



Orange County Sanitation District

ADMINISTRATION COMMITTEE

Administration Building
10844 Ellis Avenue
Fountain Valley, CA 92708
(714) 593-7433

Agenda Report

File #: 2020-1093

Agenda Date: 6/10/2020

Agenda Item No: 9.

FROM: James D. Herberg, General Manager
Originator: Lorenzo Tyner, Assistant General Manager

SUBJECT:

FY 2020-21 USER FEE RATE ADJUSTMENT

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

Information Item.

BACKGROUND

In 2018, the Orange County Sanitation District (Sanitation District) approved a five-year rate schedule which included annual user fee rate increases of approximately 1% or \$4 per year for the base single-family residential rate. However, due to the impacts of COVID-19, local economies and constituents face increased financial pressure. As a result, the Board Chair has requested that staff research and report back the impact of postponing the fiscal year 2020-21 rate adjustment one year, implementing the change in fiscal year 2021-22.

Foregoing the 2020-21 rate adjustment and resuming annual 1% rate adjustments in 2021-22 would result in a \$71 million loss in revenue to the Sanitation District. Staff has determined that the most effective means of mitigating this revenue loss without impacting existing capital or operating programs is through adjustments in the Sanitation District's Debt Program.

ADDITIONAL INFORMATION

The 2019-20 and subsequent 2020-21 budgets were balanced assuming rate adjustments of 1% in each year. However, the 2019-20 capital and operating expenditures were less than anticipated, resulting in additional available funds. When developing the 2020-21 budget, staff incorporated an advanced repayment of an existing \$71 million debt issuance as part of an overall strategy to reduce the Sanitation District's total debt, saving the expense of future interest payments.

At the May 27 Steering Committee meeting, recognizing the economic impacts of COVID-19, the Steering Committee directed staff to determine the financial impact of a foregoing the scheduled 2020-21 rate adjustment and resuming the annual 1% annual rate adjustments in fiscal year 2021-22.

Should the Board determine that it is in the best interest to forego the scheduled 2020-21 rate increase, the most direct impact would be that the Sanitation District would lose approximately \$71 million in revenue.

Opportunities to increase revenue in other areas are limited. Addressing the revenue loss by reducing expenditures would potentially impact capital and/or operating programs. Therefore, staff believes that the least impactful means of addressing this revenue loss would be to remove the early debt issuance repayment from the budget and continue its regularly scheduled payments. As the debt issuance has a relatively low interest rate (3.5%), the savings associated with an early repayment would have been minimal. Additionally, the debt issuance could be refunded or rolled into another debt issuance in the future, generating similar savings.

ATTACHMENT

The following attachment(s) may be viewed on-line at the OCSD website (www.ocsd.com) with the complete agenda package:

- Cashflow from the 2020-21 and 2021-22 Proposed Budget
- Cashflow adjusted for revenue loss due to foregoing schedule rate adjustment

