

CITY OF THOUSAND OAKS

2022 Wastewater Enterprise Financial Plan Update

Final Report / October 12, 2021





October 12, 2021

City of Thousand Oaks
Attn.: Clifford G. Finley, Public Works Director
& Jaime Boscarino, Finance Director
City of Thousand Oaks
2100 Thousand Oaks Blvd
Thousand Oaks, CA 91362

Subject: 2022 Wastewater Enterprise Financial Plan Update

Dear Clifford Finley and Jaime Boscarino,

Raftelis, in partnership with Water Resources Economics, is pleased to provide this report on the 2022 Wastewater Enterprise Financial Plan Update Study (Study) to the City of Thousand Oaks (City). We are confident that the update to the financial plan and revenue adjustments will result in fair and equitable rates for the City's wastewater customers and comply with the requirements of Proposition 218.

The Study involved a comprehensive review of the City's financial plan, capital needs, and reserve funds in order to determine proposed wastewater rate increases for fiscal years 2023 and 2024.

It was a pleasure working with you, and we wish to express our thanks to you, Mr. Nader Heydari, Ms. Sheri Johnson, and other participating staff members of the City for the support and cooperation extended over the course of the Study. Should you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sanjay Gaur'.

Sanjay Gaur
Project Director
Water Resources Economics

A handwritten signature in black ink, appearing to read 'Charles Diamond'.

Charles Diamond
Project Manager
Raftelis

A handwritten signature in black ink, appearing to read 'Lindsay Roth'.

Lindsay Roth
Lead Analyst
Raftelis

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List of Abbreviations

Terms	Descriptions
CIP	Capital Improvement Plan
COS	Cost of Service
CY	Calendar Year (January 1 – December 31)
FY	Fiscal Year (July 1 – June 30)
MGD	Million Gallons per Day
O&M	Operations and Maintenance
PAYGO	Pay-As-You-Go
SU	Service Unit
WEF	Water Environment Federation

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1. Executive Summary

1.1. Study Background

In 2012, the City of Thousand Oaks (City) engaged Raftelis to conduct a Wastewater Financial Plan Study to develop a sustainable reserve policy and financial plan for the City's Wastewater Enterprise and to conduct a cost of service analysis to establish rates that generate sufficient revenue to meet operational and capital needs. Since this study was completed in 2013, Raftelis conducted financial plan updates in 2015 and 2017 to establish proposed uniform percentage increases in wastewater monthly charges each year. The 2020 Wastewater Enterprise Financial Plan and Cost of Service Update Study included an updated cost of service analysis and determined the current wastewater rates in effect as of fiscal year (FY) 2022. Raftelis was again engaged by the City in 2021 to update the Wastewater Enterprise Financial Plan and to establish proposed wastewater rates for FY 2023 and FY 2024.

The most significant factor influencing the Wastewater Enterprise's updated financial plan presented in this report is the substantial planned capital improvement plan (CIP) expenses for the wastewater system. The five-year Study period, from FY 2022 to FY 2026, includes average annual CIP expenses of \$10.1M. The City plans to utilize wastewater rate revenues and cash reserves to fund all CIP over the Study period, avoiding the need for debt financing. The City has instructed Raftelis to propose a five-year financial plan for the Wastewater Enterprise that generates sufficient revenues to ensure financial sufficiency.

1.2. Objectives of the Study

The major objectives of the Study include the following:

- » Update the five-year financial plan for the Wastewater Enterprise to ensure financial sufficiency, meet operation and maintenance (O&M) costs, ensure sufficient funding for CIP projects, and maintain the financial health of the Wastewater Enterprise;
- » Review reserve fund targets; and
- » Develop fair and equitable rate adjustments for the City's wastewater customers.

1.3. Results and Recommendations

Reserve Policy

A reserve policy provides a basis for the City to cope with fiscal emergencies such as revenue shortfalls, asset failure, natural disaster, etc. It also provides guidelines for sound financial management with an overall long-range perspective to maintain financial solvency and mitigate financial risks associated with revenue instability, volatile capital costs, and emergencies.

The City maintains three types of reserves for its Wastewater Enterprise:

1. Operating Reserve - to provide working capital to support the operation, maintenance, and administration of the utility;
2. Emergency Reserve - to allow the utility to provide uninterrupted service in light of a fiscal or physical emergency; and
3. Capital Improvement Plan Reserve - used to fund future obligations that are necessary for maintaining reliable infrastructure.

Raftelis recommends that the City maintain its existing reserve policies for the Operating and Emergency Reserves. However, because of the very large amount of planned CIP over the study period, Raftelis recommends lowering the CIP Reserve from 3 years of annual average 5-year CIP to 2 years. This will allow the utility to draw on existing reserves to fund CIP and avoid rate shock to its customers. Additionally, this aligns with the Water Enterprise CIP Reserve. **Table 1-1** lists the recommended reserve policies for the Wastewater Enterprise.

Table 1-1: Recommended Wastewater Reserves

	A	B	C
Line	Reserve	Recommended Policy	FY 2022 Target Level
1	Fund 621 - Wastewater Operating Fund		
2	Operating	25% of Operating Budget	\$4,258,927
3	Fund 624 - Wastewater Capital Fund		
4	Emergency	Replacement Cost of Chlorine Contact Chamber and Filter Influent Pumps (most critical asset)	\$3,031,169
5	CIP	Two years of annual average 5-year CIP	\$20,295,832
6	Total Wastewater Fund		\$27,585,928

Proposed Revenue Adjustments

Table 1-2 shows the proposed revenue adjustments for the Wastewater Enterprise for the next five fiscal years. Raftelis recommends a 3% revenue adjustment starting in FY 2023 through FY 2026. The proposed revenue adjustments will enable the Wastewater Enterprise to more effectively maintain reserves over the Study period. Ending cash balances are projected to fall slightly below target in FY 2025 but recover by the end of the study period in FY 2026. Because the sewer charge collection will be moving to the property tax roll, revenue adjustments are scheduled to be implemented July 1 of 2022 and each subsequent year as shown in **Table 1-2**. While five years of rate adjustments are shown, to align with the City’s budget-setting process, it is recommended to only adopt rate adjustments for two years; in FY 2023 and FY 2024.

Table 1-2: Proposed 5-Year Revenue Adjustments

	A	B	C
Line	Fiscal Year	Effective Month	Revenue Adjustment
1	FY 2022	July 2021	0%
2	FY 2023	July 2022	3%
3	FY 2024	July 2023	3%
4	FY 2025	July 2024	3%
5	FY 2026	July 2025	3%

Factors Affecting Revenue Adjustments

The following items affect the Wastewater Enterprise’s revenue requirement (i.e., costs) and thus its rates. The City’s costs include Operation and Maintenance (O&M) expenses and capital expenses.

- » **Planned CIP Expenses:** The financial plan accounts for approximately \$10.1M in annual average CIP expenses over the five-year Study period (\$50.7M in total five-year CIP), which will be funded entirely through rate revenues and reserves (Pay-As-You-Go or PAYGO).

- » **Reserve Funding:** The Wastewater Enterprise has operating, emergency, and capital reserves; collectively amounting to \$27.6M in funds that must be reserved in FY 2022.

Proposed Financial Plan

Figure 1-1 shows the Wastewater Enterprise financial plan, where the expenses and reserve funding are shown by stacked bars and total revenues at current rates and proposed rates are shown by dark blue dashed and solid lines, respectively. Under the proposed rate adjustments shown in **Table 1-2**, the Wastewater Enterprise will be able to contribute more to reserves, which are required to fund capital needs and to maintain healthy reserve levels in case of emergency.

