CITY OF OXNARD CALIFORNIA

CITY COUNCIL AGENDA REPORT

REPORTS
AGENDA ITEM NO. M.2

DATE: December 5, 2023

TO: City Council

FROM: Michael Wolfe, Public Works Director, (805) 385-8055, michael.wolfe@oxnard.org

SUBJECT: Solid Waste (Refuse) Rates Discussion. (50 minutes)

RECOMMENDATION

That the City Council:

1. Provide comments and feedback on the goals, variable input, preliminary scenarios, and the process and timeline for solid waste rates; and
2. Direct staff to move forward to the next steps in the rate setting process on the basis of Scenario 4.

(Public Works and Transportation Committee approved 2-0)

Please click the following link to view the required Measure M pre-recorded presentation video: https://youtu.be/-SNEvyuWTKM
Live presentation to be provided by a consultant.

BACKGROUND

Executive Summary

The City's Public Works Department Environmental Resources Division (ER) is an enterprise fund operation that provides Municipal Solid Waste (MSW) services to Oxnard residents and businesses, which includes collection, sorting, processing, and disposal for 34,154 residential properties and 16,378 commercial customers (includes apartment buildings) six days a week. Services include collection, sorting, transportation, and transferring material to the landfill to foster a clean, safe, and sustainable Oxnard. To provide our services while meeting all Local, State, and Federal requirements, ER:

- Recycles approximately 12,918 tons of material and 14,177 tons of organics (green waste & food waste);
- Handles approximately 294,938 tons (589,876,000 lbs) of MSW annually;
- Has a workforce of 179 essential workers fulfilling 529,443 hours per year; and
- Has invested approximately $60 million in capital equipment, facilities, and land including the Del Norte Regional Recycling and Transfer Station and approximately 138 vehicles (109 heavy-duty trucks & 29 small vehicles)

The last time the City Council approved a cost of service analysis for ER was in May 2012, with a rate increase effective January 2013. Since January 2013 (when accounting for the removal of the Infrastructure Use Fee (IUF) in 2021) the residential rate (96-gallons) has gone from $30.15 to $30.78 per month and the most popular commercial rate (4-yard/once per week) has gone from $224.81 to $230.86 per month. This represents a 2.1% residential increase and a 2.7% commercial increase over 10 years. However, over that same decade, the consumer price index has increased by 33.9%. Separate from rates, service fees (e.g. per ton for disposal of refuse, greenwaste, construction and demolition, and self-haul disposal rates at Del Norte) increased in FYs 2012/13, 2016/17, 2018/19 for pass-through costs and decreased in FY 21/22 for the removal of the IUF.

Clearly, during the 2010's, City Hall's discombobulation on the heels of the District Attorney investigations into the prior decade's activities, shocking financial audit findings, and frequent executive staff turnover had, at minimum, distracted City Hall from following best management practices, including the reviewing of rates every five years. In addition to that, the State has imposed many unfunded mandates on the solid waste industry, such as mandatory recycling and mandatory organics recycling waste programs, that require significant capital investment and operational costs not fully contemplated in previous rate studies.

Based upon the draft Fiscal Year 2023/24 cost-of-service study the ER division expenditures are anticipated to materially outpace revenues resulting in a negative ending cash balance no later than Fiscal Year 2024/25. The combination of minimal rate increases, unfunded State mandates, elevated inflation, and the need for significant capital investment to replace and rehabilitate assets is expected to result in a growing structural deficit.

Reliable and efficient solid waste service is a key component for the maintenance of solid waste services for the public health, safety, and welfare of the community. As mentioned, absent a rate adjustment, the draft cost-of-service study projects negative cash balances by FY 2024/25. Staff has provided some preliminary rate increase scenarios for discussion and consideration. Each of the scenarios assumes changes in key assumptions such as the level and timing of rate revenue adjustments, amount of capital spending, and proposed debt issuances. Based on the direction of City staff, several sensitivity analyses were performed such as examining the effects of no rate adjustment or no capital spending, among other sensitivities.

DISCUSSION

Cost of Service Study

As an industry best management practice, rates should cover the cost of providing services, establish an appropriate level of reserves, and a cost of service study (Study/Studies) should be performed every 3-5 years. This Study is critical to understanding the effectiveness and efficiencies of the operation and verifying existing rates are adequate, and providing a long-term path for the financing viability and sustainability for solid waste operations. The last ER Study was completed in 2012 and implemented in 2013. With respect to the solid waste industry in California, many things have changed over the past decade since this last review was completed. Operations must keep up with rising costs for goods and services, unfunded State mandates, and be able to implement critical capital outlay and projects that are mandated or necessary for the health and safety of our customers.

Performed regularly, Studies provide transparency into what the City can expect in the years ahead and ensure we have the financial resources to maintain our infrastructure, manage vehicles and equipment capacity for growth, implement new technologies, address existing and new state and federal regulations, and implement our capital improvement program (CIP). All of this is to provide reliable and safe service to our customers. The Study is the tool used to develop rates so that rates meet the cost of service plus the appropriate level of reserves.

Raftelis, placed under contract in December of 2022, is assisting the City with the calculations of the cost of service draft study and recommending changes to the current rates and fees structure.

Goals for the Cost of Service Study

When finalized, the cost of service study will determine the overall revenue adjustments and the total amount of revenue required from rates and fees to meet the cost of service over time. The revenue covers operating and maintenance (O&M), debt service, and capital expenses as well as reserve funding. Revenue adjustments represent the average rate increase for the City; rate changes for individual customers will depend on the cost of service analysis. Once complete, the Study will include rates and fees that promote and sustain a financially viable utility. As such, to provide guidance, staff in conjunction with Raftelis have relied upon identifying several goals in the development of preliminary rate options. These goals are important to consider when identifying rate-influencing items with variable options, such as a reserve fund balance target or Capital Improvement Program (CIP) projects. In general, the goals are to provide a safe, reliable, and sustainable solid waste service. Specific goals include:

1. Cover Operations and Maintenance Costs (O&M) - (G1)
2. Cover Capital Investments - (G2)
3. Legally Compliant - (G3)
4. Promote Financial Viability - (G4)
5. Community Values - (G5)
6. Provide Fairness and Equity - (G6)

Input and Considerations

The foundation of the Study and the primary objective of the solid waste rates are to reasonably recover the cost of providing service, the cost of infrastructure investment, implement known State unfunded mandates and comply with covenants of internal and external fiscal targets (referred to as the "Revenue Sufficiency" evaluation).

Ensuring adequate cash reserves and appropriate cash flows generally results in a sustainable long-term financial plan that can mitigate the financial and operating risk from unanticipated or sudden events to financial operations (e.g., changes in market conditions affecting operations and recovered materials revenues, reduced growth or tonnage, unanticipated or extraordinary expenses, unfunded mandates, etc.). The identified revenue requirements to be funded from rates are then allocated based on the type and level of service.

To assess the sustainability of the City's charges for service, Raftelis developed a draft financial model capable of forecasting solid waste operations over a ten-year Rate Study Period but with the recommended rate revenue adjustment period comprising the Fiscal Years 2024/25 through 2028/29. By forecasting operations over this period of time we can capture funding requirements that may not be annually occurring, test sensitivity to potential changes in operations or costs, and examine projections of cash reserves and net revenue margins to evaluate compliance with formal and informal fiscal policies. Performing a thorough evaluation of the City's funding requirements allows us to provide sound rate recommendations to help ensure the City has sufficient resources to fund operations and achieve its objectives. The following provides a brief overview of the key activities performed for the draft Study:

1. An evaluation of the service area requirements for the City was performed. This included a review of recent historical customers served and corresponding waste generation such that: i) a representative forecast of the Division's needs from a financial standpoint could be prepared, and ii) a projection of rate revenues consistent with the projected service area needs could be developed.

2. Raftelis, with the support of City staff, analyzed a projection of the Net Revenue Requirements from rates and fees, which equates to the expenditure requirements funded from rates and fees. An illustration of the components that make up the Net Revenue Requirements is summarized below:

\+ Cost of Operation and Maintenance
\+ Debt Service (Vehicle Leases)
\+ Indirect Cost Allocation and Administration Payments
\+ Capital Funding Requirements
\+ Deposits to Reserves for Policy Compliance and Future Expenditures
– Other Operating Revenue
<u>– Interest Income / Transfers from Operating Reserves</u>
= Net Revenue Requirements (Funded from Rates and Fees)

3. The annual cost of providing solid waste service to City customers was determined by identifying the gross revenue requirements, netting out all other applicable revenues resulting in a net revenue requirement to be funded from the respective fees. The applicable equivalent unit billing determinants, as presented within the cost of service analysis of the draft report, will be used to determine the unit cost of service to be presented in the final report. It should be noted that the information reported herein is accurate to the best of our knowledge and is assumed to be reasonable for the purposes of estimating the cost of service with rate recommendations pursuant to the Proposition 218 Omnibus Implementation Act at Gov. Code 53750. In addition to recommending rates and fees, the intent of providing this information is to help support a general understanding of the City's financial needs to support ER's programs, operations, and services.

4. Based on the identified funding requirements and the draft cost of service associated with providing service over the Rate Study Period, provide preliminary rate recommendations to ensure adequate funding for the City's needs and meet the City's rate goals and objectives.

