.

Notice of Award: Financial Master Plan Rate Study

Respectfully submitted,



Stephanie A. Reimer
Assistant General Manager/
Chief Financial Officer



Justin M. Scott-Coe
General Manager

Attachment

1. Proposal

October 10, 2022

Ms. Stephanie Reimer
Assistant General Manager / Chief Financial Officer
Monte Vista Water District
10575 Central Avenue
Montclair, California 91763

Subject: 2024 Water Rate Study Scope of Work

Dear Ms. Reimer:

Based on our recent discussions, Monte Vista Water District (District) would like to initiate a cost-of-service update of the District's water rates beginning with 2024 and potentially including subsequent years. Carollo Engineers, Inc. is providing the below scope of services for this rate update.

Project Management & Meetings

Carollo's project manager will maintain regular communication with the District's project manager and will plan to meet at least biweekly via conference call to review the status of action items and deliverables and to keep the District updated on project schedule and budget. Carollo's project manager will provide project status reports with each monthly invoice.

Carollo will also conduct a quality review at the 75 and 90 percent milestones. This review will be performed by the quality manager, who will otherwise not be involved with the project to maintain an independent perspective.

Task 1: Data Collection and Project Initiation

Carollo will prepare a data request for the District, which will outline the needed data for the initial model update. This data request will precede a kick-off meeting to be held with key Carollo personnel and District staff. The meeting will provide a clear direction for the study and will include but is not limited to:

- Establishing lines of communication between Carollo and the District.
- Clearly defining what a "successful" rate study looks like and understanding the District's overall goals and identifying potential challenges.
- Confirming the scope of services and clarifying expectations for deliverables.
- Discussing project schedule and milestones.
- Reviewing the pending data request.
- Mapping out a communication strategy for engaging stakeholders, including the Board of Directors.

Task 2: Customer and Usage Analysis

Carollo must forecast the District's existing revenue sources, which is best accomplished through a thorough analysis of the District's billing data. Carollo will gather the District's customer billing data and perform a revenue test to confirm the revenue starting point. Carollo will also use this data as a check on the accuracy of our analysis by matching modeled revenues against the District's actuals. Historical data will serve as the basis for developing revenue projections, which will also include considerations for changes in customer base and volumetric rates.

Carollo will also use this task to analyze the District's customers' usage profiles. Carollo will provide charts and figures to the District that will help better understand customer demands and provide additional context

related to rate design decisions. Carollo will use its existing data analysis from the 2019 Rate Study as much as possible to provide greater context for this analysis.

There will be three primary outputs from this task:

- Current Meter and Connection Profiles.
- Current and Historical Usage Profiles, including:
 - Total Demand Projection.
 - Tier and Budget Analyses.
- Projected Demands (by Tier) and Total Connections.

Task 3: Financial Plan and Revenue Requirements Analysis

The revenue requirement analysis is the foundation of the rate study and determines the amount of total revenue needed in a given year to meet your expected financial obligations. The analysis will be driven by the District's policy objectives and short- and long-term sufficiency of the fund's existing revenues against existing and forecasted operational and capital expenditures. Carollo will develop a 30-year revenue requirement forecast and accompanying financial plan. Carollo plans to build from the existing rate model developed during the 2019 Rate Study.

Task 3.1: Projection of Revenues under Existing Rates

Building from the Customer and Usage Analysis in Task 2, Carollo will forecast usage and billing revenue under the current rates. This baseline forecast will incorporate long-range population growth assumptions from publicly available sources and the District's estimates. Carollo will also provide recommendations and input on other important assumptions (e.g., per household conservation).

Task 3.2: Long-Range Financial Plan

Based on the District's actual operating expenses over the last several years and planned budget for the next year, Carollo will forecast these expenses using cost item specific escalation factors. For instance, salary and benefits will be escalated using a labor escalation factor, while imported water purchases will be escalated using a supply-specific escalation factor. Given the uncertainty of cost escalation, Carollo will work with the District to get the most accurate and up-to-date assumptions for cost forecasts.

