

RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: JUNE 12, 2023

SUBJECT: WATER UTILITY FIVE-YEAR RATE PLAN PROPOSAL

ISSUE:

Consider a recommendation to the City Council proposing the establishment of a five-year rate plan for the water utility and 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.

RECOMMENDATIONS:

That the Board of Public Utilities recommend that the City Council:

1. Conceptually approve the water utility five-year rate plan proposal; and
2. Direct the City Manager to prepare all documents necessary for public noticing of the rate proposal, to update proposed rate schedules to reflect changes due to the rate proposal, and to update any other documents necessary for the public hearing to be held before the City Council on September 5, 2023, with new rates effective October 1, 2023.

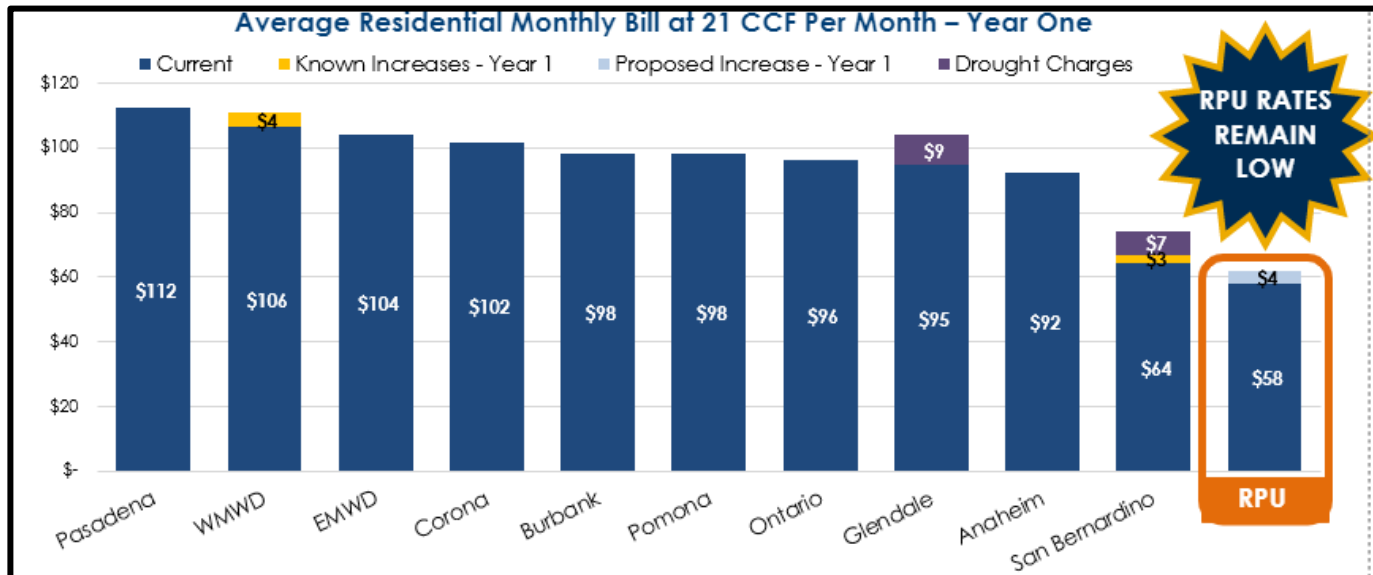
BACKGROUND:

The Riverside Public Utilities (RPU) 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. 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 to our customers and helps the City of Riverside maintain a competitive advantage when compared to other utilities like Pasadena (93% higher), Corona (76% higher) and Anaheim (59% higher), as depicted in Table 1 below.

Table 1 – Comparison of Residential Water Rates



RPU’s efforts to keep rates low include the sale of surplus water supply and delivery to neighboring water utilities resulting in \$4.5 million to \$6.0 million of additional annual revenue and the recovery of treatment plant operational costs resulting in \$2.0 million to \$2.5 million in additional annual revenue.

In addition, 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 Habitat Conservation Plan. All of these efforts help ensure sustainable water levels in the underground aquifers and prevent the need to purchase more expensive water from the California Water System and/or water from the Colorado River.

