

Oxnard Water Rates Update

City Council Meeting

07/11/2017

Water Rate Update

- One rate increase to be implemented September 1, 2017
 - Increase rate revenues to cover annual costs and begin to rebuild reserves
 - The water utility has been operating at a deficit since FY 2014/15
 - Update rate structures based on current consumption patterns and customer characteristics
- Review of rates within 16 months to determine if future increases are required to adequately fund water operations and meet required financial performance and policies

Cost of Service:

Step-by-Step approach to developing sound and defensible rates



Revenue Requirements Analysis

Determines the amount of revenue that the water utility must generate to recoup its operating and capital costs.

1. Operating and Maintenance (O&M) Costs

- \$40.1 M, represents \$1.4 M increase from FY 2016/17 primarily due to water supply costs increases

2. Existing Debt Service

- \$14.4 million per fiscal year

3. Capital Costs

- \$1 M cash funded (potable), \$5 M fee fund balance (recycled)

4. Infrastructure Use Fee

- \$1.9 M for Street Maintenance

5. Financial Policies (best practices)

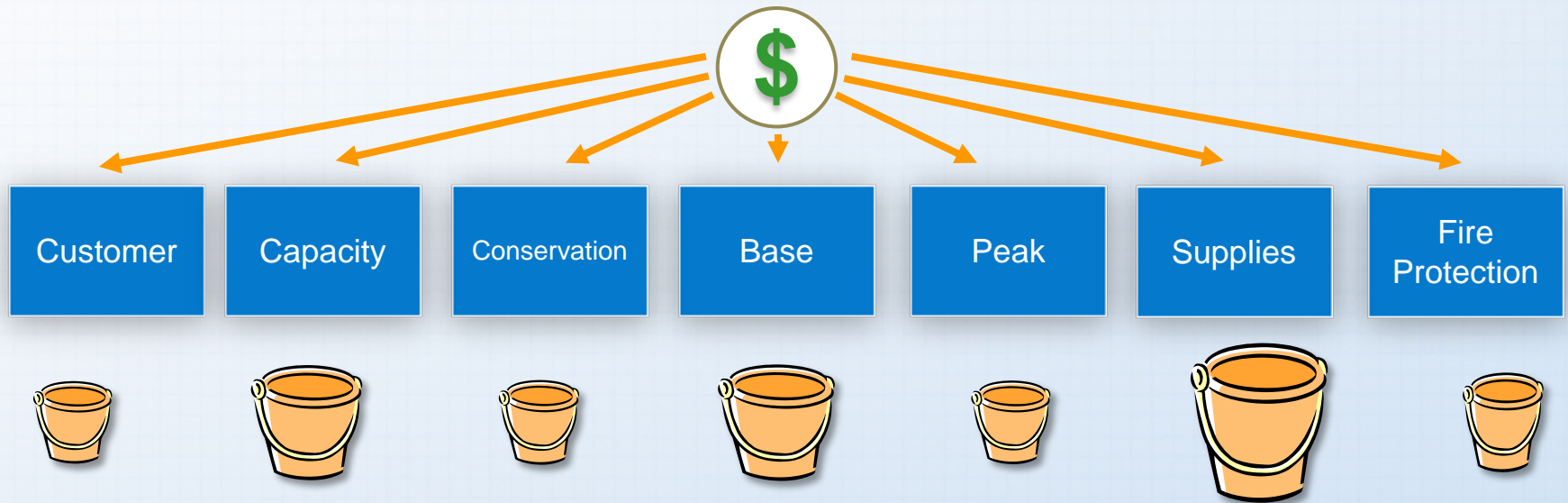
- Reserves & Debt Coverage

Revenue Requirements