The following items are key components of developing the draft rate study and have a direct influence on the actual rates. Staff has recommendations for each item, as noted. Because these factors influence any proposed rate change, staff is seeking feedback from the Public Works and Transportation Committee/City Council on each item separately. The summary of these factors with recommendations is listed below:

Factor	Staff Recommendation	Justification	Goal(s)
1. Rate Study Period	5-year period	Industry standard; long-range planning; fairness of rates; ensures planned operations and mitigates deferred maintenance	G6
2. Pass-Through Charge (to the extent allowed by State Code)	Include a pass-through for fees as allowed by California Government Code 53736 (c)	Avoids over or underestimating factors outside the City's control (e.g. disposal fees from third-party vendors)	G4, G5, G6
3. Capital Improvement Program (CIP) and Capital Outlay	Implement over an extended period to smooth rates; leases extended to 7 years, CIP over 20 years	Allows for CIP projects at a pace within existing resources; ensures an operable and safe facility; safe and reliable equipment and vehicles	G2, G4
4. Reserve Fund Balance Target	Endeavor to maintain 25% (per Resolution 15595)	Consistent with City Council Resolution; provides a funding source for emergencies and bond covenants (if/when required) and strong credit ratings	G1, G4, G5
5. Debt Coverage Ratio (when applicable)	Ensure funding of annual debt service and capital lease payments	Ensures the City is not in default of debt/lease repayment obligations	G4, G5

The draft cost of service study has evaluated and considered all revenues from both rates and fees, among other revenues. For purposes of this report and as referenced in the draft cost of service study, rate revenues are defined as the monthly property based charges for solid waste collection and disposal service that must follow the Proposition 218 noticing requirements and process. Fees are defined as charges for solid waste services and while they do not require a Proposition 218 noticing procedure, they must be cost based and in compliance with Proposition 26.

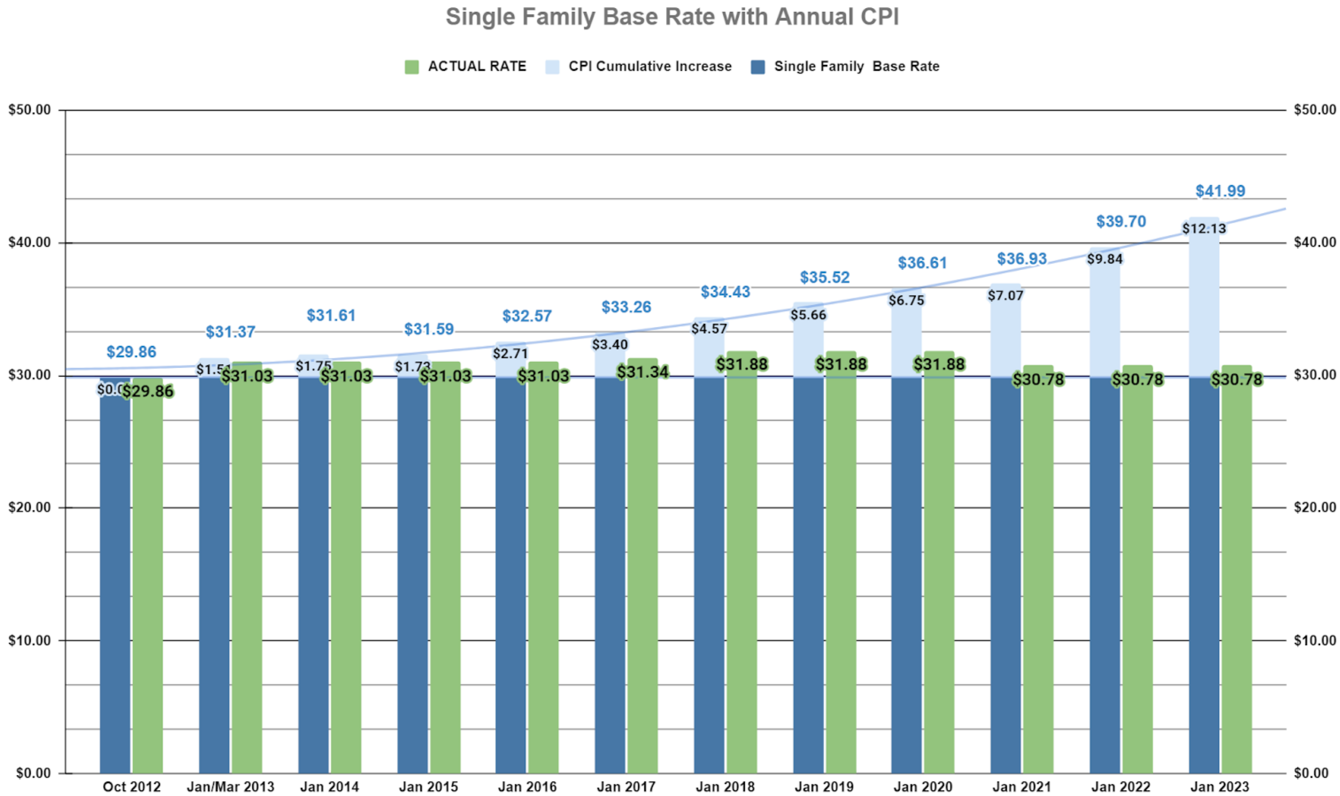
Existing Rates and History (include a benchmark CPI theoretical scenario)

The City Council approved a cost of service analysis last in May 2012, resulting in rate increases effective January 2013. The authorized increases and decreases noted in the table below cumulatively represent a 2.1% increase in residential rates and a 2.7% increase in the most popular commercial rate since the last Study was approved and implemented in January 2013. However, over that same decade, the consumer price index has increased by 33.9%. The following tables provide the rate history for a residential customer (96-gallon cart):

Date	**Oct 2012**	**Jan 2013**	**Mar 2013**	**Jan 2014**	**Jan 2015**	**Jan 2016**	**Jan 2017**
Residential Rate (96-gallon)	$29.86	$30.15	$31.03	$31.03	$31.03	$31.03	$31.34
Total Change	0.0%	1.0%	2.9%	0.0%	0.0%	0.0%	1.0%
Notes		*Rate Increase*	*Pass-Through*				*Pass-Through*

Date (cont.)	**Jan 2018**	**Jan 2019**	**Jan 2020**	**Jan 2021**	**Jan 2022**	**Jan 2023**
Residential Rate (96-gallon)	$31.88	$31.88	$31.88	$30.78	$30.78	$30.78
Total Change	1.7%	0.0%	0.0%	**-3.5%**	0.0%	0.0%
Note	*Pass-Through*			*IUF Reduced*		

The below graph shows the history of residential rates since 2012. The graph also includes a benchmark scenario, if rates were theoretically increased annually by the CPI (Los Angeles-Long Beach-Anaheim, California) at a minimum.



Note: Residential rates increased in FY 12-13, FY 16-17, FY 18-19 and decreased in FY 21-22, reflecting the IUF reduction.

Efficiency Efforts

The ER staff is entrusted with managing enterprise funds based on an annual budget approved by the City Council. The City is committed to investing in meeting local, state, and federal regulations, ensuring safe and reliable solid waste collection services, and providing excellent customer service to residents and businesses. ER has made significant investments totaling approximately $60 million to the Material Recycling Facility (MRF) at Del Norte Regional Recycling and Transfer Station and has acquired Compressed Natural Gas (CNG) automated collection refuse vehicles, replacing older vehicles to enhance efficiency and reduce costs.

ER staff actively informs residents and businesses about recycling programs and new organic recycling laws through various channels such as social media, billing inserts, radio broadcasts, and special events. Outreach and education staff are available to assist residents and businesses by providing information on recycling and mandated programs.

Despite efficient efforts to be cost-effective, the City needs rates that meet the actual cost to provide service. Oxnard Refuse customers pay less per person served for refuse service when compared to other nearby cities. The current average rate per person for trash service is compared with other agencies in the table below:

Average Monthly Refuse Cost per Person per Household[1]

	City of Oxnard California	City of Ventura	City of Camarillo	City of Thousand Oaks	Port Hueneme 75		Channel Islands Beach Community Services District
Refuse Rate[1]	$30.78 (2013)	$37.59 (2021)	$34.25 (2023)	$28.67 (2023)	$25.60 (2014)	$34.82 (2021)	$34.39 (2022)
Number of Households[2]	50,403	42,091	25,673	46,270	6,859	43,893	---
Persons per Household[2]	4.0	2.58	2.7	2.71	3.06	2.87	---
Average Monthly Refuse Cost per person	$7.70	$14.57	$12.69	$10.58	$8.37	$12.13	---

1 Average Refuse Rate for single family home for Fiscal Year 2023-2024. Utility rates retrieved from each city's official website.
2 Data from U.S. Census Bureau.

Updated October 25, 2023

Challenges

There are many challenges ER faces with new and old unfunded Local, State, and Federal mandates. These include factors that are outside the control of the City (e.g. unfunded mandates and rising costs of labor, fuel, and disposal cost) and factors due to the post-pandemic (e.g. supply chain restrictions and increased cost to supplies and equipment). Another challenge is the aging vehicles, equipment, and infrastructure that need constant maintenance and repairs.

State Unfunded Mandates -

Several recycling and composting laws that took effect that had major financial and operational impacts on the solid waste collection system:

1. AB 341 Mandatory Commercial Recycling (MCR) – Adopted into California Law in 2012 and requires businesses that generate four or more cubic yards of commercial waste per week and multi-family complexes with five or more units to self-haul or subscribe to recycling services.

2. AB 1826 Mandatory Commercial Organics (MORe) – Effective January 1, 2016, and phases in the number of businesses and multi-family dwellings that are required to subscribe to commercial organic collection service.