Despite low 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. For assistance, call (951) 782-0330 or visit the Casa Blanca Customer Resource Center to speak with a representative in person.

Rates 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 as depicted in the table below.

Table 2 - 2009 to 2017 Water Rates

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 1st 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 as depicted in the table below.

Table 3 - Current Water Rate Plan

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 Expires
6/30/2023**

Establishment of Rates and Applicable Law

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 also fund a significant portion of the capital improvement program which includes the debt service (principal and interest) for bonds issued to fund these projects. Developer fees are the other funding source for capital projects.

The Board has the authority to establish and the City Council has the authority to approve rate changes, per City of Riverside Charter Section 1202(e), 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 fees and charges, must meet Prop 218’s requirements. It applies to Water utility charges and fees; however, electric and gas utility charges were specifically exempted from the definition of *property-related* charges in the statute. The City is required to provide notice of the proposed changes to the water fees and charges to all affected water ratepayers and record receipt of all written protests during a public hearing. Prop 218 prohibits increases to water fees and charges if a majority of the affected water ratepayers submit written opposition to the proposed increases.

DISCUSSION:

The current 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. The expected useful life of water distribution pipeline is 40 years. The average age of RPU’s 826 miles of distribution pipeline is 47 years, with 35% over 50 years old.

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 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%.

Table 4 - Proposed Five-Year Water Rate Plan

Proposed Five-Year Water Utility Rate Plan System Average Rate Increases	
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.

Table 5 - Proposed Five-Year Water Rate Plan by Customer Class

Customer Class	Customers	Year 1 % Increase	Year 2 % Increase	Year 3 % Increase	Year 4 % Increase	Year 5 % Increase
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, Riverside and the region will be provided through the HCP environmental coverage up to 80,000 acre-ft 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.

Table 6 - Water Capital Improvement Plan Investments

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

Proposed Water Rate Increase for Residential Customers

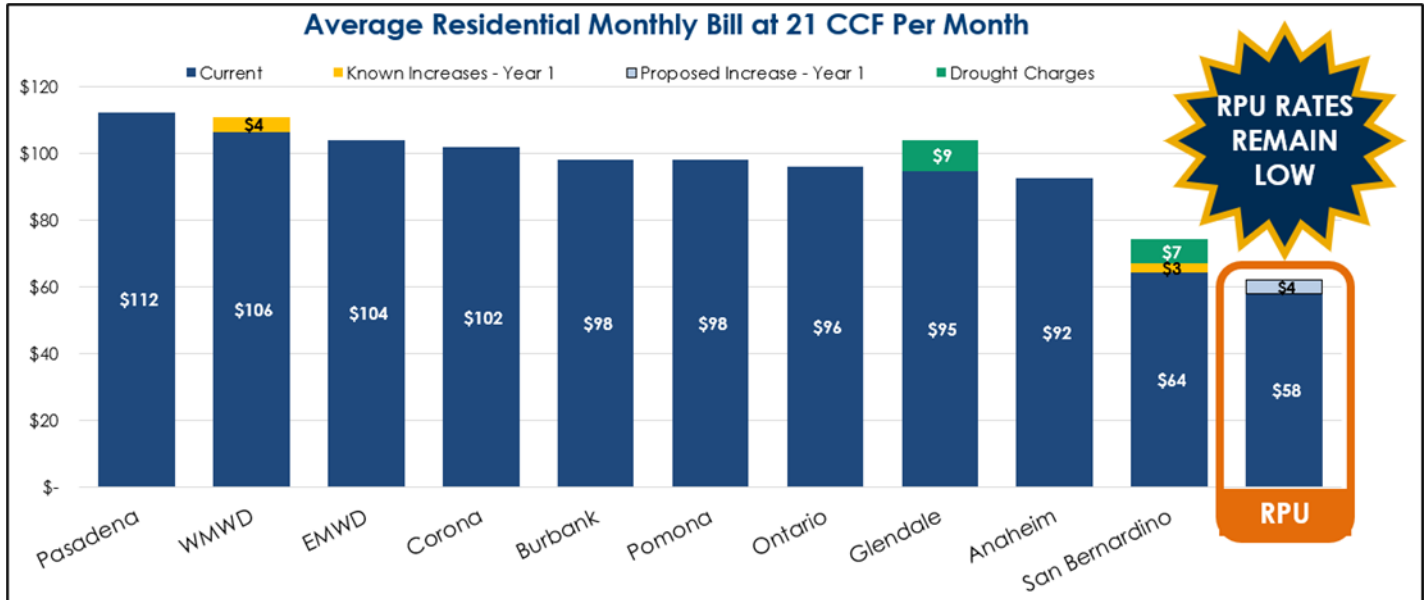
For a typical residential water customer using on average 21 CCF per month with an average monthly bill of \$58, the estimated average monthly bill increase in year 1 is \$4.07, while the water rate increase will be an estimated \$0.15 per day in each year of the rate plan. Rate increases and associated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