| Proposed | FY 2017/18 |
|--------------------------------------------------------------------------------|----------------------|
| Pre-Increase Revenue | |
| User Rate Revenues ⁽¹⁾ | \$42,672,000 |
| Other Revenues ⁽²⁾ | 12,151,000 |
| Total Revenues Before Rate Increase | \$54,823,000 |
| Requirements | |
| O&M Expenditures | \$40,111,000 |
| Infrastructure Use Fee | 1,925,000 |
| Debt Service | 14,448,000 |
| Rate Funded Capital | 1,000,000 |
| Total Requirements | \$57,484,000 |
| <i>Available for Capital or Reserves: Without Increase</i> | <i>(\$2,661,000)</i> |
| <i>Coverage Factor: Without Increase</i> | <i>0.80 x</i> |
| <i>Projected Operating Fund Balance Without Increase</i> | <i>\$513,000</i> |
| Proposed Rate Increase | 14% |
| Month of Implementation | September |
| Revenues from Rate Increase | \$4,978,000 |
| <i>Available for Capital or Reserves: With Increase</i> | <i>\$2,317,000</i> |
| <i>Coverage Factor: With Increase</i> | <i>1.14 x</i> |
| <i>Projected Operating Fund Balance: With Increase</i> | <i>\$4,649,000</i> |
| (1) Includes March 2017 pass-through revenues | |
| (2) Includes recycled water, wholesale water, BABs credit, and other revenues. | |

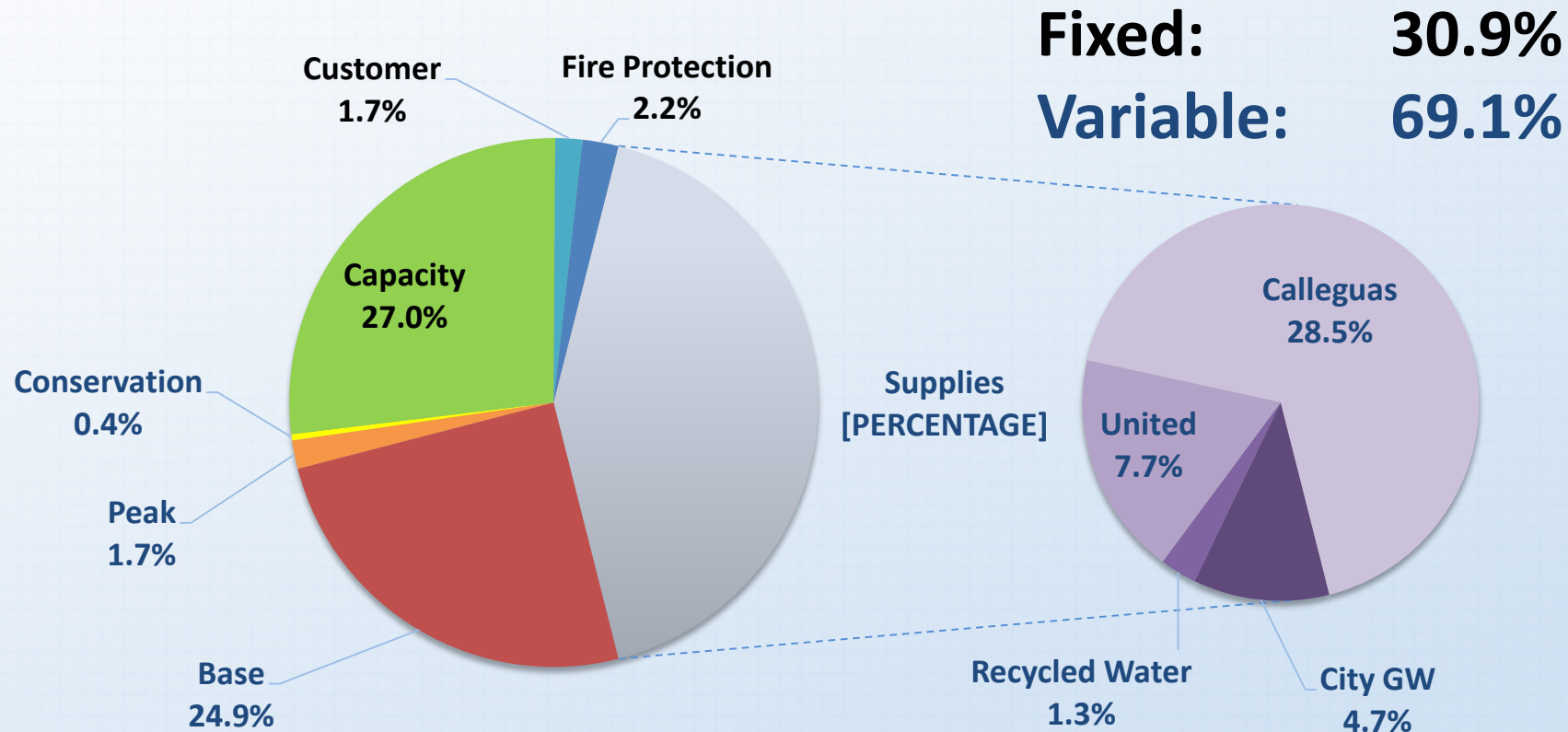
Cost of Service Analysis and Rate Design

