

CITY COUNCIL OF THE CITY OF OXNARD  
RESOLUTION NO. \_\_\_\_\_

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF  
OXNARD APPROVING A FINANCIAL POLICY FOR CITY UTILITY  
ENTERPRISE FUNDS

WHEREAS, the City of Oxnard (City) provides water, wastewater, and solid waste services to residents and businesses within the community; and

WHEREAS, clean water and good sanitation are essential to public health and safety and greatly improve quality of life of residents; and

WHEREAS, each of the three utility services – Water, Wastewater and Environmental Resources (solid waste) – operate as independent financial enterprise funds separate and distinct from the City General Fund; and

WHEREAS, utility revenue can only be used for the service for which it is collected; and

WHEREAS, utility charges must not exceed the estimated cost service; and

WHEREAS, utility rates must only be charged to the users benefiting from the service for which they are charged; and

WHEREAS, the rates and charges imposed on City customers and other users for these public utility services must be established, periodically re-evaluated and revised based on sound fiscal practices, and consistent with applicable legal restrictions, so that each enterprise fund is capable of providing consistent, reliable, and safe utility services at a reasonable cost for current and future generations within the City; and

WHEREAS, revisions to utility rates and charges must also be re-evaluated and revised so they keep pace with the cost to appropriately operate, maintain, repair and replace utility facilities; and

WHEREAS, each utility enterprise regularly updates its master plan and capital improvement program (CIP) and the estimated costs associated with each CIP project; and

WHEREAS, by maintaining a favorable bond rating, the City is able to lower borrowing rates for CIP projects which lowers the overall cost of the projects; and

WHEREAS, utility enterprise bond ratings are in part dependent on revenues generated by utility rates. Utility rates must be sufficient to meet bond debt obligations to finance CIP's at optimal financing rates, while also supporting ongoing utility operation, maintenance, repair and staffing needs; and

WHEREAS, each City utility periodically prepares budgets, CIP's and related long-term planning documents and cost of services studies to assess the needed rates and charges for each utility. For example, the City recently completed a comprehensive Cost of Services Study (December 2105; "2015 COS Study"), which assesses in detail the needed utilities rates for all of the aforementioned purposes and needs; and

WHEREAS, the 2015 COS Study balances risk, reliability and health and safety with cost to meet environmental regulations and the expectations of residents; and

WHEREAS, the cost of providing utility services rises on a regular basis due to increases in energy, chemical, equipment and labor costs; and

WHEREAS, the 2015 COS Study recommends increases to rates and charges for each of the three utilities, as well as adjustments to the fixed and variable rate components of utility rates and charges; and

WHEREAS, utility financial metrics such as bond coverage ratio and reserve balance vary over time based on planned and unplanned circumstances; and

WHEREAS, there is a shortage of staff in the environmental fields, especially wastewater operations, which has increased the difficulty and cost of adequately staffing utility operations;

WHEREAS, increases in utility rates may impose a larger hardship on certain segments of ratepayers and the City is actively exploring policies to assist these ratepayers, consistent with all legal requirements; and

WHEREAS, the City is also continuously pursuing opportunities to supplement revenues derived from utilities rates with outside funding sources such as grants; and

WHEREAS, internal service fees must be periodically reviewed and revised to ensure the City is properly reimbursed for the services it provides and to meet requirements for grant reimbursement.

NOW THEREFORE, the City Council of the City of Oxnard resolves to adopt this Utility Enterprise Financial Policy set forth herein as official policy to which current and future utilities budgets and rate setting processes and procedures will apply.

1. General Policy. Utility rates will objectively and transparently meet all applicable legal requirements. To the extent this policy imposes new "best practices" that require extraordinary utility rate increases, the City will make every attempt to achieve these

policies and objectives over a reasonable period of time to ameliorate the financial impacts of rate increases on utility customers to the extent practicable.