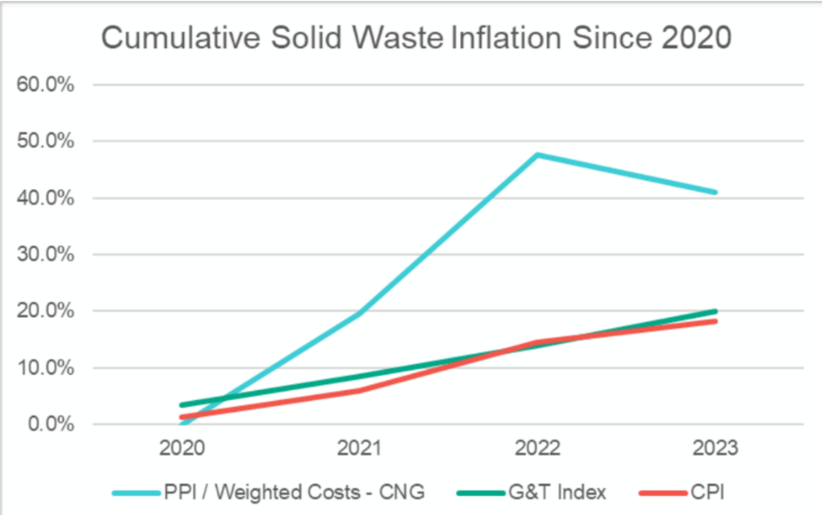
3. AB 827 – Effective July 1, 2020, and expands upon requirements of MCR and MORe to include mandatory recycling and organics carts for businesses at the "front of house" (i.e. portion of the business open to the public) to collect waste generated by customers from products they purchase and consume on the premises.

4. SB 1383 Short-Lived Climate Pollutants (Organics Recycling) – Effective January 1, 2022, and requires jurisdictions to provide organic waste collection services to all residents and businesses so that they may divert all organic waste to a compost program.

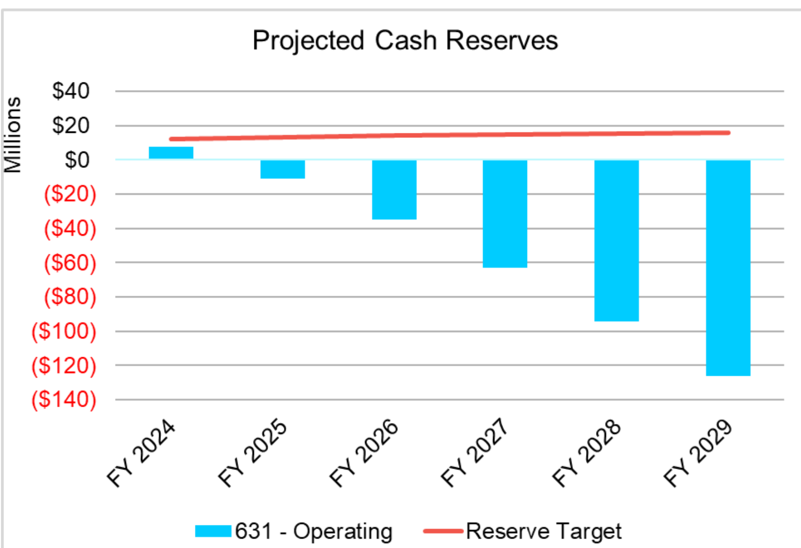
Inflation -

Of significant importance is that the cost to operate a full-service solid waste operation is not immune to inflation. As noted above, the industry has observed significant increases to the cost of solid waste collection, operations, and disposal.

The U.S. Bureau of Labor Statistics measures garbage bill increases nationally through a subcomponent to CPI in the Garbage and Trash Index (G&T). The Garbage and Trash Index has increased by 20% since 2020. Raftelis calculated a weighted Producer Price Index (PPI) of the cost inputs to garbage collection service and estimated cost increases may be closer to 40% since 2020 due to labor, capital cost, and fuel cost increases.



The City's previous solid waste cost of service analysis was last completed in 2012. Costs for goods and services have increased since that year and continue to do so while the refuse utility rates have only slightly changed (2.1% increase in residential rates and a 2.7% increase in the most popular commercial rate). In addition, recent State unfunded mandates have increased the costs of operations to avoid penalties and/or non-compliance actions by the State. This has led to a structural deficit and impacts ER's financial stability. Without a rate increase, the draft rate model shows a negative cash balance in FY 2024/25.



Note: FY 22-23 Cash Balance base is unaudited and FY 23-24 and beyond are estimates and subject to change.

Aging Infrastructure and Equipment -

As noted above, the ER handles over 589 million pounds of municipal solid waste each year. This takes a significant amount of equipment and infrastructure. ER has 138 vehicles, including 109 large heavy-duty trucks. Additionally, the MRF houses sorters and other associated equipment related to recycling. The sorting equipment, which is key to the 6-day-a-week operations, is 27 years old and requires constant maintenance to keep up with the recycling, greenwaste, food waste, and residual trash, produced by residential, commercial, and industrial customers. Furthermore, the MRF building is 27 years old and houses ER's administrative staff, conveyors, walking floors, and sorting equipment. The MRF needs significant improvements including a new roof. Here are some examples of operating and capital costs to address this aging equipment and infrastructure:

- Average annual maintenance cost for trash truck (front-end loader) is $19,642
- Current price of a new trash truck (side-loader) is $339,053 (Purchase of zero-emission vehicles is expected to cost up to 200% more than the current price of a new CNG refuse vehicle)
- Estimated roof replacement costs: $7.5 million
- Annual maintenance and repairs costs for sorting equipment (we have 31 sorting belt lines made up of conveyors, walking floors and one bailer) which can cost between $250K to $1.5 million per repair
- Estimated cost for a like-for-like replacement of the MRF is $36 million (this estimate can fluctuate with the price of steel, metal, inflationary factors, and the consumer price index)

Revenues and Expenditures

The revenue streams for ER have managed to remain relatively stable over time due to several key factors. One of the primary reasons is the consistent collection of solid waste services from both residential households and businesses within the city. Waste generation rates have remained relatively constant, ensuring a consistent flow of revenue for the city's solid waste programs (see table below). On average, revenues have averaged about $47 million per fiscal year. Most recently, revenue has been impacted by the decline in sales of recycled material due to the COVID-19 pandemic, market fluctuation, and new/increased regulations on the cleanliness of the material. All of the other revenues, including the two largest, residential and commercial collections, have remained consistent. This would be consistent with a relatively stable number of customers for residential and commercial accounts.

The largest contributing expenditures to the solid waste program primarily include costs related to waste collection, transportation, and disposal. These expenditures encompass various essential activities and services involved in managing the city's solid waste effectively. Here's a breakdown of key operating expenses:

1. Waste Collection Personnel: A significant portion of the budget is allocated to employing waste collection personnel, including drivers and crew members responsible for collecting waste from residential areas, commercial establishments, and public spaces.

2. Fleet and Equipment Maintenance: Maintaining a fleet of waste collection vehicles, including garbage trucks and recycling vehicles, is crucial for day-to-day operations.

3. Fuel: Refuse heavy-duty and fleet vehicles operate on CNG, diesel, and unleaded fuel.

4. Waste Transportation: The transportation of collected waste to appropriate disposal facilities, recycling centers, or composting sites. This includes fuel costs, vehicle maintenance, and fees associated with using disposal facilities.

5. Disposal Fees: Paying fees to landfill and waste disposal facilities for the final disposal of non-recyclable waste. Landfill fees are often calculated based on the weight or volume of waste disposed of.

6. Recycling Programs: Funding recycling initiatives, including curbside recycling collection, recycling education campaigns, and the operation of recycling centers, is another significant expenditure. This includes costs related to sorting, processing, and transporting recyclable materials to recycling facilities.

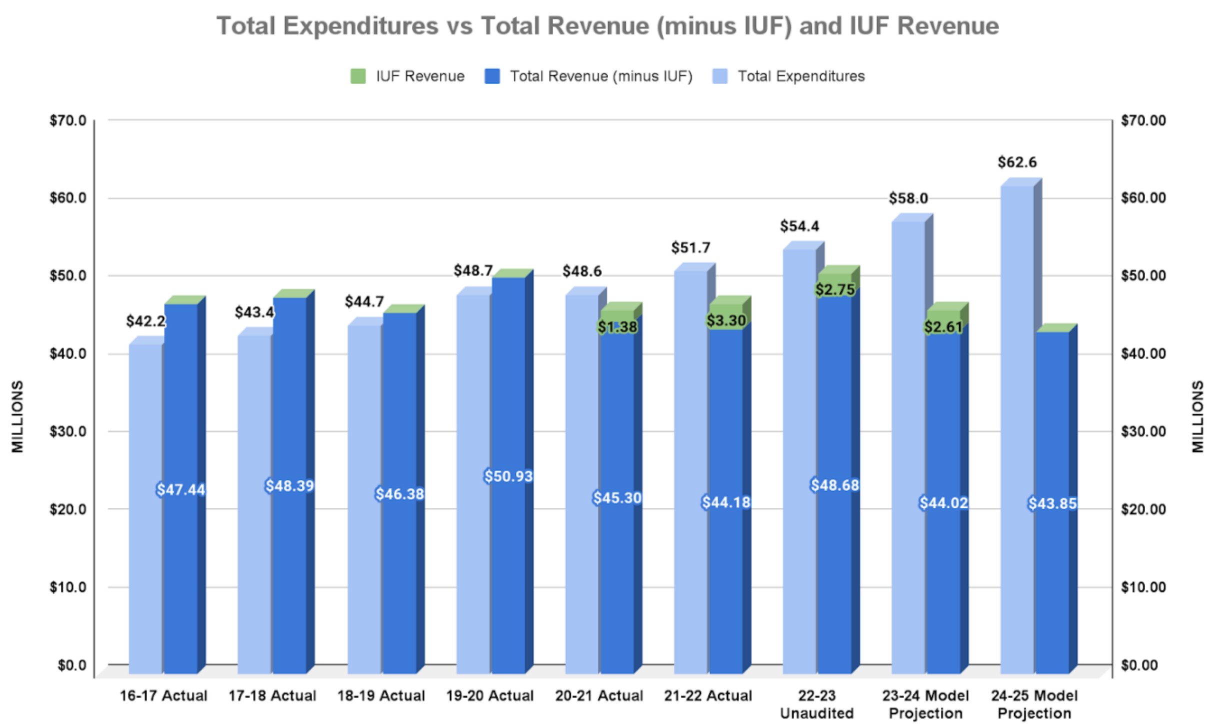
7. Organics Recycling: With the implementation of organic waste recycling programs, costs associated with collecting and processing organic waste, such as food scraps and yard trimmings, contribute to the expenditures.

