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MEMORANDUM

February 13, 2017

TO: URAP Members

FROM: Ruth Osuna
Assistant City Manager

SUBJECT: Wastewater Rate Scenarios

The attached six scenarios (1, 2A, 2B, 3, 4, and 5) reflect the preliminary analysis of the cost of service, which includes five primary variables that the URAP has discussed: operations and maintenance (O&M), debt, reserves, the capital improvement program (CIP) and the Infrastructure Use Fee. They also include the five-year revenue requirements to efficiently and effectively operate the wastewater utility for the City of Oxnard from FY 2017-18 through FY 2021-22.

As was reported to the URAP at its February 8th meeting, Standard and Poor's (S&P) Global Ratings issued a new report affirming the "BBB" long-term rating on the City of Oxnard's Financing Authority's fixed-rate wastewater revenue bonds. S&P also removed the ratings from CreditWatch with negative implications. However, the outlook is still listed as "negative."

As reported by Mr. Nava, Assistant City Manager, this outlook means that instead of an imminent rating decrease in the short-term, which usually occurs within 90 days, the following actions have improved the City's short term outlook. Those actions include:

- The City's decision to pursue litigation challenging the legality of Measure M.
- The court's issuance of a permanent restraining order that prevents the implementation of Measure M for the duration of the litigation.
- Union Bank's extension of the letter of credit supporting the City's variable-rate wastewater revenue bonds to August 28, 2017.

While these City actions have stabilized the rating on the wastewater fixed-rate bonds, S&P still continues to view the wastewater system's credit quality as "weak."

With the above in mind, the City of Oxnard's following financial goals must be met to strength the wastewater system's credit rating. Those financial goals include:

- Maintain sufficient cash flows to meet current and projected increases in utility operations and maintenance.
- Finance long-term capital improvements to increase operating efficiency, meet regulatory requirements, and expand system capacity to serve new development.
- Increase fund balances to target levels of the City Council adopted reserve policy (January 2016).
- Meet or exceed the bond coverage target of the City Council adopted coverage policy (January 2016).
- Increase the resilience of utility finances to address unexpected demands on utility operations and facilities.
- Continue to adopt utility rate schedules and financial policies to ensure the equitable allocation of utility requirements to the City's ratepayers in keeping with the requirements of California law.

BACKGROUND

The City of Oxnard operates a wastewater utility to collect, treat, recycle, and safely discharge nearly 19 million gallons (mg) of sewer per day from nearly 40,000 accounts. The utility's service area includes the City's residents and businesses, the City, residents and businesses of Port

Hueneme, the Channel Island Beach Community Services District, the Naval Base in Ventura County, and other smaller unincorporated areas of Ventura County. The total service population exceeds 230,000.

Customers are served by the City's regional treatment plant, an ocean outfall, and a collection system consisting of 430 miles of sewer pipes and 15 pump stations. The treatment plant has a permitted design capacity of 31.7 million gallons per day (mgd).

The City's Planning Department completed a comprehensive analysis of population growth in 2014 as a part of its work on the Integrated Public Works Master Plan. The projections were based on 2010 Census data, a housing count from developments constructed between 2010 and 2014, and projected housing projects and planned developments in the City. The City assumed a vacancy rate of five percent of dwelling units and an average household size of four persons per occupied unit. These population projects served as the basis for estimating future demand for wastewater services.

In 2014, the City engaged Carollo Engineering to conduct a comprehensive assessment of the wastewater system's assets and processes for the development of the Public Works Integrated Master Plan. The assessment revealed significant risks of system failure due to aging utility infrastructure. The assessment of the wastewater system determined that nearly 30 percent of the system's assets are in poor or very poor condition. The Master Plan included an extensive CIP to address the rehabilitation and replacement needs of the wastewater system, to enhance the operations performance of the plant, and to plan for future flow and load conditions. The Master Plan included nearly \$560 million (2015 dollars) in wastewater projects to be implemented over a 25-year planning horizon, with the majority of costs in the first ten years due to urgency.

More recently, the City contracted with AECOM to build on the findings of the Master Plan and create a refined CIP for the wastewater system. The refined CIP is focused on the system's needs over the next ten years from FY 2017-18 through FY 2026-27.

In September 2015, the City completed a cost of service study for its Water, Wastewater, and Environmental Resources (solid waste) utilities. In January 2016, the City Council adopted the proposed wastewater rate increases, with the first rate increase of 35 percent going into effect March 1, 2016. The proposed Water and Environmental Resources rates were not adopted at that time.

As a part of the 2015 Cost of Service Study, the wastewater analysis was based on providing funding for the Master Plan CIP and the City's financial and operational goals as they were understood at that time. The proposed rate increases consisted of a 35 percent increase for FY 2015-16, which was implemented March 1, 2016, followed by a ten percent increase on January 1, 2017, which was **not** implemented. An eight percent increase was also proposed to follow on January 1st of each year beginning in 2018 through 2020.

