



# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

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**BOARD OF PUBLIC UTILITIES**

**DATE: AUGUST 28, 2023**

**SUBJECT: PUBLIC HEARING - WATER UTILITY FIVE-YEAR RATE PLAN PROPOSAL AND CHANGES TO THE LOW-INCOME WATER ASSISTANCE PROGRAM**

**ISSUES:**

Consideration of a water utility five-year rate plan and increases to the low-income water assistance program for residential customers.

**RECOMMENDATIONS:**

That the Board of Public Utilities:

1. Conduct a public hearing to receive public input related to the water utility five-year rate plan proposal;
2. Adopt a resolution of the water utility five-year rate plan proposal, establishing the water utility five-year rate proposal, as further described in the resolution;
3. Recommend the City Council conduct a public hearing to receive input related to the water utility five-year rate plan proposal and to consider and tabulate all written protests to the proposed water rate increases;
4. Recommend the City Council adopt a resolution recording receipt of written protests to the water utility five-year rate plan proposal and, if no majority protest is received to those water rates, approve the water utility five-year rate plan proposal, as further described in that resolution; and
5. Recommend the City Council approve changes to the low-income water assistance program.

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## **LEGISLATIVE HISTORY:**

The water utility is a self-supporting enterprise fund that provides services for a fee. Charges for service through rates are the primary source of funding for operations and a significant portion of the capital improvement program which includes debt service (principal and interest) for bonds issued to fund these projects. Developer fees are the other funding source for capital projects.

City Charter section 1202(e) provides for the process for the adoption of utility rates. The Board has the authority to establish rate changes, which must then be approved by the City Council, when necessary to ensure the continued recovery of costs for services and to secure reinvestment into the system infrastructure for long-term sustainability.

Proposition 218 (Prop 218), approved in 1996, adds Article XII C (Voter Approval for Local Tax Levies) to the California Constitution. All property-related fees, such as water rates, must meet Prop 218's requirements.

Proposition 218 provides that, prior to adoption of increases to water rates, the City must provide notice to all affected water ratepayers and record receipt of all written protests to the proposed water rate increases. If the City receives written protests from a majority of the affected water ratepayers, the City is prohibited from implementing the proposed water rate increases. The Board of Public Utilities public hearing, which will not include written protests, was published in the Press Enterprise on Thursday, August 10, 2023, and Thursday, August 17, 2023. The written protest public hearing is scheduled to be conducted by the City Council on Tuesday, September 19, 2023. In anticipation of the City Council public hearing, notices were mailed to water utility ratepayers on Thursday, July 27, 2023, and will be published twice in the Press Enterprise prior to the public hearing.

## **BACKGROUND:**

### **Conceptual Approval of Five-Year Rate Plan**

On June 12, 2023, the Board received information on the establishment of a five-year rate plan for the Electric utility, conceptually approved the Electric utility five-year rate plan proposal and recommended that City Council direct staff to prepare all documents necessary for a public hearing to be held at City Council on September 5, 2023, upon approval of the City Council with new rates effective January 1, 2024. On June 27, 2023, the City Council received information on the establishment of a five-year rate plan for the electric utility, conceptually approved the electric utility five-year rate plan proposal and directed staff to prepare all documents necessary for a public hearing to be held at City Council on September 19, 2023, with new rates effective January 1, 2024.

Rate trend studies preceded the proposed five-year rate plan.

### **Board of Public Utilities Actions Prior to Proposed Rate Plan**

On August 8, 2022, the Board of Public Utilities (Board) received an update and provided feedback on Riverside Public Utilities Electric and Water Rate Trends Studies.

On June 20, 2022, the Board of Public Utilities Customer Relations/Finance Committee, with three members present and one member absent, unanimously received the Water Rate Trends Study update and provided feedback including:

1. Ensure compliance with legal requirements including California Propositions 218 and 26;

2. Consider rate structures that are resilient when volumetric water sales differ along with volumetric usage that does not fluctuate when evaluating fixed cost recovery;
3. Review ratepayer affordability by providing the impacts on low-income water customers and their water usage;
4. Evaluate the water utility's cost structure and the costs and benefits of implementing budget-based water rates prior to beginning the Phase V - Budget-Based Rate Design and Implementation Plan; and
5. Consider other factors along with the timing of rate adjustments being effective after the current five-year rate plan on July 1, 2023.

On March 14, 2022, the Board of Public Utilities approved the agreement with Carollo Engineers, Inc. (Carollo) to complete a water utility cost of service analysis (COSA) and rate design project for financial planning purposes. The final year of the current water utility five-year rate plan rate adjustment was effective July 1, 2022. Carollo and RPU staff began the COSA and Water Rate Trends Study phases of the project.

What is a rate trend study? The purpose of the Electric and Water Rate Trends Studies (Studies) phase within the Electric and Water COSA and Rate Design Projects was to evaluate and analyze different rate structures in the electric and water utility industries and how they could influence, impact, or apply to RPU currently and in the future. The different rate structures and industry concepts researched included, but were not limited to, emerging technologies and their future implications, electricity and water pricing, customer classification, and new customer choices. The Water Rate Trends Study included a review of current rate offerings from neighboring water utilities.

Goal of a rate trend study. The goal of these Studies is to help RPU develop rates that are cost of service based, a reflection of industry best practices and meet the City's Strategic Goals and Cross Cutting Threads. With the COSA results and Study information, RPU was prepared to discuss and design electric and water rates for the future of each utility.

Elements of a rate trend study. The Water Rate Trends Study includes the following chapters:

- Chapter 1: **Introduction** - Includes recent trends in water demands and revenue recovery, RPU customer data and trends, and revenue stability and sufficiency.
- Chapter 2: **Ratemaking Principles** - An overview of general ratemaking principles including RPU's ratemaking principles and alignment with the City Council's Envision Riverside 2025 Strategic Plan Cross-Cutting Thread themes.
- Chapter 3: **Existing Rate Structures** - Discusses RPU's current water rate structures.
- Chapter 4: **Emerging and Alternative Rate Structures** - Discusses various water rate alternatives based on recent and emerging trends in the Water utility industry.
- Chapter 5: **Promising Technological Trends** - Discusses emerging technological trends and how RPU can benefit and improve communication with customers.
- Chapter 6: **Rate Structure Evaluation Matrix** - Highlights various summary rate matrices showing RPU's current rate structures; emerging and alternative rate structures; their advantages and disadvantages for RPU and customers; short-, mid-, and long-term

implementation considerations; and a comparison of each rate structure including customer acceptance, behavior changes, and technology costs.

- Chapter 7: **Conclusions and Recommendations**

The Water Rate Trend Study recommended potential refinements and focus areas for the short-term including:

1. Customer Rate Classes: While the need for changes is not likely, RPU should evaluate the customer classes during the upcoming COSA Study and determine whether refinements to class assignments or additional classes are necessary.
2. Fixed Cost Recovery: RPU should continue to track and evaluate fixed and variable costs and set fixed cost recovery levels to balance the need to minimize potential revenue shortfalls with customer affordability. During the upcoming COSA Study, fixed costs, fixed revenues, and variable revenues associated with minimal, hardened demand should be evaluated to assess the sufficiency of fixed revenues, with potential increases to the proportion of fixed revenues if necessary.
3. Volumetric Rate Structures: RPU should evaluate the variable rates applied to each customer class during the upcoming COSA Study and make any necessary refinements. Refinements may include modifications to tier break points to align with current demand patterns, changes to seasonal rate assumptions, and other refinements.
4. Drought and Demand Management Rates: RPU should consider implementing drought and demand management rates to provide a means to adequately recover costs during times of high conservation or otherwise decreased demands. The rates could include a full drought and demand management rate structure with updated rates for all rate components for varied levels of conservation or cutbacks or could be structured as fixed or volumetric surcharges applied equally to all customer classes.
5. Water Budget-Based Rates: RPU should evaluate whether water budget-based rates could be beneficial for RPU and its customers along with the level of effort that would be needed to implement budget-based rates.
6. Other Rate Structure Elements: The upcoming COSA Study should evaluate the potential for other rate structure elements such as Supply/Infrastructure charges and Regulatory pass-throughs.
7. Recycled Water Rates: As the recycled water system is expanded and additional customers are connected, RPU should work to refine the recycled water rates and potentially adopt a recycled water specific rate rather than grouping recycled water with interruptible service once sufficient data is available to do so.

The Water Rate Trend Study recommended potential refinements and focus areas for the long-term including:

8. Advanced Metering Infrastructure (AMI) Implementation, Time of Use Rates, and Demand Charges: With the eventual implementation of AMI and additional customer usage information available, RPU should explore whether time of use rates and demand charges would be beneficial for RPU and its customers.

Phases of a rate trend study. The Water Cost of Service and Rate Design Project included five overall phases. Carollo was first tasked with beginning the Phase I Cost of Service Analysis and Phase II Water Rate Trends Study. The results of the Water Rate Trends Study guided the Phase

III Rate Design Recommendation and supporting Phase IV Customer Impact Rate Design Model which began after the completion of the Phase I Cost of Service Analysis.

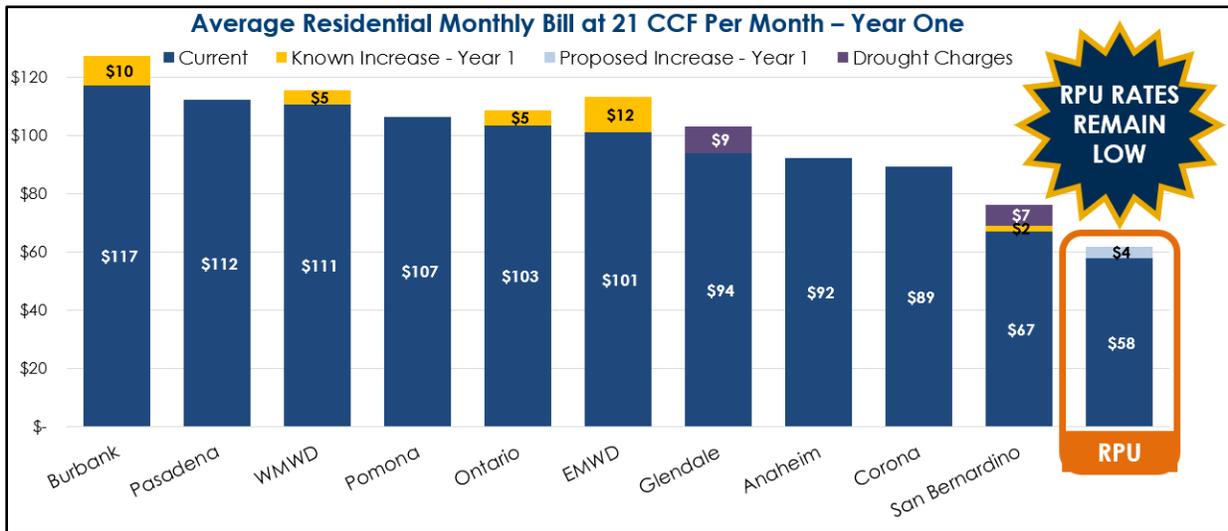
Water Cost of Service and Rate Design Project	Status
Phase I - Cost of Service Analysis	Complete
Phase II - Water Rate Trends Study	Complete
Phase III - Rate Design Recommendation	Complete
Phase IV - Recycled Water Rate Design	Deferred
Phase V - Budget-Based Rate Design and Implementation Plan	Deferred

**About the Water Utility**

RPU’s water utility was established in 1913 and provides high quality and reliable service to over 66,000 service connections serving most of the City of Riverside and a few surrounding areas. All (100%) of the water utility’s potable drinking water has been supplied from local groundwater basins in San Bernardino and Riverside counties since 2009.

The water utility maintains and operates 50 domestic wells, 60 pressure stations, 6 water treatment facilities, 16 reservoirs, 34 miles of supply pipeline, 98 miles of transmission pipeline, and 826 miles of distribution pipeline.

