



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: SEPTEMBER 19, 2023

FROM: PUBLIC UTILITIES DEPARTMENT WARDS: ALL

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

ISSUES:

Conduct a Public Hearing to consider oral comments and written protests to the water utility five-year rate plan proposal; consider adoption of a Resolution approving and establishing FY 2023/24 – 2027/28 water rates, to be effective October 1, 2023; and consider approving an increase to the low-income water assistance program.

RECOMMENDATIONS:

That the City Council:

1. Conduct a public hearing to consider all oral comments and written protests to the proposed water utility five-year rate plan;
2. If a majority protest does not exist, adopt a Resolution approving and establishing the FY2023/24 - 2027/28 water rates, to be effective October 1, 2023; and
3. Approve an increase to the low-income water assistance program from \$3.25 per month to \$4.25 per month for qualifying customers.

BOARD RECOMMENDATION:

On August 28, 2023, the Board of Public Utilities, with eight members present, conducted a public hearing to receive public input related to the water utility five-year rate plan proposal. Following discussion, the Board voted six “ayes” to two “noes” to adopt a Resolution establishing the FY2023/24-2027/28 water rates, to be effective October 1, 2023 and upon City Council approval; recommend that 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; if no majority protest is received to those water rates, adopt a Resolution to approve the water utility five-year rate plan proposal; and approve changes to the low-income water assistance program.

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. When necessary to ensure the continued recovery of costs for services and to secure reinvestment into the system infrastructure for long-term sustainability, the Board of Public Utilities (Board) has the authority to establish rate changes, which must then be approved by the City Council.

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 to establish water rates for the City Council consideration and approval was published in the Press Enterprise on Thursday, August 10, 2023, and Thursday, August 17, 2023. In anticipation of the City Council public hearing, a notice was mailed to water utility ratepayers on Thursday, July 27, 2023, and was published in the Press Enterprise on Wednesday, August 30, 2023, and Wednesday, September 6, 2023.

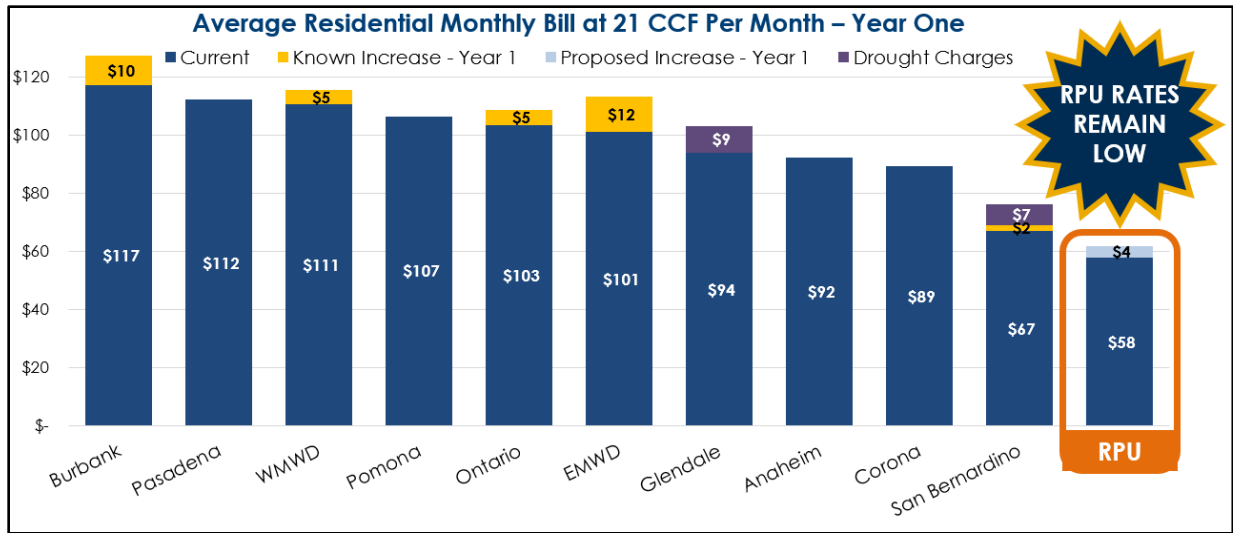
BACKGROUND:

About the Water Utility

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. 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 proposes to participate in multiple efforts to recharge water back into the 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 which may not be available during periods of extended drought.

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 (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 a 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.

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 has 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, culminating in a downgrade of its bond credit rating from the highest rating of AAA to AA+.