Figure 1-1: Proposed Financial Plan

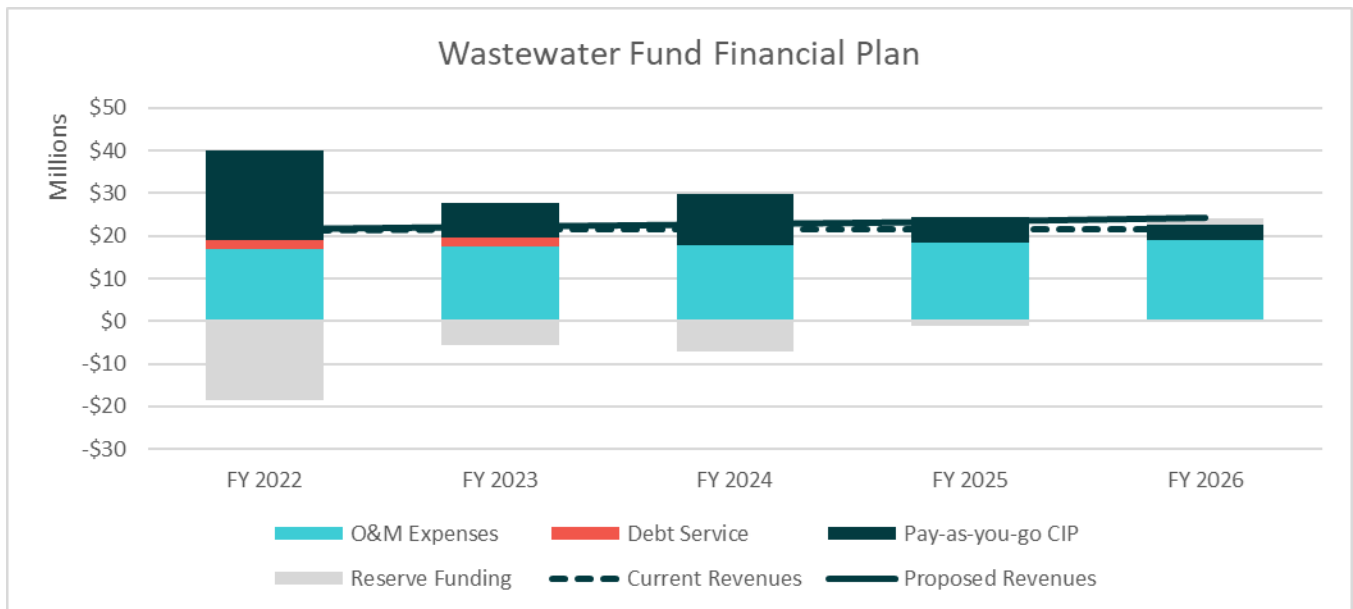
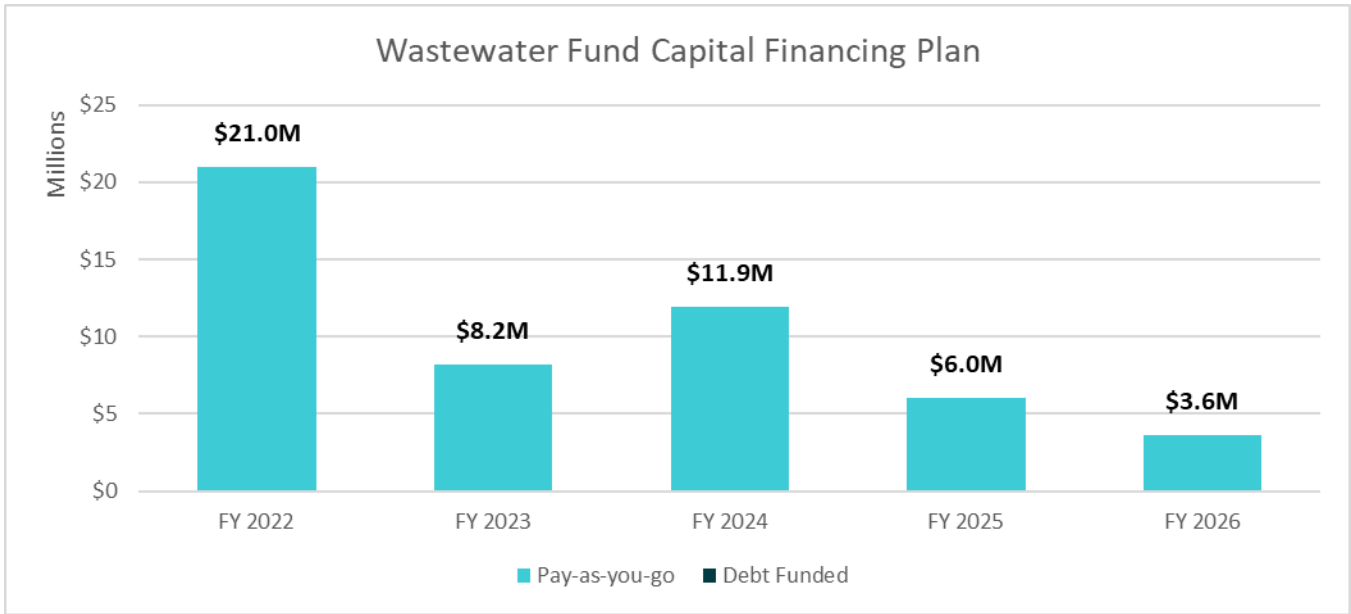


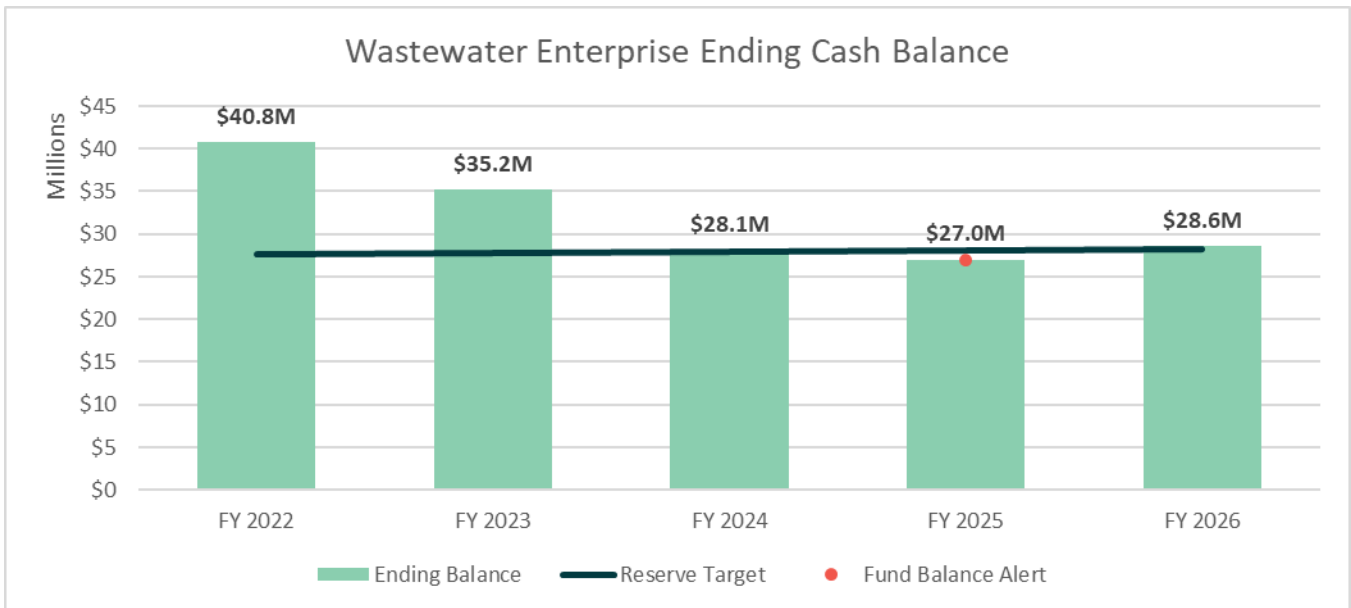
Figure 1-2 summarizes the projected CIP expenses, which have an average CIP expense of \$10.1M for the 5-year Study period of FY 2022 through FY 2026. The proposed capital improvement plan is assumed to be entirely PAYGO-funded.