**RPU water rates are believed to be the lowest in California.** Maintaining low rates is important for our customers and helps the City of Riverside maintain a competitive advantage when compared to other municipal utilities.



RPU’s efforts to keep rates low include the sale of surplus water supplies and delivery to neighboring water utilities resulting in \$4.5 million to \$6 million of additional annual revenue and the reimbursement of treatment plant operational costs resulting in \$2 million to \$2.5 million in cost savings from responsible parties found to have contributed to basin contamination.

RPU is actively participating in multiple efforts to recharge water back into our underground aquifers including, but not limited to, the Seven Oaks Dam Enhanced Recharge project, the Riverside Habitat Parks & Water Project, and the development of a regional Habitat Conservation Plan. All of these efforts help ensure sustainable water levels in the underground aquifers and prevent the need to purchase more expensive imported water from the California or Colorado water systems,

Even with low water rates, there are many customers that require assistance. The water utility’s low-income assistance program assists 2,144 water customers with monthly bill assistance. The income qualification is based on 250% of the Federal poverty income guidelines and the number of people in the household.

History of Rate Adjustments from 2009 to 2017

Water rates were increased by 10% in 2009, and 10% in 2010. Between 2011 and 2017 or for a period of seven consecutive years, there were no water rate increases.

Water	Rate Increase
11/1/2009	10.00%
11/1/2010	10.00%
7/1/2011	0%
7/1/2012	0%
7/1/2013	0%
7/1/2014	0%
7/1/2015	0%
7/1/2016	0%
7/1/2017	0%

No Rate Increases  
from 2011 - 2017

Rates from 2018 to 2023

On May 22, 2018, the City Council approved the water utility five-year rate plan with water rate increases effective on July 1<sup>st</sup> of each year beginning on July 1, 2018, with five-year system average annual rate increases of 5.7%. The final year of the water utility five-year rate plan was effective July 1, 2022, with the final year expiring June 30, 2023.

Water	Rate Increase
7/1/2018	4.50%
7/1/2019	5.75%
7/1/2020	5.75%
7/1/2021	5.75%
7/1/2022	6.50%

Current Rate Plan Expired  
6/30/2023

The last five-year water rate plan was approved effective July 1, 2018, through June 30, 2023. It has, however, not provided funding for utility operations to keep up with the acceleration of inflation in the general economy and even higher rates of inflation for construction and equipment in the utility industry. As a result, RPU’s increasing operational and capital costs, declining reserve levels, and pressure on financial metrics to meet fiscal policy requirements are being realized.

Overview of Rate Proposal

RPU’s water utility is faced with many current and future challenges including aging infrastructure, preserving RPU’s groundwater supply, adapting to changing climate conditions, and increased operational and capital costs. A growing proportion of RPU water utility infrastructure is aging beyond its expected useful life. RPU has both distribution pipeline infrastructure and water production wells in excess of 70 years old which are in need of replacement.

Groundwater supply challenges include preserving water rights in the groundwater basins, significant volatility in annual precipitation from changing climate conditions impacting groundwater levels, meeting future potable water demand without accessing more expensive imported water supplies, groundwater conditions, and water quality regulation changes. RPU’s operational costs to repair and maintain delivery infrastructure and equipment do not decrease significantly with reductions in water sales. Consequently, the impacts of year over year drought conditions throughout the state have a cumulative negative affect on utility revenues.

RPU is proposing a five-year (fiscal years 2023/24 through 2027/28) water utility rate plan that will result in a five-year system average annual rate increase of 6.5%.

<b>Proposed Five-Year Water Utility Rate Plan System Average Rate Increases</b>	
October 1, 2023	6.50%
July 1, 2024	6.50%
July 1, 2025	6.50%
July 1, 2026	6.50%
July 1, 2027	6.50%

Rate increases and associated bill impacts will vary by customer class and consumption levels. The first year of the rate plan includes changes in customer usage patterns and allocation of costs.

**Proposed Five-Year Water Rate Plan by Customer Class**

<b>Customer Class</b>	<b>Customers</b>	<b>Year 1 % Increase</b>	<b>Year 2 % Increase</b>	<b>Year 3 % Increase</b>	<b>Year 4 % Increase</b>	<b>Year 5 % Increase</b>
Single Family Residential	58,731	5.7%	6.6%	6.6%	6.7%	6.6%
Multi Family Residential	1,145	4.6%	6.6%	6.6%	6.7%	6.6%
Commercial/ Industrial	5,137	8.6%	6.0%	6.1%	6.3%	6.0%
Landscape	500	13.6%	5.9%	5.8%	6.1%	5.8%
City Interruptible/ Recycled	530	5.8%	6.3%	6.0%	5.8%	6.3%
Agriculture	224	1.8%	6.4%	6.5%	6.4%	6.5%
Riverside Water Co. Irrigators	24	19.3%	7.1%	7.0%	7.2%	6.9%
Temporary Service	72	12.0%	7.0%	6.9%	7.1%	7.0%

The five-year rate plan will fund \$184 million in water capital infrastructure and support current and future bond issuances providing \$148 million in bond proceeds to fund capital infrastructure. New water capital infrastructure investments include funding:

1. The Seven Oaks Dam Enhanced Recharge project which will enhance RPU’s water supply portfolio options while securing additional perpetual water rights, ensure water supply reliability for current and future demands, and is cost effective and environmentally preferred as compared to importing water;
2. Riverside Habitat Parks & Water Project (RHPWP) West Branch is a regional project which

is a cornerstone project in the development of a Habitat Conservation Plan (HCP) which provides, through joint regional funding, the expansion of the Riverside recycled water system, provides environmental approvals for future Riverside and regional partner projects over the next 50 years, and improves the City’s natural resources along the Santa Ana River by supporting the final project; and

3. The Habitat Conservation Plan Tributaries Restoration project, along with the prior project, provides environmental benefits to endangered species habitats supported by the regulatory agencies along the Santa Ana River and throughout the watershed.

Upon completion, Riverside and the region will be provided through the HCP environmental coverage up to 80,000 acre-feet of water per year for new water supply projects within the Upper Santa Ana River Watershed and adds resiliency to our local water supplies through sustainable and environmentally ethical efforts, working to revitalize the Santa Ana River and the species which depend on it. Riverside benefits specifically by additional regional funding to expand the recycled water system and more water project development through the watershed provides future opportunities for expanding Riverside’s water supplies as needed. These new projects are in addition to the necessary investments in new water production wells and replacing end of life transmission and distribution pipelines listed in the following table.

Water Capital Improvement Plan Investments

<b>Water Capital Investments (in millions)</b>						
	<b>Adopted 23-24</b>	<b>-----Planning Purposes-----</b>				
		<b>24-25</b>	<b>25-26</b>	<b>26-27</b>	<b>27-28</b>	<b>Total</b>
<b>Well Projects</b>	\$ 1.2	\$ 3.8	\$ 1.9	\$ 7.3	\$ 1.4	\$ 15.6
<b>Transmission Pipelines</b>	9.8	5.9	1.2	6.2	13.0	36.1
<b>Distribution Pipelines</b>	13.2	14.1	15.0	15.7	16.4	74.4
<b>Distribution Facilities</b>	1.3	1.6	1.6	1.6	1.7	7.8
<b>Treatment Plants</b>	0.4	-	0.4	-	0.5	1.3
<b>Reservoir Projects</b>	-	0.6	-	0.7	-	1.3
<b>System Automation</b>	4.0	3.6	4.7	3.2	3.7	19.2
<b>Water Supply</b>			14.0	14.0		28.0
<b>Total</b>	<b>\$ 29.9</b>	<b>\$ 29.6</b>	<b>\$ 38.8</b>	<b>\$ 48.7</b>	<b>\$ 36.7</b>	<b>\$ 183.7</b>

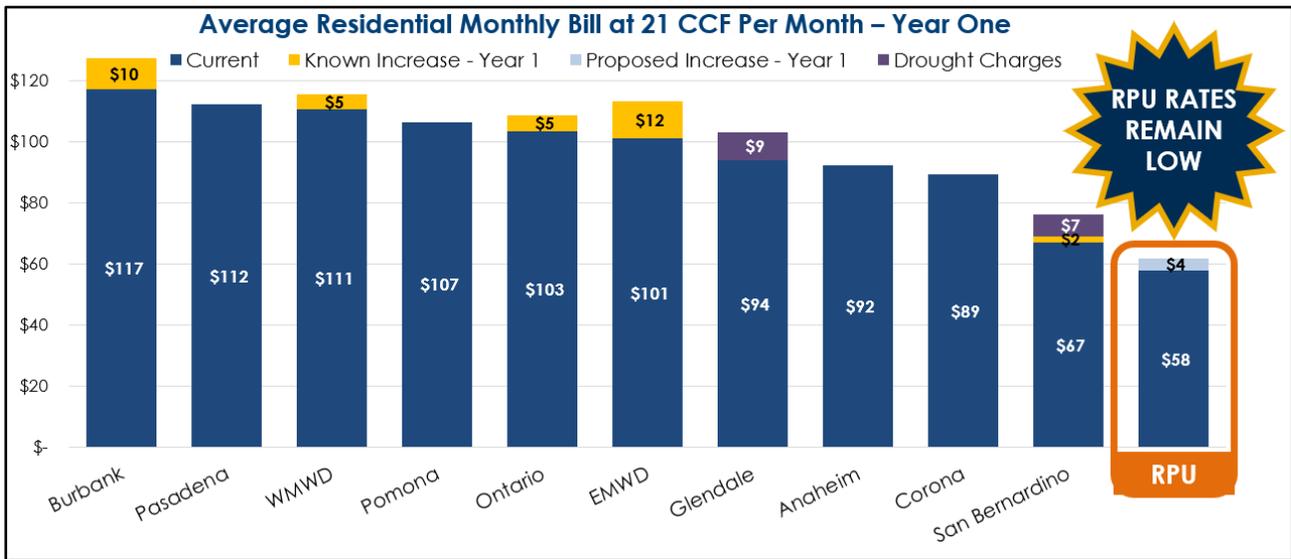
Proposed Water Rate Increase for Residential Customers

For a typical residential water customer using on average 21 CCF per month with an average monthly bill of \$58, the estimated average monthly bill increase in year 1 is \$4.07, while the water rate increase will be an estimated \$0.15 per day in each year of the rate plan. Rate increases and associated bill impacts will vary by customer class and consumption levels.

Sample Average Rate Increase for Residential Customer

Customer Class	Avg CCF Usage	Year 1 % Increase	Average Years 2-5 % Increase
Single Family Residential	21	7.0%	6.6%

RPU’s water utility rates will continue to remain competitive within the region. A typical residential water customer using on average 21 CCF per month would pay more at the next lowest water utility.



Low-Income Assistance Continues and Future Augmentation Proposed

The water utility’s low-income assistance program assists 2,144 water customers with monthly bill assistance and is proposed to increase from \$3.25 per month to \$4.25 per month for qualifying customers. The income qualification is identical to the electric utility Sharing Households Assist Riverside’s Energy (SHARE) Program and based on 250% of the Federal poverty income guidelines and the number of people in the household. The monthly bill assistance will be evaluated annually and future increases in monthly credits will align with each effective year of the proposed five-year rate plan. The water utility’s low-income assistance program is included in the annual water utility operating budget, which will be funded from wholesale water revenues. The program assistance is anticipated to remain within the existing program budget.

Typical Commercial Water Customer

For a typical commercial water customer using on average 37 CCF per month with an average monthly bill of \$106, the estimated average monthly bill increase in year 1 is \$9.02, while the water rate increase will be an estimated \$0.26 per day in each year of the rate plan. Rate increases and associated bill impacts will vary by customer class and consumption levels.