The City Council held a public hearing to receive residents' feedback and subsequently adopted the wastewater rate increases in January 2016. In November 2016, the passage of a ballot initiative, titled Measure M, halted the full implementation of the City's legally adopted new fees for its wastewater utility. This had a severe financial consequence on not only the wastewater system, but also on the entire City's financial

position. The City had no choice but to pursue litigation challenging the legality of Measure M, which has likewise been costly. The continued effect of Measure M has placed the City's wastewater system's credit quality in a very weak and vulnerable position.

The City also has re-evaluated the wastewater CIP and other costs and financial goals. The City has had to pay for an entirely new Proposition 218 process, which has cost hundreds of thousands dollars in staff and consultant's time, all at the ratepayers' expense.

RATE SETTING PROCESS

It is a standard business practice for cities to perform periodic reviews of their utility finances and rates in order to ensure that adequate resources are available to sufficiently and equitably fund utility operations, maintenance and capital investments. In California, wastewater rates must conform to cost of service requirements imposed by Proposition 218 (Proposition) and the State Constitution. The Proposition requires that wastewater rates and other property related fees and charges do not exceed the reasonable and proportional cost of providing the services.

The rate setting process typically consists of three major elements: 1) revenue requirements, 2) a cost of service analysis, and 3) rate design. The following is a general description of the three elements.

- 1) Revenue Requirements. The revenue requirements component compares the revenues received for providing the services to the operating and capital costs associated with providing the services to determine the adequacy of the existing rates to recover the full costs.
- 2) Cost of Service Analysis. The cost of service analyses is the fundamental element in making sure that each customer receives his, her, or its proportional cost. The operating and capital costs are allocated to functional cost centers and then reallocated to customer costs. Unit rates are derived for the system as a whole at which point costs are allocated to the specific customer classes based on the burden they place on the system.
- 3) Rate Design. The rate design element is the development of rates structures that allow for recovery of total costs while incorporating the results of the cost of service analyses. The rate structures have a multitude of guidelines that can be incorporated, but rely on the fundamental fact that the rates will not exceed the costs of providing the services.

Within these broad legal requirements, utilities have a reasonable degree of latitude in the applications of cost-of-service principles to develop rates that appropriately and adequately reflect their distinct and unique characteristics and the values of the communities they serve.

GENERAL ASSUMPTIONS

The City's primary objectives in setting wastewater rates include:

- Adopt utility rates and charges to provide sufficient, predictable, and reliable revenues to deliver utility services in response to customer demand.
- Strengthen the financial reserves in order to finance critical capital investments at the lowest possible borrowing costs.
- Increase reserves, beyond those required for the City's CIP, to provide sufficient future resources to address backlogs in equipment replacement, and to be able to respond to unforeseen and unexpected operational or financial risks.
- Design rates, consistent with Proposition 218, that promote the efficient use of water to meet the State's 20X2020 Wastewater Conservation Plan mandate, and effectively distribute the cost of wastewater based on each customer's usage pattern.

With these objectives in mind, several rate scenarios are being explored that follow the general assumptions listed below for the period from FY 2015-16 through FY 2024-25:

- The City's service population will grow at nearly 1.25 percent per year.
- The statewide water supply crisis will have a measureable impact on the growth in demand for water and wastewater services. Average annual growth in water demand will increase by 0.35 percent per year between FY 2015-16 and FY 2024-25, while wastewater flows will grow by 0.9 percent per year during the same period. Pollutant loadings of biochemical oxygen demand (BOD) and total suspended solids (TSS) will increase by an average of 1.6 percent and 0.7 percent per year, respectively, through FY 2024-25. An equivalent dwelling unit (EDU) on wastewater demand will increase by 1.1 percent on an annual average basis.
- General inflation rates of three to four percent will escalate line item operating expenditures. Capital project costs will inflate at an average 3.2 percent per year.
- Capital improvement projects will be financed primarily through the sale of revenue bonds, necessitating the build-up of cash reserves to provide bond coverage ratios in excess of 1.25X.

- In addition to an increase in bond coverage reserves, the water and wastewater utilities will increase operating reserves to finance planned equipment replacement.

The projections of this analysis are based on reasonable expectations of future events commonly used in the industry. Should the proposed revenue increases be delayed or postponed, or should cost escalation, operating expenditures, or capital needs exceed forecasted levels prior to FY 2024-25, the City might be required to begin a new Proposition 218 process to increase rates above current projected levels. The City might similarly be required to begin a new Proposition 218 process if revenues do not materialize as projected.

GROWTH AND REVENUES

Due to the City's wastewater rate structure, and the nature of the City's customer base, wastewater revenues do not increase and decrease in direct proportion to flows at the Oxnard Wastewater Treatment Plant. The growth factors that most influence wastewater revenues are the expected growth in the number of accounts, and the expected change in water consumption for the City's residential and commercial customers.