Functional Allocation



- Allocates costs based on how and why they are incurred
- Allows for allocation of costs to customer classes based on account and usage characteristics

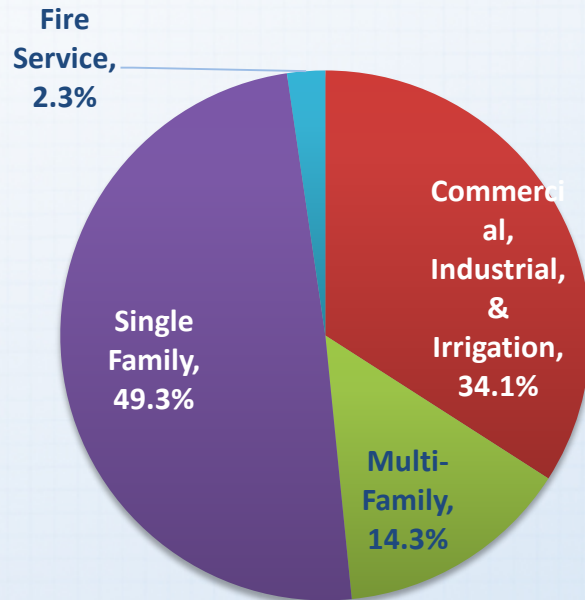
Results of Functional Allocation



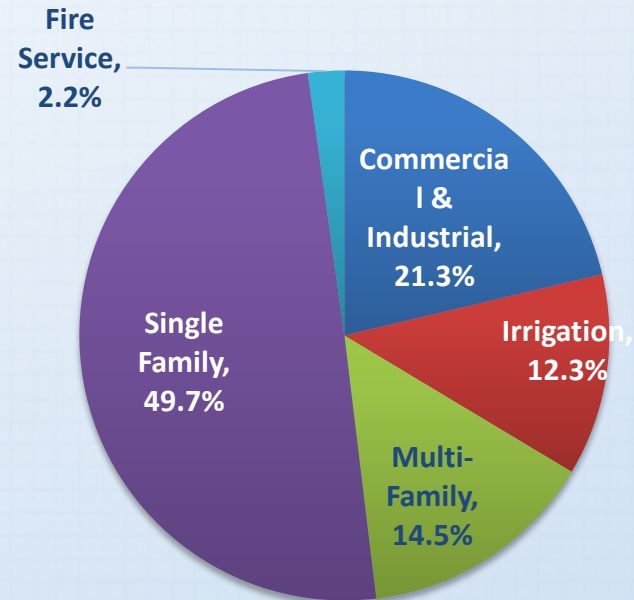
- Over 36% of costs are charges to outside agencies for water supplies
 - Calleguas, United, FCGMA

