



*City of Arts & Innovation*

# Mobility & Infrastructure Committee Memorandum

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**TO: MOBILITY & INFRASTRUCTURE COMMITTEE      DATE: AUGUST 11, 2022**

**FROM: PUBLIC WORKS DEPARTMENT      WARDS: ALL**

**SUBJECT: UPDATE ON THE WASTEWATER FINANCIAL MODEL UPDATE – DIRECT SUBMITTAL**

## **ISSUES:**

Receive an update on the Wastewater Financial Model, conceptually approve the capital project funding approach outlined in this report, and authorize the use of settlement revenue funds to fund sewer capital projects.

## **RECOMMENDATIONS:**

That the Mobility & Infrastructure Committee recommend that the City Council:

1. Receive an update on the Wastewater Financial Model;
2. Conceptually approve the City of Riverside Wastewater Master Plan Technical Memorandum – Summary of Financial Model Update dated July 2022;
3. Conceptually approve Option 1 within the City of Riverside Wastewater Master Plan Technical Memorandum – Summary of Financial Model Update dated July 2022;
4. Define as a Sewer Enterprise Fund Reserve Policy “Reserve Goal” an annual Reserve Ending Balance of at least the Policy Minimum Reserve Target plus 10-percent;
5. Authorize the use of Sewer Enterprise Fund Reserves above the “Reserve Goal” to fund Capital Improvement Projects through Fiscal Year 2026/27;
6. Authorize the use of \$15,000,000 in Jurupa CSD Settlement funds for capital projects outlined in this report; and
7. Direct staff to finalize the 2019 Wastewater Master Plan Volume 8 – Financial Plan and User Rates and Fees based on the Wastewater Financial Model Update and return to the City Council for consideration.

## **BACKGROUND:**

The City of Riverside Public Works Department, Wastewater Division is responsible for the

collection, conveyance, and treatment of wastewater for over 93,000 customers within City limits. The facilities consist of over 800 miles of gravity sewers, 400 miles of City laterals, 20 wastewater lift stations, 16,000 sewer manholes, and the Riverside Regional Water Quality Control Plant (RWQCP) which has the capacity to treat 46 million gallons per day. Additionally, under agreements with the City, the RWQCP provides wastewater treatment for the Edgemont, Jurupa, and Rubidoux Community Services Districts and the unincorporated community of Highgrove.

The City Council will also review and adopt the RWQCP Capital Improvement Program, Settlement Agreements, the Sewer Enterprise Fund Reserve Policy, and review and approve contracts to help meet and deliver sewer service. Table 1 provides a summary of notable actions during the past 8 years impacting the RWQCP.

**Table 1 – City Council Actions Impacting the RWQCP in the past 8 Years**

<b>Item</b>	<b>Date</b>	<b>Description</b>
1	May 2014	City Council adopted the CIP and Rate Development Study for fiscal years 2014/15 through 2018/19. The Sewer service rate included 8.5% increases per year in monthly service charges for residential and commercial customers.
2	Dec. 2015	The City and Jurupa Community Services District agreed that the City would provide an additional 1 million gallons per day of wastewater treatment capacity for \$15 million. Jurupa also agreed to pay \$287,500 per year to fund capital facilities.
3	Nov. 2016	City Council adopted a Sewer Enterprise Fund Reserve Policy establishing guidelines to ensure fiscal stability of the Sewer Fund and provide guidance to staff in the financial management of the Wastewater Division operations.
4	Dec. 2016	City Council awarded a professional consulting services contract to Carollo Engineers, Inc. to complete and update of the 2008 Wastewater Master Plan.
5	Dec. 2017	City Council rescinded the FY 2018/19 residential and commercial 8.5% annual increase. Recommended that the sewer reserves be held closer to the minimum values rather than the targets set forth in the Sewer Enterprise Fund Reserve Policy. Although, no set reserve level was established at the end of deliberation.
6	Jul. 2020	City Council approved the 2019 Integrated Master Plan for Wastewater Collection and Treatment Facilities (Master Plan) with the exception of Volume 8 – Financial Plan and User Rates and Fees. Staff was directed to return to City Council for consideration of Volume 8 following completion and an update to the Wastewater Financial Model.
7	Aug. 2020	City Council approved the Public Works Renewable Resources Management plan to respond to evolving regulatory demands, pursue operational efficiencies, and address climate change and sustainability initiatives identified in the Master Plan.
8	Feb. 2022	The contract with Carollo Engineers, Inc. was extended to June 30, 2023, in part to evaluate the 5-year sewer service rate plan, review current fund balances, budgeted and projected operating expenses and revenue, capital improvement costs, and help prepare projects to inform alternatives to fund the proposed CIP.