Because a portion of the charges assessed to the City's non-formula users (residential, commercial, and governmental accounts) is based on water usage, projected water sales influence the expected wastewater revenues from non-formula users. Water usage is expected to rebound above current levels by five percent in FY 2018-19 and an additional five percent in FY 2019-20. It is not expected that industrial users (formula users) will have significant increases in water use or wastewater discharges as water usage is process related and is less discretionary than that of residential and commercial customers.

Because the wastewater rates include a fixed component for residential users and a minimum charge for non-residential users, and because wastewater discharges from industrial users are not expected to increase due to the water usage rebound, the impact of the water usage on wastewater revenues is decreased. An analysis of billing records and reported revenues found that approximately 35 percent of wastewater rate revenues are driven by water demands. Thus, the expected five percent increase in water usage in FY 2018-19 and FY 2020-21 will result in revenue growth of 1.75 percent in each of those years (*5% water usage increase X 35% of revenues tied to water usage = 1.75% revenue growth*).

Growth in the number of wastewater accounts has lagged behind the City's General Plan predicted population growth by about 0.8 percent per year over the short term. As indicated by billing records, actual growth in the number of non-formula customers has averaged just 0.4 percent per year for FY 2013-14 through 2015-16. Increased conservation efforts and the use of more water efficient systems in new development have further minimized the impact of customer growth and wastewater revenues.

Therefore, the annual rate revenue growth assumed in the revenue requirement analysis is based on the impact of water sales growth for FY 2018-19 and FY 2019-20 and on the longer term Oxnard Wastewater Treatment Plant flow growth factors for FY 2020-21 and FY 2021-22. No

growth related increase is expected in FY 2017-18. The Oxnard Wastewater Treatment Plant flow growth factors are expected to approximate the combined revenue growth from ongoing water usage and account growth in FY 2020-21 and FY 2021-22.

If the City realizes growth higher than that assumed for this analysis, the City could revisit the analysis and adopt rates lower than those proposed, assuming doing so will not have an adverse effect on the wastewater utility's financial situation. Alternatively, stagnant growth or further conservation could lead to decreased revenues. If this occurs, the City may need to reevaluate rate increases or pursue other short-term cost cutting measures to maintain financial viability.

Wastewater system user fees are the primary source of revenues to pay for wastewater utility requirements, historically accounting for nearly 90 percent of ongoing utility operating revenues. Projected revenues from wastewater system user fees are based on current rates and projected growth in demand for wastewater system services.

DISCUSSION OF RATE SCENARIOS

After careful review of current O&M expenses, debt service payments on bonds used to pay for major investment in system facilities, equipment, and other financial requirements established by the City Council to ensure the financial integrity and sustainability of the wastewater utility, capital improvement needs, and the Infrastructure Use Fee, staff proposes the following six rate scenarios for discussion. Each of the six scenarios and required rate increases have been calculated by modifying timing of the CIP, timing to meet financial policies and inclusion or exclusion of the Infrastructure Use Fee. O&M cost increases are calculated at approximately three percent annually over the five years of this proposed rate increase for all scenarios. Debt service is similar in all six scenarios. All scenarios used the current FY 2016-17 typical monthly bill for wastewater services, \$41.77, as the base line.

All proposed rate scenarios assume that the 35 percent increase which was implemented March 1, 2016 stays in place. The court will determine this hopefully in the summer. If the court rules that the 35 percent increase will not remain in place, this would drastically change the entire financial position for the wastewater treatment plant and cause all of these scenarios to be inadequate to meet O&M expenses, debt service payments, and critical capital improvement projects, as well as meet bond covenants and the City's reserve policy.

SCENARIO 1: Enhanced Reliability CIP, Full IUF, Less Time to Reach Financial Policies, Begin to Build Reserves in FY 2017-18

- This scenario is the most aggressive with an initial rate increase of ten percent followed by two years of increases of 7.5 percent and then two years of increases of seven percent.
- This CIP includes projects totaling \$121,995,000, which is the most aggressive CIP proposed.
- Because of the aggressive nature of this CIP, it may be too large for the current City program management staff to manage and implement.
- Cash is built up in the first two years in order to allow the City to be able to borrow \$84.606 million in year three to complete projects.

- The full implementation of the Infrastructure Use Fee is included.
- This scenario allows the City to cash flow the wastewater utility in the positive in the first year of implementing the rate increase beginning in July 2017.
- The City is able to reach the City Council’s adopted financial policies for reserves in three years.
- The City’s debt coverage policy is met in the first year of adoption of this scenario.
- This scenario estimates for a continued decrease of and then a leveling out of future rate increases in 2022-23 through 2026-27.
- This scenario allows the wastewater utility fund to improve its credit rating and, protect the overall financial position of the City from having a negative outlook.