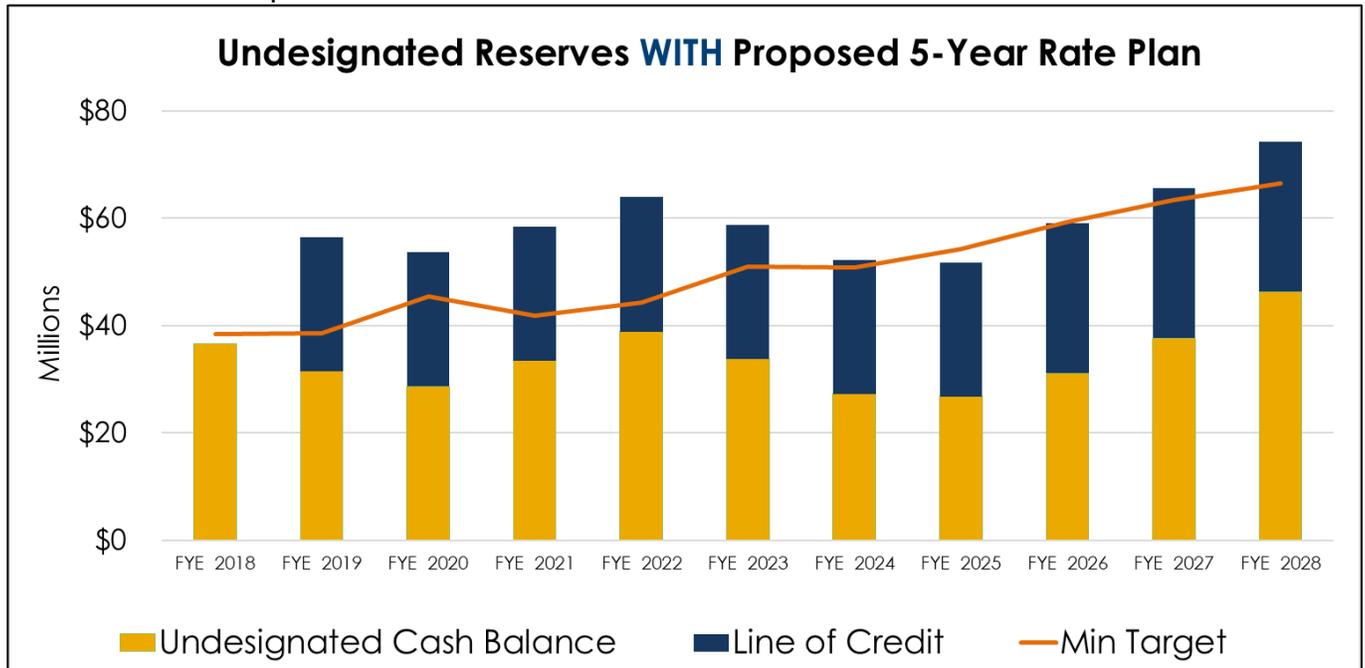
Sample Average Rate Increase for Commercial Customer

Customer Class	Avg CCF Usage	Year 1 % Increase	Average Years 2-5 % Increase
Commercial/ Industrial	37	8.5%	6.1%

The proposed five-year water utility rate plan will fund future operating and capital costs, maintain reserve levels and financial metrics that comply with approved fiscal and reserve policies, and

maintain current bond ratings to keep borrowing costs for capital investments low. In order to keep the rate increases in the five-year water rate plan as low as possible, the undesignated reserve balance combined with the line of credit does fall below minimum target reserve levels prior to returning to above minimum target reserve levels within the timeframe required by the reserve policy.

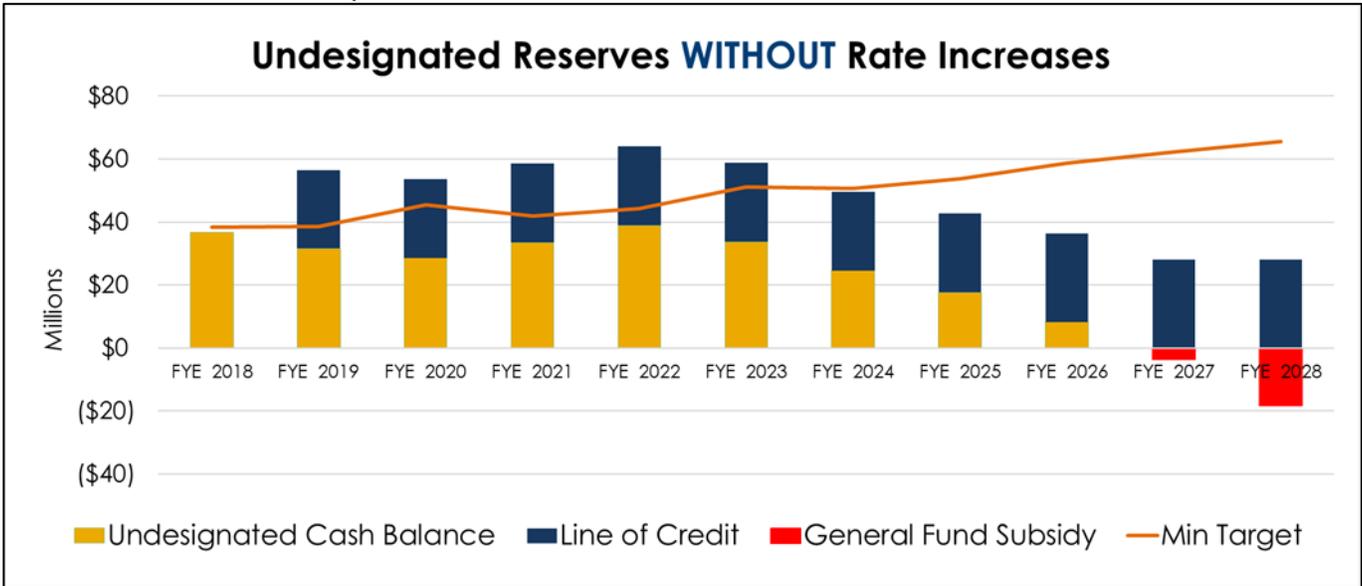
Reserves With Proposed Five-Year Rate Plan



Alternatives and Risks

Without a rate increase, the water utility will completely spend down undesignated reserves by June 2027 and require a subsidy from the General Fund to continue operations and carry out planned capital infrastructure projects. Reserve levels dropping below minimum required targets will require significant reductions to expenditures, including reductions in necessary capital program projects, deep cuts to current operations and maintenance spending plans, and significant personnel reductions that will severely impact response time to customers. In addition, when reserve levels drop permanently below minimum mandated levels, RPU’s bond ratings will fall and its cost of borrowing will increase, costing future ratepayers millions in higher debt payments. The following chart depicts the undesignated reserves being entirely depleted between 2026 and 2027 at which point without a rate increase a significant General Fund subsidy would be needed going forward.

Reserves WITHOUT Proposed Five-Year Rate Plan



**Follow-up to Questions Raised by Board of Public Utilities**

At the June 12, 2023 meeting, the Board of Public Utilities approved a recommendation to the City Council to conceptually approve both the Water and Electric Five-Year Rate plans. During the Board’s consideration of the proposed conceptual rate plan, several questions were asked that required additional research. Staff followed up with presentations to the Board of Public Utilities on three topics:

1. Fiscal Policies and Cash Reserves – presented on June 26, 2023
2. Alternative Rate Scenarios – presented on July 24, 2023
3. Capital Improvement Project Accomplishments From Prior Rate Plan – presented on August 14, 2023

**Fiscal Policies and Cash Reserves**

On June 26, 2023, the Board received an update on Riverside Public Utilities (RPU) Fiscal Policies – Cash Reserve Policy, as it relates to the Water and Electric Utility Five-Year Rate Plan Proposals. The discussion addressed the purpose of the Reserve Policy to maintain long-term fiscal strength for RPU, defined and detailed the unaudited balances of all RPU reserve accounts, and advised on the calculation formulas for the minimum reserve targets for the electric and water funds. Additional questions were asked including, but not limited to, the following: bond ratings, how reserves effect bond ratings, what it would take to raise the utility’s bond rating, and what does it take to eliminate the Line of Credit.

Reserve Policies Purpose

Properly designed reserve policies send a positive signal to ratepayers, investors, and regulatory and credit rating agencies that the Board and City Council are committed to maintaining the long-term fiscal strength of RPU. Strong and transparent financial policies, including maintaining prudent reserves for emergencies, rate stability, working capital, capital improvements and debt service, are consistent with best practices in the utility industry and are important to RPU as they help to:

- Maintain the short-term and long-term financial health of RPU
- Maintain stable rates for customers and help ensure manageable rate increases
- Fund unanticipated cost contingencies
- Ensure funds exist for system improvements

- Ensure cash exists for the timely payment of bills
- Act as a significant positive credit factor in bond ratings

The most recent audited and the current unaudited balances of all RPU reserves are included in the following table.

<b>Schedules of Cash and Cash Equivalents – Water Utility</b>		
	<b>Audited June 30, 2022</b>	<b>Unaudited March 31, 2023</b>
Unrestricted cash and cash equivalents:		
Undesignated reserve	\$ 38,918,000	\$ 40,775,000
Recycled water cash reserve	1,158,000	1,158,000
Property reserve	5,804,000	5,804,000
Customer deposits reserve	832,000	832,000
Capital repair and replacement reserve	2,364,000	2,363,000
<i>Total unrestricted cash and cash equivalents</i>	<i>\$ 49,076,000</i>	<i>\$ 50,932,000</i>
Legally restricted cash and cash equivalents:		
Reserved for debt service	\$ 7,557,000	\$ 9,360,000
Reserved for bond construction	4,666,000	63,650,000
Water Conservation Programs	3,330,000	3,678,000
<i>Total legally restricted cash and cash equivalents</i>	<i>\$ 15,553,000</i>	<i>\$ 76,688,000</i>
<b>Total cash and cash equivalents</b>	<b>\$ 64,629,000</b>	<b>\$ 127,620,000</b>
Legally Restricted cash and investments at fiscal agent:		
Other cash at fiscal agent	\$ 0	\$ 52,000
<i>Total cash and investments at fiscal agent</i>	<i>\$ 0</i>	<i>\$ 52,000</i>
<b>Total unrestricted and restricted cash</b>	<b>\$ 64,629,000</b>	<b>\$ 127,672,000</b>

The year over year increase is directly related to the proceeds of a new bond issuance last year to fund new capital projects over the next three years.

### Policy History

On December 18, 2015, and March 22, 2016, the Board and the City Council approved the Cash Reserve Policy. On May 23, 2016, and July 26, 2016, the Board and the City Council approved the existing Riverside Public Utilities (RPU) Fiscal Policies, which incorporated the Cash Reserve Policy in Appendix A. The approved policies documented and adopted financial goals for both the water and electric utilities and established policies for long-term, as well as day-to-day operations of both utilities. The policies cover a number of areas including financial reporting, cash reserves, operating and capital budgeting, debt management, investments, risk management, financial planning, and others.

On January 10, 2017, the City Council adopted the City’s existing Debt Management Policy to satisfy the requirements of Senate Bill (SB) 1029.

On May 22, 2017, and July 11, 2017, the Board and City Council approved the Dark Fiber Leasing Program, which included establishing uniform lease rates for the use of the dark fiber infrastructure, physical and cyber security policies, a master fiber lease license agreement, and a new cost center within the Electric Fund for related expenses and revenue with an appropriation of \$1,800,000 for the dark fiber program construction and management activities. The Board and

City Council also approved the transfer of \$1,800,000 to a new dark fiber designated reserve to fund leased fiber activities.

On May 22, 2018, the City Council approved rates that include the use of a Line of Credit (LOC) as part of the 5-Year Rate proposal to keep utility rates as low as possible. Utilizing a LOC reduced the electric and water rates by approximately 1% and 3%, respectively. A LOC is a low-cost financial tool available to entities with strong credit ratings that provides flexibility and operating liquidity similar to cash reserves if there is an emergency need. The LOC allows RPU to reduce the rate impact to customers by enabling RPU to spend cash reserves on capital projects while the LOC is used in lieu of cash to meet the overall liquidity and reserve levels necessary to maintain RPU’s strong bond ratings.