Results of Customer Class Allocation

Cost Recovery: Existing Rates



Cost Recovery: Proposed Allocation

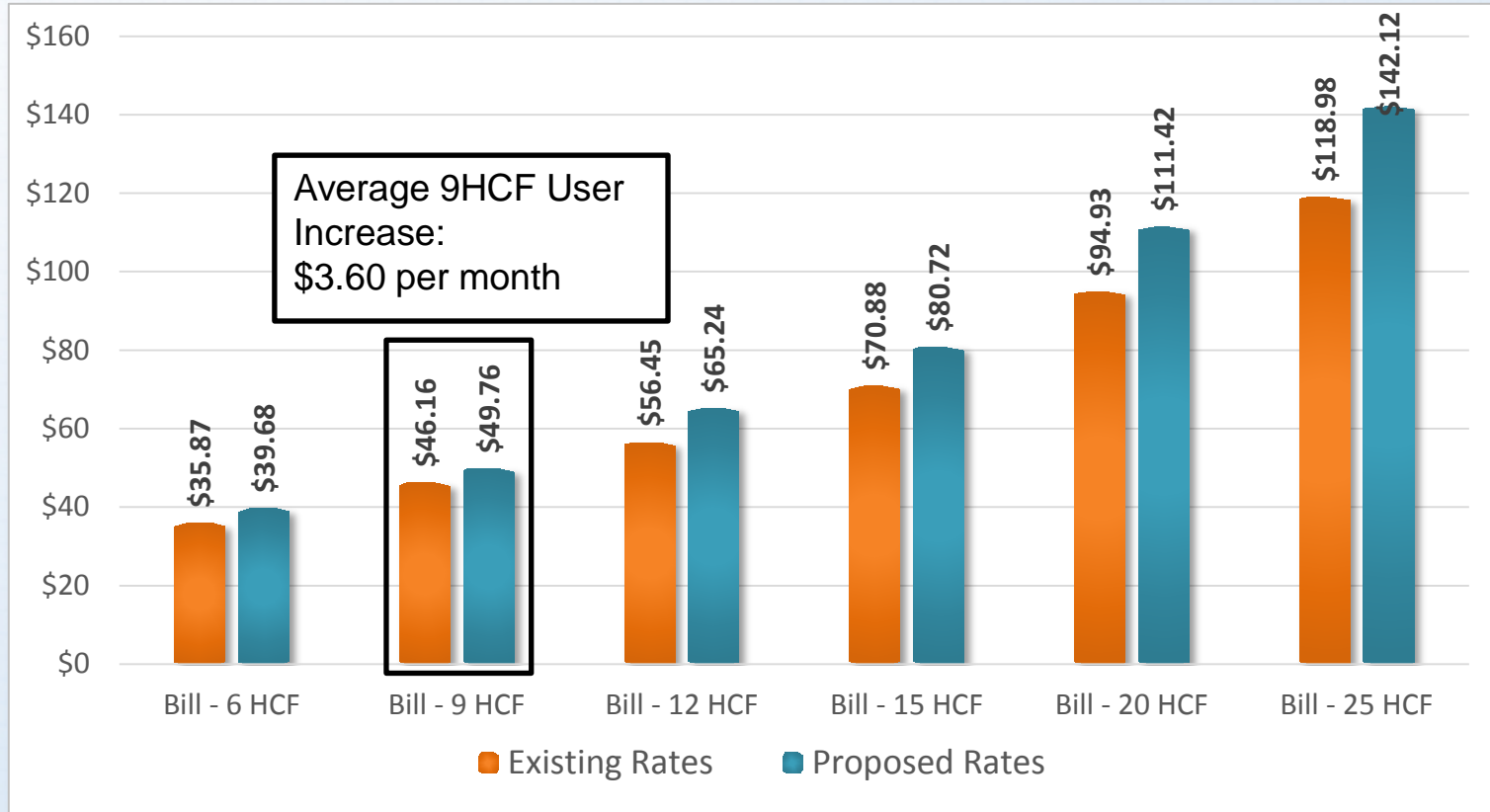


- Commercial & Industrial and Irrigation will be split into separate classes
- The proposed allocation is in very close alignment with the existing rates