Scenario 1	Enhanced Reliability CIP, Full IUF, Less Time to Reach Financial Policies, Begin to Build Reserves in FY 2017/18					
No Cash flow Deficit in Year 1						
Reserve goal in 3-years						
Debt coverage policy met in year 1						
Approx. 3% per year increase in O&M						
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	Five Year Total
O&M	\$19,535,000	\$19,638,000	\$20,126,000	\$20,627,000	\$21,141,000	
Debt Service	\$9,696,000	\$9,670,000	\$9,638,000	\$12,475,000	\$13,124,000	
Infrastructure Use Fee	\$2,112,000	\$2,164,000	\$2,218,000	\$2,274,000	\$2,331,000	
CIP (Current Dollars)¹	\$4,018,000	\$6,352,000	\$13,358,000	\$41,027,000	\$57,240,000	\$121,995,000
Bond Proceeds Required	\$0	\$0	\$14,227,000	\$27,762,000	\$42,617,000	\$84,606,000
Reserves	\$10,239,000	\$12,071,000	\$25,234,000	\$25,214,000	\$25,402,000	
Rate Increases	10.00%	7.50%	7.50%	7.00%	7.00%	Cumulative 45.54%

Typical Bill ²	\$45.99	\$49.42	\$53.09	\$56.77	\$60.78	<i>Cumulative (Monthly)</i>
Increase	\$4.22	\$3.43	\$3.67	\$3.68	\$4.01	<i>\$19.01</i>

Notes:

(1) Current dollar CIP costs are escalated at 3.2% per year in the financial model based on the long-term average of ENR-CCI.

(2) Typical bill for a median SFR customer using 9 HCF (6,732 gallons) of water with an 80% return to sewer factor.

SCENARIO 2A: CIP with an Outlook to the Future, Full IUF, Less Time to Reach Financial Policies, Begin to Build Reserves in FY 2017-18

- This scenario has an initial rate increase of ten percent followed by two years of seven percent rate increases each year and then each of the next two years has a proposed increase of five percent.
- This scenario allows the wastewater fund to build reserves immediately or in FY 2017-18.
- This CIP allows the City to take care of urgent capital improvements with a cost of \$83,890,000 and have to borrow less than Scenario 1 or \$51.421 million.
- Cash would have to build up in the first two years in order to allow the City to able to borrow \$51.421 million to complete projects.
- This scenario includes the full implementation of the Infrastructure Use Fee.
- The City is able to reach the City Council’s adopted financial policies for reserves in three years and meet its debt coverage policy in the second year of adoption of this scenario.
- This scenario estimates for a continued decrease of, and then a leveling out of, future rate increases in 2022-23 through 2026-27.
- This scenario will allow the wastewater utility fund to improve its credit rating and protect the overall financial position of the City from having a negative outlook.

Scenario 2A	CIP with an Outlook to the Future, Full IUF, Less Time to Reach Financial Policies, Begin to Build Reserves in FY 2017/18					
Reserve goal in 4-years						
Debt coverage policy met in year 2						
Approx. 3% per year increase in O&M						
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	Five Year Total

O&M	\$19,535,000	\$19,638,000	\$20,126,000	\$20,627,000	\$21,141,000	
Debt Service	\$9,696,000	\$9,670,000	\$9,638,000	\$12,083,000	\$12,645,000	
Infrastructure Use Fee	\$2,112,000	\$2,164,000	\$2,218,000	\$2,274,000	\$2,331,000	
CIP (Current Dollars)¹	\$4,018,000	\$5,552,000	\$13,483,000	\$34,177,000	\$26,660,000	\$83,890,000
Bond Proceeds Required	\$0	\$0	\$14,360,000	\$21,797,000	\$15,264,000	\$51,421,000
Reserves	\$10,239,000	\$12,728,000	\$25,467,000	\$25,020,000	\$25,745,000	
						Cumulative
Rate Increases	10.00%	7.00%	7.00%	5.00%	5.00%	38.85%
Typical Bill	\$45.99	\$49.26	\$52.75	\$55.40	\$58.22	<i>Cumulative (Monthly)</i>
Increase	\$4.22	\$3.27	\$3.49	\$2.65	\$2.82	<i>\$16.45</i>
Notes:						
(1) Current dollar CIP costs are escalated at 3.2% per year in the financial model based on the long-term average of ENR-CCI.						
(2) Typical bill for a median SFR customer using 9 HCF (6,732 gallons) of water with an 80% return to sewer factor.						