On June 25, 2018 and July 24, 2018, the Board and City Council approved the updated RPU Fiscal Policies and Cash Reserve Policy which included providing a reference and link to the City’s Debt Management Policy within the RPU Fiscal Policies, removing the separate appendix for a RPU Debt Management Policy, including the Dark Fiber Designated Reserve in the Cash Reserve Policy, and adding the use of the LOC to the Cash Reserve Policy.

On November 9, 2020, the Board received an update on the Riverside Public Utilities’ Cash Reserve Policy, funds, and use of funds. At this meeting, the Board requested a comparative analysis of RPU’s cash reserve policies and the credit ratings compared to other similarly sized utility organizations in the region as well as an analysis of potential impacts of the Covid-19 pandemic to RPU’s cash reserve.

On July 26, 2021 and September 7, 2021, the Board and City Council approved the updated RPU Fiscal Policies and Cash Reserve Policy which included the addition of designated reserves for the Electric Fund only for Additional Decommissioning Liability to reflect the increase in annual funds to the San Onofre Nuclear Generating Station (SONGS) Additional Decommissioning Liability Reserve from \$1.6 million to \$2 million annually; the removal of calculation of operating and maintenance expenses from the Undesignated Reserves for Working Capital; the removal of capital improvement expenditures funded with restricted or designated reserves from Undesignated Reserves for System Improvement Capital; and updated definitions to simplify reserve terminology.

Definitions of Reserves

RPU’s reserves are either restricted or unrestricted and are classified into three categories.

Restricted Reserves are established and utilized for narrowly defined purposes as specified by legal restrictions, bond covenants, and other regulations or ordinances. The restricted reserves for the Water utility are as follows:

Restricted Reserve	Definition
Unspent Bond Proceeds to Fund Capital Projects	Funds restricted by bond covenant, allowable only for qualified approved capital projects
Bond Redemption Reserve (Debt Service)	This reserve is set aside for future bond payments that are governed by bond covenants.
Water Conservation Fund	May 2004 City Council approved 10-year monthly surcharge of 1.5% of the total water charge to provide financing to create and encourage water conservation and efficiency programs, renewed April 2014.

Designated Reserves are that portion of unrestricted reserves that meet specific purposes set

aside by the Board and City Council. Designated reserve funds ensure stable service delivery, meet future needs, and protect against financial instability. Designated reserves may be held for specific capital and operating purposes. Current designated reserves for Water are as follows:

Designated Reserve	Definition
Customer Deposits	Monies held on behalf of RPU’s customers as required to be utilized if a customer fails to pay their utility bill.
Capital Repair/Replacement	Established March 2016 to accumulate amounts for repairs and replacement of facilities, vehicles, and technology outside of the Capital Improvement Program.
Recycled Water	Established June 2014 to set aside funds for a recycled water program. Funding was from a legal settlement from the City.
Property	Established July 2005 to accumulate all proceeds from surplus property sales to be used in the future for the purchase of property needed for operations, or for other long-term capital assets/projects. Funding is from proceeds from the sale of surplus property.

RPU will use designated reserves to mitigate the impacts of known and impending exposures. The withdrawal and replenishment of Council/Board-approved designated reserves and their allowable uses will be tracked individually, but the specific use of designated reserves falls outside the scope of this policy and is subject to Board and Council approval.

Undesignated Reserves are the remaining unrestricted reserves that may be used for any lawful purpose and have not been designated for specific capital and operating purposes; however, maintaining a proper level of undesignated reserves is critical to ensure the utility can meet its fluctuating cashflow demands and mitigate financial volatility. The following Undesignated Reserve Policy addresses the levels, use, and replenishment of this type of unrestricted reserves.

Undesignated Reserve Policy

The Undesignated Reserve Policy states RPU will have sufficient undesignated reserves to maintain or improve its credit ratings, ensure that operating and maintenance costs will be paid in a timely manner, to pay debt service obligations, and to invest in needed capital improvements and equipment replacement on a timely basis. In addition, RPU will maintain sufficient reserves to minimize rate increases due to market volatility, weather impacts on demands, emergencies (such as natural disasters), and regulatory changes.

The Policy provides minimum and maximum levels of undesignated reserves. Each of the areas of undesignated reserves include considerations for evaluation to determine the appropriate reserve levels. RPU maintains such monies pooled in each utility’s undesignated reserve. These reserve allocations are consistent with industry standards for similarly rated electric and water utilities. Each component of the reserves is sized at less than the maximum possible exposure for each component because it is unlikely several of the risks each enterprise faces would materialize simultaneously. The following table represents the Water utility undesignated reserve definitions.

Undesignated Reserve	Definition
Operating (Working Capital)	Ensures sufficient resources to pay budgeted operating and maintenance expenses, including power supply costs, recognizing the timing differences between payment of expenditures and receipt of revenues.
Rate Stabilization	Mitigates rate shock due to temporary and transitional regulatory changes, loss of a major resource, sharp demand reduction or market volatility.

Emergency Capital	Provides funds to ensure ability to repair system after an emergency or natural disaster such as a flood, earthquake, or major windstorm
System Improvements Capital	Provide funds to ensure continuity of construction over fiscal years to be reimbursed by bond proceeds or other resources.
Debt Service	Ensures ability to make debt service payments in an extreme event that may impact RPU’s ability to provide services, thus impacting revenues at a time critical infrastructure repairs are needed to restore systems. The Debt Service Reserve is intended to prevent an event where RPU would be unable to pay its debt service obligations during such emergencies, or extreme market disruptions.

Withdrawal and Replenishment of Reserves

RPU treats the targeted reserves as practical minimums and allows reserves to increase or decrease as necessary within the minimum and maximum prescribed levels.

To the extent that undesignated reserves are above the target and below the maximum, the Board and City Council have the flexibility to direct staff to utilize those available funds to pay for capital projects (reducing the need for future debt), pay down unfunded liabilities such as pension obligations, decrease outstanding debt, or fund other strategic objectives. No other action by RPU would be required if reserves are between the minimum and maximum level unless directed by the Board and City Council.

If reserve funds exceed the maximum level, RPU would seek Board and City Council approval to use the excess to finance capital improvements on a pay-as-you-go basis, pay down existing debt, offset other long-term liabilities such as pension obligations, reduce rates or fund other strategic initiatives.

Reserve levels below the minimum targeted reserves will leave RPU exposed to significant operational risks. Should RPU draw down reserves below the minimum targeted level, RPU will implement plans to return reserves to their minimum targeted levels **within three years**. Such plans will be provided within 12 months.

*Reporting and Oversight*

Reserve levels are monitored throughout the fiscal year and reported in RPU’s monthly and quarterly financial reports. Reserve target (minimum) and maximum levels are analyzed annually, and an over/under reserve determination is made in conjunction with year-end financial results. These results are reported to the Board and City Council as part of the year-end financial report presentation. Should designated or undesignated reserve levels need adjustment due to new risk factors due to changes in the industry, these will be brought to the Board and City Council as part of the year-end report.

The Policy is to be reviewed annually and updated (at a minimum of every three years) if there are material changes in the risk exposures or new conditions that require changes in reserve levels.

Minimum Reserve Target Calculation

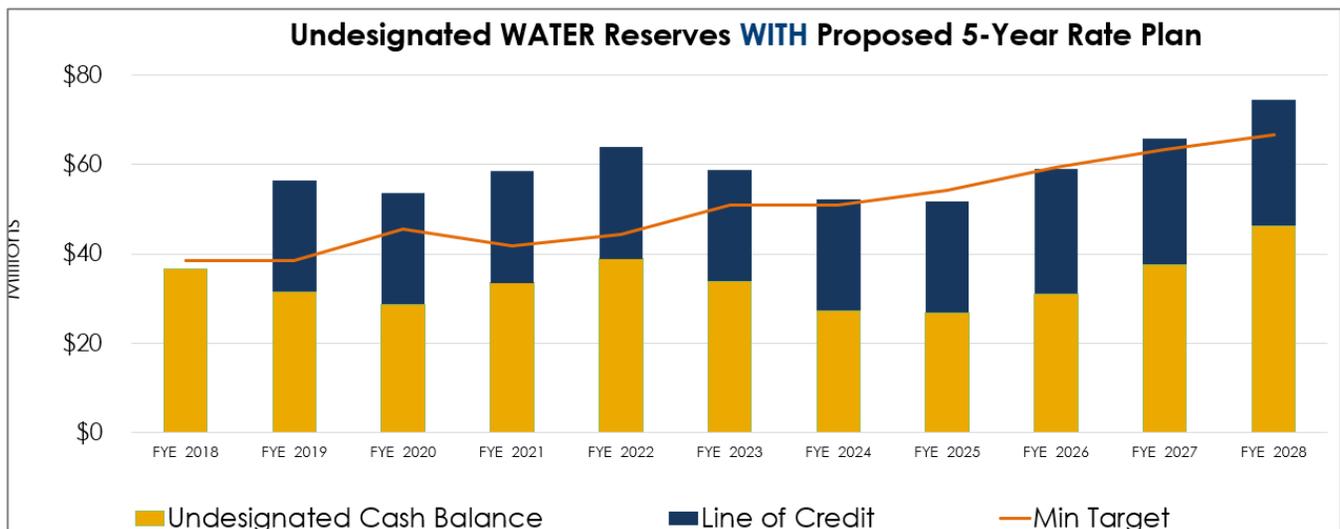
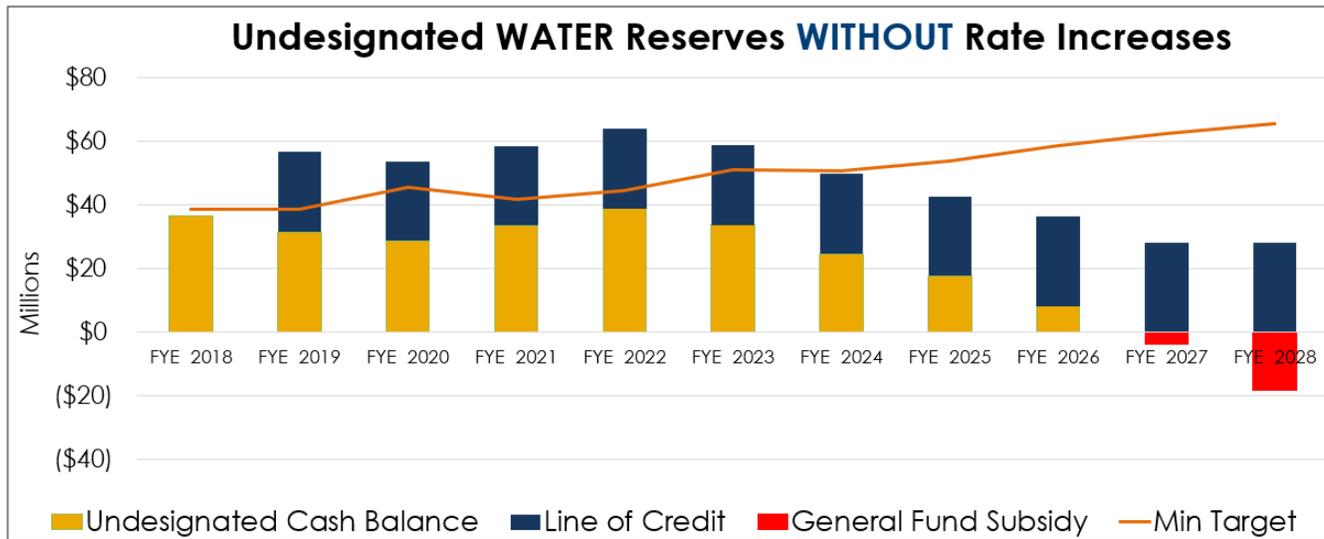
Clarification has been requested on how RPU calculates the Minimum Reserve Targets in alignment with the approved fiscal policy. The following table is the formula for Water.