8. Compliance and Regulatory Costs: Meeting state and federal regulations related to waste management, including reporting requirements and environmental compliance, requires funding. Expenditures associated with ensuring adherence to these regulations are essential components of the solid waste program's budget.

9. Personnel Training and Safety: Providing training for waste management personnel and ensuring their safety through proper equipment and protocols. Safety measures are crucial to protect both the workers and the community as MRF processors, sorters, and workers are listed as the seventh most dangerous jobs in America.

10. Community Outreach and Education: Engaging in educational initiatives and outreach programs to inform residents and businesses about recycling practices, waste reduction, and proper disposal methods. This helps promote community participation and compliance with waste management guidelines.

ER's expenditures have seen an increase over the past several years (see table below). In summary, the largest contributing expenditures to the solid waste program encompass waste collection personnel, fleet maintenance, waste transportation, disposal fees, recycling programs, organics recycling, compliance costs, personnel training, safety measures, and community outreach efforts. These expenditures are vital for ensuring efficient and environmentally responsible management of the city's solid waste.



Note: FYs 20-21 through 23-24 include revenue for payment to ER for the Infrastructure Use Fee which will end in FY 23-24.

*1Forbes Advisor:https://www.forbes.com/advisor/legal/workers-comp/most-dangerous-jobs-america/

Rate Change Scenarios (Preliminary Calculations)

To provide revenue that will sustain critical operations and maintenance, debt service, and fund capital expenditures, an increase in rates is recommended. Raftelis began work on the cost of service draft rate study to develop a financial plan for the City's solid waste utility that includes a ten-year rate model. Based upon the preliminary analysis, a rate adjustment is required to ensure full cost recovery of projected annual operating expenses, capital costs, and other factors including unfunded Local, State, and Federal mandates.

Updating the rates to keep up with the rising costs of providing safe and reliable services is a key component of maintaining the financial viability of the ER funds, including maintaining healthy fund balances/reserves for emergencies and applicable bond covenants (if/when required) and strong credit ratings. It is also more equitable since it looks at what customers should be paying based upon the level and type of service they receive.

To develop the financial plan, Raftelis estimated and projected annual expenses and revenues, existing and proposed debt service, modeled reserve balances, and added planned capital expenditures. The City is anticipating financing a portion of capital improvements through capital leases and debt. It is important to note that the draft cost of service study preliminarily calculates a net revenue loss for Fiscal Year 2023/24. Additionally, the draft cost of service study projects that the structural deficit will continue in future years without an increase in rates.

Because of the projected deficit, staff has worked closely with Raftelis to develop a viable preliminary draft financial plan for the City's solid waste fund. Due to the existing structural deficit in the ER Fund and the need for rate increases, the draft Study contemplates scenarios. The following scenarios are estimates and are not to be seen as fixed. These are being presented to show the sensitivity of the draft rate model to certain inputs and to initiate the conversation with the Committee Members/Councilmembers to provide comments and feedback.

Based on a collaborative effort among City staff and Raftelis several preliminary sensitivity runs and scenarios were identified and evaluated for comparison and discussion as follows:

- **Model Sensitivity 1: No rate adjustment**
    - Assumes all identified funding requirements including operating, capital, and proposed capital lease and debt payments. Key assumptions include:
        - Fiscal Year 2023/24 Served as Forecast Baseline as Adjusted for Actual Operating Results and known cost increases / operating expense growth estimated at 4.5% per year
        - Assumes some additional collection routes to maintain regulatory compliance with SB1383 and service demands
        - Assumes IUF repayments from the City to ER ends in FY 2023/24Assumes Resumption of IUF payments in FY 2024/25 to the City
        - $43.7 million Reinvestment to MRF including new equipment and roof FY 2025/26-FY 2027/28
        - Replacement of vehicles at end of life in FY 2024/25
        - Compliance with CARB Zero Emissions Vehicle Requirements
        - Primarily relies on use of capital leases and debt to fully fund capital expenditures
    - Recognizes no rate adjustments to assess the adequacy of existing fees to cover the cost of service

- **Model Sensitivity 2: Rate Adjustments and No Capital Expenditures**
    - Assumes all identified funding requirements except excludes capital spending
    - Helps identify the necessary rate increases which are driven by the structural deficit among revenues and operating expenses.

- **Scenario 1: Rate Adjustments and Reduced Capital Expenditures**
    - Assumes all identified funding requirements except reduces capital expenditures including minimal spending for the MRF rehabilitation and only funding 50% of projected new vehicle fleet requirements.
    - Includes an allowance for rebuilding vehicles to extend the service life and minimize capital expenditures.
    - Represents a moderate capital spending scenario, but doesn't fully address capital reinvestment needs of the system

- **Scenario 2: Phased Rate Adjustments and Reduced Capital Expenditures**
    - Builds off of Scenario 1, but assumes a $5 million interfund loan to assist ER in phasing the identified rate increases over three (3) years.
    - Represents a moderate capital spending scenario with phased increases.

- **Scenario 3: Rate Adjustments and Full Capital Expenditures**
    - Assumes all identified funding requirements as assumed in Model Sensitivity 1, including the full capital funding requirements.

    - Represents necessary rate adjustments to fund a fiscally sustainable operation and maintain regulatory compliance.

- **Scenario 4: Phased Rate Adjustments and Full Capital Expenditures**
    - Builds off of Scenario 3, but assumes a $5 million interfund loan to assist ER in phasing the identified rate increases over three (3) years.
    - Represents necessary rate adjustments to fund a fiscally sustainable operation and maintain regulatory compliance with phased increases.

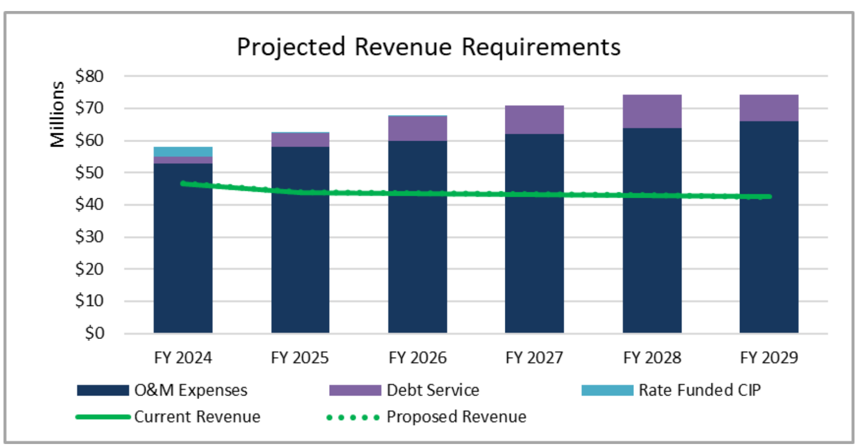
Baseline Model Assumptions

Assumes all identified funding requirements including operating, capital, and proposed capital lease and debt payments. Key assumptions include:

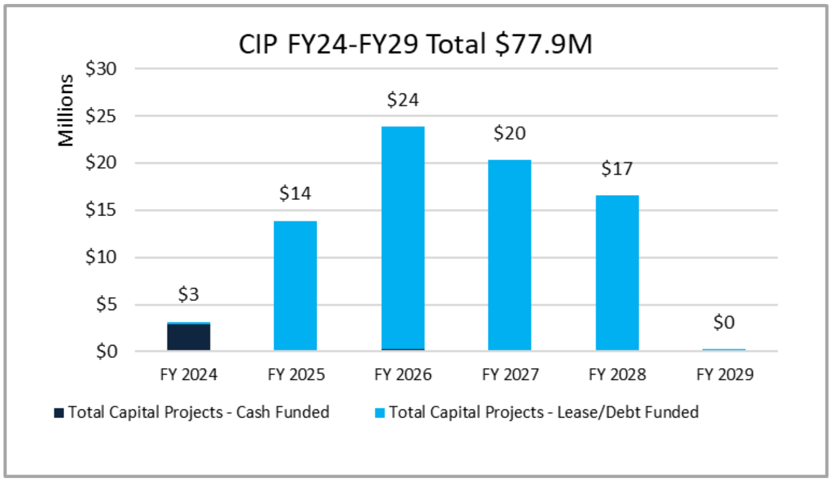
- Fiscal Year 2023/24 Served as Forecast Baseline as Adjusted for Actual Operating Results and known cost increases / operating expense growth estimated at 4.5% per year
- Assumes some additional collection routes to maintain regulatory compliance with SB1383 and service demands
- Assumes IUF repayments from the City to ER ends in FY 2023/24
- Assumes Resumption of IUF payments in FY 2024/25 to the City
- $43.7 million Reinvestment to MRF including new equipment and roof FY 2025/26-FY 2027/28
- Replacement of vehicles at end of life in FY 2024/25
- Compliance with CARB Zero Emissions Vehicle Requirements
- Primarily relies on use of capital leases and debt to fully fund capital expenditures.
- Recognizes no rate adjustments to assess the adequacy of existing fees to cover the cost of service

Model Sensitivity 1: No rate adjustment

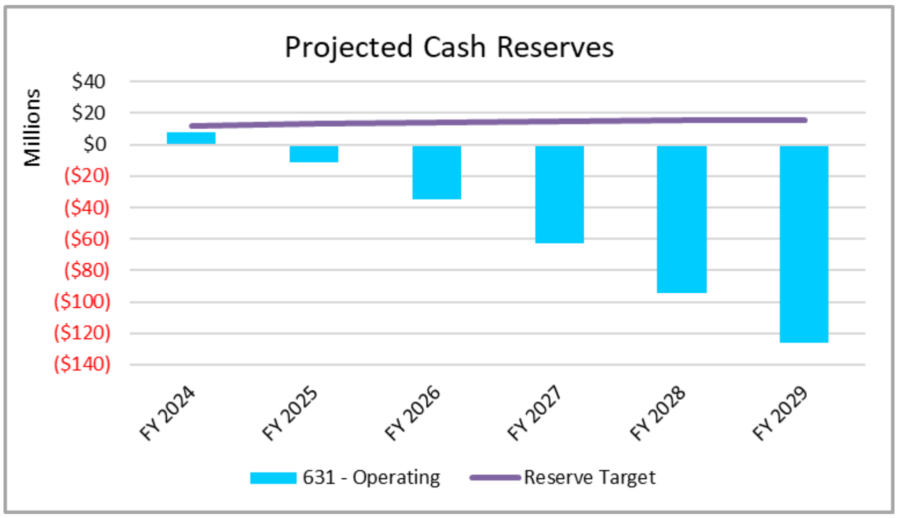
The following charts present a forecast of the cashflow requirements relative to a projection of existing revenues. As can be seen, the **solid green line** presents the projected revenues under existing rates. A decline in revenues is observed in FY 2024/25 due to the final repayment of IUF reimbursement from the City. Conversely, IUF payments to the City are assumed to begin in the Fiscal Year 2024/25. Operating expenses represented as the blue stacked bars are projected to increase by approximately 4.5% per year on average.