SCENARIO 2B: CIP with an Outlook to the Future, Full IUF, Reserve Policy Met in 5 Years, Begin to Build Reserves in FY 2019-20

- This scenario has an initial lower rate increase of six percent compared to the first two scenarios and continues to be at the same level for years FY 2018-19 through FY 2021-22.
- This scenario delays the buildup of reserves until FY 2019-20.
- This CIP allows the City to take care of urgent capital improvements with a cost of \$83.890 million, but has to borrow more than Scenario 2A or \$60.175 million.
- Cash would have to build up in the first two years in order to allow the City to be able to borrow \$60.175 million to complete projects.
- This scenario includes the full implementation of the Infrastructure Use Fee.
- The City is able to reach the City Council's adopted financial policies for reserves in five years or be delayed by a year compared to Scenarios 1 and 2A.

- The debt coverage policy is met in the second year of adoption of this scenario, which is the same time period as Scenario 2A.
- This scenario estimates for a continued decrease, and then a leveling out of, future rate increases in 2022-23 through 2026-27.
- This scenario will allow the wastewater utility fund to improve its credit rating.

Scenario 2B CIP with an Outlook to the Future, Full IUF, Reserve Policy met in 5 Years, Begin to Build Reserves in FY 2019/20						
Reserve goal in 5-years						
Debt coverage policy met in year 2						
Approx. 3% per year increase in O&M						
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	Five Year Total
O&M	\$19,535,000	\$19,638,000	\$20,126,000	\$20,627,000	\$21,141,000	
Debt Service	\$9,696,000	\$9,670,000	\$9,638,000	\$12,325,000	\$12,940,000	
Infrastructure Use Fee	\$2,112,000	\$2,164,000	\$2,218,000	\$2,274,000	\$2,331,000	
CIP (Current Dollars)¹	\$4,018,000	\$5,552,000	\$13,483,000	\$34,177,000	\$26,660,000	\$83,890,000
Bond Proceeds Required	\$0	\$0	\$14,360,000	\$24,872,000	\$20,943,000	\$60,175,000
Reserves	\$8,641,000	\$9,485,000	\$20,131,000	\$20,675,000	\$25,165,000	
						Cumulative
Rate Increases	6.00%	6.00%	6.00%	6.00%	6.00%	33.82%
Typical Bill	\$44.34	\$47.02	\$49.87	\$52.91	\$56.15	<i>Cumulative (Monthly)</i>
Increase	\$2.57	\$2.67	\$2.86	\$3.04	\$3.24	\$14.38
Notes:						
(1) Current dollar CIP costs are escalated at 3.2% per year in the financial model based on the long-term average of ENR-CCI.						
(2) Typical bill for a median SFR customer using 9 HCF (6,732 gallons) of water with an 80% return to sewer factor.						

SCENARIO 3: CIP with an Outlook to the Future, STREETS IUF Only, Begin to Build Reserves in FY 2019-20

- This scenario has an overall lower rate increase of four percent compared to Scenarios 1, 2A and 2B and continues to be at the same level for years FY 2018-19 through FY 2021-22.
- This scenario delays the buildup of reserves until the fifth year or FY 2021-22.
- The CIP program allows the City to take care of urgent capital improvements with a cost of \$83.890 million, but the City has to borrow more than Scenarios 2A and 2B or \$65.101 million.
- Cash would have to build up in the first two years in order to allow the City to able to borrow \$65.101 million to complete projects.
- This scenario excludes public safety from the Infrastructure Use Fee. The General Fund would need to make up this shortfall caused by the Wastewater Fund, an enterprise fund, to pay for public safety services provided by Police and Fire.
- The City is able to reach the City Council’s adopted financial policies for reserves in five years or delayed by one year compared to Scenarios 1 and 2A, but the same as 2B.
- The debt coverage policy is met in the first year of adoption of this scenario, which is a year ahead compared to Scenarios 2A and 2B.
- This scenario estimates for a spike of rate increases in 2022-23 through 2026-27, which causes rates to increase compared to this scenario’s level four percent.
- This scenario will delay the wastewater utility fund to improve its credit rating.

CIP with an Outlook to the Future, Streets IUF Only, Begin to Build Reserves in FY 2019/20						
Scenario 3						
Reserve goal in 5-years						
Debt coverage policy met in year 1						
Approx. 3% per year increase in O&M						
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	Five Year Total
O&M	\$19,535,000	\$19,638,000	\$20,126,000	\$20,627,000	\$21,141,000	
Debt Service	\$9,696,000	\$9,670,000	\$9,638,000	\$12,325,000	\$12,940,000	

Infrastructure Use Fee	\$1,095,000	\$1,122,000	\$1,150,000	\$1,179,000	\$1,209,000	
CIP (Current Dollars)¹	\$4,018,000	\$5,552,000	\$13,483,000	\$34,177,000	\$26,660,000	\$83,890,000
Bond Proceeds Required	\$0	\$0	\$14,360,000	\$26,750,000	\$24,596,000	\$65,706,000
Reserves	\$9,055,000	\$9,657,000	\$19,310,000	\$19,893,000	\$25,280,000	
Rate Increases	4.00%	4.00%	4.00%	4.00%	4.00%	Cumulative 21.67%
Typical Bill	\$43.49	\$45.24	\$47.12	\$49.05	\$51.03	<i>Cumulative (Monthly)</i>
Increase	\$1.72	\$1.76	\$1.88	\$1.93	\$1.98	\$9.26
Notes:						
(1) Current dollar CIP costs are escalated at 3.2% per year in the financial model based on the long-term average of ENR-CCI.						
(2) Typical bill for a median SFR customer using 9 HCF (6,732 gallons) of water with an 80% return to sewer factor.						