Table 7 – 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 22% more at the next lowest water utility the City of San Bernardino.

Table 8. Average Residential Monthly Bill



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

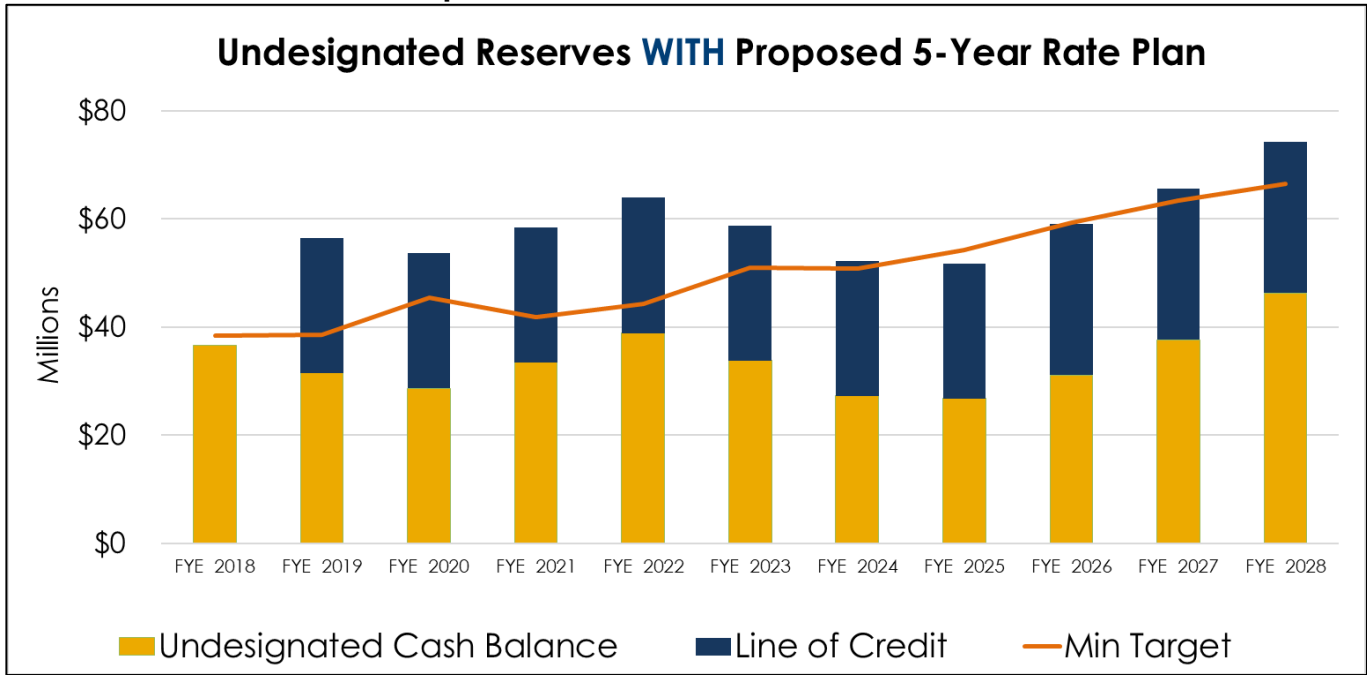
For a typical commercial water customer using on average 37 CCF per month with an average monthly bill of \$106, the estimated average monthly bill increase in year 1 is \$9.02, while the water rate increase will be an estimated \$0.26 per day in each year of the rate plan. Rate increases and associated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

Table 9 – 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.