Rate Structure Updates

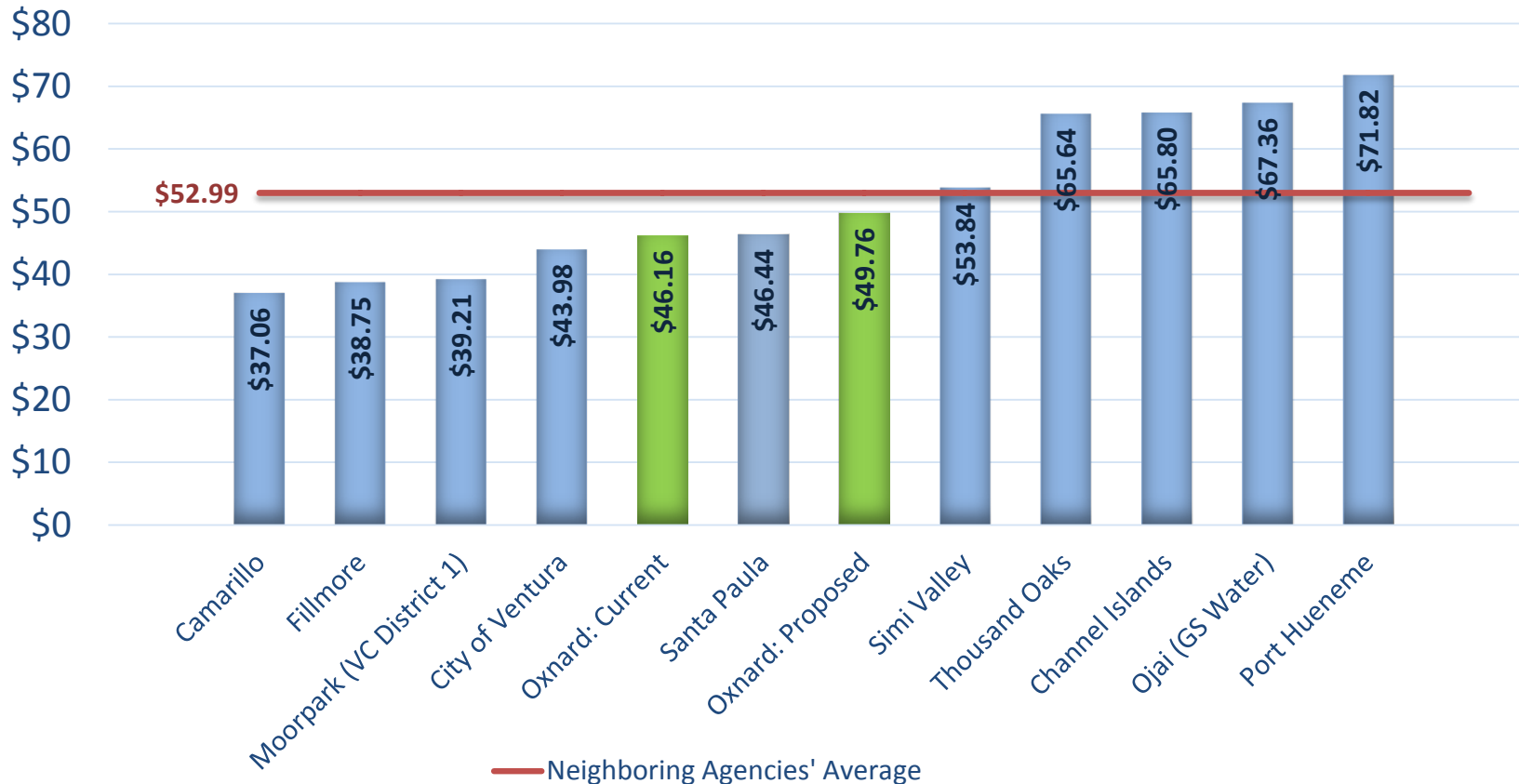
- Single Family
 - Modify breakpoints to better fit current use patterns
 - Increase Tier 1 to 9 HCF and Tier 2 to 15 HCF
- Multi Family
 - Modify structure to have tiers based on the number of dwelling units (DU's)
 - Two tier structure with break at 8 HCF per DU
- Commercial, Industrial, and Irrigation:
 - Separate into two classes
 1. Commercial and Industrial
 2. Irrigation
 - Modified tier breaks for users up to a 2" meter
 - Uniform rates for users with 3" meter and above

Single Family Bill Impacts



Comparison to Neighboring Agencies

Typical SFR Water Bill



Note: Typical bill based on an average Oxnard SFR customer water use of 9 HCF (6,732 gallons).