SCENARIO 4: Urgent Minimum CIP with No Future Planning and Design, NO IUF, Begin to Build Reserves in FY 2019-20 and, Possible Future Spikes in Rates to Meet Future Cost Increases

- This scenario has an overall rate increase of three percent which is the same as Scenario 3 and continues to be at the same level for years FY 2018-19 through FY 2021-22.
- This scenario delays the buildup of reserves until the fifth year or FY 2021-22.
- This CIP allows the City to take care of urgent capital improvements with a cost of \$68 million, but does not allow the City to begin planning and designing for other longer-term critical capital improvements. By doing this, the City will have a delay in implementing future capital improvements because design of improvements have not been completed and projects are not near “shovel ready” as new rates are considered.
- The City has to borrow more than Scenarios 2A and 2B or \$65.101 million. Cash would have to build up in the first two years in order to allow the City to able to borrow \$65.101 million to complete projects.
- This scenario also excludes completely the Infrastructure Use Fee. Therefore, the General Fund would need to pick up the full costs for streets and public safety impacted by wastewater activities such as cutting into streets or on-call services provided by Police and Fire.

- The City is able to reach the City Council’s adopted financial policies for reserves in five years or delayed by one year compared to Scenarios 1 and 2A, but the same as 2B and 3.
- The debt coverage policy is met in the first year of adoption of this scenario, which is the same time-frame as Scenarios 1 and 3.
- This scenario anticipates a significant spike in rates in 2022-23 through 2026-27. Rates could significantly increase above seven percent annually assuming costs increase at similar levels as calculated in this study.
- This scenario will delay the improvement of the wastewater utility fund’s credit rating, delay the proper planning for future capital improvements and cause a spike in rates in the following five-year period in order to meet cost of service increases.

Scenario 4	Urgent Minimum CIP with NO Future Planning and Design, No IUF, Begin to Build Reserves in FY 2019/20 and Sets up for Future Spikes in Rates to Meet Future Cost Increases					
Reserve goal in 5-years						
Debt coverage policy met in year 1						
Approx. 3% per year increase in O&M						
Design for plant renewal not included in years 1 to 5						
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	Five Year Total
O&M	\$19,535,000	\$19,638,000	\$20,126,000	\$20,627,000	\$21,141,000	
Debt Service	\$9,696,000	\$9,670,000	\$9,638,000	\$12,325,000	\$12,940,000	
Infrastructure Use Fee	\$0	\$0	\$0	\$0	\$0	
CIP (Current Dollars)¹	\$4,018,000	\$4,052,000	\$8,940,000	\$29,634,000	\$22,116,000	\$68,760,000
Bond Proceeds Required	\$0	\$0	\$9,521,000	\$23,407,000	\$18,698,000	\$51,626,000
Reserves	\$8,437,000	\$10,681,000	\$18,303,000	\$21,505,000	\$22,266,000	Cumulative

Rate Increases	3.00%	3.00%	3.00%	3.00%	3.00%	15.93%
Typical Bill	\$43.05	\$44.36	\$45.71	\$47.14	\$48.60	<i>Cumulative (Monthly)</i>
Increase	\$1.28	\$1.31	\$1.34	\$1.43	\$1.46	\$6.83

Notes:

(1) Current dollar CIP costs are escalated at 3.2% per year in the financial model based on the long-term average of ENR-CCI.

(2) Typical bill for a median SFR customer using 9 HCF (6,732 gallons) of water with an 80% return to sewer factor.

