



Meeting Date: 06/19/2007

ACTION	TYPE OF ITEM
<input type="checkbox"/> Approved Recommendation	<input type="checkbox"/> Info/Consent
<input type="checkbox"/> Ord. No(s). _____	<input type="checkbox"/> Report
<input type="checkbox"/> Res. No(s). _____	<input type="checkbox"/> Public Hearing (Info/consent)
<input type="checkbox"/> Other _____	<input checked="" type="checkbox"/> Other Study Session

Prepared By: Michelle Romney *HR* Agenda Item No. B-2
 Reviewed By: City Manager *[Signature]* City Attorney *[Signature]* Finance *SW* Other Public Works/Water

DATE: June 14, 2007

TO: City Council

FROM: Mark Norris, Assistant Public Works Director *[Signature]*
Public Works Department, Utilities Services Branch

SUBJECT: Comprehensive Utilities Rate Increases

RECOMMENDATION

That City Council review and provide preliminary comments to the Public Works Director to implement a two-step rate increase for the Water Resources Division (Water and Wastewater Sections) which would include three percent (3%) increases in Fiscal Year 2007-08 and in Fiscal Year 2008-09 and five percent (5%) increase in FY 2007-08 for the Environmental Resources Division.

BACKGROUND

The Utilities Services Branch is embarking on a comprehensive rate study for the City of Oxnard's water, wastewater, and environmental resources enterprises. The Water Resources Division (Water and Wastewater Sections) has not had an increase to cover the rising costs of operational and capital reinvestment needs since FY 2001-02. The Environmental Resources Division has had recent increases to specifically address operational deficits. However, the recent increases were insufficient. While staff believes that a comprehensive study will substantiate the need for a rate increase and verify our analysis, we are suggesting that the rate increases go into effect prior to the study's completion.

The projected rate increases for the Water Section include a three percent (3%) increase for Fiscal Year 2007-2008 (\$560,000) and a three percent (3%) increase for Fiscal Year 2008-2009 (\$775,000). The projected rate increases for the Wastewater Section include a three percent (3%) increase for Fiscal Year 2007-2008 (\$487,000) and a three percent (3%) increase for Fiscal Year 2008-2009 (\$670,000). The projected rate increase for the Environmental Resources Division includes a five percent (5%) increase for Fiscal Year 2007-2008 (\$825,000).

DISCUSSION

The comprehensive rate study establishes a reasonable and direct relationship between the amount of the Capital Facility Charges, Development Fees, and the proportional cost to the system facilities attributable to each enterprise. Prior to the completion of this comprehensive study, we are suggesting a modest three percent (3%) rate increase for FY 2007-08 and FY 2008-09 for both sections within the Water Resources Division, and a five percent (5%) increase in FY 2007-08 for the Environmental Resources Division. The proposed rate increases will provide a rate smoothing effect for future rate increases that may be necessary based on the outcome of the comprehensive rate study that staff estimates will be completed within the next six to twelve months.

The enterprises have experienced significant increases in operation, maintenance, and regulatory related costs. The increase to the Water Section is \$1.5 million annually which equates to an approximate six percent (6%) increase of costs. The last rate increase for the Water Section was in FY 2001-02, and 2002-03, dated July 10, 2001. The increase to the Wastewater Section is \$1.7 million annually which equates to an approximate six percent (6%) increase of costs. The last rate increase for Wastewater was in FY 2001-03. The revenues generated by the Environmental Resources Division rate increase would first be used to reduce the remaining operating deficit, and then to establish an Equipment Replacement Fund.

The Utility Services Branch's goal is to ensure that revenues from rates and fees are adequate, over the long-term, to fund daily operations, maintenance, administration, and ongoing capital improvements.

Upon Council's review and direction, staff would proceed with a Proposition 218 ballot process on July 25, 2007. Ballot notices will be mailed to all property owners and utility customers beginning the 45 day notice period. An anticipated Public Hearing is to be scheduled on September 11, 2007, introducing the rate ordinances, followed by a second reading on the following council meeting. Upon approval, the rate increases would become effective November 1, 2007.

The following information details, by Division, the factors related to the proposed rate increases:

Water Production, Treatment and Distribution Costs

The last rate increase for the water enterprises occurred in 2004 for a \$1.20 monthly Security Prevention Fee, to establish certain security-related requirements for public water purveyors and a \$12 annual Backflow Assembly Certification Fee. The creation of these rates did not take into account the operation increases for the water enterprise. Several factors continue to impact the cost of providing clean, safe and reliable potable water to the City's residential, commercial, industrial, and institutional customers. The City's water demands continue to increase, due to growth in the number of water customers. At the same time, local water resources are shrinking, due to mandatory cutbacks on groundwater pumping and the need to set aside water for environmental uses. Other cost increases have affected the overall cost of producing, treating, and distributing water, including continued increases in the amount of electricity used and the unit cost, continued increases in the cost of water treatment chemicals, increases in the cost of employee salaries and benefits, and several other costs to the water resources enterprise. These costs have resulted in an annual increase of approximately \$1.59 million annually.