QUESTIONS

EXTRA SLIDES

O&M Costs

- O&M costs projected using the FY 2016/17 mid-year budget update as a basis
- FY 2017/18 estimated costs represent a 2.6 percent increase over FY 2015/16 costs

| Proposed Division | FY 2015/16 Actual | FY 2016/17 Mid-year Est. | FY 2017/18 Projected | FY 2017/18 Change |
|-------------------------------------|----------------------|-----------------------------|----------------------------|----------------------|
| Production | | | | |
| <i>City Costs</i> | <i>\$5,011,000</i> | <i>\$4,801,000</i> | <i>\$5,081,000</i> | <i>\$280,000</i> |
| <i>United</i> | <i>\$4,052,000</i> | <i>\$4,000,000</i> | <i>\$4,357,000</i> | <i>\$357,000</i> |
| <i>Calleguas</i> | <i>\$15,367,000</i> | <i>\$16,500,000</i> | <i>\$16,907,000</i> | <i>\$407,000</i> |
| Subtotal: Production | \$24,430,000 | \$25,301,000 | \$26,345,000 | \$1,044,000 |
| Distribution | \$1,702,000 | \$1,830,000 | \$1,876,000 | \$46,000 |
| Metering | \$1,309,000 | \$1,608,000 | \$1,648,000 | \$40,000 |
| Procurement | \$7,875,000 | \$5,625,000 | \$5,766,000 | \$141,000 |
| Conservation | \$130,000 | \$237,000 | \$243,000 | \$6,000 |
| Recycle | 2,316,000 | \$2,678,000 | \$2,745,000 | \$67,000 |
| Public Information | 110,000 | \$172,000 | \$176,000 | \$4,000 |
| Security & Contamination Prevention | 794,000 | \$852,000 | \$873,000 | \$21,000 |
| Debt Service Admin | 434,000 | \$427,000 | \$438,000 | \$10,000 |
| Total O&M Expenditures | \$39,100,000 | \$38,730,000 | \$40,110,000 | \$1,379,000 |

Existing Debt Service

- The water fund currently holds 5 outstanding debt obligations

| Obligation | Outstanding Principle ⁽¹⁾ | Year Fully Repaid |
|-------------------------------------------------------------------------------------|--------------------------------------|-------------------|
| 2006 Bonds | \$46,245,000 | FY 2035/36 |
| 2012 Revenue Refunding | \$7,300,000 | FY 2029/30 |
| 2010A Revenue Bond | \$8,475,000 | FY 2021/22 |
| 2010B Revenue Bond | \$83,670,000 | FY 2039/40 |
| 2014 Refunding Bonds | \$31,277,000 | FY 2033/34 |
| Total | \$176,967,000 | |
| (1) FY 2016/17 as of June 30, 2017, through repayment, based on official statements | | |

| Outstanding Debt Service | FY 2017/18 |
|----------------------------------------|---------------------|
| Interest | \$9,973,000 |
| Principal | \$4,475,000 |
| Total | \$14,448,000 |
| Less: BABs Credit | (\$1,809,000) |
| Debt Service Net of BABs Credit | \$12,639,000 |

- The BABs (Build America Bonds) credit is a federal subsidy that equals approximately 32% of interest costs on the 2010B bonds

CIP and Funding

- Potable water CIP expenditures are projected to be minimal over the next two years
 - Total of \$3 million in new projects for potable water
- Recycled water projects will be funded using existing development fee revenue
 - Total of \$10 million for RW projects
 - Will not impact water rates

| Proposed | FY 2017/18 | FY 2018/19 | Funding Source |
|-------------------------|-------------|-------------|---------------------------------|
| Potable Water Projects | \$1,000,000 | \$2,000,000 | Rate Funded |
| Recycled Water Projects | \$5,000,000 | \$5,000,000 | Development Fees (Fund Balance) |

Infrastructure Use Fee (IUF)

- Payments from the water fund to the City to cover street maintenance due to pavement cuts and truck traffic
- Based on 2014 study
- Escalated from FY 2016/17 basis based on general inflation of 2.5%

| | FY 2016/17 Budget | FY 2017/18 Projected |
|---------------------------|----------------------|-------------------------|
| Streets (Fund 105) | \$1,878,000 | \$1,925,000 |