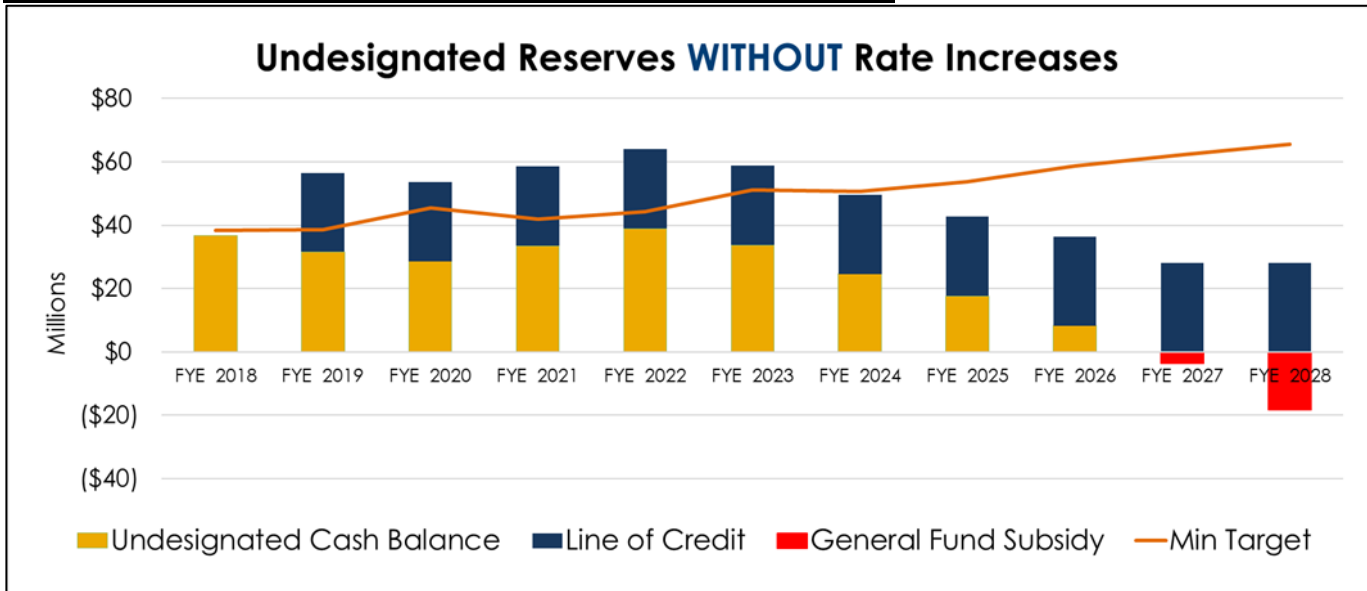
Table 10 - Reserves With Proposed Five-Year Rate Plan



Alternatives and Risks

Without a rate increase, the water utility will completely spend down undesignated reserves by June 2027 and will 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. Table 11 (below) 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.

Table 11 - Reserves Without Proposed Five-Year Rate Plan



Next Steps

Action	Date
Board of Public Utilities Consideration	June 12, 2023
City Council Consideration	June 20, 2023
Mail Notice of Public Hearing (Prop 218 Hearing at City Council)	July 2023
Board of Public Utilities Public Hearing and Consideration	August 14 or 28, 2023
City Council Public Hearing and Consideration	September 5, 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 over the five-year period for this rate increase is projected to be \$75 million, averaging \$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 our 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 cost for the proposed water low-income program is \$150,000 and is included in the annual water utility operating budget, which will be funded from wholesale water revenues.

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

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

- Attachments:
1. Proposed Water Rate Schedules
 2. Water Cost of Service Study
 3. Presentation