To support financing of prior wastewater capital improvements, the City has two outstanding Sewer Fund Bond Issuances with \$354 million in outstanding par, secured by net revenues of the Sewer Enterprise Fund. These include the 2015 Sewer Revenue Bonds and the 2018 Refunding

Bonds which refinanced the City's 2009B Direct Pay Build America Bonds. The 2018 refinancing resulted in \$3.0 to \$5.7 million in annual savings, totaling almost \$20 million overall in present value savings.

## **DISCUSSION:**

The Public Works Department maintains an Integrated Master Plan for Wastewater Collection and Treatment Facilities (Wastewater Master Plan) which provides a comprehensive evaluation of the City's wastewater system; the most recent was updated in 2019. The resulting Capital Improvement Program (CIP) project listing therein has two components: the Regional Water Quality Control Plant (Treatment) and the wastewater collection, conveyance, and pumping system (Collections).

Due to a present need to advance critical Wastewater Master Plan and Renewable Resource projects, the Public Works Department requested an update of the existing Wastewater financial model. The goal was to evaluate current fund balances, budgeted and projected operating expenses and revenues, budgeted CIP costs, and consider scenarios to fund the CIP through FY 2026-27. The technical consultant was provided specific direction to ensure the update:

1. Reflected current economic conditions
2. Focused foremost on options which reduced pressure on rates and reserves
3. Forestalled any potential rate increases
4. Maintained reserves at or above a reserve goal equal to the minimum Sewer Enterprise Fund Reserve Policy (Reserve Policy) amount plus 10-percent
5. Provided sufficient funding for the CIP

Since the adoption of the Reserve Policy, the City Council directed staff to hold reserves closer to the Reserve Policy minimum rather than targets. To codify this direction in the Financial Model Update and future financial planning, the technical consultant defined a "Reserve Goal" as an amount equal to the Reserve Policy minimum plus 10-percent. Defining a goal allows for a greater share of reserves to be used to fund capital projects, but still maintains a financial buffer in the event revenues do not materialize as projected or unforeseen costs arise. The Reserve Goal was considered across all projections in the Financial Model Update and utilized as a basis to evaluate the feasibility of each proposed scenario. For FY 2022/23, the Reserve Goal is \$38.5 million and increases each year thereafter in sync with increases in O&M costs, projected capital costs, and projected debt service.

### **Ongoing FY 2021/22 and Budgeted FY 2022/23 Capital Improvement Projects**

Since the FY 2018/19 rate increases were rescinded, projects have been funded on a "pay-as-you-go" basis utilizing the Sewer Enterprise Fund cash balance less reserves. As those funds have nearly all been allocated to current projects, the Wastewater Division is at a point where CIP needs are beyond the means of remaining fund balances. This point is evidenced in the disparity of the adopted FY 2022/23 and 2023/24 CIP budgets of \$2.3 million and \$1.6 million respectively in comparison to \$14.0 million and \$22.0 million for FY 2020/21 and FY 2021/22 respectively. Attachment 1 highlights a selection of the ongoing FY 2021/22 and current FY 2022/23 projects.

### **Critical Projects - Wastewater Treatment Plant**

Additional investments are needed at the treatment plant to replace aging infrastructure, construct resource recovery projects, food waste to energy facilities, utilize renewable natural gas, and to meet developing regulatory requirements. Attachment 2 details a needed investment of \$23.4

million to fund 11 Wastewater Treatment Plant Projects over the next five years. Attachment 2 shows available funding for each project and shows that all are critically underfunded.

#### Critical Projects - Wastewater Collection System

Additional investments are also needed across the collections system. 68 percent of the City sewer system was installed prior to 1980 with 53 percent installed between 1951 and 1980; thus, the latter in service anywhere from 42-71 years. Attachment 3 details critical wastewater treatment projects, current funding, and the outstanding funding need for each.

Pump stations move wastewater to higher elevation so it can flow via gravity to the treatment plant; they are high-risk points for large sewer spills should they fail. As part of the 2019 Master Plan the condition of the City's largest sewer pump station, Pierce Street, was assessed. Several areas of the 52 year old station were found to be at "poor" or "worst" condition. Due to geographic constraints, the assessment noted many issues could not be easily or fully remedied and reasoned a complete rebuild of the station may be needed.