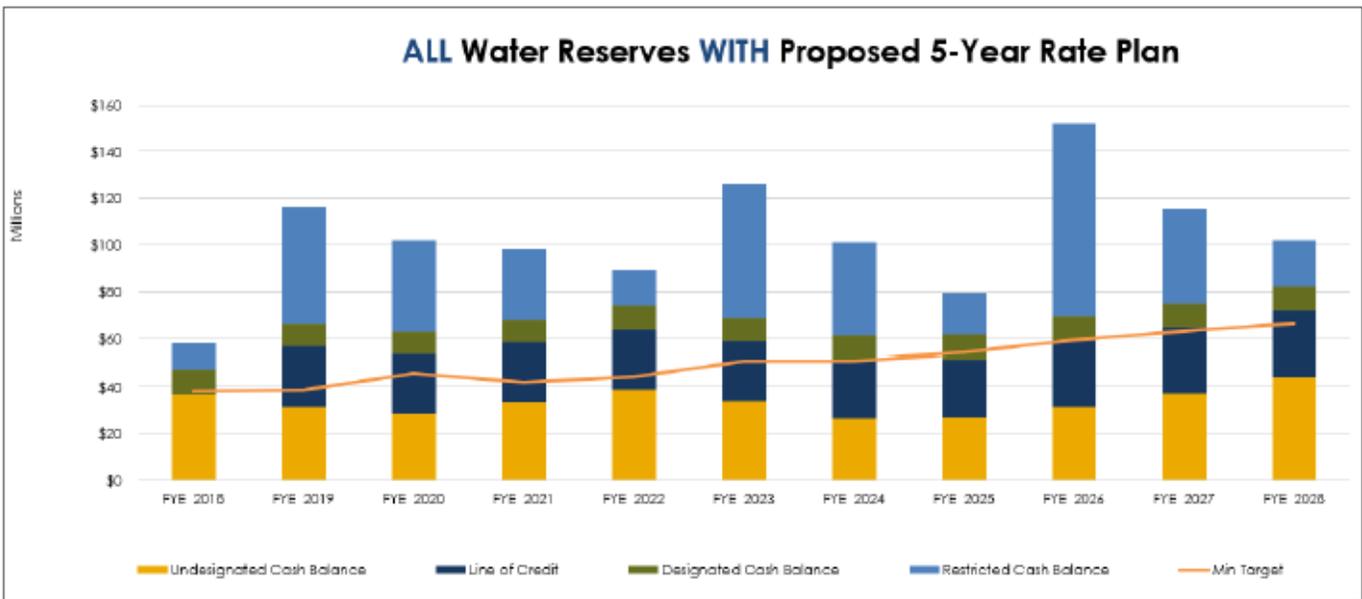
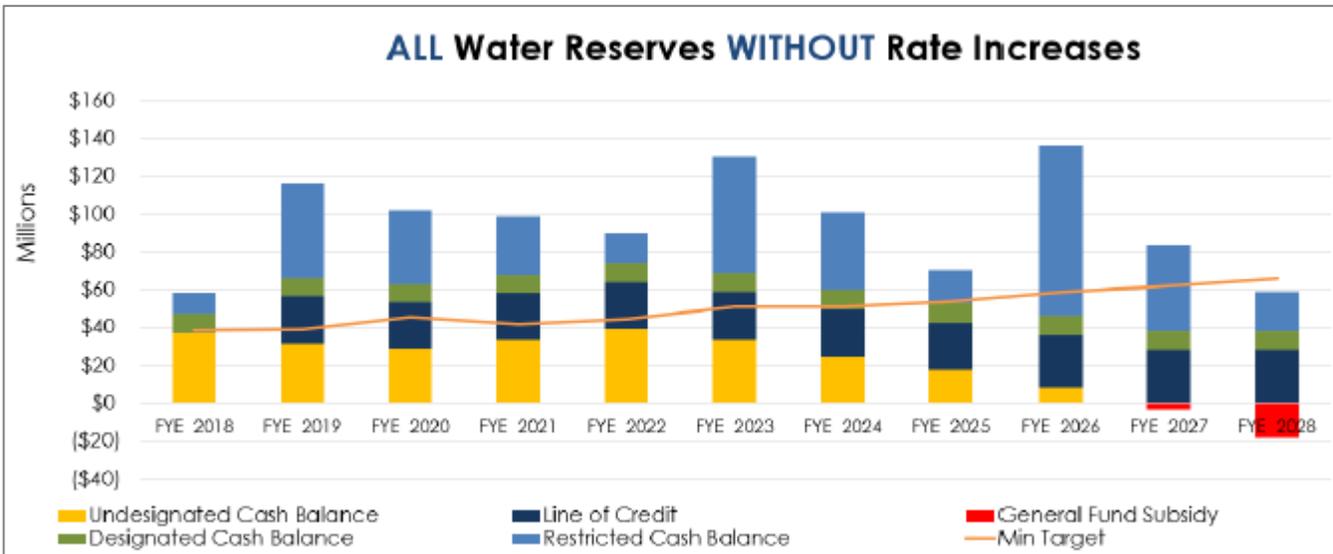
Minimum Reserve Target - Water		
Source	Target	Formula

Operating (Working Capital)	60 days	$\frac{\text{Annual Operating Exp}}{365 \text{ Days}} \times 60$
Rate Stabilization	7%	$\text{Operating Revenues} \times 7\%$ (lower than Electric as Water has less market volatility)
Emergency Capital	1%	$\text{Depreciable Assets} \times 1\%$
System Improvement Capital	6 months	$\frac{\text{Prev FY actual CIP exp} + \text{Curent FY CIP} + \text{Next FY CIP}}{3 \text{ (years for average CIP exp)}} \times \frac{6 \text{ (months)}}{12 \text{ Months}}$
Debt Service	1 payment	Annual Payment for principal and 6 months of interest
Total		Sum of above

**Water Undesignated Reserve – Five Year Rate Plan**

The June 12, 2023 proposed five-year water utility rate plan will fund future operating and capital costs, maintain reserve levels and financial metrics that comply with approved fiscal and reserve policies, and maintain current bond ratings to keep borrowing costs for capital investments low. In order to keep the rate increases in the five-year water rate plan as low as possible, the undesignated reserve balance combined with the line of credit does fall below minimum target reserve levels prior to returning to above minimum target reserve levels within the timeframe required by the reserve policy.





**Alternative Rate Scenarios**

At the June 26, 2023 meeting, there were Board Member questions regarding an analysis of alternate rate scenarios, along with the possibility of “smoothing” the rate increase to a fixed amount, over the 5-year rate plan instead of higher increases in the first three years of the rate plan.

On July 10, 2023, the Board received an update to review potential fiscal impacts of alternative rate scenarios from the currently proposed Water and Electric Utility Five-Year Rate Plan Proposals. The discussion included requests from the Board to model potential scenarios to demonstrate the impact of the alternative rates on the financial health of the Electric and Water utilities. The models were estimates, assuming no changes to the respective Cost of Service Analysis (COSA) assumptions included in the rate plan proposals. The models did not result in changes to the staff recommendations for the rate plans.

The proposed five-year Electric and Water Plans uses the cost of service analyses (COSA) to design the rates to appropriately recover the cost for providing the utility service. The COSAs

determine the revenue required to fund the operations, maintenance, and improvements of the respective utilities within the framework required by California state law, and City and utility policies.

The COSAs compile the projected costs, customer usage demands and customer account growth rates by customer class over the term of the rate plan to calculate the revenue requirement to meet the necessary funding levels. The projections include costs not only to operate and maintain the utility systems but also include the costs for customer and administrative expenses, capital project debt service expenses and adjustments to meet minimum cash reserve levels established by Board- and City Council-approved policies.

The projected costs are detailed in the COSA by category and by customer class in Table 26.

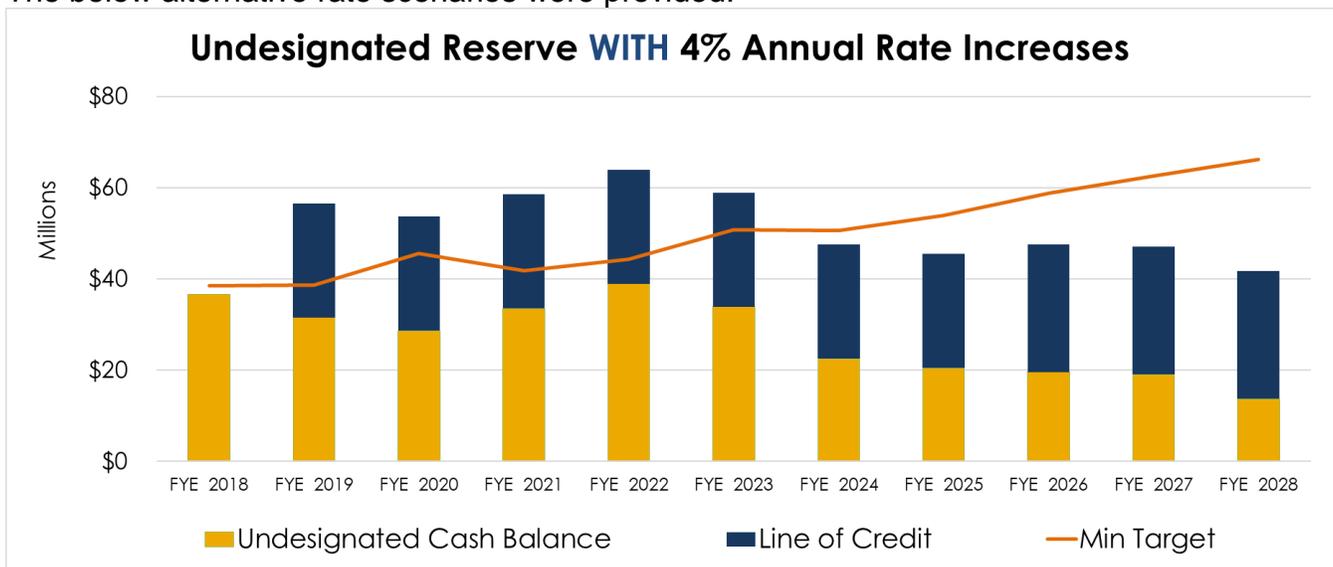
Table 26 Rate Category Allocation of Baseline Rate Revenue Requirements for FY 2023/24 to FY 2027/28 (\$ thousands)