Cost of Service Analysis

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

Engagement

Board of Public Utilities

City staff began engaging the Board of Public Utilities on the topic of rate increases at the Board’s March 14, 2022 meeting during which the Board approved an agreement with Carollo Engineers, Inc. (Carollo) to complete a water utility cost of service analysis (COSA) and rate design project for financial planning purposes.

In June and August 2022, the Board’s Public Utilities Customer Relations/Finance Committee and the full Board, respectively, received an update and provided feedback to staff on the COSA process. On June 12, 2023, the Board received information on the establishment of a five-year

rate plan for the water utility, and conceptually approved the water utility five-year rate plan proposal. In response to questions raised by the Board during the June 12 meeting, staff presented to the Board on the following three topics: **Fiscal Policies and Cash Reserves** in June; **Alternative Rate Scenarios** in July; and **Capital Improvement Projects** in August.

The following is a synopsis of the three follow-up presentations to the Board of Public Utilities. Each presentation is provided in its entirety as an attachment to this staff report.

Topic 1 - Fiscal Policies – Cash Reserve Policy

On June 26, 2023, the Board received an update on the RPU **Fiscal Policies – Cash Reserve Policy** (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 on topics such as bond ratings, how reserves affect bond ratings, what it would take to raise the utility's bond rating, and what are the necessary elements to eliminate the Line of Credit.

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.

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 action by RPU is 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 are, by policy, to be provided within 12 months.

The presentation on June 23, 2023 provided the Board with Policy history, and definitions and examples of RPU's restricted and unrestricted reserves:

Restricted Reserves are established and utilized for narrowly defined purposes as specified by legal restrictions, bond covenants, and other regulations or ordinances.

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.

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 the Policy and is subject to Board and Council approval.

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.

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.

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.

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.

Topic 2 - Alternative Rate Scenarios

On July 10, 2023, the Board reviewed 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.

Based on the analysis of three alternative rate model estimates (4%, 5%, or 6%), none of these options met all of the COSA goals and minimum requirements of Board- and City Council-approved plans. The model results 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. No additional action was taken by the Board on this issue.

Topic 3 - 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 year period, 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. 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:

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

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.

Project Category	10 Year Plan (2018-2028)	Budgeted (2018-2023)	Expenditures 2018-2023	5 Year Plan (2024-2028)
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
Total:	\$287,116,000	\$133,111,517	\$117,823,807	\$183,692,000
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.

Community Engagement

To engage with the community on proposed rate increases, a number of City-sponsored community outreach events occurred from May through August. The City Manager made presentations to community groups and residents, and provided opportunity for Q&A and conversation during each event.

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 Better Together (NBT)	June 25, 2023
Mission Grove Neighborhood Association	July 10, 2023
Neighbors of the Wood Streets (NOWS)	July 13, 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	August 8, 2023

Community Outreach through Social Media and Webpage

Social media for the rate proposals for electric, water, and solid waste resulted in 75,094 “impressions” (the number of times seen) and 4,032 “engagements” (number of interactions with the content including comments or shares) in July and August 2023. The proposed five-year rate plan has been available continuously on the City website (<https://www.riversideca.gov/proposed-rates>) along with staff reports, presentations, calendar/timeline of events and other related resources.

Relevant water utility rate plan documents and information are available online: <https://www.riversideca.gov/proposed-rates>

DISCUSSION:

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, 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 or wet 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%.

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

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 proposes to fund \$184 million in water capital infrastructure and support current and future bond issuances providing \$148 million in bond proceeds to fund capital infrastructure.

