

TO: Andrew P. Powers, City Manager

FROM: Jaime Boscarino, Finance Director

DATE: September 12, 2023

SUBJECT: Water and Wastewater Financial Plans and Proposed Rate Adjustments

RECOMMENDATION:

1. Approve the 2024 Water Financial Plan and Wastewater Financial Plan and set November 7, 2023, as the Public Hearing date to establish water service charges to be effective January 1, 2024, and January 1, 2025, and wastewater service charges to be effective July 1, 2024, and July 1, 2025.
2. Find that this action is not a project as defined under the California Environmental Quality Act (CEQA).

FINANCIAL IMPACT:

No Additional Funding Requested. Cost for consultant and staff preparation of financial plan updates and reports is included in the Adopted FY 2023-24 Water and Wastewater Fund Budgets.

BACKGROUND:

The City is one of four water purveyors and one of two wastewater purveyors serving residents and businesses in the Conejo Valley. The City-operated utilities are public enterprises managed by the Public Works Department, with utility billing and customer service managed by the Finance Department. The City serves approximately 38,000 wastewater customers and 17,000 potable water customers.

Financial plans for the water and wastewater utilities have been prepared for many years to ensure the City's utilities are operating in a fiscally and managerially responsible manner, and to ensure that the City remains one of California's most desirable places to live, work, visit, recreate, and raise a family. Utility financial plans provide the framework for the City's operating and capital budgets, impact fees, and utility rates. These plans are prepared biennially.

State law requires water and wastewater agencies to perform a cost-of-service analysis, at a minimum, every ten years. To ensure rates are equitable amongst various customer classifications, best management practice for the City is to perform a cost-of-service study, alternating between each utility every six years. This analysis ensures that rates are fair and properly reflect the actual cost of providing service to the customer.

The City is not due for a cost-of-service study this year as the most recent for water was in 2021 and for wastewater was in 2019. This year only includes the Financial Plan, which determines a revenue requirement for each enterprise and recommends a basic percentage rate adjustment.

DISCUSSION/ANALYSIS:

The 2023 Water Financial Plan and Wastewater Financial Plan (Attachments #1 and #2), prepared by Raftelis Financial Consultants (RFC), are presented for City Council review and approval. These plans provide recommendations for adjusted water rates for the next two calendar years and wastewater rates for the next two fiscal years.

Water Financial Plan Update

Based on the 2023 Water Financial Plan, key recommendations are as follows:

1. Adjustment of City's overall water rate revenue needs by three percent, per year, to ensure sufficient funding for City operations, maintenance, and capital replacement and refurbishment projects.
2. Pass-through adjustment of wholesale water cost increases at approximately three and one-half percent for 2024 and five percent for 2025.

Water Meter Base and Commodity Rate Adjustments

The following tables show the proposed water rate adjustments for 2024 and 2025. Overall, an approximate three percent revenue adjustment in 2024 and an approximate five percent in 2025, is proposed. Table 1 includes changes to the Meter Base Rate for all users, and Tables 2 and 3 include the recommended commodity rate adjustments. Commodity rates for commercial, irrigation, and multi-family residential customers (non-SFR) are subject to the same pass-through increases as single-family residential (SFR) tiered rates.

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Water Pass-Through Rate

The City's water supply is wholly comprised of imported state water, treated by the Metropolitan Water District of Southern California, and delivered throughout Ventura County by the Calleguas Municipal Water District. The water pass-through component is a means to mitigate the financial risk associated with the uncertainty of imported water supply costs and is allowed by Government Code Section 53756. The City's wholesale water supply costs approximately \$18 million annually and is the most significant cost driver of the City's water rates.