Figure 1-2: Capital Improvement Plan Funding



The ending cash balance for the Wastewater Enterprise includes the beginning balances, plus net operating cash flow for the year, less capital expenses. The ending cash balance for the Wastewater Enterprise is shown in **Figure 1-3**, where the dark blue line indicates the target reserve balance as recommended by the reserve funding levels summarized above. Under the proposed financial plan, ending balances are projected to decrease from FY 2022 through FY 2025 before recovering in FY 2026.

Figure 1-3: Projected Ending Cash Balance



Proposed Wastewater Rates

Although the Study includes a five-year financial plan, the City only adopts rates for two years at a time. Therefore, proposed rates were developed only for FY 2023 and FY 2024. Because the residential wastewater charges moved to the property tax roll in FY 2022, rate adjustments will change from following a calendar year to fiscal year model. Therefore, the first rate increase was postponed to July 1, 2022, to be effective for FY 2023. Current wastewater charges will remain in place for the rest of FY 2022.

Raftelis proposes a 3% annual revenue adjustment for each year in the Study period starting in FY 2023. Note that while the study period encompasses FY 2022-FY 2026, the City adopts only two years of rates at a time. Additionally, the City moved the residential wastewater charges to the property roll, for FY 2022, and thus will delay increasing rates until July 1, 2022; therefore, the following tables only show proposed rates for FY 2023 and FY 2024. **Table 1-3** shows the monthly fixed charge per Service Unit (SU), which represents the uniform rate applied to all customers after normalizing for differences in wastewater flow and strength.

Table 1-3: Proposed Wastewater Rates (\$/Service Unit)

	A	B	C	D
Line	Description	Current	Proposed FY 2023 (July 2022)	Proposed FY 2024 (July 2023)
1	Monthly Service Charge per Service Unit	\$29.95	\$30.85	\$31.78
2	Impact		\$0.90	\$0.93

2. Introduction

2.1. Study Background

In 2012, the City of Thousand Oaks (City) engaged Raftelis to conduct a Wastewater Financial Plan Study to develop a sustainable reserve policy and financial plan for the City's Wastewater Enterprise and to conduct a cost of service analysis to establish rates that generate sufficient revenue to meet operational and capital needs. Since this study was completed in 2013, Raftelis conducted financial plan updates, in 2015 and 2017, to establish proposed uniform percentage increases in wastewater monthly charges each year. The 2020 Wastewater Enterprise Financial Plan and Cost of Service Update Study included an updated cost of service analysis and determined the current wastewater rates in effect as of FY 2022. Raftelis was again engaged by the City in 2021 to update the Wastewater Enterprise Financial Plan and to establish proposed water rates for FY 2023 and FY 2024.

The most significant factor influencing the Wastewater Enterprise's updated financial plan presented in this report is the substantial planned CIP expenses for the wastewater system. The five-year Study period from FY 2022 to FY 2026 includes average annual CIP expenses of \$10.1M. The City plans to utilize wastewater rate revenues and cash reserves to fund all CIP over the Study period, avoiding the need for debt financing. The City has instructed Raftelis to propose a five-year financial plan for the Wastewater Enterprise that generates sufficient revenues to ensure financial sufficiency.

2.2. Objectives of the Study

The major objectives of the Study include the following:

- » Update the five-year financial plan for the Wastewater Enterprise to ensure financial sufficiency, meet O&M costs, ensure sufficient funding for CIP projects, and maintain the financial health of the Wastewater Enterprise;
- » Review reserve fund targets; and
- » Develop fair and equitable rate adjustments for the City's wastewater customers.

2.3. Legal Requirements and Rate-Setting Methodology

California Constitution - Article XIII D, Section 6 (Proposition 218)

Proposition 218, reflected in the California Constitution as Article XIII D, was enacted in 1996 to ensure that rates and fees are reasonable and proportional to the cost of providing service. The principal requirements, as they relate to public water and wastewater service are as follows:

1. A property-related charge (such as wastewater rates) imposed by a public agency on a parcel shall not exceed the costs required to provide the property related service.
2. Revenues derived by the charge shall not be used for any purpose other than that for which the charge was imposed.
3. The amount of the charge imposed upon any parcel shall not exceed the proportional cost of service attributable to the parcel.
4. No charge may be imposed for a service unless that service is actually used or immediately available to the owner of property.
5. 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.

Water and wastewater rates and charges should be recovered from classes of customers in proportion to the cost of serving those customers. Proposition 218 makes clear that wastewater rates cannot be “arbitrary and capricious,” meaning that the rate-setting methodology must be sound and that there must be a nexus between the costs and the rates charged. Raftelis’ 2020 Wastewater Enterprise Financial Plan and Cost of Service Update Study followed industry standard rate setting methodologies set forth by the Water Environment Federation (WEF) to ensure that the City’s wastewater rates do not exceed the proportionate cost of providing wastewater collection and treatment services. In this 2022 Financial Plan Update Study, the current rates will be increased uniformly based on the City’s updated revenue requirement.

3. General Assumptions

3.1. Inflation

The Study period is for FY 2022 to FY 2026. Various types of assumptions and inputs were incorporated into the Study based on recommendations from Raftelis and direction from City staff. These include assumed annual account growth rates, inflation factors, and other assumptions. Inflationary assumptions are shown below in **Table 3-1**. Raftelis utilized the City’s adopted budgets for FY 2022 and FY 2023 as a baseline for O&M expenses and then escalated expenses beyond FY 2023 based on the inflation factors shown below.

Table 3-1: Inflation Factor Assumptions

	A	B	C	D	E	F
Line	Inflation Factors	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
1	General	2.5%	2.5%	2.5%	2.5%	2.5%
2	Salary/Benefits	3.2%	3.2%	3.2%	3.2%	3.2%
3	Electricity	3.0%	3.0%	3.0%	3.0%	3.0%
4	Fuel	2.0%	2.0%	2.0%	2.0%	2.0%
5	Capital	1.5%	1.5%	1.5%	1.5%	1.5%

3.2. Projected Account Growth

Since the City is built-out, it is anticipated that there will be minimal account growth over the Study period. The growth rate is based on direction provided by City staff. The annual account growth is based on an estimation of 13.3% customer growth between 2020 and 2045 from the City’s 2020 Urban Water Management Plan. The projected annual account growth is shown in **Table 3-2**. Note that all customer types are projected to have a 0.5% annual growth rate.

Table 3-2: Account Growth Rate for All Customer Classes

	A	B	C	D	E	F
Line	Customer Class	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
1	Residential	0.50%	0.50%	0.50%	0.50%	0.50%
2	Multi-Family	0.50%	0.50%	0.50%	0.50%	0.50%
3	Commercial	0.50%	0.50%	0.50%	0.50%	0.50%
4	Industrial High Flow	0.50%	0.50%	0.50%	0.50%	0.50%

3.3. Reserve Policy

A reserve policy is a written document that provides a basis for the City to cope with unanticipated reductions in revenues, offset fluctuations in costs of providing services, and fiscal emergencies such as revenue shortfalls, asset failure, and natural disaster. It also provides guidelines for sound financial management with an overall long-range perspective to maintain financial solvency and mitigate financial risks associated with revenue instability, volatile capital costs, and emergencies. A sound policy also sets funds aside for routine repair and replacement (R&R) of

capital assets as they age and for new capital projects. Adopting and adhering to a sustainable reserve policy enhances financial management transparency and may help to achieve or maintain a specific credit rating for future debt issues.