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

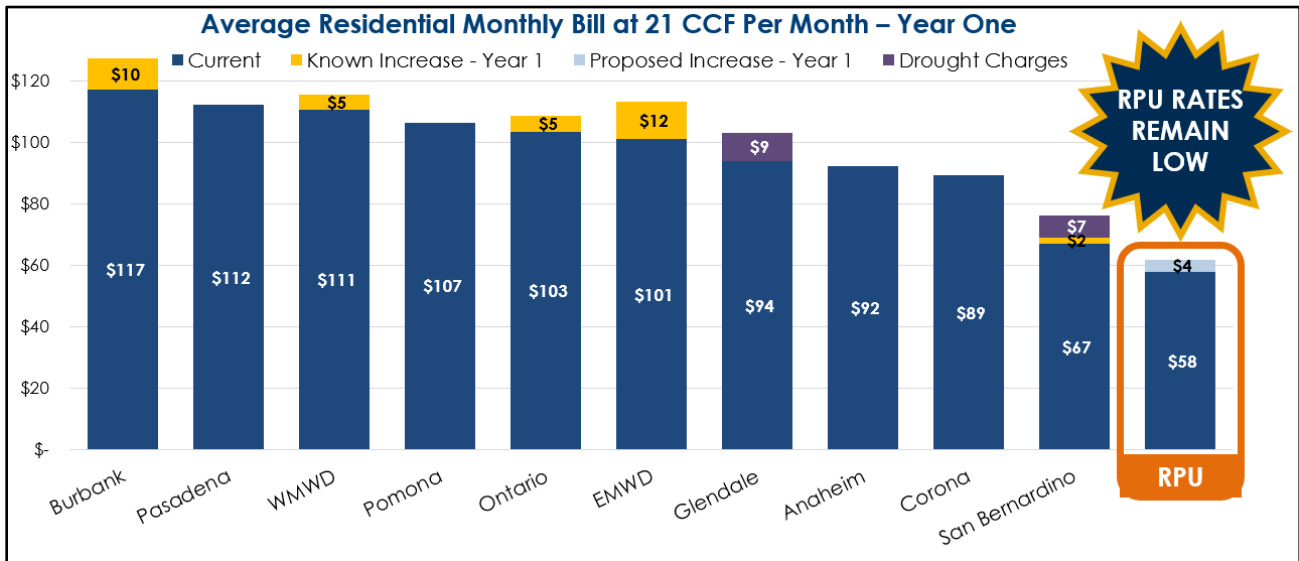
Proposed Water Rate Increase for Typical Residential Customer

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 extremely competitive within the region. Even after the rate increase in year 1, a typical residential water customer using on average 21 CCF per month would pay less than the same bill at the next lowest water utility.



Proposed Water Rate Increase for 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.

Cash 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.

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

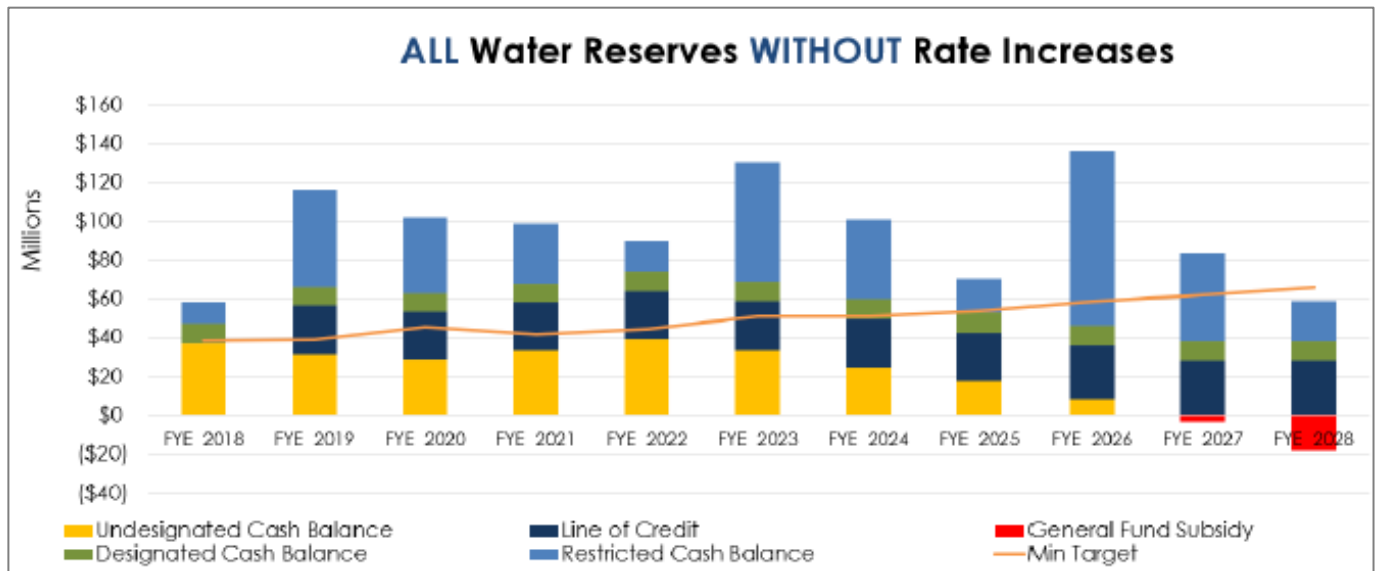
future needs, and protect against financial instability. Designated reserves may be held for specific capital and operating purposes.