Capital expenditures funded directly from revenues are reflected as the blue stacked bar for FY 2023/24. Debt service requirements are represented as the purple stacked bar and reflect the addition of both existing capital lease payments and proposed capital lease and debt service payments associated with the funding of $77.9 million in capital spending as shown below.

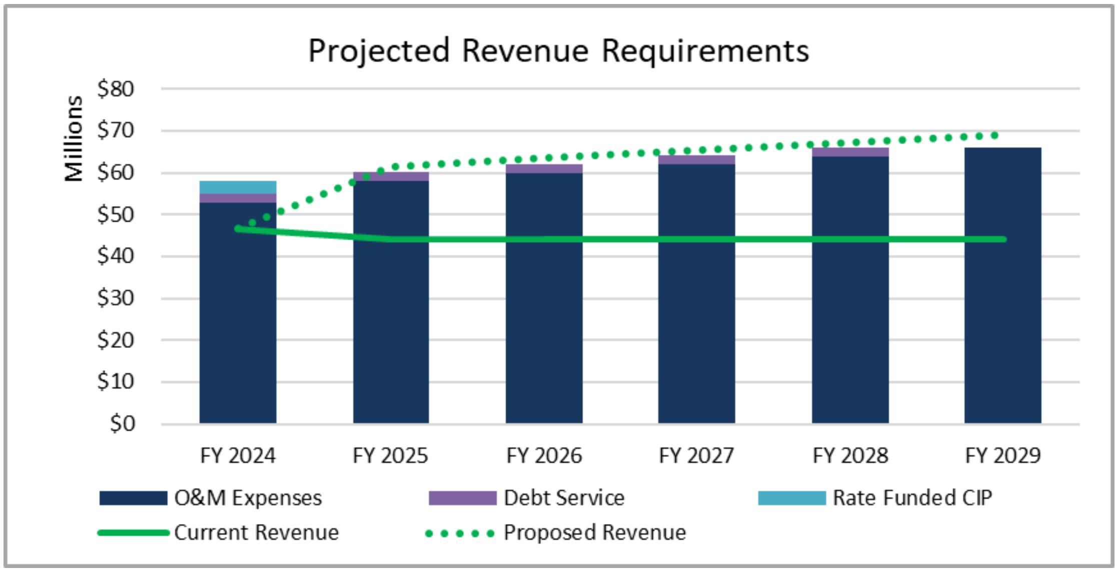


Assuming no rate adjustments ER system cash balances are estimated to fall negative by the Fiscal Year 2024/25 as shown below.



Model Sensitivity 2: Rate Adjustments and No Capital Expenditures

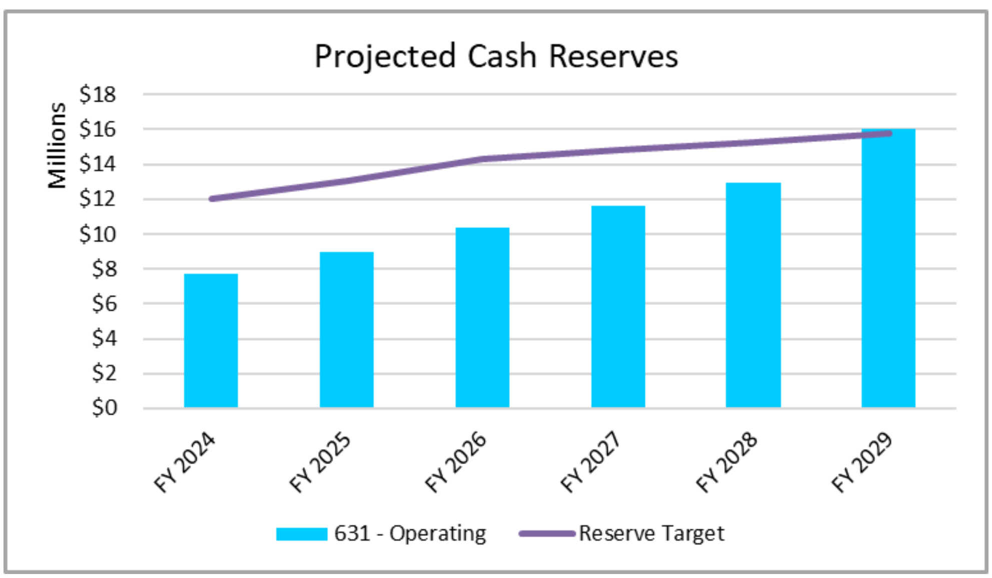
Assumes all identified funding requirements pursuant to Model Sensitivity 1 except it excludes capital spending to help identify the necessary rate increases to address the structural deficit among revenues and operating expenses. The following charts present a forecast of the cashflow requirements relative to a projection of existing revenues. As can be seen in this scenario in contrast with Model Sensitivity 1, the forecast does not reflect any increase in debt service payments.



To fully fund the revenue requirements of the scenario the following rate adjustments were recognized:

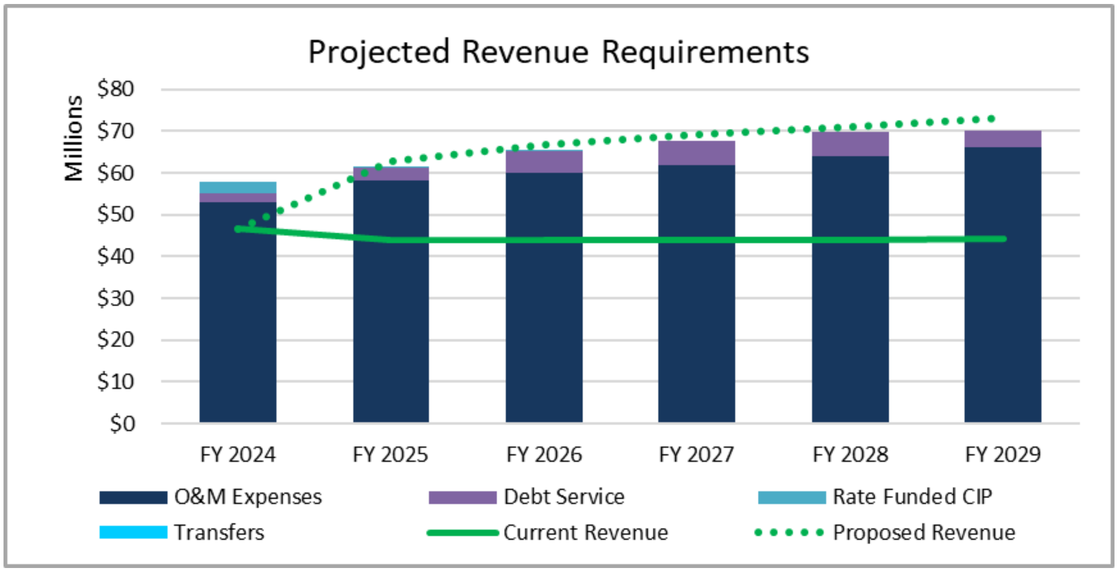
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Recognized Revenue Adjustments - All Customers	**0.00%**	**0.00%**	**43.00%**	**3.50%**	**3.00%**	**3.00%**	**3.00%**
96 Gallon Residential	$30.78	$30.78	$44.02	$45.56	$46.93	$48.34	$49.79
Monthly Increase		$0.00	$13.24	$1.54	$1.37	$1.41	$1.45
64 Gallon Residential	$24.70	$24.70	$35.32	$36.56	$37.66	$38.79	$39.95
Monthly Increase		$0.00	$10.62	$1.24	$1.10	$1.13	$1.16
4 Cubic Yard - 1x week Commercial	$230.86	$230.86	$330.13	$341.68	$351.93	$362.49	$373.36
Monthly Increase		$0.00	$99.27	$11.55	$10.25	$10.56	$10.87

Assuming implementation of the identified rate adjustments the City is expected to maintain compliance with the minimum reserve target equivalent to 25% of operating expenditures.