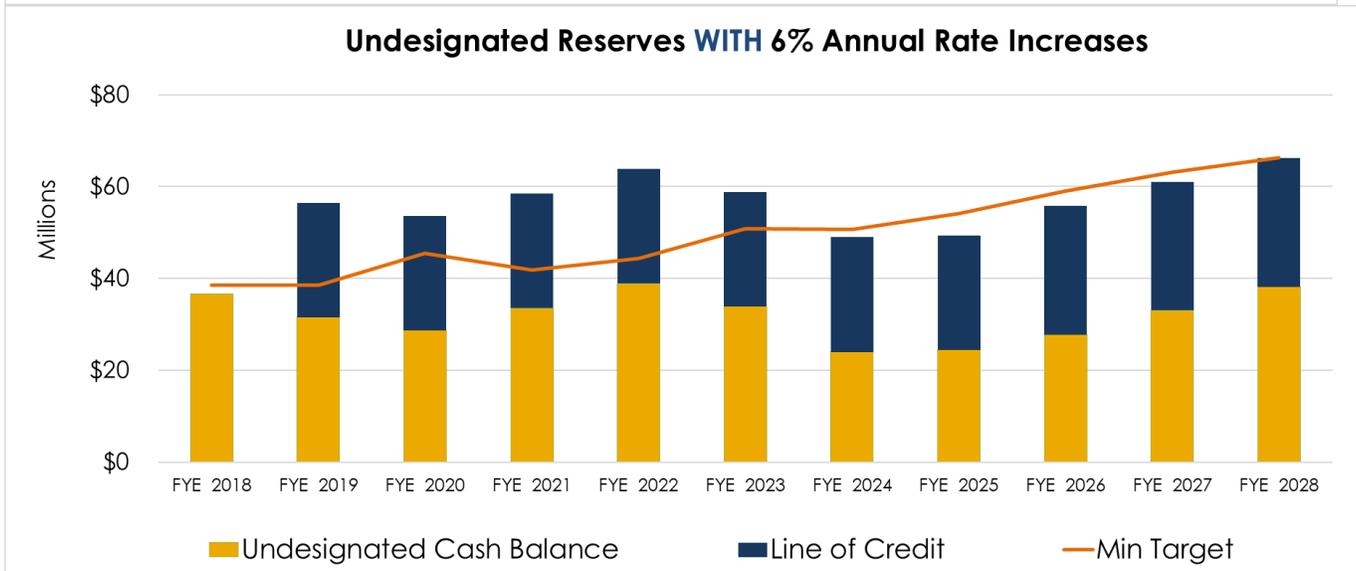
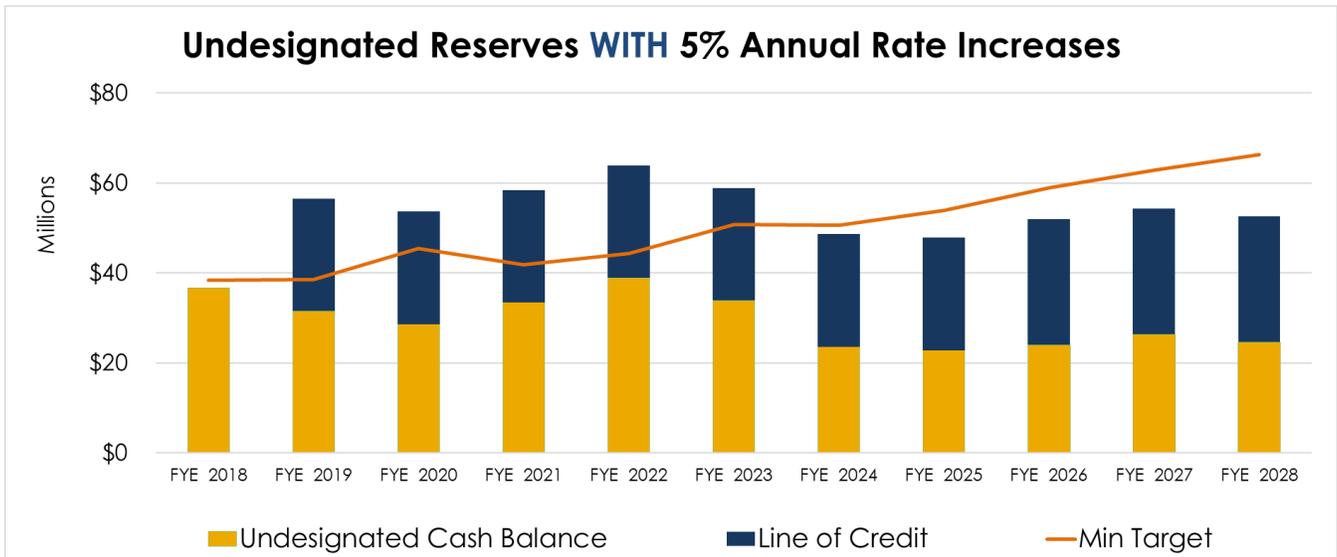
Category	Revenue Requirement	Customer	Capacity	Base	Max Day	Max Hour	Supply 1	Supply 2	Supply 3	Supply 4	Supply Sustainability
Allocation (%)		3.9%	36.5%	14.1%	15.9%	4.0%	5.4%	5.4%	10.2%	2.9%	1.6%
FY 23/24	\$74,257	\$2,895	\$27,123	\$10,507	\$11,814	\$2,975	\$4,038	\$3,990	\$7,559	\$2,136	\$1,221
FY 24/25	79,627	3,104	29,084	11,266	12,669	3,191	4,330	4,279	8,105	2,290	1,309
FY 25/26	85,393	3,329	31,190	12,082	13,586	3,422	4,644	4,589	8,692	2,456	1,404
FY 26/27	91,583	3,570	33,451	12,958	14,571	3,670	4,980	4,921	9,322	2,634	1,505
FY 27/28	98,148	3,826	35,849	13,887	15,615	3,933	5,338	5,274	9,990	2,823	1,613

Notes:  
 (1) Totals may be off due to rounding.

Meeting the requirements of the Board- and City Council-approved Reserve policies are considered a benchmark goal in the COSA.

The below alternative rate scenarios were provided:





**Conclusion**

The alternative rate model estimates do not include any changes to the respective COSA assumptions already provided in the rate plan proposals. The models did not result in changes to the staff recommendations for the rate plans as presented to the Board on June 12, 2023, or to City Council on June 27, 2023. There are no alternative schedules that also meet all of the COSA goals including meeting minimum Board- and City Council-approved reserve levels.

**Capital Improvement Project Accomplishments From Prior Rate Plan**

On Aug 14, 2023, the Board received an update on the Capital Improvement Plan budgets and expenditure for fiscal years 2018-2023 and the planned capital investments to be funded by the currently proposed for the Electric and Water Utility Five-Year Rate Plan Proposal.

The City of Riverside’s Capital Improvement Program (CIP) is a multi-year financial plan for the repair, replacement, and/or construction of municipal facilities and infrastructure. The City’s CIP Plan strategically identifies both funded and unfunded capital improvement projects over a period of five years. Projects are budgeted during the City’s two-year budget cycle or amended by the Board of Public Utilities and City Council as required in the interim.

CIP is defined as a long-term investment of funds to improve, repair, or replace an existing capital asset and/or construct or acquire a new capital asset. A capital project is a city resource and/or property with a monetary value of at least \$20,000 and an initial useful life of at least 10 years.

Water Utility Ten-Year CIP

On January 18, 2018, the City Council conducted a joint workshop with the Board to receive additional information regarding the electric and water utility five-year rate proposal 2018-2022; to conceptually approve the electric and water utility five-year rate proposal 2018-2022 utilizing the Utility 2.0 Strategic Plan Modified Option 1 for electric and water utility infrastructure improvements over the next ten years, with rates approximately 35% lower than the original five-year rate proposal based on Option 3 infrastructure improvements; and to prepare all documents necessary for public noticing of the rate proposal, to update proposed rate schedules and fiscal policies to reflect changes due to the rate proposal, and to update any other documents necessary for the public hearing to be held before the Board of Public Utilities on May 14, 2018, and final rate recommendations to the City Council on May 22, 2018, with new rates effective July 1, 2018 (Attachment 1). Following discussion, it was approved to conceptually approve the electric and water utility five-year rate proposal 2018-2022 utilizing the Utility 2.0 Strategic Plan Modified Option 1 for electric and water utility infrastructure improvements over the next ten years, with rates approximately 35 percent lower than the original five-year rate proposal based on Option 3 infrastructure improvements, with yearly review by the City Council.

RPU prepares two-year operating and five-year capital budgets, which serve as RPU’s revenue and expenditure plan. These budgets are prepared in accordance with existing City, Board of Public Utilities, and City Council policies, procedures, and guidelines. RPU’s budget and corresponding CIP investments from the 2018 10-year CIP program, have been approved by Board and City Council:

<b>City Council Date</b>	<b>Budget Fiscal Years</b>	<b>CIP Fiscal Years</b>	<b>CIP report link</b>
6/18/2019	2019 – 2020 (amended)	2019 - 2024	<a href="https://riversideca.gov/finance/PDF/2018/2018-2023%20Capital%20Improvement%20Plan.pdf">https://riversideca.gov/finance/PDF/2018/2018-2023%20Capital%20Improvement%20Plan.pdf</a>
6/16/2020	2020 – 2021	2020 -2021	<a href="https://www.riversideca.gov/finance/PDF/budget-2021/FY2020_2021_Capital_Improvement_Plan.pdf">https://www.riversideca.gov/finance/PDF/budget-2021/FY2020_2021_Capital_Improvement_Plan.pdf</a>
6/22/2021	2021 -2022	2021 - 2022	<a href="https://www.riversideca.gov/finance/PDF/budget-2022/2022%20CIP.pdf">https://www.riversideca.gov/finance/PDF/budget-2022/2022%20CIP.pdf</a>
6/21/2022	2022 - 2024	2022 -2024	<a href="https://riversideca.gov/finance/2023%20CIP.pdf">https://riversideca.gov/finance/2023%20CIP.pdf</a>

There were no changes to CIP for fiscal year 2023/24 Budget as approved by City Council on June 27, 2023.

Water CIP

The Water Plan rate increases support investment in the water system. The following is a summary of the 2018 investment plan, the 2018-2023 expenses, and the projects to be funded by the currently proposed for the Water Utility Five-Year Rate Plan.

<b>Project Category</b>	<b>10 Year Plan (2018-2028)</b>	<b>Budgeted (2018-2023)</b>	<b>Expenditures 2018-2023</b>	<b>5 Year Plan (2024-2028)</b>
1. Water Supply	\$10,791,000	\$12,291,304	\$10,026,110	\$28,000,000
2. Water Treatment	\$1,296,000	0	0	\$1,296,000
3. Well Projects	\$30,499,000	\$15,124,388	\$11,718,676	\$15,552,000
4. Transmission Pipelines	\$65,823,000	\$29,681,357	\$20,787,935	\$36,142,000
5. Distribution Pipelines	\$117,790,000	\$46,573,283	\$56,249,000	\$74,317,000
6. Distribution Facilities	\$19,268,000	\$11,581,246	\$16,197,230	\$7,872,000
7. Reservoir Projects	\$2,440,000	0	0	\$1,288,000
8. System Automation	\$39,209,000	\$17,859,939	\$2,844,856	\$19,225,000
<b>Total:</b>	<b>\$287,116,000</b>	<b>\$133,111,517</b>	<b>\$117,823,807</b>	<b>\$183,692,000</b>
Rate Increase:	5.7%			6.5%

1. Water Supply: \$10,791,000 10-Year Investment (FY 2018-2028)

- Recycled water phase 1 - 600 acre-feet new yield
- Seven Oaks Dam Enhanced recharge project - 1,000 acre-feet new yield

Completed as of June 30, 2023, \$10,026,110 (FY 2018-FY 2023)

- Seven Oaks Dam Enhanced Recharge Phase 1A – 1 Storm Water Capture
- Jackson Street Recycled Water Pipeline, Phase 1

Planned: \$28,000,000 (FY2024-2028)

- Seven Oaks Dam Enhanced Recharge Phase 1B - NEW INVESTMENT
- Riverside Habitat Parks and Water Project - West Branch - NEW INVESTMENT

2. Water Treatment \$1,296,000 10-Year Investment

Planned: \$1,296,000 (FY2024-2028)

3. Well Projects: \$30,499,000 10-Year Investment (FY 2018-2028)

- 3-5 well rehabilitations annually
- 5 new drinking water wells
- 2 new irrigation wells

Completed as of June 30, 2023: \$11,718,676 (FY 2018-FY 2023)

- 14 Wells Rehabilitated (Gage 51-1, Gage 92-1, Gage 66-1, Warren 1, Garner C, Garner 5, Cooley J, Stiles, Gage 31-1R, Flume 7, Garner 7, Raub 8, Cooley H, Moore-Griffith)
- Two (2) new water wells (Warren 4R and Gage 29-3R)

Planned: \$15,552,000 (FY2024-2028)

- Drilling and equipping Gage 29-2R
- Rehabilitation of wells - Garner 6 and Garner D

4. Transmission Pipelines: \$65,823,000 10-Year Investment (FY 2018-2028)

- Techite pipeline replacement
- Industrial booster station (Hunter Park) pipeline
- Park Avenue pipeline

Completed as of June 30, 2023, \$20,787,935 (FY 2018-FY 2023)

- 2.3 miles of Techite Replaced (all Techite Pipe within Magnolia replaced)

Planned: \$36,142,000 (FY2024-2028)

- 2.4 miles of Techite to be replaced
- Park Ave. Transmission Main Replacement

5. Distribution Pipelines: \$117,790,000 10-Year Investment (FY 2018-2028)

- Neighborhood pipeline replacements - averaging 4.9 miles per year (170-year replacement cycle)