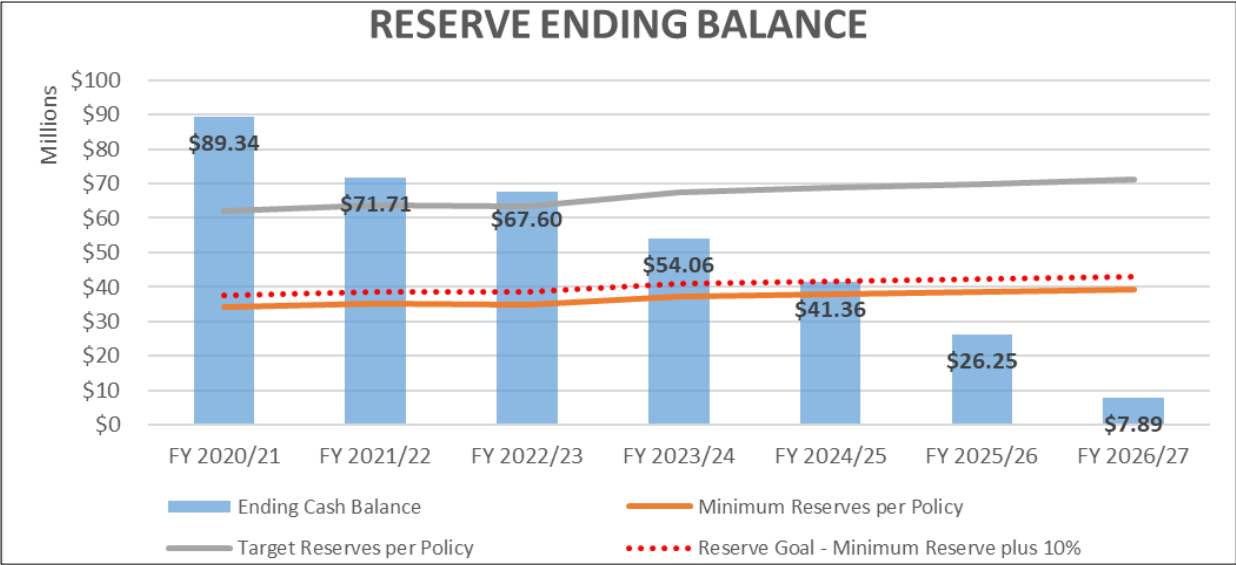
The Sewer Enterprise Fund Reserve Policy establishes that to the extent that Unrestricted-Undesignated Reserves are above the target levels, the Council has the flexibility to direct staff to utilize those available funds to pay for capital projects (reducing the need for future debt), pay down unfunded liabilities such as pension obligations, buy-down outstanding debt, reduce rates, or fund other wastewater strategic objectives. No other action by the Wastewater Division would be required if reserves are between the minimum and maximum level unless directed by the City Council.

The Financial Model Update analysis tested the financial and rate impacts of two options for utilizing the Jurupa Settlement Funds initial payment of \$15 million, evaluated Sewer Enterprise Fund Reserve Policy minimum and target levels, and sought to determine when rate increases would be required to address the CIP funding need. The four scenarios evaluated are described in detail below.

Base Case Projection (Option 0)

The Base Case Projection assumes no future rate increases, no new bonds issued, and Jurupa settlement funds refunded to customers and not used to fund capital projects. This scenario was not considered viable as the reserve fund would fall below the Reserve Goal in FY 2024/25 and would require significant cuts to capital improvement projects to retain a positive balance. Reserves would be almost entirely depleted in FY 2026/27.

