



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: MARCH 11, 2024

SUBJECT: GAGE CANAL COMPANY'S CAPITAL EXPENDITURE BUDGET FOR FISCAL YEAR 2023/24

ISSUE:

Consider approval of the Gage Canal Company's capital expenditure budget for Fiscal Year 2023/24 and direct staff to bring back additional reports to the Board of Public Utilities for further discussion on the capital needs of City water infrastructure serving the Gage Canal Company shareholders.

RECOMMENDATIONS:

That the Board of Public Utilities:

1. Recommend the City Council approve the Gage Canal Company's capital expenditure budget for Fiscal Year 2023/24.
2. Direct staff to bring back additional reports to the Board of Public Utilities for further discussion on the capital needs of the City water infrastructure serving the Gage Canal Company shareholders.

BACKGROUND:

As part of Section 15 of the Agreement for Operation of Gage Canal Facilities (Agreement) the Gage Canal Company (Company) must submit the Company's proposed capital expenditure budget to the City for approval. In past years, this approval was done administratively by the Utilities General Manager.

Attached is the Company's final proposed capital expenditure budget for Fiscal Year 2023/24, from the Company's General Manager. The Board of Public Utilities (Board) is asked to consider the budget and make a recommendation to the City Council. The City Council is presented the budget and Board recommendation for final consideration and approval. However, the Agreement does not explicitly describe what happens if the Company's capital expenditure budget is not approved by the City. Since there is no record of a Company budget not being approved by the City in accordance with the Agreement, the practice is that the Company is permitted to perform the capital expenditures as approved by the Company.

At the time the Company submits the capital expenditure budget to the City, it may have already been developed, vetted, and approved by the Company's Board of Directors. Currently, three of

the 11 seats of the Company's Board of Directors are filled by the Utilities Assistant General Manager and two members of the Board of Public Utilities. This ensures City representation in the development and approval of the Company's capital expenditure budget.

DISCUSSION:

Company's Requirement to Submit Capital Expenditure Budget

Section 15 of the Agreement outlines the Company's requirement to submit their annual capital expenditure budget to the City.

"All capital improvements, additions and replacements necessary to fully exercise the water rights condemned to the use of the City and necessary to the Company's performance of this agreement shall be paid for by the Company, installed only on former Gage properties condemned to the City and shall be the property of the City. The Company shall submit an annual capital expenditure budget for approval by the City; costs of such improvements necessary to efficient performance of this agreement shall be borne by all shareholders, including the City, and/or contractual obligees as operating expense in accordance with previous practices and existing agreements; except the City shall assume the shareholders' allocation of expense for canal covering instigated by the City."

If the Company failed to submit the annual capital expenditure budget, then it could be considered a breach of contract. Section 22 of the Agreement addresses how such a situation is to be handled. Breach of contract has never happened since execution of the Agreement in 1965.

The operational facilities (wells, pumps and canal) are the property of the City and Gage Canal Company operates these facilities on behalf of the City. Section 15 indicates that there is a sharing of costs for capital expenditures by all shareholders, including the City. The issue that remains unresolved is the significant long-term costs associated with major improvements to facilities and drilling of new wells to replace the many very old (approximately 100 years) ones. The capital budgets of the last several years have not addressed any of these issues and new well production facilities have been funded entirely by City ratepayers. Further discussions are needed to resolve this issue.

Fiscal Year 2023/24 Budget as Submitted

A copy of the Company's Fiscal Year 2023/24 capital expenditure budget letter is attached to this report. The total capital expenditures for the Company are \$468,600 for Fiscal Year 2023/24. The capital improvement items include two vehicles, well rehabilitation, and the replacement of a check valve.

Need for Capital Improvements

Improvements are needed as part of the Company's ability to maintain ongoing efficient operation of the canal system and facilities as part of their obligation of the Agreement.

Financial Impact to City

The implementation of the Company's proposed capital expenditures is a fiscal impact to the City since the City will pay a proportionate share of the Company's capital expenditures as part of its percentage ownership of shares in the Company (currently 61%).

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 6, Infrastructure, Mobility and Connectivity** and **Goal 6.2** - Maintain, protect, and improve assets and infrastructure within the City's built environment to ensure and enhance reliability, resiliency, sustainability, and facilitate connectivity.

The capital expenditure budget submitted by the Company is not a specific City endeavor, however there is an impact on the City since the City is a 61% shareholder in the Company. Therefore, it is important to ensure that the Company's capital expenditure budget is aligned with the strategic initiatives of the City.

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – Bringing this before the Board of Public Utilities and City Council exhibits the City's effort to ensure public and community trust in dealings with the Company.
2. **Equity** – All RPU customers are represented on the Company's Board of Directors by the Utilities General Manager and two members of the Board of Public Utilities.
3. **Fiscal Responsibility** – This capital expenditure budget has been vetted by the Company's Board of Directors and it is in their best interests to ensure that all proposed expenditures are necessary. Since the overall expenditures of the Company affect all shareholders, including the City, it is desired to keep shareholder costs as low as possible.
4. **Innovation** – Proactively involving the Utilities General Manager and two members of the Board of Public Utilities ensures the City's interest in innovation is represented in the Company's capital budget.
5. **Sustainability & Resiliency** – The Company's continued performance of efficient and effective processes that keep the canal facilities and infrastructure functional is part of the ongoing obligation of the Agreement that has been in place since 1965 and this keeps the system sustainable and resilient.

FISCAL IMPACT:

There is no fiscal impact associated with this report. The total capital expenditures for the Company are \$468,600 for Fiscal Year 2023/24; the City's proportionate share is \$285,480. The Company assesses all shareholders for operating and capital expenses; approval is done through the biennial budget process.

Prepared by: David A. Garcia, Utilities Assistant General Manager/Water
Approved by: Todd M. Corbin, Utilities General Manager
Certified as to
availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by: Rafael Guzman, Assistant City Manager
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Agreement for Operation of Gage Canal Facilities (June 9, 1965)

2. Gage Canal Company Capital Expenditure Budget Letter
3. Presentation