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The major factors are listed below:

- Purchases of imported or alternative water sources. Water demands have increased, due to new residences and businesses, as well as to an increased number of persons per household. The availability of local water resources has diminished, due to groundwater pumping restrictions. This has necessitated the purchase of additional imported or alternative water sources, which has added approximately \$1,000,000 to operational costs for each of the past two fiscal years.
- Treatment Chemicals. Both the quantity of chemicals used to treat the water and the unit costs have increased.
- Energy. Both the quantity of electricity needed to produce, treat, and distribute water, and the unit costs have increased.
- Aging facilities. The costs to maintain and repair the City's extensive but aging water distribution piping system have continued to increase.
- Employee compensation. The costs of employee compensation have increased for both bargaining and non-bargaining units. These have increased an average of 5% annually.

Wastewater Collection and Treatment

Like the water enterprise, the wastewater enterprise continues to experience similar increases in its cost of operation, maintenance, and administration. These costs have resulted in an annual increase of approximately \$1.67 million annually.

The major factors that influence increased costs are:

- Increased quantity of wastewater collected and treated. The increasing City population, increasing persons per household, and increasing commercial and industrial businesses results in an increasing amount of wastewater that must be collected and treated.
- Treatment chemicals. Both the quantity of chemicals used to treat the wastewater and the unit costs have increased. This has resulted in an approximate \$600,000 annual increase.
- Energy. Both the quantity of electricity needed to collect and treat the wastewater, and the unit costs have increased. This has resulted in an approximately \$65,000 annual increase.
- Biosolids Management. Increased regulatory requirements have resulted in an approximate \$610,000 annual increase.
- Regulatory requirements. More stringent requirements for sampling and analysis have resulted in an approximate \$70,000 annual increase.
- Aging facilities. The costs to maintain and repair the extensive collection system and the treatment plant have continued to increase.
- Employee Compensation increases.

Environmental Resources

Like the Water Resources Division, Environmental Resource enterprise continues to experience similar increases in its cost of operation, maintenance, and administration. These costs have resulted in an annual increase of approximately \$1.1 million annually.

The major factors that influence increased costs are:

- Increased quantity of refuse and recyclables collected, removed and processed. The increasing City population, increasing persons per household, and increasing commercial and industrial businesses results in an increasing amount of refuse and recyclable materials that must be collected, removed and processed.
- Processing and disposal of refuse and recycling materials. Both the quantity of tons and the tons-per-unit cost are increasing for processing recyclables and green waste, and for processing and disposing of refuse.
- Maintenance and Repair for Aging Commercial, Industrial, Waste Transfer Vehicle Fleet. FY 2007-08 estimated increase cost is \$337,000.
- Diesel Exhaust Particulate Filters. Increased regulatory requirements to reduce diesel particulate matter emissions from trucks will result in new expenditures of approximately \$544,000 over the next budget cycle.
- Aging facilities. The costs to maintain and repair building and equipment of the Del Norte Regional Recycling & Transfer Station. Employee Compensation increases.

Summary

The comprehensive study is estimated to be completed in the next six to twelve months. Based on the following revenue projections staff recommends that the City implement a two-step rate increase. The projected revenues are as follows:

- **Water:**
 - **Proposed:** Three percent (3%) for Fiscal Year 2007-2008 \$560,000
 - **Proposed:** Three percent (3%) for Fiscal Year 2008-2009 \$775,000
 - **Last Rate Increase:**
 - 2004 to create the Security and Contamination Prevention Program
- **Wastewater:**
 - **Proposed:** Three percent (3%) for Fiscal Year 2007-2008 \$487,000
 - **Proposed:** Three percent (3%) for Fiscal Year 2008-2009 \$670,000
 - **Last Rate Increase:**
 - 2004 to cover the debt service associated with both the Redwood Trunk and Headworks projects
- **Environmental Resources:**
 - **Proposed:** Additional Five percent (5%) for Fiscal Year 2007-2008 \$825,000
 - **Last Rate Increase:**
 - 2007 Five percent (5%) for operations; Three percent (3%) Tipping Fees
 - 2008 (July 1, 2007) Five percent (5%) for operations; Three percent (3%) Tipping Fees

FINANCIAL IMPACT

As this is a study session, there is no financial impact from this recommendation.

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