Table 1: Proposed Water Meter Base Rates (per month) - All Users							
Meter Size	Current	Proposed January 2024	Adjustment (from current)		Proposed January 2025	Adjustment (from 2024)	
5/8 or 3/4-Inch	\$26.77	\$27.58	\$0.81	3%	\$28.41	\$0.83	3%
1-Inch	\$41.96	\$43.22	\$1.26	3%	\$44.52	\$1.30	3%
1 ½-Inch	\$79.93	\$82.33	\$2.40	3%	\$84.80	\$2.47	3%
2-Inch	\$125.49	\$129.26	\$3.77	3%	\$133.14	\$3.88	3%
3-Inch	\$269.76	\$277.86	\$8.10	3%	\$286.20	\$8.34	3%
4-Inch	\$482.37	\$496.85	\$14.48	3%	\$511.76	\$14.91	3%
6-Inch	\$991.12	\$1,020.86	\$29.74	3%	\$1,051.49	\$30.63	3%
Construction	\$269.76	\$277.86	\$8.10	3%	\$286.20	\$8.34	3%

Table 2: Commodity Rate per 100 cubic feet (one unit) Single-family Residential (SFR) per month							
Tier Width	Current Rate per Tier	Proposed January 2024	Adjustment (from current including pass-through)		Proposed January 2025	Adjustment (from 2024 including pass-through)	
Tier 1 (0-12 units)	\$5.52	\$5.91	\$0.39	7%	\$6.41	\$0.50	8.5%
Tier 2 (13-30 units)	\$6.09	\$6.50	\$0.41	6.7%	\$7.01	\$0.51	7.9%
Tier 3 (31+ units)	\$6.42	\$6.84	\$0.42	6.5%	\$7.36	\$0.52	7.6%

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Table 3: Commodity Rate per 100 cubic feet Commercial, Irrigation, and Multi-Family Residential Customers (Non-SFR per month)							
Non-SFR	Current Rate	Proposed January 2024	Adjustment (from current including pass-through)		Proposed January 2025	Adjustment (from 2024 including pass-through)	
	\$5.87	\$6.27	\$0.40	6.8%	\$6.78	\$0.51	8.1%

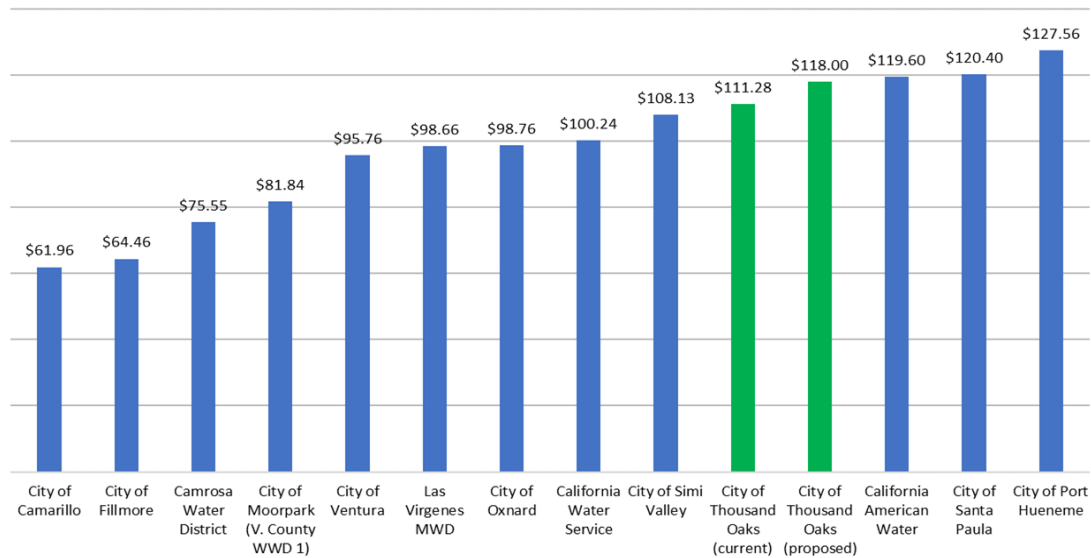
A pumping lift charge is assessed on a quantity basis for customers requiring that the water be pumped to their various service zones and is designed to recover electrical costs to convey water to the property. The Pumping lift charge is proposed to be adjusted \$0.02 from the current charge of \$0.41 per hcf per lift, to \$0.43 in 2024 and \$0.45 in 2025.

