



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JUNE 28, 2016**

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

SUBJECT: TRANSFER OF WATER CONSERVATION FUNDS FOR RESIDENTIAL WATER WISE LANDSCAPING TO THE WATER FUND BALANCE IN THE AMOUNT OF \$750,000

ISSUE:

The issue for City Council consideration is the approval of a transfer of funds in the amount of \$750,000 from the Water Conservation Fund to the Water Fund Balance in order to alleviate negative fiscal impacts caused by declining revenue in the water budget as a result of the drought.

RECOMMENDATIONS:

That the City Council authorize the unappropriation of \$750,000 from the Residential Waterwise Landscape Incentive Account and transfer \$750,000 from the (521) Water Conservation Fund Balance Account to the (520) Water Fund Balance Account.

BOARD RECOMMENDATION:

On June 6, 2016, The Board of Public Utilities unanimously approved the unappropriation of \$750,000 from the Residential Waterwise Landscape Incentive Account, and transfer \$750,000 from the (521) Water Conservation Fund Balance to the (520) Water Fund Balance in order to alleviate negative fiscal impacts caused by declining revenue in the water budget as a result of the drought.

BACKGROUND:

On September 22, 2015, the City of Riverside City Council unanimously approved a fund transfer of \$1,500,000 from the (520) Water Fund Balance to the (521) Water Conservation Fund to provide turf removal rebates for commercial and residential customers and provide funding for demonstration projects. City Council authorized the supplemental appropriation of \$1,000,000 for the Residential Waterwise Landscape Incentive, \$200,000 to the Commercial Waterwise Landscape Incentive and \$300,000 to Commercial Landscape Demonstration Projects. This action allowed RPU to continue to offer popular Water Wise Landscape rebates to its customers after Metropolitan Water District (MWD) closed their program due to a lack of funding. With a budget transfer of \$1.5 million, staff anticipated removing approximately 1.5 million square feet of turf or 350 residential sites and 10 commercial sites during the Fiscal Year 2015/16. Staff based participation projections on Fiscal Year 2014/15 program participation.

- August 2014 – State Mandated 25% Water Consumption Reduction

- December 2014 – RPU Increased Turf Removal Incentives to \$2 and \$3
- December 2014 – RPU Increased Turf Removal Budget with Internal and MWD Funding
- July 2015 – RPU Turf Removal Funding Exhausted
- September 22, 2015 – Council Approves \$1.5M Transfer from Water Fund Balance to Water Conservation and Reclamation
- October/December 2015 – RPU Implements Web-based Rebate Processing Tool to handle large Program participation
- December 2015 – RPU re-opens Turf Removal Programs at reduced incentive level of \$1
- December 2015/Present – Commercial Turf Programs fully subscribed. Residential Program slows drastically
- Present – RPU requests Budget Transfer from Residential Program back to Water Fund Balance

Upon receiving City Council approval of the budget transfer, RPU reopened the turf removal programs at a reduced incentive on December 1, 2016. RPU became one of the few water utilities to offer turf removal rebates in Southern California. The Fiscal Year 2015/16 turf removal incentive offered \$1.00 per square foot for both residential and commercial customers with a residential cap of 3,000 square feet and a commercial cap of 25,000 square feet per site. By establishing a square footage cap per site RPU staff anticipated that this would allow RPU to administer the turf removal programs for a longer duration and provide a rebate opportunity to a greater number of customers. The new incentive is roughly equivalent to the cost of purchasing imported water.

Residential Program	Pre 2014	2014/15	2015/16	Commercial Program	Pre 2014	2014/15	2015/16
Incentive Level	\$0.40	\$2.00	\$1.00	Incentive Level	\$0.40	\$3.00	\$1.00
Square Footage Cap	6,000	none	3,000	Square Footage Cap	25,000	none	25,000
Maximum Rebate	\$2,400	unlimited	\$3,000	Maximum Rebate	\$10,000	unlimited	\$25,000

Through the first 90-days of the Fiscal Year 2015/16 turf removal program, the commercial turf program experienced substantial interest and staff anticipates the commercial program to be fully subscribed by the end of the fiscal year. However, unexpectedly, the residential turf program experienced moderate participation, relative to the high demand in the previous fiscal year. The residential program's moderate participation may be attributed to various factors including opening the program during a non-traditional planting season or winter months, the lack of general media attention for drought and water conservation compared to last fiscal year, increased media attention regarding potential higher rainfall during a predicted El Nino event, the cost of turf removal projects relative to the reduced rebate amount, or general "Drought Fatigue" from customers.

Due to the moderate customer participation levels, staff anticipates that not all the funding allocated to residential turf removal will be spent during the Fiscal Year 2015/16. Staff anticipates that of the original \$1,000,000 budgeted for the Residential Waterwise Rebate Program, approximately \$750,000 will remain unspent at the end of FY 2015/16. There are sufficient funds available from the Water Conservation Surcharge to sustain the Residential Water Wise

Landscape program at existing incentive levels given current customer participation trends.

The Water Fund Balance has experienced significant negative financial impacts due to dramatic reductions in water sales resulting from state mandated conservation targets and customer demand reduction in response to the drought. In an effort to support and alleviate the negative fiscal impacts caused by the declining revenue in the water budget, staff is recommending a budget transfer of \$750,000 in unspent funds from the Residential Waterwise Landscape Rebate Program be transferred back to the Water Fund Balance.

FISCAL IMPACT:

Unspent budget in the amount of \$750,000 will be unappropriated from the Residential Waterwise Landscape Incentive Account No. 6220200-457034. A fund transfer of \$750,000 from the (521) Water Conservation Fund Balance Account No. 0000521-298000 to the (520) Water Fund Balance Account No. 0000520-298000 will be done to provide relief to the negative fiscal revenue impacts in the Water Fund, due to reductions in water sales as a result of mandated drought restrictions.

Prepared by:	Girish Balachandran, Public Utilities General Manager
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Approved by:	John A. Russo, City Manager
Approved as to form:	Gary G. Geuss, City Attorney