Completed as of June 30, 2023, \$56,249,000 (FY 2018-FY 2023)

- Neighborhood pipeline replacements – 11.2 miles of pipeline replaced (350+ year replacement cycle)

Planned: \$74,317,000 (FY2024-2028)

- Neighborhood pipeline replacements per budget

6. Distribution Facilities \$19,268,000 10-Year Investment (FY 2018-2028)

- Canyon Crest pump station replacement
- Crest pump station replacement
- Polk/Magnolia pressure control station replacement
- Replace/rebuild 4,500 meters annually

Completed as of June 30, 2023: \$16,197,230 (FY 2018-FY 2023)

- Mission Inn and Canyon Crest Boosters constructed
- Magnolia Pressure Reducing Station constructed
- 10,035 small meters replaced; 155 large meters replaced; 1,655 large meters tested/calibrated

Planned: \$7,872,000 (FY2024-2028)

- Water meter replacements
- Booster station pump and motor replacements
- Pressure reducing station replacements

7. Reservoir Projects \$2,440,000 (FY 2018-2028)

- Rehabilitation of water storage reservoirs to secure and protect water quality

None needed (FY 2018-FY 2023)

Planned: \$1,288,000 (FY2024-2028)

- Reservoir rehabilitation

8. System Automation \$39,209,000 10-Year Investment

- Automated metering infrastructure
- Production, treatment and distribution system monitoring to improve security and efficiency
- Operational data management system to improve management control and efficiency

Completed as of June 30, 2023: \$2,844,860 (FY 2018-FY 2023)

- SCADA Phase 1 (Network Communication)
- Automated large metering pilot

Planned: \$19,225,000 (FY2024-2028)

- SCADA Phase II (Technology Upgrade)
- SCADA Phase III (Instrumentation Upgrades)
- Automated metering expanded pilot to residential meters

**DISCUSSION:**

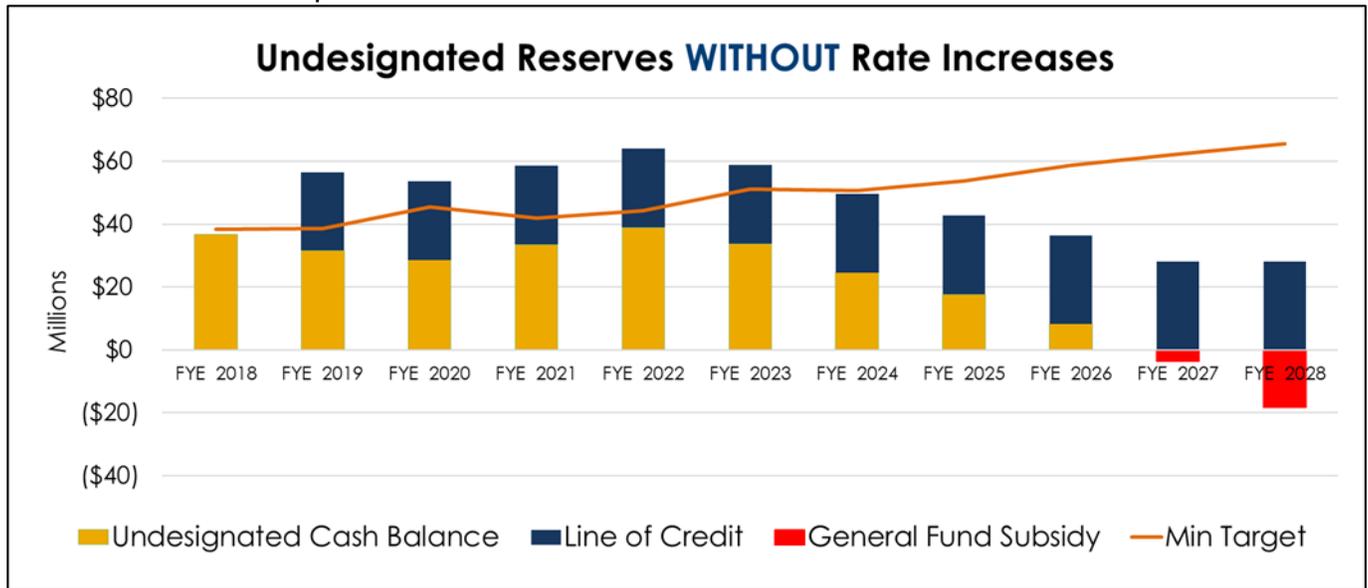
The current five-year water rate plan was approved effective July 1, 2018, through June 30, 2023. The expired plan does not sufficiently fund the current and near future water utility operations to keep up with the acceleration of inflation and even higher rates of inflation for construction and

equipment in the utility industry. As a result, RPU’s increasing operational and capital costs, declining reserve levels, and pressure on financial metrics to meet fiscal policy requirements are being realized.

Without a Water Rate Increase

Without a rate increase, the water utility will spend down undesignated reserves by June 2027 and will require a subsidy from the General Fund to continue operations and repair infrastructure. Reserve levels dropping below minimum required targets will require significant reductions to expenditures, including reductions in necessary capital program projects, deep cuts to current operations and maintenance spending plans, and significant personnel reductions that will severely impact response time and service delivery to customers. If reserve levels drop permanently below minimum mandated levels, RPU’s bond ratings will continue to fall and the cost of borrowing will increase, costing future ratepayers millions in higher debt payments. The following table depicts the undesignated reserves being entirely depleted between 2026 and 2027 at which point without a rate increase a significant General Fund subsidy would be needed going forward.

Reserves Without Proposed Five-Year Rate Plan



Overview of Rate Proposal

RPU’s water utility is faced with many current and future challenges including aging infrastructure, preserving RPU’s groundwater supply, adapting to changing climate conditions, and increased operational and capital costs. A growing proportion of RPU water utility infrastructure, especially water production wells and distribution pipelines are aging beyond its expected useful life and in need of replacement to ensure reliable service to our customers.

Groundwater supply challenges include preserving water rights in the groundwater basins, significant volatility in annual precipitation from changing climate conditions impacting groundwater levels, meeting future potable water demand without accessing more expensive imported water supplies, groundwater quality conditions, and water quality regulation changes. RPU’s operational costs do not decrease significantly with reductions in water sales. Consequently, the impacts of year over year drought conditions throughout the state have a cumulative negative affect on utility revenues.

RPU is proposing a five-year (fiscal years 2023/24 through 2027/28) water utility rate plan that

will result in a five-year system average annual rate increase of 6.5%.

Proposed Five-Year Water Rate Plan

<b>Proposed Five-Year Water Utility Rate Plan System Average Rate Increases</b>	
October 1, 2023	6.50%
July 1, 2024	6.50%
July 1, 2025	6.50%
July 1, 2026	6.50%
July 1, 2027	6.50%

Rate increases and associated bill impacts will vary by customer class and consumption levels. The first year of the rate plan includes changes in customer usage patterns and allocation of costs.

Relevant water utility rate plan documents and information are online:

<https://www.riversideca.gov/proposed-rates>

Proposed Five-Year Water Rate Plan by Customer Class

<b>Customer Class</b>	<b>Customers</b>	<b>Year 1 % Increase</b>	<b>Year 2 % Increase</b>	<b>Year 3 % Increase</b>	<b>Year 4 % Increase</b>	<b>Year 5 % Increase</b>
Single Family Residential	58,731	5.7%	6.6%	6.6%	6.7%	6.6%
Multi Family Residential	1,145	4.6%	6.6%	6.6%	6.7%	6.6%
Commercial/ Industrial	5,137	8.6%	6.0%	6.1%	6.3%	6.0%
Landscape	500	13.6%	5.9%	5.8%	6.1%	5.8%
City Interruptible/ Recycled	530	5.8%	6.3%	6.0%	5.8%	6.3%
Agriculture	224	1.8%	6.4%	6.5%	6.4%	6.5%
Riverside Water Co. Irrigators	24	19.3%	7.1%	7.0%	7.2%	6.9%
Temporary Service	72	12.0%	7.0%	6.9%	7.1%	7.0%

The five-year rate plan will fund \$184 million in water capital infrastructure and support current and future bond issuances providing \$148 million in bond proceeds to fund capital infrastructure. New water capital infrastructure investments include funding:

- 1) The Seven Oaks Dam Enhanced Recharge project which will diversify RPU’s water supply portfolio options while securing additional perpetual water rights, ensure water supply reliability for current and future demands, and is cost effective and environmentally preferred as compared to importing water;
- 2) Riverside Habitat Parks & Water Project (RHPWP) West Branch is a regional project which is a cornerstone project in the development of a Habitat Conservation Plan (HCP) which provides through joint regional funding the expansion of the Riverside recycled water system, provides environmental approvals for future Riverside and regional partner projects over the next 50 years, and improves the City’s natural resources along the Santa Ana River by supporting the final project; and

- 3) The Habitat Conservation Plan Tributaries Restoration project, along with the prior project, provides the environmental benefits to endangered species habitats supported by the regulatory agencies along the Santa Ana River and throughout the watershed.

Upon completion of the above new investments, Riverside and the region will be provided through the HCP environmental coverage up to 80,000 acre-feet of water per year for new water supply projects within the Upper Santa Ana River Watershed and adds resiliency to our local water supplies through sustainable and environmentally ethical efforts, working to revitalize the Santa Ana River and the species which depend on it. Riverside benefits specifically by additional regional funding to expand the recycled water system and more water project development through the watershed provides future opportunities for expanding Riverside’s water supplies as needed. These new projects are in addition to the necessary investments in new water production wells and replacing end of life transmission and distribution pipelines listed below.

Water Capital Improvement Plan Investments

<b>Water Capital Investments (in millions)</b>						
	<b>Adopted</b>	<b>-----Planning Purposes-----</b>				<b>Total</b>
	<b>23-24</b>	<b>24-25</b>	<b>25-26</b>	<b>26-27</b>	<b>27-28</b>	
<b>Well Projects</b>	\$ 1.2	\$ 3.8	\$ 1.9	\$ 7.3	\$ 1.4	\$ 15.6
<b>Transmission Pipelines</b>	9.8	5.9	1.2	6.2	13.0	36.1
<b>Distribution Pipelines</b>	13.2	14.1	15.0	15.7	16.4	74.4
<b>Distribution Facilities</b>	1.3	1.6	1.6	1.6	1.7	7.8
<b>Treatment Plants</b>	0.4	-	0.4	-	0.5	1.3
<b>Reservoir Projects</b>	-	0.6	-	0.7	-	1.3
<b>System Automation</b>	4.0	3.6	4.7	3.2	3.7	19.2
<b>Water Supply</b>			14.0	14.0		28.0
<b>Total</b>	<b>\$ 29.9</b>	<b>\$ 29.6</b>	<b>\$ 38.8</b>	<b>\$ 48.7</b>	<b>\$ 36.7</b>	<b>\$ 183.7</b>

