Utility Rate Public Hearing

City Council Meeting

January 19, 2016
Utility Services

- **Wastewater**
  - Debt Coverage
  - Operations & Maintenance
  - Capital Improvements

- **Water**

- **Solid Waste**
1. Adopt utility financial policy resolution
2. Provide direction on ratepayer assistance program
3. Approve the first reading of utility rate ordinances
Utility Rate Policy
• Annual rate review
• Maximize use of grants and partnerships
• Debt Service Coverage = 1.25X
• Capital reserve = 1 year of depreciation
• Operating reserve = 90 days of operating costs + 180 days of debt service
• Rate payer assistance program
Rate Payers Assistance Program
• Funding Sources
  • Donations
  • Pursue grants
  • Interest on operations and maintenance fund balance
    • 10% = approx. $85,000 in first year and $200,000 in fifth yr

• Eligibility
  • Ratepayer-occupied residential unit (typically Single Family Residential)
  • Extremely low income (USHUD definition)
  • Using no more than 9 HCF of water per month
  • Head of Household over 65 years old or older, or disabled
  • Other extremely low income residents as funding is available

• Discount
  • $10 per month in 2016, increase $2.50 each year, $20 per month 2020
  • 8% of total bill in 2016, increasing to 12% of total bill in 2020

• Annual Program Review
  • Assess qualification criteria and funding
Utility Rates
Utility Rates Timeline

April 16, 2015
U.T.F. Meeting

June 9, 2015
Budget Presentation

July 16, 2015
U.T.F. Wastewater plant tour

Sep 3, 2015
U.T.F. Meeting

October 13, 2015
City Council Approves Beginning Rate Process

December 3, 2015
Notice to Ratepayers is Mailed

January 19, 2016
Public Hearing – Introduction of Ordinance

February 26, 2016
30 Day Waiting Period and Notice to the Ratepayers of New Rates

March 1, 2016
Rates would become effective

April to June
Develop Options for WWTP considering new technology

July 28, 2015
Utility Rates Study Session

Aug 26, 2015 to Sep 16, 2015
Initial four Utility Ratepayers Advisory Panel Workshops

November 17, 2015
Protest form decision

December 10, 2015
Special Council Meeting

December 17, 2015
Community Forum

November 5, 2015
U.T.F. Meeting
• Ordinances update Proposition 218 affected rates

• The remaining fees and rate agreements will be updated in Spring
  • Fee study
  • Regional customers

• Los Posas rates updated based on cost of service methodology
Utility Challenges

Infrastructure
Water Supply & System Reliability

Environmental Regulations
Financial Needs

Revenue
• Has not kept pace with increases in expenses

Savings/Reserve
• We need reserve funds for emergencies.

Debt
• Borrowing money is a key part of utility infrastructure.
• Better credit reduces borrowing cost.
Distribution of S&P Ratings for 174 Water & Sewer Utilities in CA

Water & Sewer S&P Ratings in California

- 7% AAA
- 45% AA
- 44% A
- 4% BBB

➢ California utilities rated below ‘BBB+’
  - Oxnard Wastewater System (BBB)
  - Fillmore Wastewater System (BBB)
  - Chino Water System (BBB)
  - Atwater Wastewater System (BBB-)
  - Stockton East Water District (BBB-)
Wastewater

Facilities

Pipelines

Operations and Maintenance

• Leaking clarifier

• Handrail corrosion
**Wastewater**

**Business Credit Score Rating**

**OUTLOOK REVISED**

**POSITIVE** ➔ **STABLE**

**RATING MARKS FOR LONG-TERM BONDS**

- High
  - AAA
  - AA(+-)
  - A(+-)
  - BBB(+-)

- Low

**DOWNSIDE**

**RATING COULD BE DECREASED IF:**

“...liquidity continues to deteriorate during the outlook horizon,” or “if coverage projections are not met and are insufficient.”

**GRADES BELOW “BBB-” ARE CONSIDERED NON-INVESTMENT GRADE AKA “JUNK BOND”**

**Outlook - Stable**

The change from positive to stable reflects the “systems adequate, but still thin, coverage metrics and the recent continued decline in liquidity.”

**S&P Ratings  |  November 17, 2015**
Wastewater with Thin Debt Service Coverage and Relatively Low Liquidity

Debt Service Coverage

- Oceanside (AA): 2.97x
- Escondido (AA-): 1.62x
- Ventura (AA): 1.30x
- Oxnard (BBB): 1.09x

Days Cash on Hand

- Escondido (AA-)
- Ventura (AA)
- Oceanside (AA)
- Oxnard (BBB)
Consequences of Not Increasing Wastewater Rates

- **Financial**
  - Negative Operations & Maintenance fund balance at the end of next fiscal year if credit swap is called
  - Future deficits
  - Won’t meet bond covenants (contract with bondholders)
  - Credit rating likely reduced to “junk” status
    - Increases cost and difficulty of future debt financing for required plant rehabilitation
- **Maintenance**
  - Urgent need maintenance projects are delayed
  - Potential failure of primary treatment and bio-tower processes
  - Potential failure of Central Trunk manholes
  - Stop repairing tree root damage to sewer pipelines and property owner laterals citywide
    - Postpone odor control system for sewer collection pipelines
- **Staffing levels and maintenance do not meet regulatory requirements**
- **National Pollutant Discharge Elimination System (NPDES) violations and potential fines**
Water

Supply Reliability
• Recycled water
• Backup wells

System Reliability
• Corrosion protection
• Meter replacement
• Cast Iron Pipe replacement

Operations and Maintenance
• SCADA
• Operators & mechanics
OUTLOOK REVISED

STABLE → NEGATIVE

RATING COULD BE DECREASED IF:
“City is unable to implement its rate increases and the additional borrowing or other circumstances continue to cause a decline in financial performance.”

