



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: OCTOBER 11, 2022**

FROM: PUBLIC UTILITIES DEPARTMENT **WARDS: ALL**

SUBJECT: GAGE CANAL COMPANY'S CAPITAL EXPENDITURE BUDGET FOR FISCAL YEAR 2022/23

ISSUE:

Consider approval of the Gage Canal Company's capital expenditure budget for Fiscal Year (FY) 2022/23.

RECOMMENDATION:

That the City Council approve the Gage Canal Company's capital expenditure budget for FY 2022/23.

BOARD RECOMMENDATION:

The Board of Public Utilities met on September 26, 2022, to consider approval of the Gage Canal Company's capital expenditure budget for FY 2022/23. The Board members present voted to recommend that City Council approve the Gage Canal Company's capital expenditure budget for FY 2022/23.

BACKGROUND:

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

In September 2022, the Utilities General Manager received the Company's final proposed capital expenditure budget for FY 2022/23, from the Company's General Manager. Both the Board of Public Utilities and the City Council are presented the budget and given the opportunity to approve the budget. However, approval of the Company's capital expenditure budget is not required by the City in order for the Company to perform the capital expenditures.

By the time the Company submits the capital expenditure budget to the City, it has usually been developed, vetted, and approved by the Company's Board of Directors. Three of the 11 seats of the Company's Board of Directors are filled by the Utilities General Manager and two members of

the Board of Public Utilities. This ensures City representation in the development and approval of the Company's capital expenditure budget.

DISCUSSION:

Company's Requirement to Submit Capital Expenditure Budget

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

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

If the Company failed to submit the annual capital expenditure budget or charged the shareholders a cost that is not appropriate, then it could be considered a breach of contract. Section 22 of the Agreement addresses how such a situation is to be handled. Breach of contract has never happened since execution of the Agreement in 1965.

The operational facilities (wells, pumps and canal) are the property of the City obtained through the 1965 Judgment in Eminent Domain and Final Order of Condemnation. The Gage Canal Company operates these facilities on behalf of the City as an independent contractor under the terms of the 1965 Agreement for Operation of Gage Canal Facilities as amended. Section 15 indicates that there is a sharing of costs for capital expenditures by all shareholders, including the City. The issue that remains unresolved is the funding for significant long-term costs associated with major improvements to facilities and drilling of replacement wells for those which are approximately 75-100 years old. This capital budget does not address any of these needs. In the past, new wells have, most recently, been drilled and paid for by the City. Further discussions are needed to resolve this issue.

FY 2022/23 Budget as Submitted

A copy of the Company's FY 2022/23 capital expenditure budget letter is attached to this report. The total annual capital expenditure budget to be submitted to the City of Riverside is \$103,000 for FY 2022/23. There are four distinct capital improvement items including a vehicle, a metal canopy, a haul trailer, and a line locator.

Need for Capital Improvements

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

Financial Impact to City

The performance of the Company's proposed capital expenditures is not a direct expenditure to the City, but instead the City will pay a proportionate share of the Company's capital expenditures as part of their shareholdings in the Company (currently 61%).

STRATEGIC PLAN ALIGNMENT:

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

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

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

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

FISCAL IMPACT:

The fiscal impact of this item is \$103,000, for FY 2022/23. This is paid as part of an annual water tax assessed to shareholders for Gage's cost to operate and maintain the canal. Sufficient funds are budgeted and available in the Water Fund, Water Production and Operations Taxes and Assessments Account No. 6200000-447100.

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

Attachments:

1. Agreement for Operation of Gage Canal Facilities (June 9, 1965)
2. Gage Canal Company Capital Expenditure Budget Letter
3. Presentation