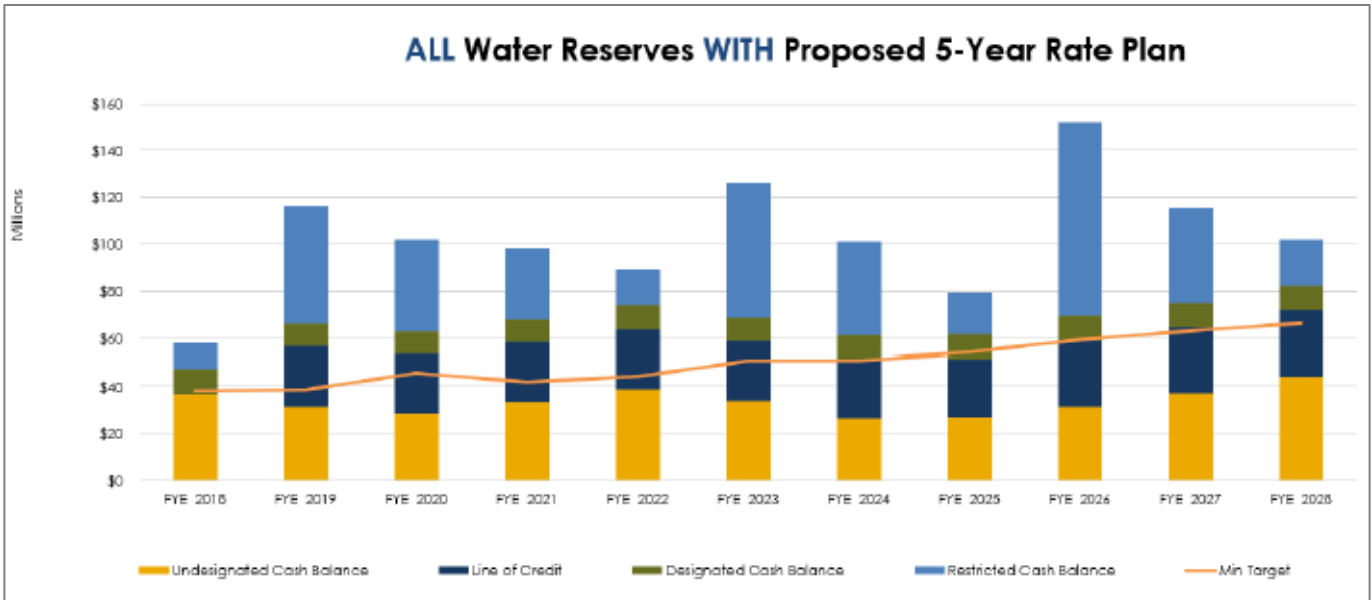
Undesignated Reserves are the remaining unrestricted reserves that may be used for any lawful purpose and have not been designated for specific capital and operating purposes; however, maintaining a proper level of undesignated reserves is critical to ensure the utility can meet its fluctuating cashflow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

In order to keep the rate increases in the five-year water rate plan as low as possible, the undesignated cash reserve balance is combined with a line of credit to meet minimum target reserve levels. Per policy, the total cash reserve plus line of credit balance cannot be below the minimum target level for more than 3 consecutive years of the rate plan before returning to above minimum target reserve levels within the timeframe required by the reserve policy.

Without a rate increase, the water utility is projected to 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, resulting in borrowing cost increases for capital projects, costing future ratepayers millions in higher debt payments.

The following charts illustrate the impacts to Reserves with and without the proposed five-year water utility rate plan.





Proposed Increases to Low-Income Water Assistance Program Credit

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

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.

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:	Todd Corbin, Utilities General Manager
Certified as to availability of funds:	Edward Enriquez, Assistant City Manager/Chief Financial Officer/City Treasurer
Approved by:	Rafael Guzman, Assistant City Manager
Approved as to form:	Phaedra A. Norton, City Attorney

Attachments:

1. Resolution
2. Proposed Water Rate Schedules

3. Water Cost of Service and Rate Design Study
4. Cash Reserve Policy presentation from June 26, 2023
5. Alternative Rate Scenarios presentation from July 10, 2023
6. CIP presentation from August 14, 2023
7. Notice of Public Hearing
8. Presentation