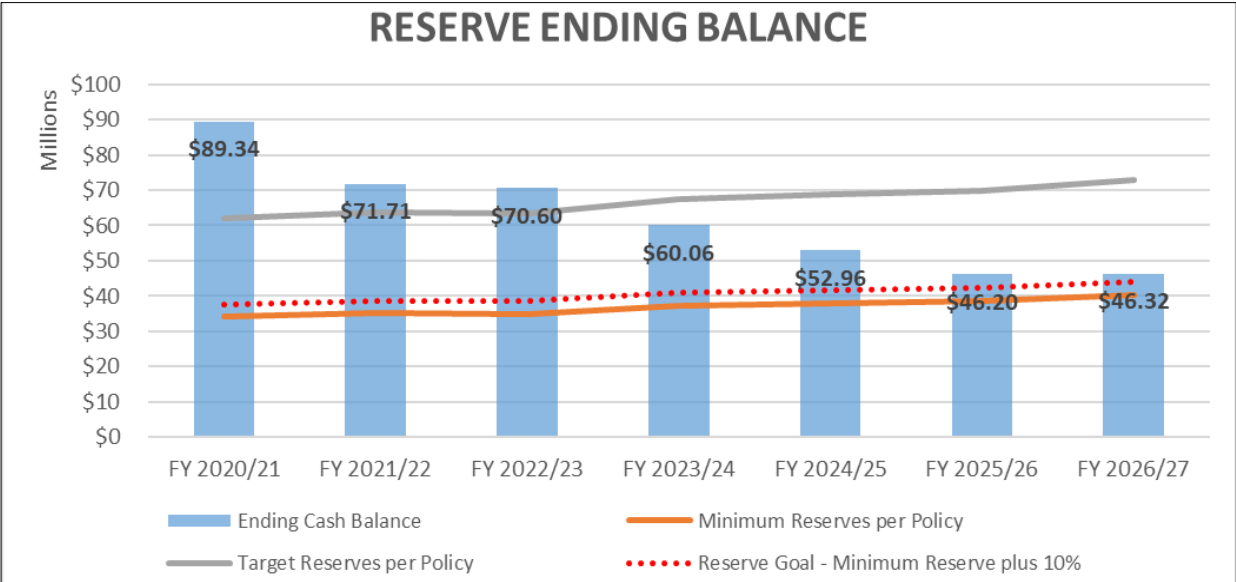
Figure 1: Base Case Projected Reserves without Rate Increases or New Debt



Option 1 – Decreased Pressure on Rates and Reserves

Option 1 would utilize the full \$15 million in Jurupa Settlement Funds to pay for capital projects, decreasing pressure on rates and reserves. Based on projections, reserves would be drawn down to fund capital projects in the near term before stabilizing near the Reserve Goal. The forecast assumes that the City resumes implementing a sewer rate increase beginning in FY 2024/25 at a level of 4.0-percent per year. The proposed rate increases would be just sufficient to maintain the reserve balance around or just above the Reserve Goal through FY 2026/27. Debt coverage would be sufficient in all years with revenue only debt coverage exceeding the 1.10x requirement set forth in the 2018 bond agreements.

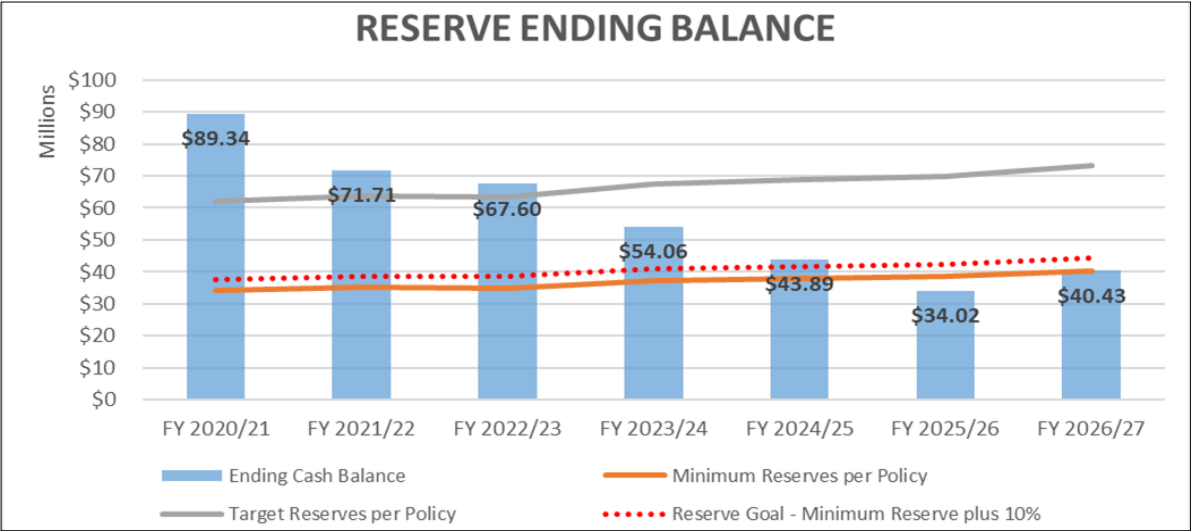
Figure 2 – Option 1 Projected Reserves for 4% Rate Increase in FY 2024/25



Option 2A –Refund Plus 4% Rate Increase Starting FY 2024/25

Option 2A would maintain the proposed 4.0-percent per year rate increases starting in FY 2024/25 while also refunding \$15 million in Jurupa Settlement Funds to City customers. Based on projections, reserves would be drawn down to fund capital projects over the next several years, reaching a minimum of \$34.0 million in FY 2025/26, approximately \$8.3 million below the Reserve Goal for that year. The 4.0-percent rate increases starting in FY 2024/25 would not make up the deficit. Reserves would remain below the Reserve Goal through at least FY 2026/27. Debt coverage would be sufficient in all years. Compared to Option 1, additional use of funds for capital and additional bond funds would be required due to the lack of Jurupa Settlement Funds for projects.