**Orange County Sanitation District
Consolidated Cash Flow Projections**

Cashflow from the 2020-21 and 2021-22 Proposed Budget

Ref	Description	Preliminary 20-21	Preliminary 21-22	Preliminary 22-23	Preliminary 23-24	Preliminary 24-25	Preliminary 25-26
Revenues:							
1	General User Fees	301,839,390	306,495,847	311,177,631	316,816,564	322,486,265	328,187,220
2	Permitted User Fees	12,997,336	13,149,405	13,301,000	13,490,000	13,679,000	13,869,000
3	IRWD Assessments	15,940,886	19,872,509	17,117,000	15,865,000	14,474,000	16,007,000
4	SAWPA Assessments	2,639,000	2,745,000	2,828,000	2,913,000	3,001,000	3,091,000
5	Property Taxes	99,935,520	102,034,166	105,095,000	107,722,000	110,415,000	113,727,000
6	New COP Issues	-	-	-	-	-	-
7	Interest Revenues	13,208,000	12,642,000	11,109,000	10,455,000	10,111,000	9,857,000
8	Capital Facilities Capacity Charges	20,125,170	20,809,000	18,673,000	19,441,000	19,517,000	19,597,000
9	Other Revenues	21,567,988	19,600,825	16,441,000	16,790,000	17,149,000	17,515,000
10	Revenues	488,253,290	497,348,752	495,741,631	503,492,564	510,832,265	521,850,220
Requirements:							
11	Oper & Mtce Exp (3.0% yr)	173,910,516	174,065,159	179,287,000	184,666,000	190,206,000	195,912,000
12	Capital Improvement Program (CIP)	164,833,000	261,947,000	317,935,000	316,625,000	270,380,000	287,072,000
13	Less: CIP Savings & Deferrals	(17,271,000)	(21,101,000)	(24,891,000)	(21,852,000)	(23,940,000)	(15,423,000)
14	Allocation for Future Rehabilitation	-	-	1,357,000	6,316,000	10,613,000	24,341,000
15	COP Debt Service	72,838,369	66,736,869	61,310,000	61,316,000	61,306,000	61,314,000
16	Reduction of Long-Term Liabilities	-	173,855,000	-	-	-	-
17	Other Requirements	5,910,000	5,980,000	2,480,000	2,480,000	2,480,000	2,480,000
18	Requirements	400,220,885	661,483,028	537,478,000	549,551,000	511,045,000	555,696,000
19	Revenues-Requirements	88,032,405	(164,134,276)	(41,736,369)	(46,058,436)	(212,735)	(33,845,780)
Accumulated Funds:							
20	Beginning of Year	843,125,661	931,158,066	767,023,790	725,287,421	679,228,985	679,016,250
21	End of Year	931,158,066	767,023,790	725,287,421	679,228,985	679,016,250	645,170,470
22	Consolidated Reserve Policy	534,393,000	532,731,000	512,983,000	515,109,000	517,099,000	519,155,000
23	Over (Under) Reserve Policy*	396,765,066	234,292,790	212,304,421	164,119,985	161,917,250	126,015,470
Sewer Service User Fees:							
24	Avg SFR Annual User Fee	\$343	\$347	\$351	\$356	\$361	\$366
25	Percentage Change	1.18%	1.17%	1.15%	1.42%	1.40%	1.39%
26	Equivalent Dwelling Units	923,730	926,501	929,281	932,069	934,865	937,670
27	SFR Connection Fee	\$4,601	\$4,973	\$5,346	\$5,719	\$5,736	\$5,753
28	Outstanding COPs	\$940,050,000	\$909,620,000	\$707,360,000	\$677,555,000	\$646,415,000	\$613,760,000
Reserve Policy							
29	50% Next Year Operating Expense	86,955,000	87,033,000	89,644,000	92,333,000	95,103,000	97,956,000
30	10% Next Year Operating Expense	17,391,000	17,407,000	17,929,000	18,467,000	19,021,000	19,591,000
31	100% Next Year AUG COP Svc.	23,741,000	22,980,000	18,289,000	17,625,000	16,862,000	16,201,000
32	50% average ten-year CIP Balance	137,301,000	137,301,000	137,301,000	137,301,000	137,301,000	137,301,000
33	Debt Svc @ 10% Outstanding COP	94,005,000	90,962,000	70,736,000	67,756,000	64,642,000	61,376,000
34	Self Funded Insurance @ \$100M	100,000,000	101,170,000	102,333,000	103,786,000	105,239,000	106,702,000
35	Repl & Refurb	75,000,000	75,878,000	76,751,000	77,841,000	78,931,000	80,028,000
36	*Reserve Reduction (in accordance with Board action allowing a \$40M reduction to total reserv	-	-	-	-	-	-
37	Total	534,393,000	532,731,000	512,983,000	515,109,000	517,099,000	519,155,000
COP Ratios							
38	Sr Lien Coverge, Min 1.25	4.04	4.53	4.86	4.88	4.91	5.00