RATING MARKS FOR LONG-TERM BONDS

High

AAA
AA(++)
A(++)
BBB(++)

Low

GRADIENTS BELOW “BBB-” ARE CONSIDERED NON-INVESTMENT GRADE AKA “JUNK BOND”

Outlook - Negative
Change from stable to negative reflects the recent “declining coverage levels due to lower systems revenue resulting from decreases in water consumption,” and subsequently a decline in water revenues.
Water Debt Service Coverage Exactly at Covenant While Days Cash is Strong

Debt Service Coverage

<table>
<thead>
<tr>
<th>Location</th>
<th>Debt Service Coverage</th>
<th>Rate Covenant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oceanside (AA+)</td>
<td>5.70x</td>
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<tr>
<td>Escondido (AA)</td>
<td>2.90x</td>
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<td>Ventura (AA)</td>
<td>2.12x</td>
<td></td>
</tr>
<tr>
<td>Oxnard (A+)</td>
<td>1.00x</td>
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</table>

Days Cash on Hand

<table>
<thead>
<tr>
<th>Location</th>
<th>Days Cash on Hand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ventura (AA)</td>
<td>411</td>
</tr>
<tr>
<td>Oceanside (AA+)</td>
<td>319</td>
</tr>
<tr>
<td>Oxnard (A+)</td>
<td>281</td>
</tr>
<tr>
<td>Escondido (AA)</td>
<td>138</td>
</tr>
</tbody>
</table>
Proposed Water Rate Structure Updates

- Prop 218 was a voter initiative passed in 1996
  - Some provisions were vague

- April of 2015 - California 4th District Court of Appeal
  - Decision on San Juan Capistrano case
  - Settled much of the uncertainty regarding water rates
    - “Proposition 218 requires public water agencies to calculate the actual costs of providing water at various levels of usage.”
    - Tiered rates are allowable, as long as they are tied to the cost of providing the service.
Consequences of Not Increasing Water Rates

• Financial
  • Future deficits
  • Won’t meet bond covenants (contract with bondholders)
  • Credit rating reduced/Financing cost increased

• Maintenance
  • Water meters are not replaced ($14 million project)– reduced revenues
  • Pipeline corrosion protection is not replaced, pipelines not flushed, valves not exercised

• Postpone street resurfacing or resurface without replacing cast iron and asbestos cement water lines
  • La Colonia, Redwood, Bryce Canyon South, College Estates
Solid Waste

Vehicles

Organics processing: Food and green waste

Sorting Equipment
**Solid Waste**
*Business Credit Score Rating*

**STANDARD &POOR’S**

**RATING MARKS FOR LONG-TERM BONDS**

- **AAA**
- **AA(++)**
- **A(+-)**
- **BBB(+-)**

**Downside**

Rating could be decreased if:

"...the system faces regulatory pressures or capital needs that result in a deterioration of financial metrics."

**Outlook - Stable**

There is a likelihood that debt obligations will be honored, but compared to the higher rating (A), there is the possibility of a diminished likelihood of debt repayment.

**S&P Ratings | November 17, 2015**
Consequences of Not Increasing Solid Waste Rates

- Deficits after 2 years
- O&M fund balance reduced
- Vehicle replacement is delayed and/or debt financed
- Increased vehicle maintenance cost
- Sorting equipment replacement is delayed
- Meeting State requirements for organics and landfill diversion is delayed
Guidelines for Consistent and Fair Rates

• Utility revenue can only be used for the utility for which it is collected.

• Utility charges must not exceed the estimated reasonable cost of providing service.

• Rates must be charged only to the users benefiting from the service.

Cost of service study
http://utilityrates.oxnard.org
SINGLE-FAMILY HOUSEHOLD WITH 9 HCF WATER CONSUMPTION AND STANDARD SOLID WASTE SERVICE
Oxnard Combined Rates Continue to be Below Average

Comparison With Current, Proposed or Estimated Rates

Avg = $130.22

$125.57

Single Family Residential With Median Water Use (9 HCF per month)
Oxnard Combined Rates Continue to be Below Average
Securing Our Utility Services

Step 1

- Set sound financial policy.

Step 2

- Establish rates to meet the water and sanitation needs of residents and provide long term viability for utility enterprises.

Step 3

- Rebuild failing infrastructure, secure water reliability, and meet current and future environmental requirements.
Direction
1. Adopt Utility Financial Policy Resolution
Rate Payers Assistance Program

- **Discount**
  - $10 per month in 2016, Increase $2.50 each year, $20 per month 2020
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- **Funding Sources**
  - Donations
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- **Annual Program Review**
  - Assess qualification criteria and funding
1. Approve first reading of wastewater rate ordinance
2. Approve first reading of water rate ordinance
3. Approve first reading of solid waste rate ordinance