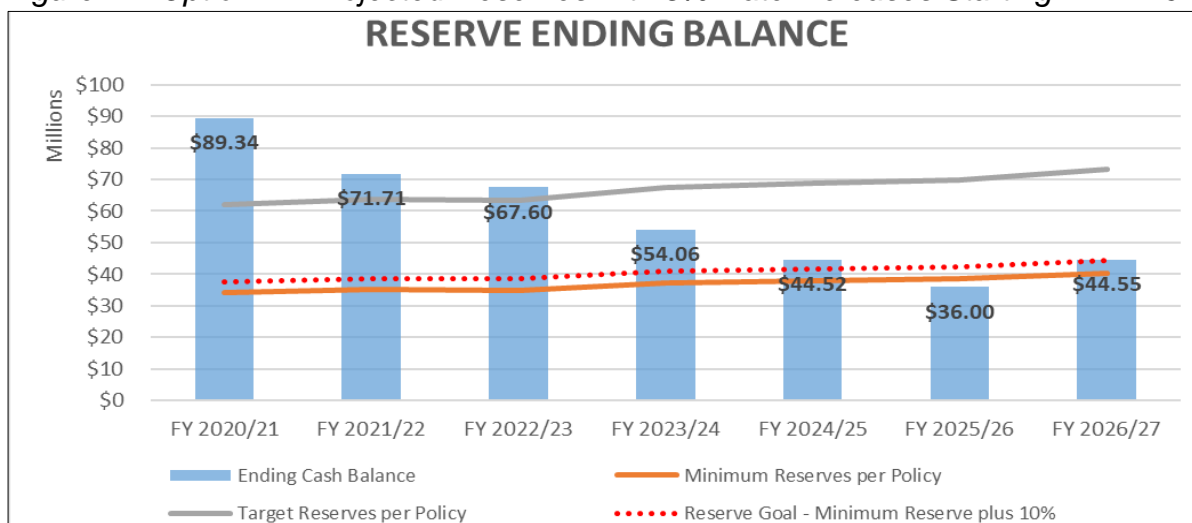
Figure 3 – Option 2A Projected Reserves with 4% Rate Increases Starting in FY 2024/25



### Option 2B – Refund Plus 5% Rate Increases to Maintain Reserve Starting FY 2024/25

Option 2B would propose rate increases of 5.0 percent per year starting in FY 2024/25 to allow reserves to rebound above the Reserve Policy minimum through FY 2026/27. Based on projections, reserves would be drawn down to fund capital projects over the next several years, reaching a minimum of \$36.0 million in FY 2025/26, approximately \$6.4 million below the Reserve Goal for that year. As a result of the higher rate increases as compared to Option 2A, reserves would rebound above the Reserve Policy minimum through FY 2026/27. Debt coverage would be sufficient in all years. Compared to Option 1, additional use of funds for capital and additional bond funds would be required due to the lack of Jurupa Settlement Funds for projects.

**Figure 4 – Option 2B Projected Reserves with 5% Rate Increases Starting in FY 2024/25**



Based on the projected CIP for the RWQCP and the Collections System, totaling \$71.4 million (escalated costs) over the course of the projection period (FY 2022/23 through FY 2026/27), and the projected expenses for the same period, annual rate increases of at least 4.0-percent per year, starting in FY 2024/25, will be required during the projection period.

**Table 2 – Options Summary Table**

Option	Refund to Customers*	Rate Increase	Impact
0	Yes	No	Limited funds investment in needed capital projects. Reserve fund would fall below the reserve goal by FY 2024/25
1	No	Yes, 4% annually starting in FY 2024/25	Allocates the settlement funds into capital projects, stabilizes the reserve balance goal, debt coverage would be sufficient in all years
2A	Yes	Yes, 4% annually starting in FY 2024/25	Reserves would reach the minimum level in FY 2025-26, approx. 8.3M below the reserve goal. Would have to utilize additional funds including bond funds for capital projects.
2B	Yes	Yes, 5% annually starting in FY 2024/25	Additional rate increase to allow reserves to rebound above the Reserve Policy minimum through FY 2026/27. Would have to utilize additional funds including bond funds for capital projects.