Table 4 shows a comparison of water charges for SFR customers for various water usage levels at current rates and proposed 2024 rates.

Table 4: Total Estimated Monthly Water Charges for 2024 SFR (¾" Meter, No Lift Charge, includes Pass-Through)				
Usage	Current	Proposed January 2024	\$ Change	% Change
Low water user (10 hcf/mo)	\$81.97	\$86.68	\$4.71	5.7%
Average water user (15 hcf/mo)	\$111.28	\$118.00	\$6.72	6.0%
High water user (40 hcf/mo)	\$266.83	\$283.90	\$17.07	6.4%

A comparison of typical monthly residential water costs for public and private water purveyors is shown in Table 5, on the following page, which compares current rates and proposed 2024 rates. Note that water purveyors with lower average (16hcf/month) costs have local, less expensive water sources (groundwater and/or reclaimed).

**Table 5: Water Service Charge Comparison
Monthly Single Family Residential**



*Based on July 2023 data and meter size of 5/8 x 3/4"

Wastewater Financial Plan Update

The key recommendation of the Wastewater Financial Plan Update is to adjust wastewater rates by 11 percent per year to ensure sufficient funds for operations and maintenance costs and for capital replacement and refurbishment projects that continue to keep the City's critical infrastructure operating at a high level for the community. The 5-year Capital Improvement Plan (CIP) represents significant capital spending relative to prior financial plan updates, primarily due to rising construction costs plus increased rehabilitation and replacement needs for the City's aging wastewater infrastructure. The City plans to fund these CIP projects through rates and reserves. Additionally, Operating and Material costs continue to rise due to inflammatory pressures seen globally.

Residential Monthly Wastewater Rate Adjustment

The City maintained a monthly residential wastewater rate of \$25.45 from 2004 through 2014. Due to increased operating, maintenance, and capital expenses for aging infrastructure, rates were adjusted by four percent in 2014, five percent in 2015, one percent each calendar year from 2016 to 2021, and three percent in 2022 and 2023. Over the last 20 years, the City has raised wastewater rates a compounded 21.8 percent, while inflation has increased approximately 65 percent during the same timeframe. The City has an efficient and high-performing wastewater operation. To fund necessary capital improvement projects, maintain sufficient reserve levels, and account for large increases in operating costs such