**Orange County Sanitation District
Consolidated Cash Flow Projections**

<u>Ref</u>	<u>Description</u>	<u>Preliminary 26-27</u>	<u>Preliminary 27-28</u>	<u>Preliminary 28-29</u>	<u>Preliminary 29-30</u>	<u>10-Year Total</u>
Revenues:						
1	General User Fees	336,919,000	342,682,000	348,477,000	354,303,000	3,269,383,917
2	Permitted User Fees	14,059,000	14,249,000	14,439,000	14,628,000	137,860,741
3	IRWD Assessments	17,959,000	17,291,000	16,994,000	14,394,000	165,914,395
4	SAWPA Assessments	3,184,000	3,280,000	3,378,000	3,479,000	30,538,000
5	Property Taxes	117,139,000	120,653,000	124,273,000	128,001,000	1,128,994,686
6	New COP Issues	-	-	-	-	-
7	Interest Revenues	9,065,000	8,149,000	7,521,000	7,614,000	99,731,000
8	Capital Facilities Capacity Charges	19,673,000	19,749,000	19,830,000	19,906,000	197,320,170
9	Other Revenues	17,891,000	18,276,000	18,671,000	19,075,000	182,976,813
10	Revenues	535,889,000	544,329,000	553,583,000	561,400,000	5,212,719,722
Requirements:						
11	Oper & Mtce Exp (3.0% yr)	201,789,000	207,843,000	214,078,000	220,500,000	1,942,256,675
12	Capital Improvement Program (CIP)	394,219,000	310,190,000	254,783,000	123,024,000	2,701,008,000
13	Less: CIP Savings & Deferrals	(82,295,000)	(34,675,000)	(48,140,000)	(11,413,000)	(301,001,000)
14	Allocation for Future Rehabilitation	34,786,000	47,291,000	102,666,000	118,639,000	346,009,000
15	COP Debt Service	57,514,000	61,666,000	61,661,000	61,663,000	627,325,238
16	Reduction of Long-Term Liabilities	-	-	-	-	173,855,000
17	Other Requirements	2,480,000	2,480,000	2,480,000	2,480,000	31,730,000
18	Requirements	608,493,000	594,795,000	587,528,000	514,893,000	5,521,182,913
19	Revenues-Requirements	(72,604,000)	(50,466,000)	(33,945,000)	46,507,000	(308,463,191)
Accumulated Funds:						
20	Beginning of Year	645,170,470	572,566,470	522,100,470	488,155,470	843,125,661
21	End of Year	572,566,470	522,100,470	488,155,470	534,662,470	534,662,470
22	Consolidated Reserve Policy	521,009,000	521,215,000	487,808,000	526,274,000	526,274,000
23	Over (Under) Reserve Policy*	51,557,470	885,470	347,470	8,388,470	8,388,470
Sewer Service User Fees:						
24	Avg SFR Annual User Fee	\$371	\$376	\$381	\$386	
25	Percentage Change	1.37%	1.35%	1.33%	1.31%	
26	Equivalent Dwelling Units	940,483	943,304	946,134	948,972	
27	SFR Connection Fee	\$5,770	\$5,787	\$5,804	\$5,821	
28	Outstanding COPs	\$579,775,000	\$547,925,000	\$510,330,000	\$470,860,000	
Reserve Policy						
29	50% Next Year Operating Expense	100,895,000	103,922,000	107,039,000	110,250,000	
30	10% Next Year Operating Expense	20,179,000	20,784,000	21,408,000	22,050,000	
31	100% Next Year AUG COP Svc.	15,368,000	14,572,000	13,632,000	12,646,000	
32	50% average ten-year CIP Balance	137,301,000	137,301,000	137,301,000	137,301,000	
33	Debt Svc @ 10% Outstanding COP	57,978,000	54,793,000	51,033,000	47,086,000	
34	Self Funded Insurance @ \$100M	108,164,000	109,624,000	111,082,000	112,537,000	
35	Repl & Refurb	81,124,000	82,219,000	83,313,000	84,404,000	
36	*Reserve Reduction (in accordance)	-	(2,000,000)	(37,000,000)	-	
37	Total	521,009,000	521,215,000	487,808,000	526,274,000	
COP Ratios						
38	Sr Lien Coverage, Min 1.25	5.47	5.14	5.18	5.21	