The appropriate amount of reserves and reserve types are determined by a variety of factors, such as the size of the operating budget, the amount of debt, the type of rate structure, frequency of customer billing, and risk of natural disaster. Thus, most reserves tend to fall into the following categories: operations & maintenance (O&M) cash flow, rate stabilization, CIP, and emergency. The City currently maintains three reserves for the Wastewater Enterprise. Raftelis recommends that the City maintain the existing reserve policies for its O&M Cash Flow (Fund 621) and Capital Emergency (Fund 624) reserves while modifying the reserve policy for its Capital Improvement Plan (Fund 624) reserve. The recommended reserve policies for each reserve are described below.

O&M Cash Flow (Fund 621)

The purpose of an O&M reserve is to provide working capital to support the operation, maintenance, and administration of the utility. From a risk management perspective, the O&M reserve supports the Wastewater Enterprise's cash flow needs during normal operations and ensures that operations can continue should there be significant events that impact cash flows. Raftelis recommends that the City maintain 90 days cash (25 percent of annual operating budget) for the Wastewater Operating Fund to ensure adequate working capital for operating expenses. This policy results in a target level amounting to \$4.3M in FY 2022 representing 90 days of cash reserves for the Wastewater Operating Fund.

Capital Emergency (Fund 624)

The purpose of an emergency reserve is to allow the utility to provide uninterrupted service in a fiscal emergency, natural disaster, or facility failure. An emergency reserve decreases risk by recognizing the high capital costs of the facilities and setting aside adequate funds to restore service after an unanticipated event or replace an essential facility.

Raftelis recommends that the City maintain its existing reserve policy for its Capital Emergency reserve. The existing target is the replacement cost of the wastewater system's most critical assets (the chlorine contact chamber and filter influent pumps). This amounts to \$3.0M to be set aside for emergency use in FY 2022. Although this level of emergency reserve is sufficient for now, the reserve should be re-evaluated periodically as the system ages.

Capital Improvement Plan (Fund 624)

CIP reserves are used to fund future obligations that are necessary for maintaining reliable infrastructure. Because wastewater utilities are highly capital-intensive enterprises, it is important to accurately estimate long-term CIP costs and develop a reserve to fund the repair and eventual replacement of the system assets and new capital projects.

The existing CIP reserve target is equal to three years of the annual average five-year CIP. However, Raftelis recommends that the City modify its CIP reserve policy so that the target is lowered to two years of the annual average five-year CIP. This proposed change will allow for the City to draw on capital reserves to fund larger planned CIP projects over the study period without having to raise rates more significantly. The reserve target will still ensure that the City has cash reserves on hand to flexibly and efficiently award construction contracts into the future and reduce the potential need for debt financing of capital projects. Annual average planned CIP over the five-year study period is approximately \$10.1M. Two times this amount is approximately \$20.3M, which

represents the FY 2022 CIP reserve target level of two years' worth of annual five-year CIP. This change also aligns with the Water Enterprise CIP reserve policy.

Proposed Wastewater Reserves

Table 3-3 summarizes the recommended reserve policy and associated FY 2022 target level for the Wastewater Enterprise for adequate operating working capital, emergency use, and working capital for future CIP projects.

Table 3-3: Recommended Wastewater Reserves

	A	B	C
Line	Reserve	Recommended Policy	FY 2022 Target Level
1	Fund 621 - Wastewater Operating Fund		
2	Operating	25% of Operating Budget	\$4,258,927
3	Fund 624 - Wastewater Capital Fund		
4	Emergency	Replacement Cost of Chlorine Contact Chamber and Filter Influent Pumps (most critical asset)	\$3,031,169
5	CIP	Two years of annual average 5-year CIP	\$20,295,832
6	Total Wastewater Fund		\$27,585,928

Applying the same methodology for determining the reserve target levels to all years of the Study period yields the following targets shown in Table 3-4 below.

Table 3-4: Reserve Targets for Study Period

	A	B	C	D	E	F
Line	Reserves	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
1	Wastewater Operating Reserve	\$4,258,927	\$4,362,061	\$4,485,863	\$4,613,236	\$4,744,286
2	Wastewater Capital Reserve	\$20,295,832	\$20,295,832	\$20,295,832	\$20,295,832	\$20,295,832
3	Wastewater Emergency Reserve	\$3,031,169	\$3,076,637	\$3,122,786	\$3,169,628	\$3,217,172
4	Total Reserve Target	\$27,585,928	\$27,734,529	\$27,904,481	\$28,078,696	\$28,257,290

4. Financial Plan

The financial plan involves an analysis of annual operating revenues under the current rates, operation and maintenance (O&M) expenses, capital expenses, debt requirements, and reserve requirements. This section of the report provides a discussion of the projected revenues, O&M and capital expenses, capital improvement financing plan, and revenue adjustments required to ensure the fiscal sustainability of the Wastewater Enterprise.

4.1. Revenues from Current Rates

The current wastewater rate structure was developed in FY 2013. The City’s wastewater service charge consists of a monthly fixed service charge per Service Unit (SU) for all customer classes. **Table 4-1** summarizes the current monthly fixed charges by Service Unit.

Table 4-1: Current Monthly Fixed Charges

	A	B
Line	Description	Current
1	Monthly Service Charge per Service Unit	\$29.95

Using the account growth percentages in **Table 3-2**, the total SUs in each customer class are projected for the Study period. Utilizing SUs allows the development of a unit that is normalized across different customers in terms of estimated wastewater flow and the strength of the wastewater generated by each customer class. SUs are determined for various customer classes based on residential dwelling units, number of fixtures, and wastewater flow quantity.

Table 4-2: Projected SU Totals by Customer Class

	A	B	C	D	E	F	G
Line	Customer Class	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
1		<i>Actual</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
2	Residential	36,816	37,000	37,185	37,371	37,558	37,746
3	Multi-Family	7,635	7,673	7,712	7,750	7,789	7,828
4	Commercial	7,394	7,431	7,468	7,505	7,543	7,580
5	Industrial High Flow	1,952	1,962	1,972	1,981	1,991	2,001
6	Total Service Units	53,797	54,066	54,336	54,608	54,881	55,156

The monthly wastewater rate revenue is calculated by multiplying the total class SUs (**Table 4-2**) by the fixed charge rate (**Table 4-1**), then multiplying this monthly revenue by twelve to determine annual rate revenues by customer class. For example, the total estimated revenue from residential customers in FY 2022 is:

$$\text{fixed charge rate} \times \text{number of SUs} \times 12 \text{ months}$$

$$\$29.95 \times 37,000 \times 12 = \$13.3M$$

The same calculation is repeated for all other customer classes and then summed to determine the total monthly service charge revenue for all customers. For FY 2022, the projected annual rate revenue is \$19.4M as shown in **Table 4-3**, Line 5, Column B.

Table 4-3: Revenue from Current Rates

	A	B	C	D	E	F
Line	Customer Class	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
1	Residential	\$13,297,829	\$13,364,318	\$13,431,139	\$13,498,295	\$13,565,787
2	Multi-Family	\$2,757,847	\$2,771,637	\$2,785,495	\$2,799,422	\$2,813,419
3	Commercial	\$2,670,613	\$2,683,966	\$2,697,386	\$2,710,873	\$2,724,427
4	Industrial High Flow	\$705,058	\$708,583	\$712,126	\$715,686	\$719,265
5	Total	\$19,431,347	\$19,528,504	\$19,626,146	\$19,724,277	\$19,822,898

Miscellaneous Revenue

In addition to revenue from rates, the Wastewater Enterprise also receives miscellaneous revenues from different sources such as connection fees and other non-rate revenues, as shown in **Table 4-4**. Interest income, which is excluded from **Table 4-4**, is calculated based on projected Wastewater Enterprise cash balance and is incorporated into the financial plan. Miscellaneous revenue sources are projected to remain constant from FY 2023 through the Study period.