**SCENARIO 5: CIP with an Outlook to the Future and Less Time to Reach Financial Policies, Begin to Build Reserves in FY 2017-18
No IUF in FY 2017/18, Streets IUF in FY 2018/19, Full IUF Starting in FY 2019/20**

- This scenario has an initial rate increase of 8.25 percent followed by two years of 7% rate increases each year and then each of the next two years has a proposed increase of 5%.
- This scenario allows the wastewater fund to build reserves immediately or in FY 2017-18.
- The capital improvement program allows for the City to take care of urgent capital improvements with a cost of \$83,890,000 and have to borrow less than Scenario 1 and Scenario 2A or \$50.617 million.
- Cash would have to build up in the first two years in order to allow the City to be able to borrow \$50.617 million to complete projects.
- This scenario includes a ramp up of the Infrastructure Use Fee with no IUF in FY 2017/18, the Streets IUF only in FY 2018-19, and the full IUF starting in FY 2019/20
- The general fund would need to make up about \$2.164 million in FY 2017/18, and \$1.042 in FY 2018/19 due to the ramp-up of IUF payments
- The City is able to reach the City Council’s adopted financial policies for reserves in four years and meet its debt coverage policy in the second year of adoption of this scenario.
- This scenario estimates for a continued decrease of then a leveling out of future rate increases in 2022-23 through 2026-27.
- This scenario will allow the wastewater utility fund to improve its credit rating and, protect the overall city from having a financial negative outlook.

CIP with an Outlook to the Future, Less Time to Reach Financial Policies, No IUF in FY 2017/18, Streets IUF in FY 2018/19, Full IUF Starting FY 2019/20, Begin to Build Reserves in FY 2017/18

Scenario 5

Reserve goal in 3-years

Debt coverage policy met in year 2

Approx. 3% per year increase in O&M

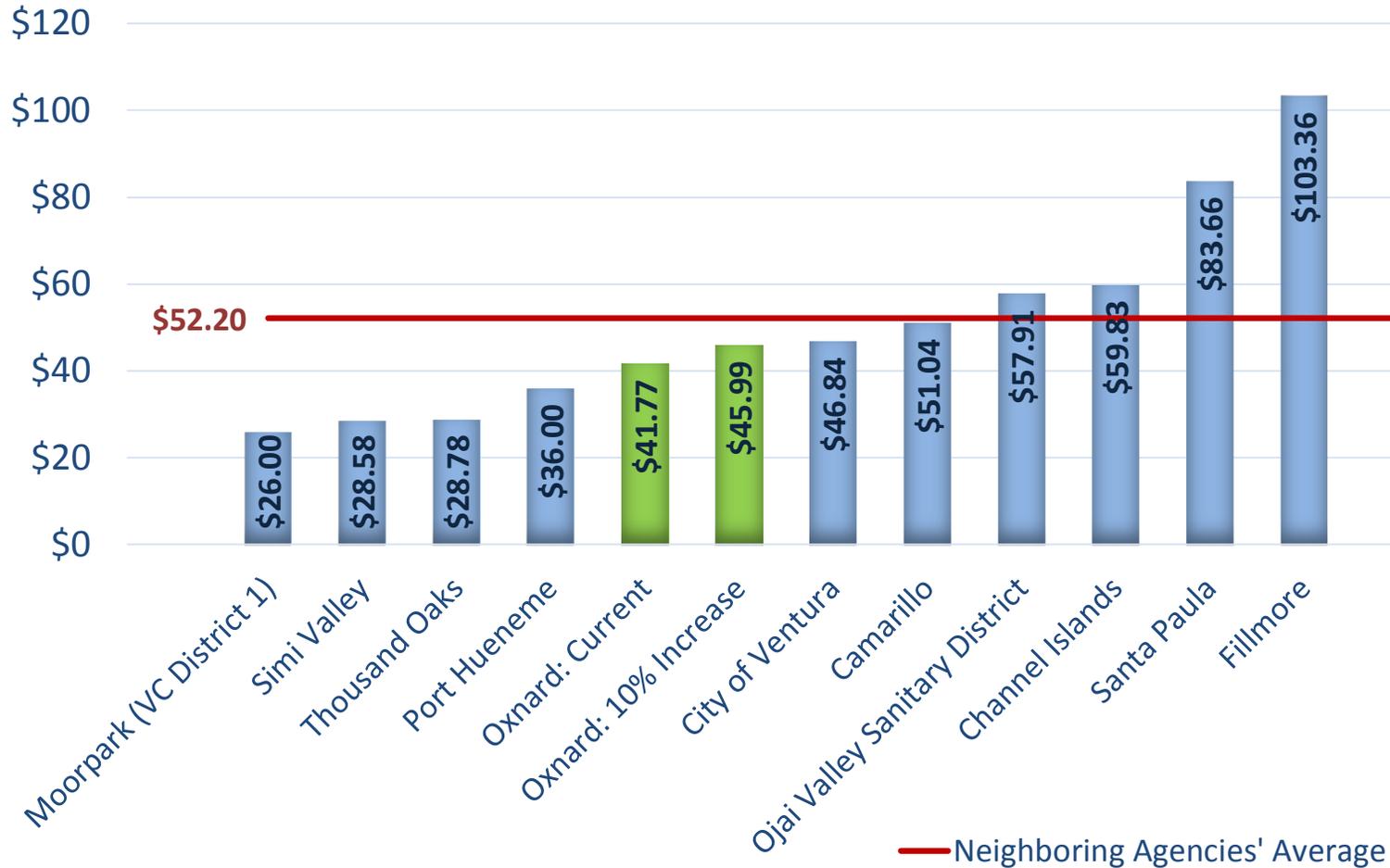
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	Five Year Total
O&M	\$19,535,000	\$19,638,000	\$20,126,000	\$20,627,000	\$21,141,000	
Debt Service	\$9,696,000	\$9,670,000	\$9,638,000	\$12,083,000	\$12,645,000	
Infrastructure Use Fee	\$0	\$1,122,000	\$2,218,000	\$2,274,000	\$2,331,000	
CIP (Current Dollars)¹	\$4,018,000	\$5,552,000	\$13,483,000	\$34,177,000	\$26,660,000	\$83,890,000
Bond Proceeds Required	\$0	\$0	\$14,360,000	\$20,367,000	\$15,890,000	\$50,617,000
Reserves	\$11,824,000	\$14,782,000	\$26,897,000	\$24,394,000	\$25,055,000	
Rate Increases	8.25%	7.00%	7.00%	5.00%	5.00%	Cumulative 36.64%
Typical Bill	\$45.27	\$48.51	\$51.97	\$54.60	\$57.38	Cumulative (Monthly)
Increase	\$3.50	\$3.24	\$3.46	\$2.62	\$2.79	\$15.61