Water Financial Policies

- Approved by City Council in January 2016
- Debt Coverage Target
 - Policy minimum of 1.25 x
- Minimum Reserve Target
 - 90 days O&M + 180 days debt service + 1 year depreciation

| Proposed Operating Reserves | FY 2016/17 Mid-year Est. |
|---------------------------------------------------------------------------------------------|-------------------------------------|
| Fund 601: Operating | \$3,907,000 |
| Fund 608: Sec & Con Prevention | \$1,221,000 |
| Total Operating Funds | \$5,128,000 |
| <i>Adopted Policy Target</i> | <i>\$24,399,000</i> |
| Restricted Reserves ⁽¹⁾ | \$11,894,000 |
| (1) Collected from development fees, may only be spent on specific capital projects. | |

Customer Class Allocation

- Allocates costs to customer classes based account and usage characteristics

| | |
|-----------------|-----------------------------------------------------------------------------------|
| Customer | Number of accounts |
| Capacity | Number of MEUs (meter equivalent units, based on meter size & typical flow) |
| Conservation | Peak water usage (based on class allocation of Calleguas water) |
| Base | Total Water Usage |
| Peak | Peak water usage (maximum month incremental) |
| Supplies | Based on usage patterns (minimum month, 3-month minimum, total usage) |
| Fire Protection | All allocated to private fire protection meters (portion of total capacity costs) |

Fixed Rates

- Structure Update:
 - Move toward equal fixed rates for all classes

| Proposed Meter Size | Oxnard SFR/ OV Non Ag | | Oxnard MFR | | Oxnard Comm, Ind, & Irr | |
|------------------------|-----------------------|------------|------------|------------|-------------------------|------------|
| | Existing | FY 2017/18 | Existing | FY 2017/18 | Existing | FY 2017/18 |
| 3/4" | \$17.33 | \$19.52 | \$14.78 | \$17.73 | \$11.94 | \$14.16 |
| 1" | \$27.31 | \$31.47 | \$23.29 | \$28.49 | \$18.37 | \$22.53 |
| 1.5" | \$50.50 | \$61.10 | \$42.45 | \$55.16 | \$33.13 | \$43.27 |
| 2" | \$84.27 | \$96.80 | \$65.76 | \$87.28 | \$51.48 | \$68.26 |
| 3" | \$172.07 | \$209.96 | \$147.73 | \$189.13 | \$110.14 | \$147.47 |
| 4" | \$292.06 | \$358.63 | \$240.12 | \$322.93 | \$188.37 | \$251.54 |
| 6" | \$605.90 | \$745.40 | \$502.35 | \$671.03 | \$385.53 | \$522.28 |
| 8" | \$870.35 | \$1,072.56 | \$721.74 | \$965.47 | \$562.41 | \$751.29 |
| 10" | \$1,400.99 | \$1,727.05 | \$1,161.46 | \$1,554.51 | \$891.74 | \$1,209.44 |

Fixed Rates (continued)

| Proposed OV Ag Irrigation | | |
|---------------------------|----------|------------|
| Meter Size | Existing | FY 2017/18 |
| 3/4" | \$12.05 | \$14.16 |
| 1" | \$18.37 | \$22.53 |
| 1.5" | \$33.13 | \$43.27 |
| 2" | \$51.48 | \$68.26 |
| 3" | \$110.14 | \$147.47 |
| 4" | \$188.37 | \$251.54 |
| 6" | \$385.53 | \$522.28 |
| 8" | \$562.41 | \$751.29 |
| 10" | \$891.74 | \$1,209.44 |

| Proposed Fire Service | | |
|-----------------------|----------|------------|
| Meter Size | Existing | FY 2017/18 |
| 3/4" | \$1.84 | \$1.99 |
| 1" | \$3.17 | \$3.32 |
| 1.5" | \$6.07 | \$6.61 |
| 2" | \$9.76 | \$10.58 |
| 3" | \$21.52 | \$23.15 |
| 4" | \$36.77 | \$39.68 |
| 6" | \$76.71 | \$82.66 |
| 8" | \$110.36 | \$119.02 |
| 10" | \$177.88 | \$191.76 |