\*Jurupa \$15 million Settlement Funds Refunded to Customer, Reduces Investment in CIP

Utilizing the \$15 million Jurupa Settlement revenues to fund capital projects (Option 1) would allow the City to fund the budgeted CIP over the next five years and defer rate increases for two more

years, to minimum rate increase of 4.0-percent per year starting in FY 2024/25.

Although using the Jurupa Settlement revenues to refund City customers (Options 2A and 2B) would provide a one-time benefit to those customers, it would lead to the need for higher user rate increases and higher debt issuances in the future to fund capital projects and meet financial policies. Rate increases would need to be 5.0-percent per year starting in FY 2024/25.

Based on this analysis staff recommends as the most favorable approach for the City to pursue would be Option 1, which would include:

1. Authorizing use of the \$15 million Jurupa Settlement Funds to fund capital projects,
2. Funding CIP projects up to \$71.4 million over the course of the projection period (FY 2022/23 through FY 2026/27),
3. Maintaining current rates through FY 2023/24,
4. In support of this option, staff will request direction from City Council to begin the process of increasing rates starting FY 2024/25 to maintain reserves at the policy minimum plus 10-percent goal, and
5. Followed by issuing new bond proceeds supporting City Council approved new rates.

In addition to these items staff also recommends, in support of the Financial Model Update and future financial planning for the Sewer Enterprise Fund, that the City Council define as a Sewer Enterprise Fund Reserve Policy “Reserve Goal,” an annual Reserve Ending Balance of at least the Policy Minimum Reserve Target Plus 10.0 percent.

### **STRATEGIC PLAN ALIGNMENT:**

The programs described in this report align with **Strategic Priority 4 - Environmental Stewardship** and **Strategic Priority 6 – Infrastructure, Mobility & Connectivity** and the following goals:

**Goal 4.1** - Rapidly decrease Riverside’s carbon footprint by acting urgently to reach a zero-carbon electric grid with the goal of reaching 100% renewable energy production by 2040 while continuing to ensure safe, reliable and affordable energy for all residents.

**Goal 4.2** - Sustainably manage local water resources to maximize reliability and advance water reuse to ensure safe, reliable and affordable water to our community.

**Goal 4.4** - Implement measures and educate the community to responsibly manage goods, products and services throughout their lifecycle to achieve waste reduction outcomes.

**Goal 4.6** - Implement the requisite measures to achieve citywide carbon neutrality no later than 2040.

**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.

Furthermore, advancing the Wastewater Master Plan CIP aligns with each of the five Cross-Cutting Threads:



1. **Community Trust** – Maintaining the wastewater treatment and collections systems serves the public interest and supports clean water in the community and environment.
2. **Equity** – This effort supports clean water, public health, and resource recovery throughout the City.
3. **Fiscal Responsibility** – Provides a quality public service to all residents in a fiscally responsible way.
4. **Innovation** – The CIP incorporates modernizing aged facilities and implementing programs and other innovative technologies in support of operational efficiencies, addressing climate change and sustainability initiatives identified in the Master Plan.
5. **Sustainability & Resiliency** – Proper operation and maintenance of the wastewater system contributes to the sustainability of the City's and region's local water resources and environment.

### **FISCAL IMPACT:**

The total fiscal impact of the action is \$15,000,000. Sufficient funds are available in the Sewer Fund, Other Deferred Regulatory Charges account no. (0000550-240000).

Prepared by: Gilbert Hernandez, Public Works Director  
Certified as to  
availability of funds: Edward Enriquez, Interim Assistant City Manager/Chief Financial Officer/Treasurer  
Approved by: Kris Martinez, Assistant City Manager  
Approved as to form: Phaedra A. Norton, City Attorney

### **Attachments:**

1. Ongoing FY 2021/22 Projects and Budgeted FY 2022/23 Projects
2. Critical Wastewater Treatment Plant Projects
3. Critical Wastewater Collection System Projects
4. City of Riverside Wastewater Master Plan Technical Memorandum – Summary of Financial Model Update - July 2022
5. Sewer Enterprise Fund Reserve Policy
6. Public Works Renewable Resource Management Plan
7. Presentation