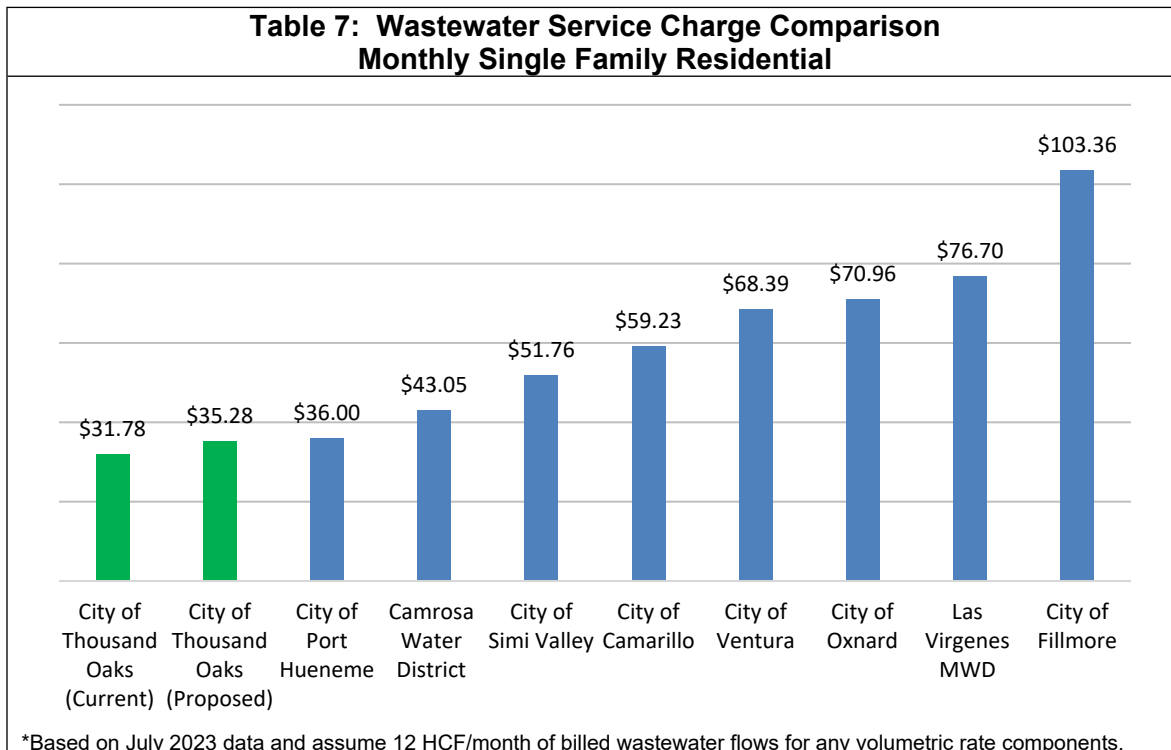
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as chemicals due to inflation, RFC recommends an 11 percent rate adjustment effective July 1, 2024, and July 1, 2025, or \$3.50 and \$3.89 per month respectively for single family residential.

Table 6 below shows the proposed wastewater rate adjustments.

Table 6: Proposed Wastewater Adjustments Single-family Residential (per month)						
Current Rate	Proposed July 2024	\$ Change	% Change	Proposed July 2025	\$ Change	% Change
\$31.78	\$35.28	\$3.50	11%	\$39.17	\$3.89	11%

A comparison of wastewater service charges with neighboring agencies is shown in Table 7 which compares current rates and proposed 2024 rates. The agencies that have rates based any volumetric components assume a 12 HCF/month of billed wastewater flow. The City is still the lowest of the neighboring agencies below.



Proposition 218

Proposition (Prop) 218 was enacted in 1996 and added to the California Constitution to ensure that rates and fees are reasonable and proportional to the cost of providing service. Prop 218 procedures require notices to be mailed to each property owner 45 days prior to the public hearing on any proposed fee increase. Prop 218 prohibits the adoption of a fee increase if the majority of property owners protest in writing. Under Prop 218, the fee must not exceed the proportional cost of the service attributable to the property.

To meet Prop 218's notification requirements, a detailed notice of proposed water and wastewater rate adjustments will be mailed to all property owners in the City service area 45 days before the City Council's approved Public Hearing date, which is recommended for November 7, 2023. Private water purveyors such as California American Water and California Water are regulated by the California Public Utilities Commission and are not subject to Prop 218 provisions.

Important Dates

September 12, 2023	Approval of revenue adjustments
November 7, 2023	Public Hearing
January 1, 2024	Water Rates implemented & monthly billing starts
July 1, 2024	Wastewater Rates implemented

In summary, the anticipation of substantial capital investments and inflationary pressures over the next five to ten years are poised to increase the demands of operations for both water and wastewater utilities. The City's practice involves updating its financial plans every five years, while rate adjustments are made biennially. This allows for the City to adapt to immediate demands and assess future projections with greater agility.

COUNCIL GOAL COMPLIANCE:

Meets the following City Council goal:

C. Operate City government in a fiscally and managerially responsible and prudent manner to ensure that the City of Thousand Oaks remains one of California's most desirable places to live, work, visit, recreate, and raise a family.

PREPARED BY: Tara Tosatto, Revenue Operations Manager

Attachments:

Attachment #1 – 2024 Water Financial Plan Update

Attachment #2 – 2024 Wastewater Financial Plan Update