**Orange County Sanitation District
Consolidated Cash Flow Projections**

Cashflow adjusted for revenue loss due to foregoing scheduled rate adjustment

Ref	Description	Preliminary 20-21	Preliminary 21-22	Preliminary 22-23	Preliminary 23-24	Preliminary 24-25	Preliminary 25-26
Revenues:							
1	General User Fees	298,144,470	302,789,843	307,460,507	312,156,219	316,877,075	321,623,530
2	Permitted User Fees	12,845,756	12,997,336	13,149,000	13,300,000	13,452,000	13,604,000
3	IRWD Assessments	15,940,886	19,872,509	17,117,000	15,865,000	14,474,000	16,007,000
4	SAWPA Assessments	2,639,000	2,745,000	2,828,000	2,913,000	3,001,000	3,091,000
5	Property Taxes	99,935,520	102,034,166	105,095,000	107,722,000	110,415,000	113,727,000
6	New COP Issues	-	-	-	-	-	-
7	Interest Revenues	13,180,000	13,093,000	12,025,000	11,277,000	10,822,000	10,441,000
8	Capital Facilities Capacity Charges	20,125,170	20,809,000	18,673,000	19,441,000	19,517,000	19,597,000
9	Other Revenues	21,567,988	19,600,825	16,441,000	16,790,000	17,149,000	17,515,000
10	Revenues	484,378,790	493,941,679	492,788,507	499,464,219	505,707,075	515,605,530
Requirements:							
11	Oper & Mtce Exp (3.0% yr)	173,910,516	174,065,159	179,287,000	184,666,000	190,206,000	195,912,000
12	Capital Improvement Program (CIP)	164,833,000	261,947,000	317,935,000	316,625,000	270,380,000	287,072,000
13	Less: CIP Savings & Deferrals	(17,271,000)	(21,101,000)	(24,891,000)	(21,852,000)	(23,940,000)	(15,423,000)
14	Allocation for Future Rehabilitation	-	-	1,357,000	6,316,000	10,613,000	24,341,000
15	COP Debt Service	72,838,369	66,736,869	64,177,000	64,182,000	64,172,000	64,180,000
16	Reduction of Long-Term Liabilites	-	102,200,000	-	-	-	-
17	Other Requirements	5,910,000	5,980,000	2,480,000	2,480,000	2,480,000	2,480,000
18	Requirements	400,220,885	589,828,028	540,345,000	552,417,000	513,911,000	558,562,000
19	Revenues-Requirements	84,157,905	(95,886,349)	(47,556,493)	(52,952,781)	(8,203,925)	(42,956,470)
Accumulated Funds:							
20	Beginning of Year	843,198,733	927,356,638	831,470,289	783,913,796	730,961,015	722,757,090
21	End of Year	927,356,638	831,470,289	783,913,796	730,961,015	722,757,090	679,800,620
22	Consolidated Reserve Policy	534,393,000	532,748,000	513,036,000	514,679,000	516,191,000	517,758,000
23	Over (Under) Reserve Policy*	392,963,638	298,722,289	270,877,796	216,282,015	206,566,090	162,042,620
Sewer Service User Fees:							
24	Avg SFR Annual User Fee	\$339	\$343	\$347	\$351	\$355	\$359
25	Percentage Change	0.00%	1.18%	1.17%	1.15%	1.14%	1.13%
26	Equivalent Dwelling Units	923,730	926,501	929,281	932,069	934,865	937,670
27	SFR Connection Fee	\$4,601	\$4,973	\$5,346	\$5,719	\$5,736	\$5,753
28	Outstanding COPs	\$940,050,000	\$909,620,000	\$707,360,000	\$677,555,000	\$646,415,000	\$613,760,000
Reserve Policy							
29	50% Next Year Operating Expense	86,955,000	87,033,000	89,644,000	92,333,000	95,103,000	97,956,000
30	10% Next Year Operating Expense	17,391,000	17,407,000	17,929,000	18,467,000	19,021,000	19,591,000
31	100% Next Year AUG COP Svc.	23,741,000	22,980,000	18,289,000	17,625,000	16,862,000	16,201,000
32	50% average ten-year CIP Balance	137,301,000	137,301,000	137,301,000	137,301,000	137,301,000	137,301,000
33	Debt Svc @ 10% Outstanding COP	94,005,000	90,962,000	70,736,000	67,756,000	64,642,000	61,376,000
34	Self Funded Insurance @ \$100M	100,000,000	101,180,000	102,364,000	103,541,000	104,721,000	105,904,000
35	Repl & Refurb	75,000,000	75,885,000	76,773,000	77,656,000	78,541,000	79,429,000
36	*Reserve Reduction (in accordance with Board action allowing a \$40M reduction to total reserves)	-	-	-	-	-	-
37	Total	534,393,000	532,748,000	513,036,000	514,679,000	516,191,000	517,758,000
COP Ratios							
38	Sr Lien Coverge, Min 1.25	3.99	4.48	4.59	4.60	4.61	4.68