Carollo will also forecast the District's water production costs based on its source of supply portfolio, forecasting the total production or purchases from each source and calculating expenses based on the unit cost for each source.

With the most recent CIP, debt, and reserves incorporated into the model, Carollo will evaluate funding needs and assess funding sources, including debt, reserves, pay-as-you-go (PAYGO), or other sources.

Task 3.3: Revenue Requirements Calculation

With the revenues, operating expenses, CIP, debt, and reserves incorporated into the model, Carollo will perform the following three primary tests to determine the appropriate revenue requirements:

- Cash Flow Sufficiency Test: do revenues exceed expenses?
- Reserve Test: do cash flows allow the District to meet its reserve targets?
- Debt Coverage Test: do cash flows meet bond covenants, specifically debt coverage ratio requirements?

If the financial plan indicates that the District is not projected to meet any of these tests, the rate model will automatically calculate proposed revenue increases to address these tests. Carollo and the District will then discuss these modeled increases, potentially modifying them to achieve a desirable rate plan.

Task 4: Cost of Service Allocation

Task 4.2: Functional Allocation of Costs

Carollo will functionalize each of the District's operating and capital costs, assigning a specific function to each cost center in the District's budget. For instance, costs related to operating and maintaining the District's pump stations will be assigned to the pumping category. Some cost centers may be allocated to multiple categories, while others may not be allocated directly, but rather will be allocated based on the allocation of all other values.

Carollo will build from the same methodology as was used in the 2019 rate study, using the American Water Works Association (AWWA) Base-Extra Capacity Methodology for developing functional categories and allocating costs to cost components. Functionalized costs will be allocated to base, max day, and max hour cost components, as well as customer service, meter service, and other components as identified by Carollo and District staff. Carollo will also allocate source of supply related costs.

Task 4.4: Allocation of Functionalized Costs to Customer Classes

Cost components will be allocated to customer classes based on the results of the analysis in Task 2. This allocation will be in line with the allocation methodologies of AWWA and adjusted as necessary to align with the goals of California Proposition 218.

Carollo will also review allocations to wholesale customers and determine if these customers are allocated a share of costs in line with their demand on the District's systems.

Task 5: Rate Design

Task 5.1: Rate Sensitivity Analysis

Carollo will review the impact on the rate structure of several internal and external drivers. This review may include:

- Updated outdoor landscape measurements.
- Current evapotranspiration measurements.
- Statewide efficiency standards for both indoor household water usage and outdoor landscaping irrigation.

With staff's feedback, Carollo changes into the rate structure to mitigate the impact of these drivers on the District's revenue sufficiency.

Task 5.2: Rate Design and Calculation

Carollo will calculate updated rates for the next five years based on the results of the revenue requirements analysis, the cost-of-service allocations, and the rate options review. Carollo will first prepare a draft rate plan and then refine these rates based on staff feedback. This task will include a discussion of the District's current tiers and incorporate potential changes to those tiers.

Task 5.3: Bill Impact and Comparison

Carollo will prepare a bill impact assessment for District staff to review. This will forecast the annual bill change, both in dollars and percentages, for a typical customer under the proposed rates. Other customers may be included in this comparison at the request of the District.

Carollo will also compile a peer agency comparison, which will collect rate information from regional agencies and calculate an estimated bill using the District's typical customer profile.

Task 5.4: Demand Reduction Rates and Pass-Through Charges

Carollo will update the District's Demand Reduction Rates. Carollo will use available demand data from the District's most significant drought period of the last several years and estimate the potential demand reduction stemming from a drought of similar or greater magnitude. Carollo will incorporate cost reductions, as well as supply reductions. Carollo will also discuss with District staff the feasibility of adjusting the household budgets as a drought response mechanism. Carollo will present the advantages and disadvantages and make an overall recommendation for or against this approach. If appropriate, Carollo will calculate these changes.