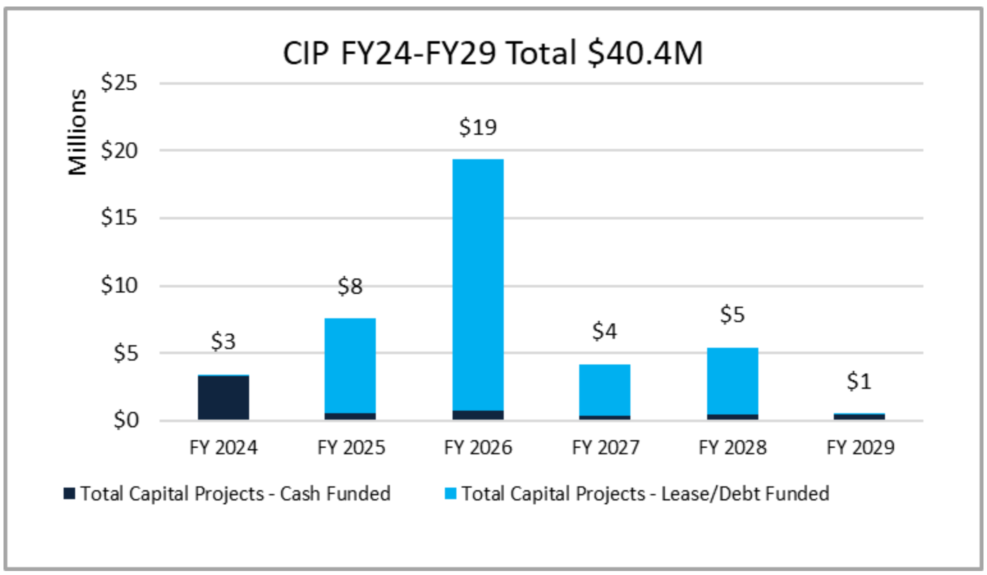


Scenario 1: Rate Adjustments and Reduced Capital Expenditures

Assumes all identified funding requirements pursuant to Model Sensitivity 1 except reduces capital expenditures including minimal spending for the MRF rehabilitation and only funding 50% of projected new vehicle fleet requirements. Includes an allowance for rebuilding vehicles to extend the service life and minimize capital expenditures. Represents a moderate capital spending scenario, but doesn't fully address capital reinvestment needs of the system. As can be seen in this scenario in contrast with Model Sensitivity 1, the forecast assumes less debt service associated with more moderate capital spending assumptions.



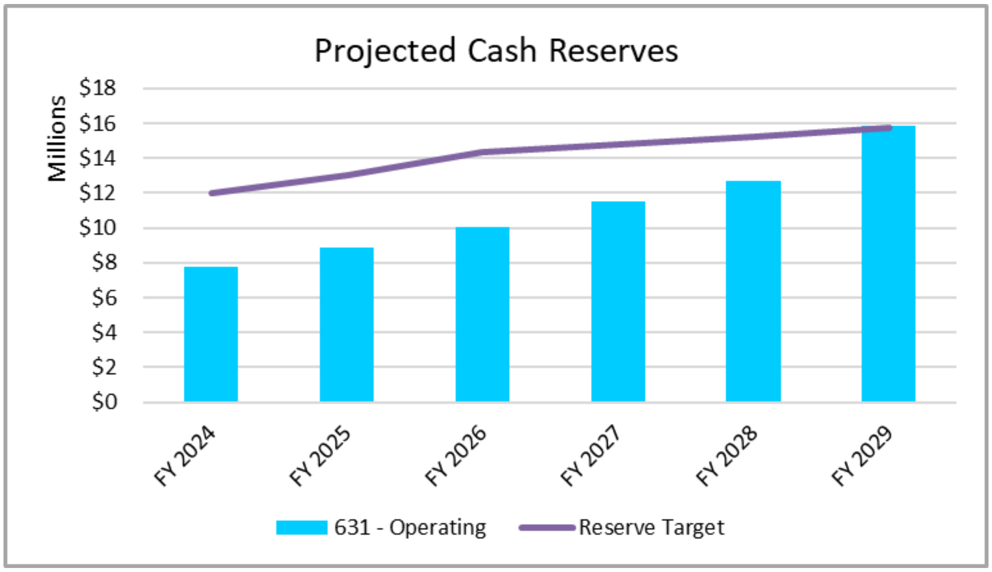
The following chart presents the total capital funding requirements assumed in this scenario. The majority of spending is assumed in the Fiscal Year 2025/26 associated with funding for the replacement of the MRF facility roof and partial equipment replacement. It is expected that the City will require further capital reinvestment to the MRF facility beyond the forecast period.



To fully fund the revenue requirements of the scenario the following rate adjustments were recognized:

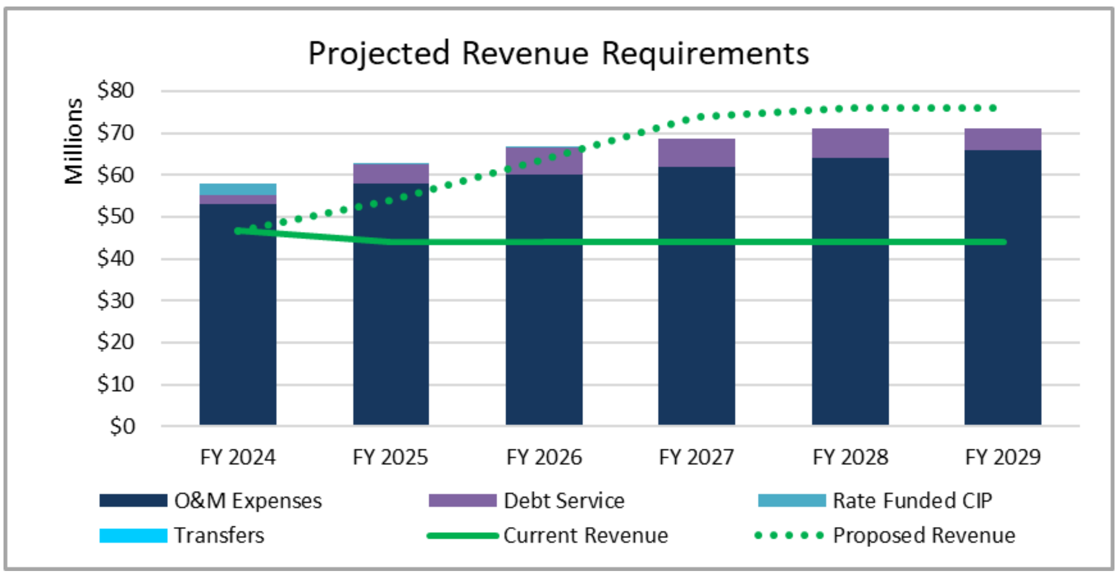
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Recognized Revenue Adjustments - All Customers	**0.00%**	**0.00%**	**46.00%**	**7.00%**	**3.50%**	**3.00%**	**3.00%**
Effective Months	**12.0**	**12.0**	**12.0**	**12.0**	**12.0**	**12.0**	**12.0**
96 Gallon Residential - Monthly Bill	$30.78	$30.78	$44.94	$48.09	$49.77	$51.26	$52.80
$ - Change		$0.00	$14.16	$3.15	$1.68	$1.49	$1.54
64 Gallon Residential	$24.70	$24.70	$36.06	$38.58	$39.93	$41.13	$42.36
$ - Change		$0.00	$11.36	$2.52	$1.35	$1.20	$1.23
4 Cubic Yard - 1x week Commercial	$230.86	$230.86	$337.06	$360.65	$373.27	$384.47	$396.00
$ - Change		$0.00	$106.20	$23.59	$12.62	$11.20	$11.53

Assuming implementation of the identified rate adjustments the City is expected to maintain compliance with the minimum reserve target equivalent to 25% of operating expenditures.



Scenario 2: Phased Rate Adjustments and Reduced Capital Expenditures

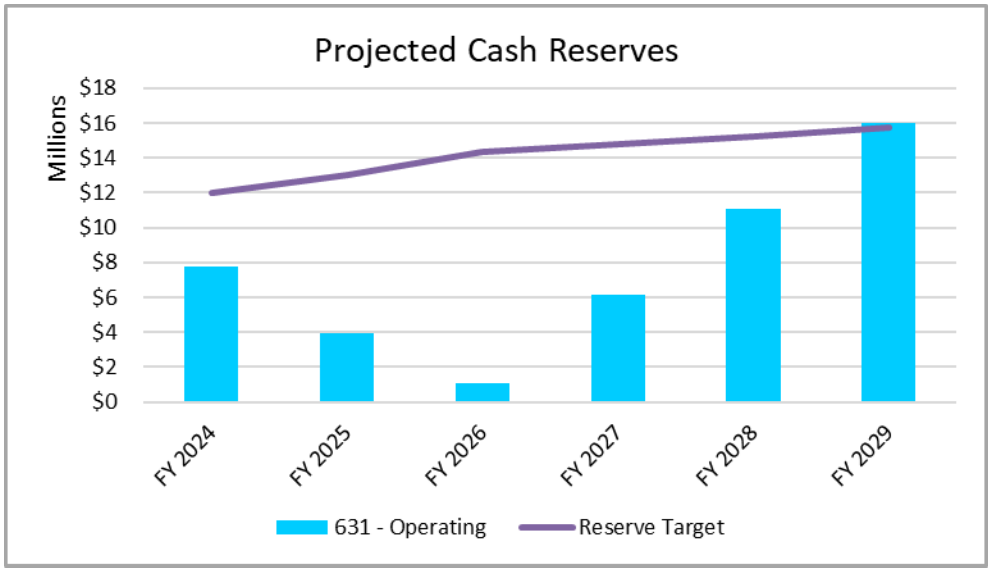
Builds off of Scenario 1, but assumes a $5 million interfund loan to assist ER in phasing the identified rate increases over three (3) years. Represents a moderate capital spending scenario with phased increases. As can be seen in this scenario in contrast with Scenario 3, the forecast assumes a more moderate phase-in of the proposed system revenues.