Notes: (1) Current dollar CIP costs are escalated at 3.2% per year in the financial model based on the long-term average of ENR-CCI.

(2) Typical bill for a median SFR customer using 9 HCF (6,732 gallons) of water with an 80% return to sewer factor.

Neighboring Agencies' SFR Bill Comparison

Typical SFR Wastewater Bill



Note: Typical bill based on a median Oxnard SFR customer water use of 9 HCF (6,732 gallons) with an 80% return to sewer factor.

Scenario Comparisons

	Current	Projected -->				
	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
Scenario 1						
Enhanced Reliability CIP, Full IUF, Less time to Reach Financial Policies, Begin to Build Reserves in FY 2017/18						
Percent Increase		10.00%	7.50%	7.50%	7.00%	7.00%
Typical Monthly Bill	\$41.77	\$45.99	\$49.42	\$53.09	\$56.77	\$60.78
Monthly Increase		\$4.22	\$3.43	\$3.67	\$3.68	\$4.01
Scenario 2A						
CIP with an Outlook to the Future, Full IUF, Less Time to Reach Financial Policies, Begin to Build Reserves in FY 2017/18						
Percent Increase		10.00%	7.00%	7.00%	5.00%	5.00%
Typical Monthly Bill	\$41.77	\$45.99	\$49.26	\$52.75	\$55.40	\$58.22
Monthly Increase		\$4.22	\$3.27	\$3.49	\$2.65	\$2.82
Scenario 2B						
CIP with an Outlook to the Future, Full IUF, Reserve Policy Met in 5 Years, Begin to Build Reserves in FY 2019/20						
Percent Increase		6.00%	6.00%	6.00%	6.00%	6.00%
Typical Monthly Bill	\$41.77	\$44.34	\$47.02	\$49.87	\$52.91	\$56.15
Monthly Increase		\$2.57	\$2.67	\$2.86	\$3.04	\$3.24
Scenario 3						
CIP with an Outlook to the Future, Streets IUF Only, Begin to Build Reserves in FY 2019/20						
Percent Increase		4.00%	4.00%	4.00%	4.00%	4.00%
Typical Monthly Bill	\$41.77	\$43.49	\$45.24	\$47.12	\$49.05	\$51.03
Monthly Increase		\$1.72	\$1.76	\$1.88	\$1.93	\$1.98

	Current	Projected -->				
	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
Scenario 4						
Urgent Minimum CIP with NO Future Planning and Design, No IUF, Begin to Build Reserves in FY 2019/20, Sets up for Future Spikes in Rates to Meet Future Cost Increases						
Percent Increase		3.00%	3.00%	3.00%	3.00%	3.00%
Typical Monthly Bill	\$41.77	\$43.05	\$44.36	\$45.71	\$47.14	\$48.60
Monthly Increase		\$1.28	\$1.31	\$1.34	\$1.43	\$1.46
Scenario 5						
CIP with an Outlook to the Future, Less Time to Reach Financial Policies, No IUF in FY 2017/18, Streets IUF in FY 2018/19, Full IUF Starting FY 2019/20, Begin to Build Reserves in FY 2017/18						
Percent Increase		8.25%	7.00%	7.00%	5.00%	5.00%
Typical Monthly Bill	\$41.77	\$45.27	\$48.51	\$51.97	\$54.60	\$57.38
Monthly Increase		\$3.50	\$3.24	\$3.46	\$2.62	\$2.79

Scenario Comparison – Estimated year 6 to 10 rate increases for each of the tested Scenarios