Table 4-4: Projected Miscellaneous Revenue

	A	B	C	D	E	F
Line	Description	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
1	Reclaimed Water Sales	\$330,000	\$330,000	\$330,000	\$330,000	\$330,000
2	Connection Fees	\$600,000	\$600,000	\$600,000	\$600,000	\$600,000
3	Miscellaneous Fees/Charges	\$512,530	\$514,750	\$514,750	\$514,750	\$514,750
4	Other Revenue	\$146,900	\$146,900	\$146,900	\$146,900	\$146,900
5	Total	\$1,589,430	\$1,591,650	\$1,591,650	\$1,591,650	\$1,591,650

4.2. O&M Expenses

O&M expenses include the cost of operating and maintaining wastewater collection, treatment, and disposal facilities, as well as the costs of providing technical services such as laboratory services and other administrative costs of the wastewater system, such as customer service and billing. The City’s FY 2022 and FY 2023 budget and the assumed inflation factors for the Study period (from **Table 3-1**) are used as the basis for projecting O&M costs. **Table 4-5** summarizes budgeted and projected O&M expenses for the Wastewater Enterprise during the Study period.

Table 4-5: Projected O&M Costs

	A	B	C	D	E	F
Line	Description	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
1	Salaries	\$5,004,547	\$5,178,011	\$5,343,708	\$5,514,706	\$5,691,177
2	Benefits	\$2,630,323	\$2,766,789	\$2,855,326	\$2,946,696	\$3,040,991
3	Other O&M	\$9,400,839	\$9,503,442	\$9,744,417	\$9,991,542	\$10,244,976
4	Total	\$17,035,709	\$17,448,242	\$17,943,450	\$18,452,945	\$18,977,143

4.3. Debt

The Wastewater Enterprise’s only existing debt service is associated with a State Water Resources Control Board (SWRCB) State Revolving Fund (SRF) loan from 2000. The City does not plan to issue new debt during the Study period. The SRF loan will be paid off in FY 2023.

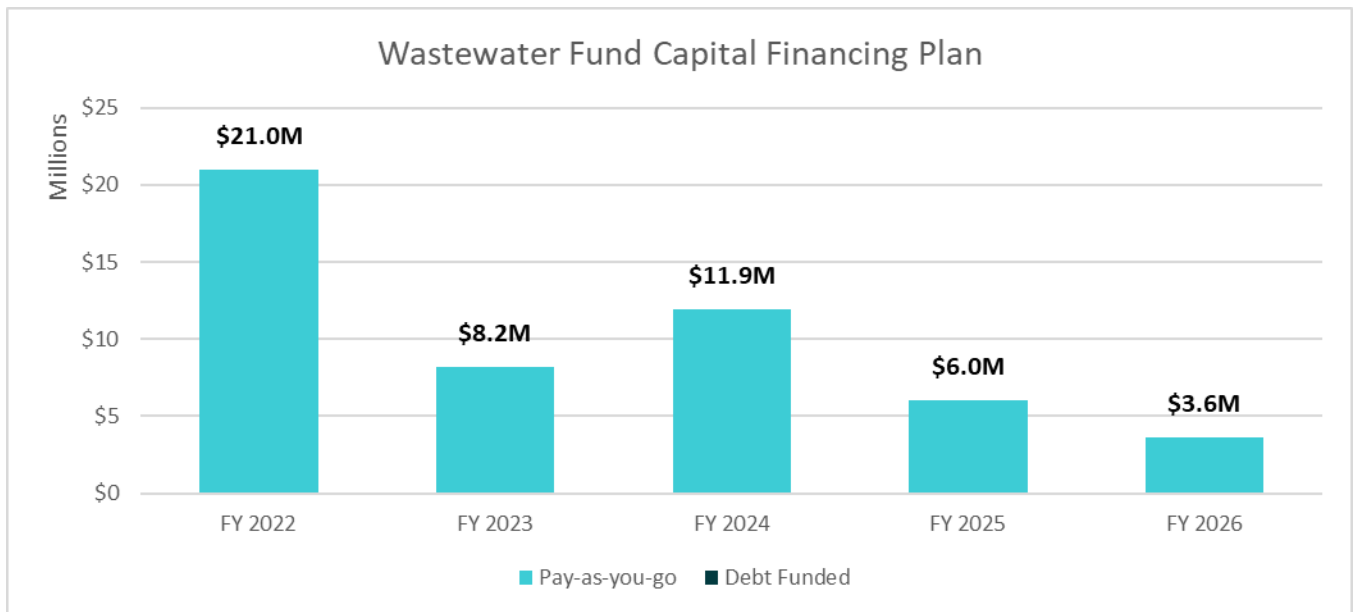
Table 4-6: Current Debt Service Schedule

	A	B	C	D	E	F
Line	Current Debt Service	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
1	2000 SWRCB SRF Loan	\$2,035,130	\$2,035,130	\$0	\$0	\$0

4.4. Capital Improvement Plan (CIP)

The City provided Raftelis with a 5-year capital improvement plan (CIP) schedule through FY 2026 to address the Wastewater Enterprise’s capital needs (Figure 4-1). The capital expenses shown below include a capital escalation factor of 1.5%. Average annual CIP expenses over the Study period equal approximately \$10.1M. CIP expenses amount to \$21.0M in FY 2022 and \$11.9M in FY 2024, representing substantial pressure on the Wastewater Enterprise’s cash flow. See Appendix A for a detailed listing of anticipated CIP project costs over the Study period. The proposed capital improvement plan will be funded entirely through rate revenues and reserves (Pay-As-You-Go or PAYGO), as the City does not plan to issue any new debt in the next five years.

Figure 4-1: Capital Improvement Plan Funding



4.5. Status Quo Financial Plan

Table 4-7 displays the pro-forma of the City’s Wastewater Enterprise under current rates over the Study period. All projections shown in the table are based upon the City’s current rates and do not include any rate adjustments. The pro-forma incorporates the data shown in **Table 4-3** for revenues from current rates, **Table 4-4** for miscellaneous revenues, **Table 4-5** for O&M expenses, **Table 4-6** for debt service payments, and **Figure 4-1** for CIP. Note that interest is also calculated based on projected cash balances and applied as an additional source of revenue.

Table 4-7: Status Quo Financial Plan Pro-Forma

	A	B	C	D	E	F
Line	Description	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
1	Revenues					
2	Revenues from Existing Rates	\$19,431,347	\$19,528,504	\$19,626,146	\$19,724,277	\$19,822,898
3	Revenue Adjustments	\$0	\$0	\$0	\$0	\$0
4	Interest Income	\$379,200	\$379,200	\$302,932	\$246,959	\$227,759
5	Other Revenue	\$1,589,430	\$1,591,650	\$1,591,650	\$1,591,650	\$1,591,650
6	Total Revenues	\$21,399,977	\$21,499,354	\$21,520,728	\$21,562,886	\$21,642,307
7						
8	O&M Expenses	\$17,035,709	\$17,448,242	\$17,943,450	\$18,452,945	\$18,977,143
9						
10	Net Revenues	\$4,364,268	\$4,051,111	\$3,577,278	\$3,109,941	\$2,665,164
11						
12	Debt Service	\$2,035,130	\$2,035,130	\$0	\$0	\$0
13						
14	CIP Expenses	\$20,964,728	\$8,196,633	\$11,943,914	\$5,993,828	\$3,640,477
15						
16	<i>CIP Projects Funded by</i>					
17	Pay-as-you-go	\$20,964,728	\$8,196,633	\$11,943,914	\$5,993,828	\$3,640,477
18	Debt Funded	\$0	\$0	\$0	\$0	\$0
19						
20	Net Cash Flow	-\$18,635,591	-\$6,180,651	-\$8,366,636	-\$2,883,887	-\$975,313
21						
22	Beginning Balances	\$59,444,226	\$40,808,635	\$34,627,984	\$26,261,348	\$23,377,461
23	Ending Balances	\$40,808,635	\$34,627,984	\$26,261,348	\$23,377,461	\$22,402,148
24	<i>Target Balance</i>	<i>\$27,585,928</i>	<i>\$27,734,529</i>	<i>\$27,904,481</i>	<i>\$28,078,696</i>	<i>\$28,257,290</i>