The following rate adjustments were recognized:

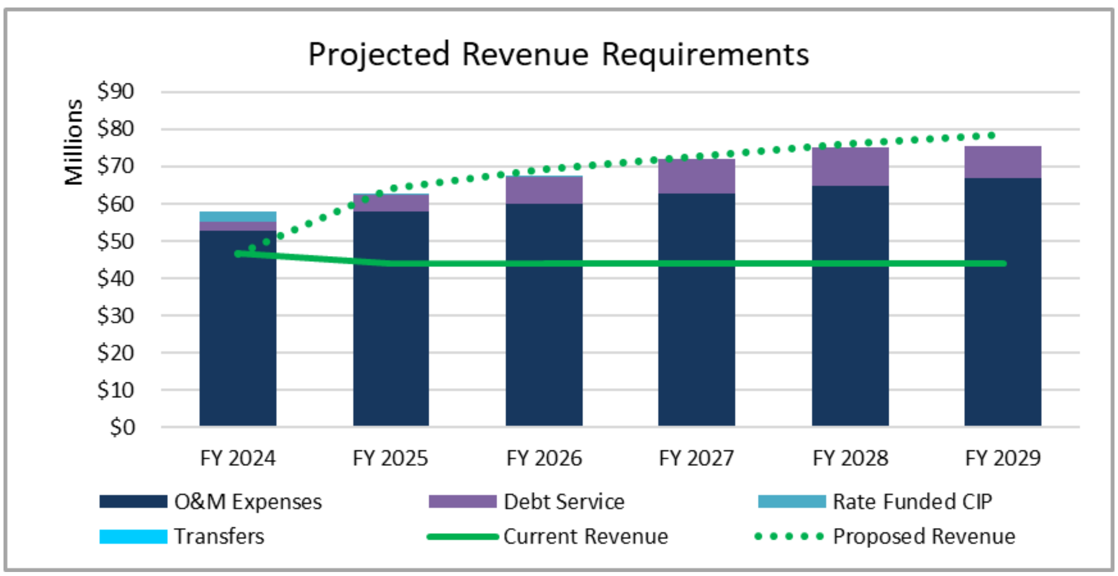
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Recognized Revenue Adjustments - All Customers	**0.00%**	**0.00%**	**24.53%**	**19.70%**	**16.46%**	**3.00%**	**0.00%**
Effective Months	12.0	12.0	12.0	12.0	12.0	12.0	12.0
96 Gallon Residential - Monthly Bill	$30.78	$30.78	$38.33	$45.88	$53.43	$55.03	$55.03
$ - Change		$0.00	$7.55	$7.55	$7.55	$1.60	$0.00
64 Gallon Residential	$24.70	$24.70	$30.76	$36.82	$42.88	$44.17	$44.17
$ - Change		$0.00	$6.06	$6.06	$6.06	$1.29	$0.00
4 Cubic Yard - 1x week Commercial	$230.86	$230.86	$287.49	$344.12	$400.75	$412.77	$412.77
$ - Change		$0.00	$56.63	$56.63	$56.63	$12.02	$0.00

Assuming implementation of the identified rate adjustments the City is expected to reach compliance with the minimum reserve target equivalent to 25% of operating expenditures, however, cash reserves are expected to be substantially depleted by the Fiscal Year 2025/26 resulting in an increased financial risk to other City funds.



Scenario 3: Rate Adjustments and Full Capital Expenditures

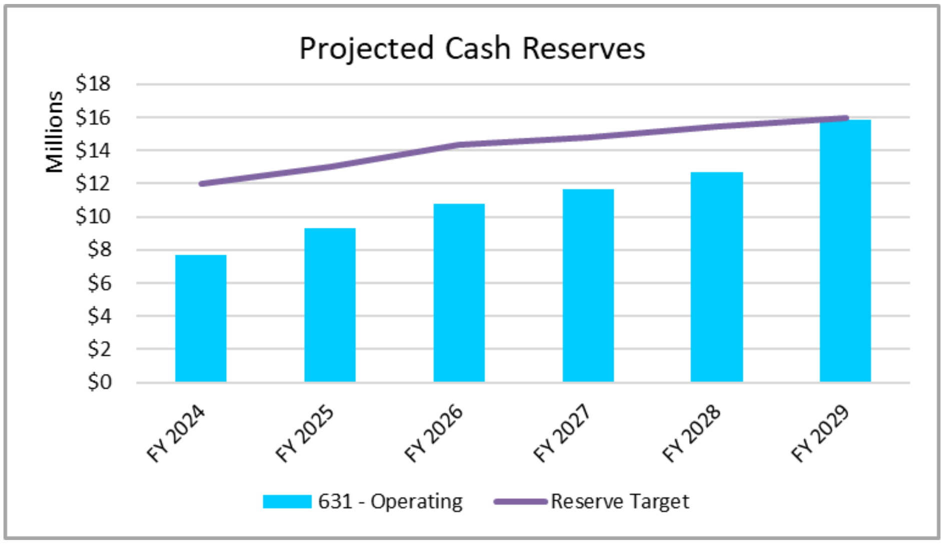
Assumes all identified funding requirements as assumed in Model Sensitivity 1, including the full capital funding requirements. Represents necessary rate adjustments to fund a fiscally sustainable operation and maintain regulatory compliance. The following chart presents a forecast of the funding requirements consistent with Model Sensitivity 1, however also assumes additional revenue adjustments. The debt assumptions observed to fully fund the CIP assume: i) $46.5 million in 20-year loans at 5% interest for the facility capital improvements; and ii) approximately $28 million in capital leases with a 7-year repayment at 3% interest. Total debt and capital lease payments are expected to increase from approximately $2 million a year to $10 million a year at its highest level by the Fiscal Year 2027/28.



The following presents the proposed rate adjustments to fully fund the requirements of this scenario.

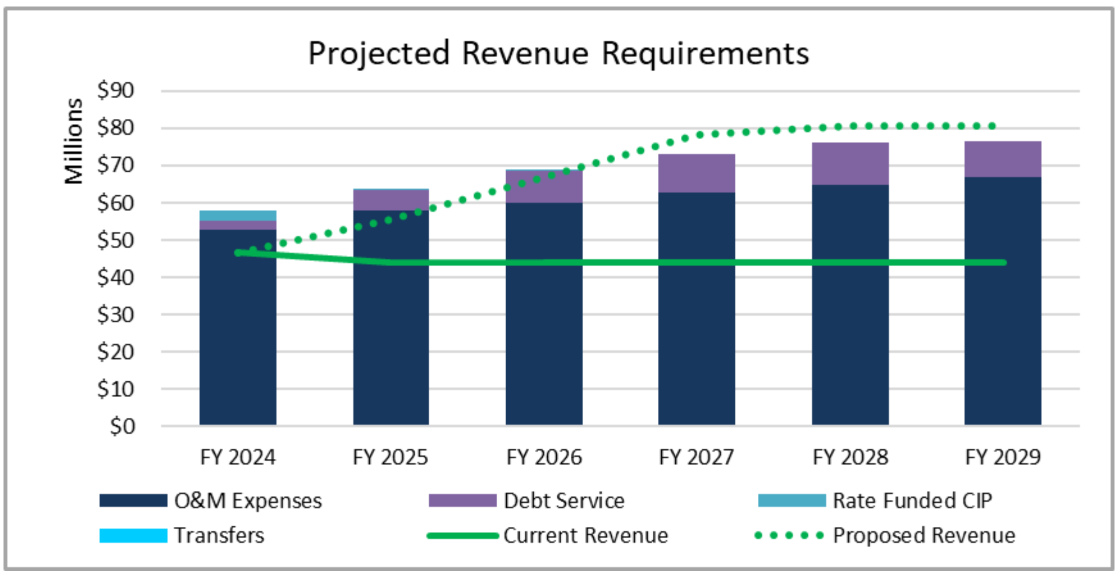
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Recognized Revenue Adjustments - All Customers	**0.00%**	**0.00%**	**50.00%**	**8.00%**	**5.50%**	**5.00%**	**3.00%**
Effective Months	**12.0**	**12.0**	**12.0**	**12.0**	**12.0**	**12.0**	**12.0**
96 Gallon Residential - Monthly Bill	$30.78	$30.78	$46.17	$49.86	$52.60	$55.23	$56.89
$ - Change		$0.00	$15.39	$3.69	$2.74	$2.63	$1.66
64 Gallon Residential	$24.70	$24.70	$37.05	$40.01	$42.21	$44.32	$45.65
$ - Change		$0.00	$12.35	$2.96	$2.20	$2.11	$1.33
4 Cubic Yard - 1x week Commercial	$230.86	$230.86	$346.29	$373.99	$394.56	$414.29	$426.72
$ - Change		$0.00	$115.43	$27.70	$20.57	$19.73	$12.43

Assuming implementation of the identified rate adjustments the City is expected to maintain compliance with the minimum reserve target equivalent to 25% of operating expenditures, however, cash reserves are expected to be substantially depleted by the Fiscal Year 2025/26 resulting in an increased financial risk to other City funds.



Scenario 4: Phased Rate Adjustments and Full Capital Expenditures

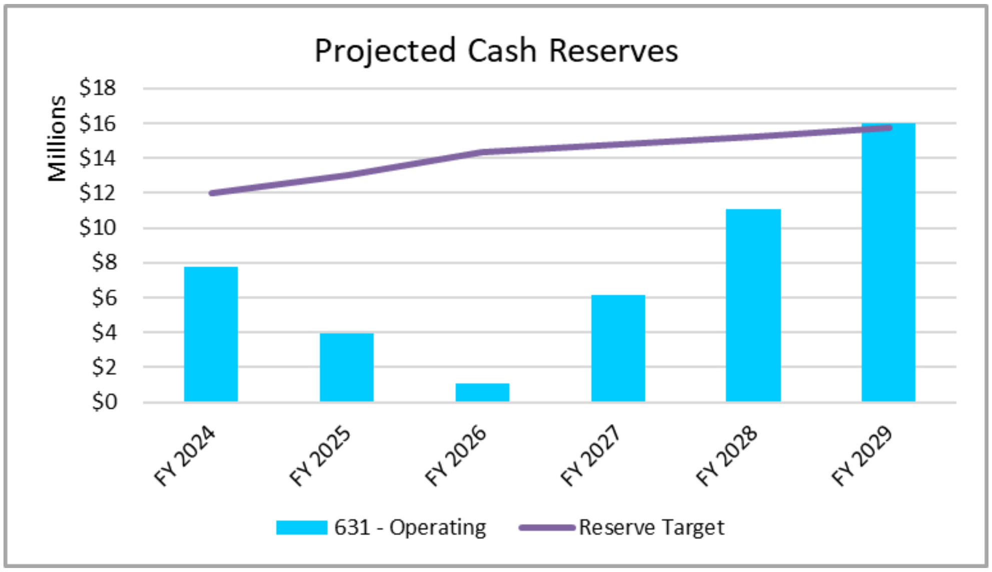
Assumes all identified funding requirements as stated in Model Sensitivity 1 and Scenario 3, including the full capital funding requirements. It only varies from Scenario 3 in that it phases the rate increase over a 3-year period through an assumed $5 million interfund loan. As can be seen in this scenario in contrast with Scenario 3, the forecast assumes a more moderate phase-in of the proposed system revenues.