Single Family Residential

- Structure Update:
 - Modify breakpoints to better fit current use patterns
 - Increase Tier 1 to 9 HCF and Tier 2 to 15 HCF

| Proposed | Existing Rates | | Proposed Rates | |
|---------------|--------------------|--------------|--------------------|---------------|
| | Tier Breaks | Rate per HCF | Tier Breaks | Rate per HCF |
| Tier 1 | <i>0 to 6</i> | \$3.09 | 0 to 9 | \$3.36 |
| Tier 2 | <i>>6 to 12</i> | \$3.43 | >9 to 15 | \$5.16 |
| Tier 3 | <i>>12</i> | \$4.81 | >15 | \$6.14 |

Multi-Family Residential

- Structure Update:
 - Modify structure to have tiers based on the number of dwelling units (DU's)
 - Two tier structure with break at 8 HCF per DU

| Proposed | Existing Rates | | Proposed Rates | |
|---------------|---------------------|--------------|----------------------|---------------|
| | Tier Breaks | Rate per HCF | Tier Breaks (per DU) | Rate per HCF |
| Tier 1 | <i>0 to 17</i> | \$2.53 | 0 to 8 | \$3.58 |
| Tier 2 | <i>>17 to 32</i> | \$2.81 | > 8 | \$5.76 |
| Tier 3 | <i>>32</i> | \$4.18 | | |

Commercial, Industrial, and Irrigation

- Structure Updates:
 - Separate into two classes
 1. Commercial and Industrial
 2. Irrigation
 - Modified tier breaks for users up to a 2” meter
 - Uniform rates for users with 3” meter and above
- Separate rate classes better reflect the demands placed on the system by each type of customer

Commercial, Industrial, and Irrigation

| Proposed | Existing Rates | | Proposed Rates | |
|----------------------------------|---------------------|--------------|----------------------------|---------------|
| | Tier Breaks | Rate per HCF | Tier Breaks | Rate per HCF |
| Commercial and Industrial | | | 2" Meters and Below | |
| Tier 1 | <i>0 to 17</i> | \$2.53 | 0 to 62 | \$3.26 |
| Tier 2 | <i>>17 to 32</i> | \$2.81 | > 62 | \$5.77 |
| Tier 3 | <i>>32</i> | \$4.18 | | |
| | | | 3" Meters and Above | |
| | | | Uniform Rate | \$4.54 |

| Proposed | Existing Rates | | Proposed Rates | |
|-------------------|---------------------|--------------|----------------------------|---------------|
| | Tier Breaks | Rate per HCF | Tier Breaks | Rate per HCF |
| Irrigation | | | 2" Meters and Below | |
| Tier 1 | <i>0 to 17</i> | \$2.53 | 0 to 24 | \$3.37 |
| Tier 2 | <i>>17 to 32</i> | \$2.81 | > 24 | \$6.00 |
| Tier 3 | <i>>32</i> | \$4.18 | | |
| | | | 3" Meters and Above | |
| | | | Uniform Rate | \$5.16 |

Recycled Water In Lieu of Potable (for users not subject to RW agreements)

- Structure Update:
 - Retain separate classes for Industrial and Irrigation Users
 - Unique uniform rate for each class

| Proposed | | Existing Rates | | Proposed Rates | |
|--------------------------------------------------------|---------------------|----------------|--|---------------------|---------------|
| | Tier Breaks | Rate per HCF | | Tier Breaks | Rate per HCF |
| Commercial and Industrial RW In Lieu of Potable | | | | | |
| Tier 1 | <i>0 to 13</i> | \$2.53 | | Uniform Rate | \$3.34 |
| Tier 2 | <i>>13 to 23</i> | \$2.81 | | | |
| Tier 3 | <i>>23</i> | \$4.18 | | | |
| Irrigation RW in Lieu of Potable | | | | | |
| Tier 1 | <i>0 to 17</i> | \$2.53 | | Uniform Rate | \$3.52 |
| Tier 2 | <i>>17 to 32</i> | \$2.81 | | | |
| Tier 3 | <i>>32</i> | \$4.18 | | | |