Under the ‘status-quo’ scenario, revenues generated from rates and other miscellaneous revenues are adequate to sufficiently recover total operating expenses and current debt service for the Wastewater Enterprise for all years of the Study period. However, Line 23 in **Table 4-7** shows that additional funding demands associated with PAYGO CIP result in Raftelis projecting the rapid annual drawdown of reserves. Under the status quo, the target reserve balance is not met after FY 2023.

4.6. Recommendations and Proposed Revenue Adjustments

To ensure that the Wastewater Enterprise adequately funds its reserves after substantial CIP expenses in FY 2022 and FY 2024, Raftelis recommends a 3% revenue adjustment in each year of the Study period beginning in FY 2023. The proposed revenue adjustments are necessary for the Wastewater Enterprise to maintain total cash balances above or very near the target reserve level in all years. The revenue adjustments are scheduled to be implemented on July 1 of 2022 and each subsequent fiscal year as shown in **Table 4-8**.

Table 4-8: Proposed Revenue Adjustments

	A	B	C
Line	Fiscal Year	Effective Month	Revenue Adjustment
1	FY 2022	July 2021	0%
2	FY 2023	July 2022	3%
3	FY 2024	July 2023	3%
4	FY 2025	July 2024	3%
5	FY 2026	July 2025	3%

Proposed Financial Plan

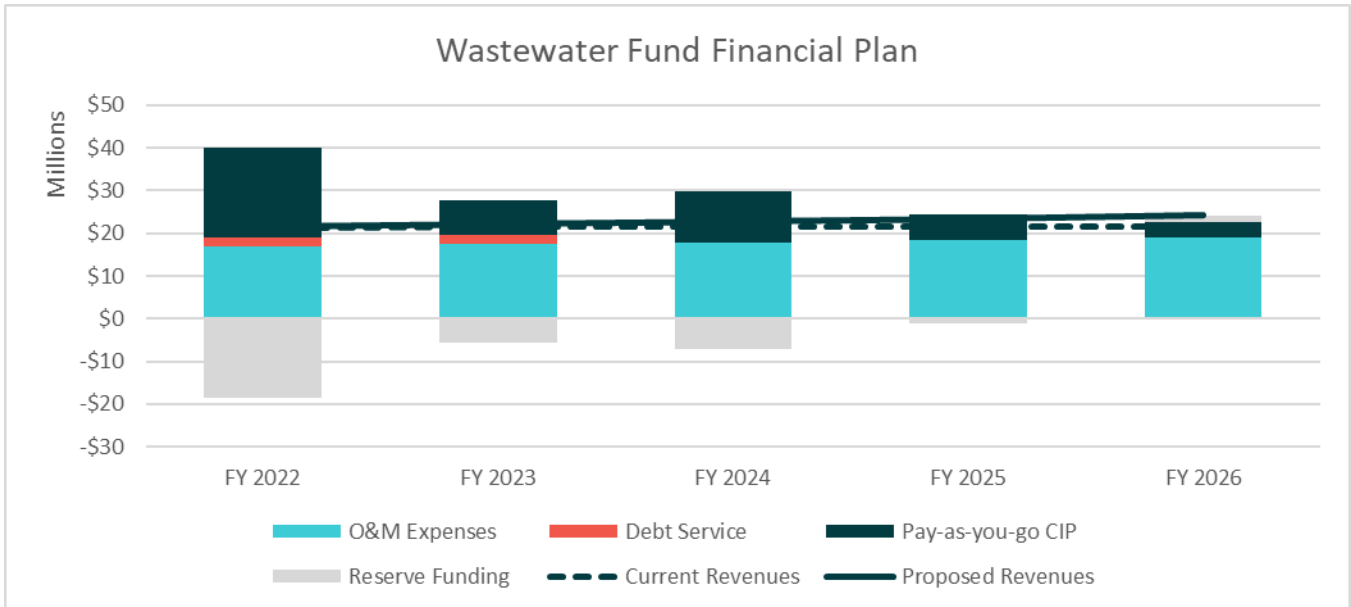
A pro-forma of the proposed 5-year financial plan is shown in **Table 4-9**. The proposed financial plan successfully meets the City's financial needs, exceeding target reserve balances at the end of the Study period while addressing the Wastewater Enterprise's O&M and CIP needs. Revenue from existing rates (Line 2) represents projected rate revenues in the absence of any revenue adjustments (i.e., the status quo). Revenue adjustments (Line 3) represent the cumulative increase in rate revenues resulting from the proposed 3% revenue adjustments in FY 2023-FY2026.

Table 4-9: Proposed Financial Plan Pro-Forma

	A	B	C	D	E	F
Line	Description	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
1	Revenues					
2	Revenues from Existing Rates	\$19,431,347	\$19,528,504	\$19,626,146	\$19,724,277	\$19,822,898
3	Revenue Adjustments	\$0	\$585,855	\$1,195,232	\$1,828,973	\$2,487,948
4	Interest Income	\$379,200	\$379,200	\$314,767	\$274,033	\$276,689
5	Other Revenue	\$1,589,430	\$1,591,650	\$1,591,650	\$1,591,650	\$1,591,650
6	Total Revenues	\$21,399,977	\$22,085,209	\$22,727,795	\$23,418,933	\$24,179,185
7						
8	O&M Expenses	\$17,035,709	\$17,448,242	\$17,943,450	\$18,452,945	\$18,977,143
9						
10	Net Revenues	\$4,364,268	\$4,636,967	\$4,784,345	\$4,965,988	\$5,202,042
11						
12	Debt Service	\$2,035,130	\$2,035,130	\$0	\$0	\$0
13						
14	CIP Expenses	\$20,964,728	\$8,196,633	\$11,943,914	\$5,993,828	\$3,640,477
15						
16	<i>CIP Projects Funded by</i>					
17	Pay-as-you-go	\$20,964,728	\$8,196,633	\$11,943,914	\$5,993,828	\$3,640,477
18	Debt Funded	\$0	\$0	\$0	\$0	\$0
19						
20	Net Cash Flow	-\$18,635,591	-\$5,594,796	-\$7,159,569	-\$1,027,840	\$1,561,565
21						
22	Beginning Balances	\$59,444,226	\$40,808,635	\$35,213,839	\$28,054,270	\$27,026,430
23	Ending Balances	\$40,808,635	\$35,213,839	\$28,054,270	\$27,026,430	\$28,587,995
24	<i>Target Balance</i>	<i>\$27,585,928</i>	<i>\$27,734,529</i>	<i>\$27,904,481</i>	<i>\$28,078,696</i>	<i>\$28,257,290</i>