2. Utility Best Practices. Utility operations will adhere to published industry best practices, as they may be adjusted from time to time. The primary goal of this best practices policy is to ensure that the physical and financial integrity and stability of each utility is maintained consistently with industry best practices so that City residents and businesses receive reliable, safe, stable and cost effective utility services. Staffing levels, compensation, maintenance, and CIP funding will be reviewed in the budget process to ensure that they are adequate to provide utility service reliability consistent with industry best practices. Internal service fees and infrastructure use fees will also be reviewed during the budget process.
3. Annual utility rate review. Utility rates will be reviewed annually to ensure that revenues are sufficient to meet the long-term operation, maintenance, repair and replacement requirements for each utility, consistent with the relevant budgets, master plans, CIP's and cost of service studies for each utility. This review will also ensure that the rates and charges for each utility are otherwise consistent with applicable legal requirements, including the criteria that rates are to be limited to the cost to provide the applicable utility service. Each budget will include an assessment of the adequacy of funding for each utility enterprise fund, and whether the current rates are adequate to meet each utility enterprise fund budget requirements and are consistent with the policies provided in this resolution.
4. Revenue Enhancement. Each utility will maximize its use of grants, optimize the use of low interest loans, and leverage partnerships with other public and private agencies to reduce utility enterprise costs and impacts to customer rates.
5. Debt Coverage Ratio. Each utility enterprise will strive to maintain a minimum debt coverage ratio of 1.25 or such other applicable ratio as may be imposed or established from time to time, to optimize bonding capacity and interest rates. To the extent achieving this debt coverage policy requires extraordinary utility rate increases, the City will use its best efforts to meet this policy objective over time while also mitigating the consequences of extraordinary rate increases on utility customers.
6. Debt Term. Each utility shall strive to limit its use of debt funding for large value CIP's such that the term of any debt shall be limited to no longer than 75% of the anticipated useful life of the CIP facilities being funded.
7. Reserves. Each utility enterprise fund shall strive to establish and maintain total on-hand cash reserves of at least 90 days of operations and maintenance expenditures, one year of the depreciation value of capital assets, and 180 days of debt service obligation.

8. Use of Debt Financing. Each utility enterprise fund shall also strive to establish and maintain on-hand cash reserves sufficient to cash fund CIP's consistent with the following principles: a) 100% cash funding of assets with useful life less than 15 years, and b) 50% cash funding of CIP's that include assets with useful life over 15 years. Consistent with this policy on debt financing, the blend of cash and debt funding of each significant CIP will be determined on a case by case basis, given the then existing enterprise fund financial conditions.
9. General Utility Rate Policies. Each utility enterprise fund shall establish and maintain rates consistent with the following policies:
  - a. Maintain rates as stable as reasonably practical, given due consideration to the policies set forth in this resolution, the general economic conditions in the community, the rate of inflation and costs incurred by the utilities from third parties, and the essential requirement to maintain the long-term integrity and reliability of each utility service.
  - b. The rates and charges for each utility shall include appropriate fixed and variable charges to generate the revenues required to cover the respective fixed and variable costs regularly incurred by that utility.
  - c. Each utility enterprise fund rates and charges approval shall include authorization of appropriate pass-through of regular third-party cost increases, commodity inflation adjustments, and rate stabilization based on mandatory drought restrictions, so that utility revenue is sufficient to meet, but not exceed, required expenses.
10. Rate Assistance Program. Every reasonable effort shall be made to fund and implement a program that offers utility rate financial assistance to qualified ratepayers, to assist them in paying their monthly utility bills. This program shall be consistent with applicable law and may provide temporary or longer term assistance depending upon funding, the number of qualified ratepayers, and other applicable criteria, as the program is implemented.
11. Effective Date. This resolution shall be effective on the first day new utility rates for the Water, Wastewater, and Environmental Resources enterprises are made effective for Fiscal Year 2015-2016 and each Fiscal Year thereafter.

PASSED AND ADOPTED this 19th day of January, 2016 by the following vote:  
AYES: NOES:

[See signatures on next page]

ABSENT:

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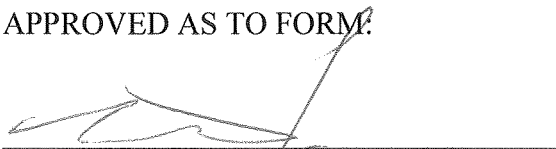
Tim Flynn, Mayor

ATTEST:

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Daniel Martinez, City Clerk

APPROVED AS TO FORM:



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Stephen M. Fischer, Interim City Attorney