Proposed Water Rate Increase for Residential Customers

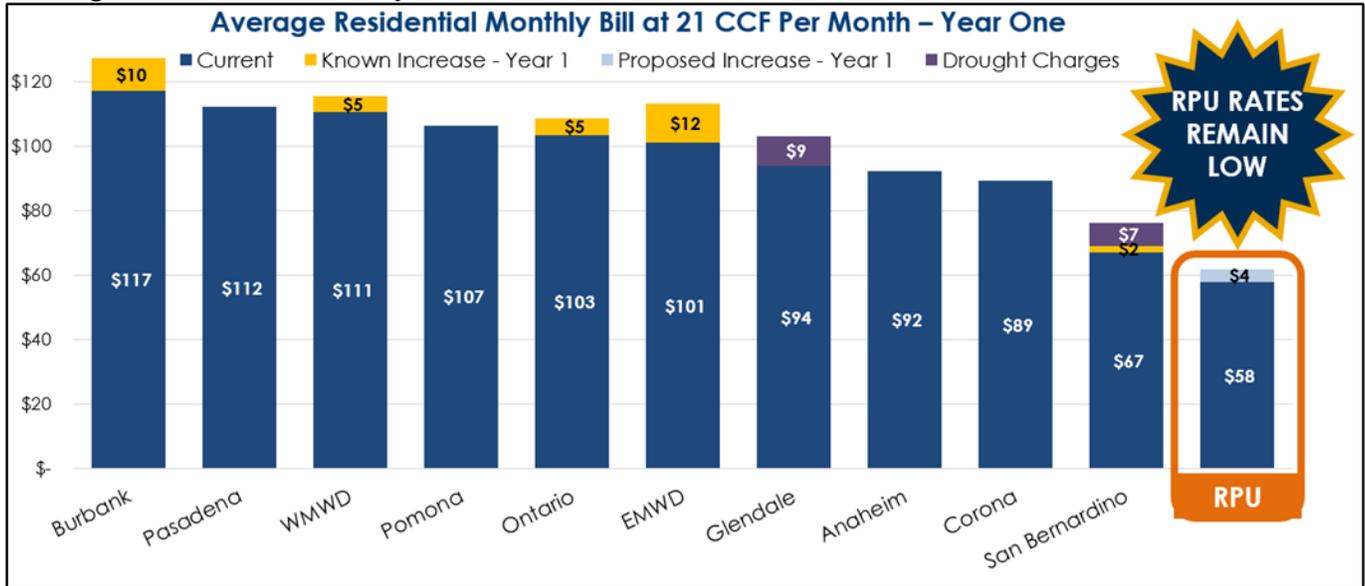
For a typical residential water customer using on average 21 CCF per month with an average monthly bill of \$58, the estimated average monthly bill increase in year 1 is \$4.07, while the water rate increase will be an estimated \$0.15 per day in each year of the rate plan. Rate increases and associated bill impacts will vary by customer class and consumption levels.

Sample Average Rate Increase for Residential Customer

<b>Customer Class</b>	<b>Avg CCF Usage</b>	<b>Year 1 % Increase</b>	<b>Average Years 2-5 % Increase</b>
Single Family Residential	21	7.0%	6.6%

RPU's water utility rates will continue to remain very competitive within the region.

Average Residential Monthly Bill



Typical Commercial Water Customer

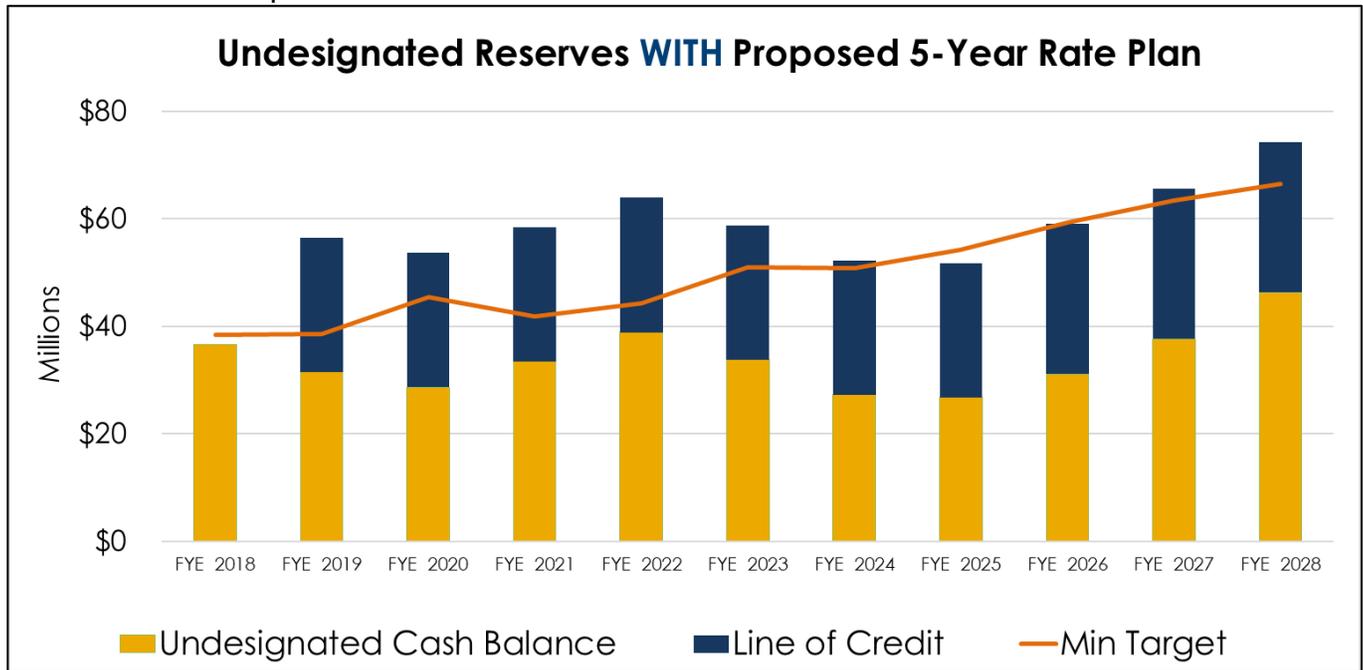
For a typical commercial water customer using on average 37 CCF per month with an average monthly bill of \$106, the estimated average monthly bill increase in year 1 is \$9.02, while the water rate increase will be an estimated \$0.26 per day in each year of the rate plan. Rate increases and associated bill impacts will vary by customer class and consumption levels.

Sample Average Rate Increase for Commercial Customer

Customer Class	Avg CCF Usage	Year 1 % Increase	Average Years 2-5 % Increase
Commercial/ Industrial	37	8.5%	6.1%

The proposed five-year water utility rate plan will fund future operating and capital costs, maintain reserve levels and financial metrics that comply with approved fiscal and reserve policies, and maintain current bond ratings to keep borrowing costs for capital investments low. In order to keep the rate increases in the five-year water rate plan as low as possible, the undesignated reserve balance combined with the line of credit does fall below minimum target reserve levels prior to returning to above minimum target reserve levels within the timeframe required by the reserve policy.

Reserves With Proposed Five-Year Rate Plan



Low-Income Water Assistance Program Improvements

As part of the Sharing Households Assist Riverside’s Energy (SHARE) program, the Low-Income Water Assistant Program provides water bill credits for income qualified residential customers. As part of the SHARE program, the income qualification is set at 250% of the Federal poverty income guidelines and the number of people in the household. For assistance, call (951) 782-0330 or visit the Casa Blanca Customer Resource Center to speak with a representative in person.

The water utility’s low-income assistance program currently assists 2,144 water customers with monthly water bill assistance.

Proposed increases to Low Income Water credit

Year	Monthly Water Credit
As of July 1, 2022	\$3.25
Proposed for October 1, 2023	\$4.25
Proposed for July 1, 2024	\$4.75
Proposed for July 1, 2025	\$5.25
Proposed for July 1, 2026	\$5.75
Proposed for July 1, 2027	\$6.25

The water utility’s low-income residential assistance program is included in the annual water utility operating budget, which will be funded from wholesale water revenues. The program assistance is anticipated to remain within the existing program budget.

Community Outreach Meetings

Three regional City sponsored utility five-year rate plan community outreach events took place. In addition, several other presentations were provided between May and June 2023.

Event	Date
Greater Riverside Chamber of Commerce (GRCC)	May 25, 2023
Building Industry Association (BIA)	June 7, 2023

Residents for Responsible Representation (RRR)	June 14, 2023
Downtown Area Neighborhood Alliance (DANA)	June 19, 2023
Neighbors of the Wood Streets (NOWS)	July 13, 2023
Neighbors Better Together (NBT)	June 25, 2023
City Sponsored – Orange Terrace Center Ballroom	July 31, 2023
City Sponsored – La Sierra Senior Center Ballroom	August 3, 2023
City Sponsored - Bobby Bond/Cesar Chavez Community Center Auditorium	August 8, 2023

Community Outreach through Social Media and Webpage

Social media for the proposed rates for electric (water and trash) resulted in 75,094 impressions from July 2023 to August 9, 2023. Impressions are defined as the total number of times the content was seen. A total of 4,032 engagements for electric (water and trash) also took place from July 2023 to August 9, 2023. Engagements reflect the number of interactions with the content including comments or shares. The proposed five-year rate plan has been posted 24 hours a day, 7 days a week on the City website (<https://www.riversideca.gov/proposed-rates>) along with staff reports, presentations, calendar/timeline of events and other related resources.

*Timeline*

Action	Date
Board of Public Utilities Consideration	June 12, 2023
City Council Consideration	June 20, 2023
Board of Public Utilities Fiscal Impact Update Regarding Alternative Rate Scenarios	July 10, 2023
Mailed Notice of Public Hearing (Prop 218 Hearing at City Council)	July 27, 2023
Community Meetings at Community Centers	July 31, August 3 and 8, 2023
Board of Public Utilities Ten Year Capital Improvement Plan Update	August 14, 2023
<b>Board of Public Utilities Public Hearing and Consideration</b>	<b>August 28, 2023</b>
City Council Public Hearing and Consideration	September 19, 2023
Proposed Effective Date	October 1, 2023

**STRATEGIC PLAN ALIGNMENT:**

This item contributes to **Strategic Priority 6 - Infrastructure, Mobility, & Connectivity**, and **Goal 6.5** – Maintain, protect and improve assets and infrastructure within the City’s build environment to ensure and enhance reliability, resiliency, sustainability, and facilitate connectivity.

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

1. **Community Trust** – The Water Cost of Service Analysis and Rate Design Project is transparent and developed with our customers’ and the community’s wellbeing as a top priority.
2. **Equity** – The Water Cost of Service Analysis and Rate Design Project includes an

equitable allocation of costs among customer classes which is incorporated into the resulting rate design recommendation.

3. **Fiscal Responsibility** – The Water Cost of Service Analysis and Rate Design Project incorporates a forecasted revenue requirement that includes operating and capital expenditures funded by the prudent use of rate revenue, bond proceeds, and reserves, and demonstrates RPU’s commitment to responsible management of financial resources.
4. **Innovation** – The Water Cost of Service Analysis and Rate Design Project includes the Water Utility Rate Trend Study that evaluates emerging rate structures, technologies, and trends and how they may apply or be implemented by RPU.
5. **Sustainability & Resiliency** – The Water Cost of Service Analysis and Rate Design Project will design future rates for a five-year period to equitably recover costs while maintaining the financial health of RPU.

**FISCAL IMPACT:**

Total additional revenue is projected to average \$15 million per year for each of the next five years. This revenue is essential to finance infrastructure, operations and maintenance, and meet fiscal policy requirements. Not making these necessary investments now will result in additional increased costs to future ratepayers and undermine generational equity. Inadequate preservation of infrastructure through regular system repair and maintenance will burden future generations with even higher costs and potentially compromise the reliability and quality of our water services. Annual rate increases are proposed to be implemented in October 2023, July 2024, July 2025, July 2026, and July 2027. The total revenue differs slightly from the Water Cost of Service Study due to the first year of the five-year rate plan being effective October 1, 2023, rather than July 1, 2023.

The total estimated annual cost for the proposed water low-income program is \$150,000 and is included in the annual water utility operating budget, which is funded from wholesale water revenues. Any changes to the plan, or an increased number of customers, necessitating additional program funding will be included in the bi-annual budget process.

Prepared by: Carlie Myers, Utilities Assistant General Manager/Business and Customer Services  
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Approved by: Rafael Guzman, Assistant City Manager  
Approved as to form: Phaedra A. Norton, City Attorney

Certifies availability of funds: Edward Enriquez, Assistant City Manager/Chief Financial Officer/City Treasurer

- Attachments:
1. Board Resolution
  2. Proposed Water Rate Schedules
  3. Water Cost of Service Study
  4. Notices of Public Hearing

5. Cash Reserve Policy presentation from June 26, 2023
6. Alternative Rate Scenarios presentation from July 10, 2023
7. CIP presentation from August 14, 2023
8. Presentation