Carollo will analyze the feasibility of pass-through rates for the District. These pass-through rates are intended to cover unanticipated unit cost increases in the District's expenses, typically for water supply costs. Carollo will work with the District to assess what costs may be appropriate to recover via pass-through. After this assessment and a discussion of the advantages and disadvantages of pass-through charges, Carollo will set up the rate model to calculate pass-through charges if desired by the District.

Task 6: Public Meetings and Deliverables

Task 6.1: Rate Model

Carollo will provide the final Microsoft Excel rate model to District staff at the conclusion of the rate study.

Task 6.2: Draft and Final Report

Carollo will prepare a draft report outlining the inputs and assumptions, methodology, results, and recommendations. District staff will have an opportunity to review this draft report and may provide feedback to Carollo in one consolidated file. Carollo will update the draft report with staff feedback and provide a final report to be delivered to the District's Board of Directors.

Task 6.3: Board Presentations

Carollo will present at two on-site meetings and one virtual meeting of the District's Board of Directors. Carollo will work with District staff to determine the ideal schedule for these meetings. Additional on-site meetings, with staff, the Board of Directors, or other stakeholders, can be added at the request of the District.

Schedule

Carollo understands that the District intends to implement updated rates by January 1, 2024. Carollo therefore anticipates completing the study by July 2023. Carollo will then be available through November 2023 to assist with the Proposition 218 noticing process and the associated public hearing.

Proposed Fee

Carollo has estimated a not-to-exceed budget of \$77,690. If the District desires additional on-site meetings, they can be added at a per meeting cost of approximately \$3,500, which includes labor and expenses. On-site meetings can instead be held virtually at the District's choosing, which would eliminate travel expenses and reduce the total fee on a per meeting basis of \$1,750. A detailed breakdown of this budget with tasks and hours for each team member is attached to this letter in Exhibit A.

Please let us know if you have any suggested additions or modifications to this outline. We are eager to continue our current relationship with the District to provide financial and rate consulting services, and we want to provide a scope of services that meets your expectations. Please reach out to Project Manager Mark Panny at mpanny@carollo.com or 609-602-3613 if you have any questions.

Sincerely,

CAROLLO ENGINEERS, INC.



Jennifer Ivey, P.E.
Vice President



Mark Panny
Project Manager

Attachment A: MVWD 2024 Water Rate Study - Carollo Fee Estimate

<i>Team Member</i>	Jennifer Ivey	Mark Panny	Kim Lightner	Karly Nocera	Alex Bugbee	
<i>Role</i>	Project Director	Project Manager	Lead Analyst	Analyst	Quality Manager	Document Processing
Hourly Rate	\$311	\$196	\$161	\$141	\$211	\$116
PECE	\$14	\$14	\$14	\$14	\$14	\$14
Hourly Rate + PECE	\$325	\$210	\$175	\$155	\$225	\$130

Task							Total Labor Hours	Labor Costs	Expenses	Total Cost
Project Management & Meetings	4	24	4	4	-	-	36	\$ 7,660	-	\$ 7,660
Task 1: Data Collection and Kick-Off	2	8	4	8	2	-	24	4,720	-	4,720
Task 2: Customer and Usage Analysis	4	12	12	16	2	-	46	8,850	-	8,850
Task 3: Financial Plan and Revenue Requirements	8	12	10	24	4	-	58	11,490	-	11,490
Task 4: Cost of Service Analysis	8	16	8	24	4	-	60	11,980	-	11,980
Task 5: Rate Design	4	16	12	24	4	-	60	11,380	-	11,380
Task 6: Public Meetings and Deliverables	4	36	16	32	2	8	98	18,110	3,500	21,610
Total	34	124	66	132	18	8	382	\$ 74,190	\$ 3,500	\$ 77,690