Orange County Sanitation District Consolidated Cash Flow Projections

Ref	Description	Preliminary 20-21	Preliminary 21-22	Preliminary 22-23	Preliminary 23-24	Preliminary 24-25	Preliminary 25-26
Revenues:							
1	General User Fees	298,144,470	302,789,843	307,460,507	312,156,219	316,877,075	321,623,530
2	Permitted User Fees	12,845,756	12,997,336	13,149,000	13,300,000	13,452,000	13,604,000
3	IRWD Assessments	15,940,886	19,872,509	17,117,000	15,865,000	14,474,000	16,007,000
4	SAWPA Assessments	2,639,000	2,745,000	2,828,000	2,913,000	3,001,000	3,091,000
5	Property Taxes	99,935,520	102,034,166	105,095,000	107,722,000	110,415,000	113,727,000
6	New COP Issues	-	-	-	-	-	-
7	Interest Revenues	13,180,000	13,093,000	12,025,000	11,277,000	10,822,000	10,441,000
8	Capital Facilities Capacity Charges	20,125,170	20,809,000	18,673,000	19,441,000	19,517,000	19,597,000
9	Other Revenues	21,567,988	19,600,825	16,441,000	16,790,000	17,149,000	17,515,000
10	Revenues	484,378,790	493,941,679	492,788,507	499,464,219	505,707,075	515,605,530
Requirements:							
11	Oper & Mtce Exp (3.0% yr)	173,910,516	174,065,159	179,287,000	184,666,000	190,206,000	195,912,000
12	Capital Improvement Program (CIP)	164,833,000	261,947,000	317,935,000	316,625,000	270,380,000	287,072,000
13	Less: CIP Savings & Deferrals	(17,271,000)	(21,101,000)	(24,891,000)	(21,852,000)	(23,940,000)	(15,423,000)
14	Allocation for Future Rehabilitation	-	-	1,357,000	6,316,000	10,613,000	24,341,000
15	COP Debt Service	72,838,369	66,736,869	64,177,000	64,182,000	64,172,000	64,180,000
16	Reduction of Long-Term Liabilites	-	102,200,000	-	-	-	-
17	Other Requirements	5,910,000	5,980,000	2,480,000	2,480,000	2,480,000	2,480,000
18	Requirements	400,220,885	589,828,028	540,345,000	552,417,000	513,911,000	558,562,000
19	Revenues-Requirements	84,157,905	(95,886,349)	(47,556,493)	(52,952,781)	(8,203,925)	(42,956,470)
Accumulated Funds:							
20	Beginning of Year	843,198,733	927,356,638	831,470,289	783,913,796	730,961,015	722,757,090
21	End of Year	927,356,638	831,470,289	783,913,796	730,961,015	722,757,090	679,800,620
22	Consolidated Reserve Policy	534,393,000	532,748,000	513,036,000	514,679,000	516,191,000	517,758,000
23	Over (Under) Reserve Policy*	392,963,638	298,722,289	270,877,796	216,282,015	206,566,090	162,042,620
Sewer Service User Fees:							
24	Avg SFR Annual User Fee	\$339	\$343	\$347	\$351	\$355	\$359
25	Percentage Change	0.00%	1.18%	1.17%	1.15%	1.14%	1.13%
26	Equivalent Dwelling Units	923,730	926,501	929,281	932,069	934,865	937,670
27	SFR Connection Fee	\$4,601	\$4,973	\$5,346	\$5,719	\$5,736	\$5,753
28	Outstanding COPs	\$940,050,000	\$909,620,000	\$707,360,000	\$677,555,000	\$646,415,000	\$613,760,000
Reserve Policy							
29	50% Next Year Operating Expense	86,955,000	87,033,000	89,644,000	92,333,000	95,103,000	97,956,000
30	10% Next Year Operating Expense	17,391,000	17,407,000	17,929,000	18,467,000	19,021,000	19,591,000
31	100% Next Year AUG COP Svc.	23,741,000	22,980,000	18,289,000	17,625,000	16,862,000	16,201,000
32	50% average ten-year CIP Balance	137,301,000	137,301,000	137,301,000	137,301,000	137,301,000	137,301,000
33	Debt Svc @ 10% Outstanding COP	94,005,000	90,962,000	70,736,000	67,756,000	64,642,000	61,376,000
34	Self Funded Insurance @ \$100M	100,000,000	101,180,000	102,364,000	103,541,000	104,721,000	105,904,000
35	Repl & Refurb	75,000,000	75,885,000	76,773,000	77,656,000	78,541,000	79,429,000
36	*Reserve Reduction (in accordance with Board action allowing a \$40M reduction to total reserves)	-	-	-	-	-	-
37	Total	534,393,000	532,748,000	513,036,000	514,679,000	516,191,000	517,758,000
COP Ratios							
38	Sr Lien Coverge, Min 1.25	3.99	4.48	4.59	4.60	4.61	4.68