The following rate adjustments were recognized:

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Recognized Revenue Adjustments - All Customers	0.00%	0.00%	28.27%	22.04%	18.06%	3.00%	0.00%
Effective Months	12.0	12.0	12.0	12.0	12.0	12.0	12.0
96 Gallon Residential - Monthly Bill	$30.78	$30.78	$39.48	$48.18	$56.88	$58.59	$58.59
$ - Change		$0.00	$8.70	$8.70	$8.70	$1.71	$0.00
64 Gallon Residential	$24.70	$24.70	$31.68	$38.66	$45.64	$47.01	$47.01
$ - Change		$0.00	$6.98	$6.98	$6.98	$1.37	$0.00
4 Cubic Yard - 1x week Commercial	$230.86	$230.86	$296.11	$361.36	$426.61	$439.41	$439.41
$ - Change		$0.00	$65.25	$65.25	$65.25	$12.80	$0.00

Assuming implementation of the identified rate adjustments the City is expected to reach compliance with the minimum reserve target equivalent to 25% of operating expenditures, however, cash reserves are expected to be substantially depleted by the Fiscal Year 2025/26 resulting in an increased financial risk to other City funds.

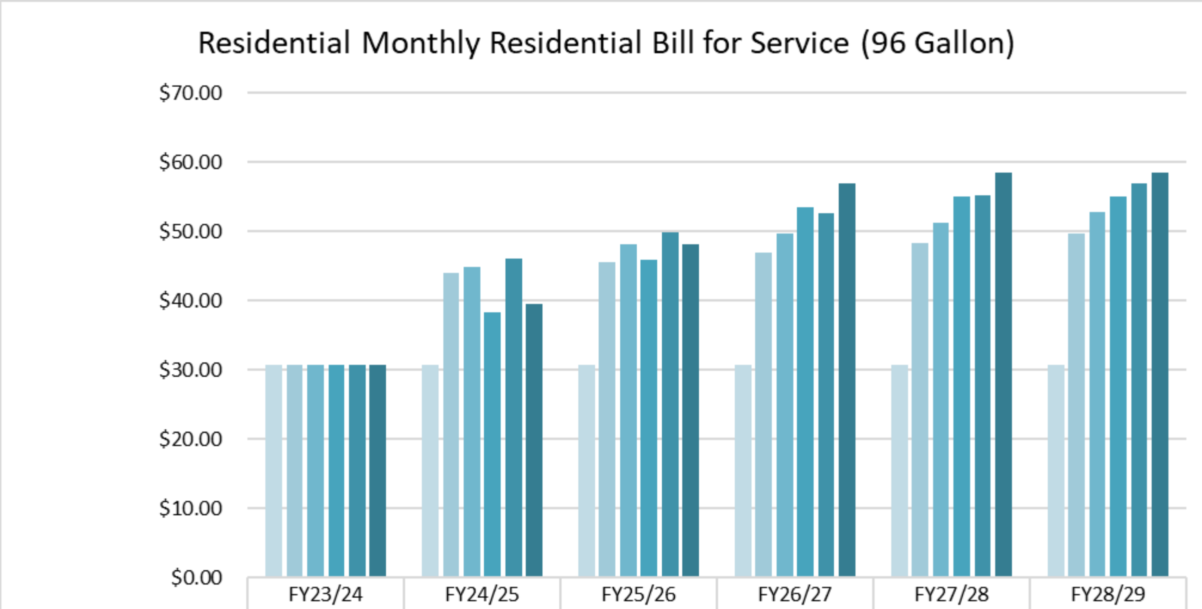


Scenario Comparisons and Key Observations:

Scenario Residential Bill Impact Comparison
As can be seen below, Scenario 1 and 3 represent the largest single rate revenue adjustments ranging from approximately $14 to $15 per month. Based on comparison Model Sensitivity 2 we can infer that 86% of the rate increase is to address the operating expenses / structural deficiency of the system. Of Scenarios 1 and 3, only Scenario 3 fully funds the total identified needs of the system.

Additionally, we performed a sensitivity with Scenarios 2 and 4, which phased in the rate increases over a three (3) year period. Scenario 2 represents the moderate capital funding at $7.55/month while Scenario 4 represents the full capital funding requirements at $8.70/month.

	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29
Model Sensitivity 1	**$-**	**$-**	**$-**	**$-**	**$-**
Model Sensitivity 2	**$13.24**	**$1.54**	**$1.37**	**$1.41**	**$1.45**
Scenario 1	**$14.16**	**$3.15**	**$1.68**	**$1.49**	**$1.54**
Scenario 2	**$7.55**	**$7.55**	**$7.55**	**$1.60**	**$-**
Scenario 3	**$15.39**	**$3.69**	**$2.74**	**$2.63**	**$1.66**
Scenario 4	**$8.70**	**$8.70**	**$8.70**	**$1.71**	**$0.00**



	FY23/24	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29
Model Sensitivity 1	$30.78	$30.78	$30.78	$30.78	$30.78	$30.78
Model Sensitivity 2	$30.78	$44.02	$45.56	$46.93	$48.34	$49.79
Scenario 1	$30.78	$44.94	$48.09	$49.77	$51.26	$52.80
Scenario 2	$30.78	$38.33	$45.88	$53.43	$55.03	$55.03
Scenario 3	$30.78	$46.17	$49.86	$52.60	$55.23	$56.89
Scenario 4	$30.78	$39.48	$48.18	$56.88	$58.59	$58.59

Financial Assistance Programs

The City of Oxnard's Utility Rate Assistance Program "Project Assist" is available for solid waste, water, and wastewater utility customers who qualify. This program was initially approved by City Council in May 2017 and has since been renewed annually. Project Assist grants financial relief equal to a monthly $25.00 maximum credit per utility bill charged to customers who meet the eligibility requirements. For FY 2023/24, staff requested to direct $241,500 from late penalty revenues to the Project Assist Program. The $241,500 allocation estimates that approximately 805 eligible utility customers could participate in the program for a full fiscal year.

Outreach Information

Requirements for Prop 218 and Timeline:

Proposition 218 has very strict rules that govern the revenue of the solid waste utility. Specifically:

1. An agency cannot collect revenue beyond what is necessary to provide the service.
2. Revenues derived from the charge shall not be used for any other purpose other than that for which the charge was imposed.
3. The amount of the fee may not be used for any other purpose other than that for which the change was imposed.
4. The amount of the fee may not exceed the proportional cost of service for the parcel.
5. No charge may be imposed for a service unless that service is actually used or immediately available to the owner of the property.
6. A written notice of the proposed charge shall be mailed to the record owner of each parcel at least 45 days prior to the public hearing when the agency considers all written protests against the charge.

Estimated Timeline for Proposition

Early January 2024	Mail Proposition 218 Notices (English & Spanish) containing the Proposed Solid Waste Rate increase to Property Owners and Ratepayers
March 4, 2023	Public Hearing for Proposed Rate

In addition to the required notification listed above, the City has created a multi-faceted outreach campaign to raise awareness of the Refuse Cost of Service draft Study, which includes two Community Meetings scheduled for Wednesday, November 15, 2023, at 6:30 p.m. at the South Oxnard Center and Wednesday, December 13, 2023, at 6:30 p.m. at the Oxnard City Council Chambers - streamed virtually via the City's YouTube Channel.

Additionally, staff anticipates distributing a bilingual press release before the Community Meetings; running English and Spanish social media ads on Facebook and Instagram to inform residents and stakeholders; and publishing a bilingual print ad in VIDA newspaper. Paid outreach will be supplemented by including Refuse Cost of Service Study Community Meeting flyers in the neighborhood weekly packets and regularly posting on Nextdoor, Twitter, Facebook, and Instagram.

The City's consultant, Raftelis, created an informational Rates 101 video in English and Spanish, which will be shared by staff at Community Meetings, on the City website, and via the City's social media channels. Additionally, staff has created an ER Division video in English and Spanish, which details the operations and services provided by the division, and the economic challenges the division faces. The videos will be shared in a series of small clips on a YouTube playlist and social media channels for the community to access.

STRATEGIC PRIORITIES

This agenda item supports the Infrastructure and Natural Resources strategy. The purpose of the Infrastructure and Natural Resources strategy is to preserve and improve our roads, utilities, parks, trees, water supply and natural resources through effective planning, prioritization, and an equitable and efficient use of available funding.

FINANCIAL IMPACT

The solicitation of City Council input and feedback has no fiscal impact. Absent a rate adjustment, the draft cost of service study projects negative cash balances by FY 2024/25.

COMMITTEE OUTCOME

The Public Works and Transportation Committee approved 2-0 on November 14, 2023, to approve the staff recommendation and forward the item to the Council for input. The context of the staff report from Committee has been edited based on comments received at the November 14, 2023 meeting. In addition, the recommendation section has been updated to include comments that were received.

Prepared by: Brian Yanez, Assistant Public Works Director

ATTACHMENTS

1. City Presentation
2. Raftelis Presentation