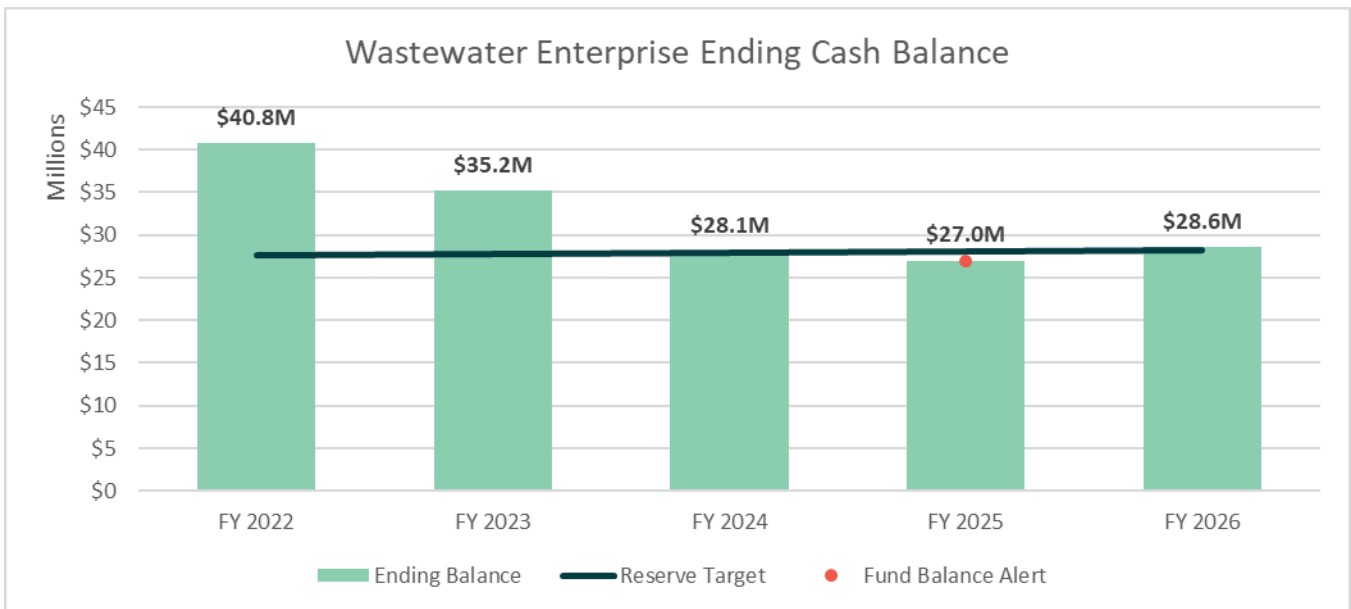
Figure 4-2 shows the Wastewater Enterprise financial plan, where the expenses and reserve funding are shown by stacked bars and total revenues at current rates and proposed rates are shown by dark blue dashed and solid lines, respectively. The revenue adjustments result in modest revenue increases, as demonstrated by the difference between current revenues (dashed line) and proposed revenues (solid line) in Figure 4-2.

Figure 4-2: Proposed Financial Plan



The ending cash balance for the Wastewater Enterprise is projected and shown in **Figure 4-3**, where the dark blue line indicates the target reserve balance as recommended by the reserve policy discussed in **Section 3.3**. The red dots indicate cash balance alerts where the ending balances are below the target reserve level. Under the proposed financial plan, ending balances are projected to decrease through FY 2025 before recovering in FY 2026.

Figure 4-3: Projected Ending Cash Balance



5. Proposed Rates

5.1. Proposed Wastewater Rates

Although the Study includes a five-year financial plan, the City only adopts rates for two years at a time. Therefore, proposed rates were developed only for FY 2023 and FY 2024. Because the wastewater charges moved to the property tax roll in FY 2022, their rate adjustments will change from following the calendar year to the fiscal year. Therefore, the first rate increase was postponed to July 1, 2022, to be effective for FY 2023. Current wastewater charges will remain in place for the rest of FY 2022.

The current FY 2022 and proposed FY 2023 and FY 2024 monthly fixed charge rates per service unit (SU) are shown in **Table 5-1**. A Service Unit represents a unit equal across all customer classes after normalizing for both wastewater flow and strength. Proposed FY 2023 and FY 2024 rates are determined by simply increasing the current FY 2022 rate by the proposed annual revenue adjustment of 3%.

Table 5-1: Proposed Monthly Wastewater Rates (\$/Service Unit)

	A	B	C	D
Line	Description	Current	Proposed FY 2023 (July 2022)	Proposed FY 2024 (July 2023)
1	Monthly Service Charge per Service Unit	\$29.95	\$30.85	\$31.78
2	Impact		\$0.90	\$0.93

APPENDICES

APPENDIX A: DETAILED FIVE-YEAR CIP

	A	B	C	D	E	F	G
Line	Capital Improvement Plan	Project No.	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
1	Fund 621- Wastewater General						
2	MSC Microgrid Project	CI5585	\$150,000	\$0	\$0	\$0	\$0
3	Hill Canyon Wastewater Treatment Plant Office Renovations	MI2227	\$100,000	\$0	\$0	\$0	\$0
4	Municipal Service Center Building C Office Reconfiguration	MI2229	\$25,000	\$0	\$0	\$0	\$0
5	Total- Fund 621		\$275,000	\$0	\$0	\$0	\$0
6							
7	Fund 624 - Wastewater Capital Program						
8	Solar Canopies at Municipal Service Center	CI5265	\$55,329	\$0	\$0	\$0	\$0
9	Municipal Service Center Parking Lot Repaving	CI5459	\$125,000	\$0	\$0	\$0	\$0
10	Radio Communications System	CI5549	\$37,500	\$0	\$0	\$0	\$0
11	Hill Canyon Wastewater Treatment Plant Fire Alarm & System Upgrade	CI5582	\$200,000	\$0	\$0	\$0	\$0
12	Municipal Service Center Fire Alarm & System Upgrade	CI5584	\$37,500	\$0	\$0	\$0	\$0
13	Hill Canyon Treatment Plant Mechanical System Upgrades	CI5647	\$700,000	\$1,015,000	\$0	\$0	\$0
14	Municipal Service Center Storm Water Quality Improvements	CI5661	\$0	\$0	\$108,174	\$0	\$0
15	HCTP and Water Facilities Pavement Preservation	MI2626	\$0	\$203,000	\$0	\$0	\$0
16	Conejo Canyons Bridge at Hill Canyon Treatment Plant	CI5527	\$374,000	\$0	\$0	\$0	\$0
17	Bus Wash	CI5468	\$0	\$22,838	\$131,354	\$0	\$0
18	Interceptor Capital Improvement Program Phase V - Unit Y2	CI5328	\$4,290,000	\$0	\$0	\$0	\$0
19	HCTP Facility Stormwater Diversion	CI5427	\$1,926,000	\$0	\$0	\$0	\$0
20	Biosolids Drying Project	CI5436	\$0	\$0	\$0	\$0	\$0
21	Municipal Service Center/Hill Canyon Treatment Plant Access Road	CI5437	\$0	\$0	\$257,556	\$1,882,221	\$0
22	Creek Flow Metering Station Installation	CI5439	\$0	\$0	\$0	\$0	\$106,136
23	Hill Canyon Treatment Plant Bioreactors Electrical Upgrades	CI5440	\$1,640,000	\$0	\$0	\$0	\$0
24	Fats, Oils, and Grease Station	CI5441	\$2,967,607	\$0	\$0	\$0	\$0
25	Hill Canyon Treatment Plant Retaining Wall	CI5444	\$1,258,600	\$0	\$0	\$0	\$0
26	Unit W Improvements	CI5445	\$1,674,000	\$0	\$1,648,360	\$0	\$0
27	Hill Canyon Treatment Plant Solar System Purchase	CI5523	\$1,500,000	\$0	\$0	\$0	\$0
28	Unit W - Pipe and Maintenance Hole Lining Project Phase I	CI5530	\$2,000,000	\$0	\$0	\$0	\$0
29	Wastewater Pipe and Maintenance Hole Relining FY 2023-26	CI5532	\$0	\$0	\$0	\$0	\$0
30	Hill Canyon Security Improvements	CI5567	\$645,850	\$0	\$0	\$0	\$0

