



Meeting Date: 07/28/2009

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

Prepared By: Michelle Romney, Administrative Services Manager *Murphy* Agenda Item No. 0-2
 Reviewed By: City Manager *JRS* City Attorney *AK* Finance *J.C.* Public Works *[Signature]*

DATE: July 20, 2009

TO: City Council

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

SUBJECT: Two-Year Comprehensive Utilities Revenue Increases

RECOMMENDATION

That City Council:

1. Review and provide direction to the Public Works Director to implement a two-step revenue increase for the Water, Wastewater and Environmental Resources Enterprises. The proposed increases are one and one-half percent (1.5%) in Fiscal Year 2009-10 and two percent (2%) in Fiscal Year 2010-11 for the Water Section; eight percent (8%) in both Fiscal Year 2009-10 and Fiscal Year 2010-11 for the Wastewater Section; and three and one-half percent (3.5%) in both Fiscal Year 2009-10 and Fiscal Year 2010-11 for the Environmental Resources Division.
2. Authorize staff to proceed with the Prop 218 process.

SUMMARY

In June 2007, the Utilities Services Branch began a comprehensive rate study for the City of Oxnard's Water, Wastewater, and Environmental Resources Enterprises. The comprehensive rate study establishes a reasonable and direct connection between the costs to the system facilities attributable to each enterprise and provides a long-term financial management plan. As an interim step, prior to the completion of this comprehensive study, Water and Wastewater were each approved a three percent (3%) rate increase for FY 2007-08 and FY 2008-09, and the Environmental Resources Division was approved for a five percent (5%) increase in FY 2007-08. The comprehensive study verified our analysis and substantiated the need for further revenue increases.

The projected revenue increases for the Water Section include a one and one-half percent (1.5%) increase for Fiscal Year 2009-2010 and a two percent (2%) increase for Fiscal Year 2010-2011. The projected rate increases for the Wastewater Section include an eight percent (8%) increase for both Fiscal Year 2009-2010 and Fiscal Year 2010-2011. The projected rate increase for the Environmental Resources Division includes a three and one-half percent (3.5%) increase for both Fiscal Year 2009-2010 and Fiscal Year 2010-11.

DISCUSSION

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, ongoing capital improvements, and operating reserves.

Upon Council's review and direction, staff would proceed with a Proposition 218 ballot process during the first week of August. Ballot notices will be mailed to all property owners and utility customers beginning the 45-day notice period. A Public Hearing is anticipated to be scheduled on September 22, 2009, introducing the rate ordinances, followed by a second reading on the following council meeting. Upon approval, the rate increases would become effective November 6, 2009.

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

Water Production, Treatment and Distribution

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. Mandatory cutbacks in the availability of imported water as well as on going limitations on groundwater usage required to meet demand have resulted in a higher cost of purchasing water. The availability of imported and local water resources has diminished, due to State Water Project and groundwater pumping restrictions as a result of precipitation/ climate changes and increased protection for endangered species. Metropolitan Water District of Southern California implemented a mandatory 15% reduction in water purchases and a mandatory conservation plan and groundwater pumping was reduced by 5% in January 2009 with another scheduled 5% reduction in January 2010.

Other factors affecting the overall cost of producing, treating, and distributing water include:

- **Treatment Chemicals.** Both the quantity of chemicals used to treat the water and the unit costs continue to increase.
- **Energy.** Both the quantity of electricity needed to produce, treat, and distribute water, and the unit costs continue to increase.
- **Aging facilities.** The costs to maintain and repair the City's extensive but aging water distribution piping system have continued to increase.

Wastewater Collection and Treatment

Like the Water Enterprise, the Wastewater Enterprise continues to experience similar increases in its cost of operation, maintenance, administration, debt service and several other costs to the wastewater enterprise.

Other factors affecting the overall cost of the collection and treatment of wastewater include:

- **Chemicals and Energy.** Increased costs of chemicals and energy used to treat the wastewater.
- **Biosolids Management.** Increased regulatory requirements have resulted in continued rising costs.
- **Regulatory requirements.** More stringent requirements for sampling and analysis.
- **Aging facilities.** The costs to maintain and repair the extensive collection system and the treatment plant have continued to increase.
- **Depleted reserve.** Replenishment of reserves to meet and maintain a minimum 25% wastewater operating reserve as per City Resolution No. 13,335 Financial Management Policies.

- **Debt Service.** Execution of necessary capital improvements will be debt financed, thereby, increasing the costs for this line item.

Environmental Resources

The primary financial issues that challenge the Environmental Resources Division is the lack of replacement funds for an aging facilities and fleet; depleted cash reserves; keeping pace with daily operation and maintenance expenses for fuel, processing material, and landfill disposal; debt service and several other costs to the environmental resources enterprise.

The financial issues that influence the need for a revenue increase are:

- **Aging facilities and trucks.** The establishment of a replacement fund is needed for ongoing replacement and major repair of building and equipment of the Del Norte Regional Recycling & Transfer Station and for refuse collection trucks. Machinery, equipment and refuse trucks are exceeding their useful life cycle and creating costly maintenance and operational downtime. The costs of these items are substantial. In order to minimize the impact to rate-payers, a systematic savings plan is being established to fund these items and ensure that service levels are maintained.
- **Depleted reserve.** Replenishment of reserves to meet and maintain a minimum 9% solid waste operating reserve as per City Resolution No. 13,335 Financial Management Policies.
- **Operation and Maintenance Costs.** Keeping pace with the ongoing costs for operation and maintenance including the cost for processing refuse, landfill disposal fees, fuel expense for transporting refuse, and the escalation of cost for equipment.
- **Retrofitting trucks for diesel exhaust particulate filters.** Increased regulatory requirements to reduce diesel particulate matter emissions from trucks.

FINANCIAL IMPACT

There is no financial impact with this report. Should the revenue increases be approved, staff will return to the City Council to hold a Public Hearing.

MLR:joh:gd