Orange County Sanitation District

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Agenda Report

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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