	A	B	C	D	E	F	G
Line	Capital Improvement Plan	Project No.	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
31	Biogas Storage	CI5610	\$0	\$0	\$0	\$0	\$0
32	Bioreactor Mixing and Aeration Optimization	CI5611	\$0	\$0	\$0	\$0	\$0
33	Cogeneration Facility Upgrade	CI5613	\$273,000	\$2,200,520	\$0	\$0	\$0
34	Dewatering Building Process Control Upgrades	CI5614	\$0	\$0	\$88,599	\$0	\$0
35	Digester Backup Boiler Upgrade	CI5615	\$203,000	\$0	\$0	\$0	\$0
36	Digester Pre-treatment Technology	CI5616	\$0	\$0	\$0	\$0	\$0
37	Flow Equalization Basin (FEB) Mechanical Mixing	CI5617	\$0	\$0	\$0	\$186,131	\$0
38	Fats, Oils and Grease (FOG) Station Expansion (Phase II)	CI5618	\$0	\$0	\$0	\$0	\$0
39	Hill Canyon Treatment Plant Onsite Generator Cooling System Upgrades	CI5620	\$100,000	\$0	\$0	\$0	\$0
40	Electrical Classification & Compliance Upgrades	CI5622	\$0	\$0	\$0	\$2,420,745	\$0
41	North Primary Clarifiers Rehabilitation	CI5623	\$0	\$0	\$0	\$0	\$0
42	Solar Plant Upgrade and Optimization - Phase 1	CI5625	\$0	\$220,255	\$1,489,705	\$0	\$0
43	Solar Plant Upgrade and Optimization - Phase 2	CI5626	\$0	\$0	\$0	\$0	\$209,089
44	In Plant Variable Frequency Drives (VFDs) Replacements	CI5629	\$0	\$411,075	\$0	\$0	\$0
45	In-Plant Motor Control Center (MCC) Upgrades	CI5630	\$46,000	\$305,515	\$0	\$0	\$0
46	Hill Canyon Treatment Plant SCADA Upgrade	CI5632	\$500,000	\$0	\$0	\$0	\$0
47	In Plant Electric Operators Assessment and Replacement	CI5633	\$200,000	\$242,585	\$0	\$0	\$0
48	In Plant Meter Replacement	CI5634	\$0	\$0	\$357,488	\$0	\$0
49	In Plant Piping Assessment and Repairs	CI5635	\$0	\$0	\$0	\$0	\$491,411
50	In Plant Pump Replacements; South RAS Pumps	CI5636	\$0	\$0	\$0	\$0	\$689,886
51	In Plant Valve Assessment and Repairs	CI5637	\$0	\$0	\$187,501	\$445,459	\$0
52	Permeate Treatment Upgrades	CI5638	\$0	\$246,645	\$0	\$0	\$0
53	Secondary Process Sensors	CI5639	\$0	\$0	\$0	\$275,013	\$0
54	Unit W - Pipe and Maintenance Hole Lining Project Phase II	CI5641	\$0	\$588,700	\$4,223,923	\$0	\$0
55	Plant-Wide Operations Optimization Project	CI5643	\$0	\$0	\$0	\$0	\$0
56	Water Resources Project	CI5644	\$0	\$0	\$0	\$0	\$106,136
57	Unit E Interceptor	MI2515	\$0	\$0	\$0	\$0	\$1,061,364
58	Hill Canyon Treatment Plant Digester No. 1 Rehabilitation	MI2564	\$1,850,000	\$0	\$0	\$0	\$0
59	Collections Miscellaneous Repairs FY 2021-23	MI2577	\$250,000	\$253,750	\$0	\$0	\$0
60	Hill Canyon Treatment Plant Miscellaneous Repairs FY 2021-23	MI2585	\$400,000	\$406,000	\$0	\$0	\$0
61	Lateral Inspections and Upgrades Unit W	MI2586	\$99,000	\$507,500	\$0	\$0	\$0
62	Secondary Clarifier #3 Rehabilitation	MI2588	\$835,000	\$0	\$0	\$0	\$0

	A	B	C	D	E	F	G
Line	Capital Improvement Plan	Project No.	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
63	Collections Master Plan Update	MI2589	\$0	\$406,000	\$0	\$0	\$0
64	Hill Canyon Treatment Plant Tertiary Filters Rehabilitation	MI2590	\$0	\$304,500	\$2,781,608	\$0	\$0
65	South Plant Rehabilitation	MI2591	\$0	\$0	\$0	\$0	\$286,568
66	Collections Misc. Repairs FY 2023-26	MI2611	\$0	\$0	\$257,556	\$261,420	\$265,341
67	Hill Canyon Treatment Plant Miscellaneous Repairs FY 2023-26	MI2612	\$0	\$0	\$412,090	\$418,271	\$424,545
68	Bioreactor Basin 1 Concrete Rehab	MI2618	\$72,000	\$0	\$0	\$0	\$0
69	Hill Canyon Treatment Plant Piping, Equipment Painting, and Coating	MI2619	\$0	\$659,750	\$0	\$0	\$0
70	On-Site Power Generation Upgrades	MI2624	\$0	\$0	\$0	\$104,568	\$0
71	HCTP Electrical Classification & Compliance Study	MI2625	\$0	\$203,000	\$0	\$0	\$0
72	Plant-Wide Operations Optimization Study	MI2628	\$0	\$0	\$0	\$0	\$0
73	Collections System Sanitary Sewer Management Plan (SSMP) Update	MI2632	\$130,000	\$0	\$0	\$0	\$0
74	FY 2022 CIP Adjustment		-\$3,699,658	\$0	\$0	\$0	\$0
75	Total- Fund 624		\$20,689,728	\$8,196,633	\$11,943,914	\$5,993,828	\$3,640,477
76							
77	Total CIP		\$20,964,728	\$8,196,633	\$11,943,914	\$5,993,828	\$3,640,477

APPENDIX B: ADDITIONAL SERVICE CHARGES FOR OUTSIDE CITY CUSTOMERS

Approximately 5% of wastewater accounts served by the City’s Wastewater Enterprise are associated with properties located outside of city limits. As a result of serving these customers, the City must pay property taxes to the County of Ventura, as the City’s wastewater lines must extend through County land to serve said customers. The City’s wastewater customers outside of city limits are currently subject to an additional monthly service charge of \$0.31 per Service Unit to recover property tax paid by the City to the County of Ventura. Raftelis recommends that the City update the additional monthly service charges paid by outside city customers based on the most up to date property tax information. The calculations below show the development of proposed additional monthly service charges for outside city customers for FY 2023 and FY 2024. Raftelis recommends that the additional service charges be updated during each two-year rate cycle (e.g., during the next wastewater rate study to set FY 2025 and FY 2026 rates).

Calculation of Updated Additional Service Charges for Outside City Customers

	A	B
Line	Description	Value
1	Property Taxes (FY 2022)	\$15,937.39
2	Outside City Service Units	3,026
3	Updated Additional Service Charge per Service Unit ($= [Line 1] \div [Line 2] \div [12 Months]$)	\$0.44

Proposed Additional Service Charges for Outside City Customers (\$/Service Unit)

	A	B	C	D
Line	Description	Current	Proposed FY 2023 (July 2022)	Proposed FY 2024 (July 2023)
1	Additional Monthly Service Charge per Service Unit	\$0.31	\$0.44	\$0.44
2	Impact		\$0.13	\$0.00