



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL AND BOARD OF PUBLIC UTILITIES**      **DATE: OCTOBER 15, 2019**

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

**SUBJECT: CITY COUNCIL AND BOARD OF PUBLIC UTILITIES JOINT PUBLIC HEARING FOR PROPOSED WA-12 AGRICULTURAL SERVICE WATER RATE SCHEDULE**

## **ISSUES:**

Conduct a joint public hearing with the City Council and Board of Public Utilities to consider the proposed WA-12 Agricultural Service water rate schedule, close the existing WA-9 Grove Preservation Service water rate schedule, and transition the existing WA-3 Irrigation Metered Service and WA-9 Grove Preservation Service customers to the WA-12 Agricultural Service water rate schedule.

## **RECOMMENDATIONS:**

That the City Council and Board of Public Utilities:

1. Conduct a public hearing to receive public input related to the proposed WA-12 Agricultural Service water rate schedule, close the existing WA-9 Grove Preservation Service water rate schedule, and transition the existing WA-3 Irrigation Metered Service and WA-9 Grove Preservation Service customers to the WA-12 Agricultural Service water rate schedule; and consider and tabulate all written protests to the proposed action; and
2. Adopt resolutions recording receipt of written protests to the proposed WA-12 Agricultural Service water rate schedule, closing the existing WA-9 Grove Preservation Service water rate schedule effective October 15, 2019, transitioning the existing WA-3 Irrigation Metered Service and WA-9 Grove Preservation Service customers to the WA-12 Agricultural Service water rate schedule, and, if no majority protest is received to the water rate, establishing and approving the WA-12 Agricultural Service water rate schedule effective January 1, 2020, all as further described in the resolutions.

## **BACKGROUND:**

On November 28, 2017, the City Council recommended the establishment of an Agricultural Water Rates Task Force (Task Force), appointed by the Board of Public Utilities (Board), to provide rate recommendations for the existing WA-3 Irrigation Metered Service (WA-3) and WA-9 Grove Preservation Service (WA-9) water rates. The City Council approved five-year water rate increases for all other customers, effective July 1, 2018. The City Council approved no increase to the rates for the WA-3 and the WA-9 customers, while the Task Force met to consider rate

alternatives.

The Board appointed a Task Force of 16 community members and stakeholders, including current customers that are WA-3 and WA-9 water rate customers. The Task Force met for 13 months and proposed an agricultural water rate.

The Task Force presented its final rate recommendation to the Board and the City Council on May 21, 2019 and June 25, 2019, respectively. Both the Board and the City Council unanimously received and filed the presentation by the Task Force and directed staff to develop a financial impact analysis of the rate proposal and to use available existing published data to establish the water allocation for the agricultural water rate proposal. The Board also directed staff to estimate the fiscal impact of the rate freeze for WA-3 and WA-9 customers, and to prepare a revised rate proposal that establishes a true budget-based rate, where indoor use is charged as the first tier of use (WA-1A Tier one), the agricultural rate is the second tier of use, and the third and fourth tiers of use cover all use that exceeds agricultural use (WA-1A tiers two and three). The City Council directed staff to present the final rate proposal to the City Council for final adoption by October 1, 2019; to use existing University of California Riverside data on crop factors; to allow several adjoining properties to amalgamate to qualify for the agricultural water rate; and to create a Task Force to explore other ongoing opportunities.

On August 26, 2019, staff presented the proposed WA-12 Agricultural Service (WA-12) water rate schedule to the Board. After receiving public input, the Board conceptually approved the proposed WA-12 rate schedule with a specific irrigation efficiency factor of 85% in the agricultural water allocation formula. Documents from the August 26, 2019 Board Meeting and the public hearing notice mailed to water customers is available online at <http://www.riversidepublicutilities.com/about-rpu/board-public-hearings.asp>.

## **DISCUSSION:**

The WA-12 water rate schedule is the proposed water rate resulting from the efforts of the Task Force, as modified by staff to comply with Prop 218. This water rate schedule reflects all of the recommendations made by the Task Force, direction from both City Council and Board, along with additional staff modifications to facilitate its implementation.

### **How WA-12 Water Rate is Different from the WA-3 and WA-9 Water Rates**

The existing WA-3 Irrigation Metered Service and WA-9 Grove Preservation Service water rate schedules apply to qualifying properties that meet the agricultural requirements of each rate. Under the WA-3 and the WA-9 water rates, the customer's monthly usage is applied to the rate, regardless if the water is used for agriculture or household and ornamental landscape uses. The water utility does not collect all costs to serve these customers, and subsidizes the shortfall with non-rate revenue.

The WA-12 water rate provides a reduced water rate only for agricultural uses, and household and landscape uses are charged at a cost of service rate. This means that the customers receives an appropriate amount of water based on the efficient irrigation of the qualifying agricultural crops being grown. All other indoor domestic use, outdoor ornamental landscape use (including pools), or inefficient irrigation is designed to be billed at the same rates as WA-1A Single Family Residential Metered Service or WA-6 Commercial and Industrial Metered Service customers. In summary, a water budget allocation will be developed for each customer to serve the agricultural

uses on the property.

#### Monthly Agricultural Water Allocation (Water Allocation)

Because a WA-12 customer will not have separate meters for agricultural uses and all other uses, RPU must estimate the amount of water used for agricultural use. The customer provides, in the Application Form, a description of crops at the service address. Staff will then estimate how much water is needed for those crops, and assign a Water Allocation.

The Water Allocation is calculated by using a formula that considers: (1) Riverside's climate (ET<sub>o</sub>), (2) the needs of various groupings of crops (K<sub>c</sub>), (3) the planted area of qualifying agriculture (IA), and (4) irrigation efficiency (IE).

The four (4) K<sub>c</sub> factors to be used in the Water Allocation calculation were developed for the crop groupings shown below.

<b>Crop Factor (K<sub>c</sub>)</b>	<b>Crop Grouping</b>
0.45	Immature trees (first 5 planted years)
0.53	Grape vines and row crops
0.69	Citrus, avocado, fruit/nut trees, nursery stock
0.89	Pasture with qualifying livestock

The Water Allocation calculation also includes a water Irrigation efficiency (IE) factor that accounts for factors such as distribution uniformity, irrigation runoff, deep percolation, water management, and evaporation losses prior to water entering the soil. At the August 26, 2019 Board meeting, the Board directed staff to include an Irrigation Efficiency value of 85% to the Water Allocation calculation. Staff did so, and the proposed WA-12 water rate schedule now includes the Irrigation Efficiency value of 85%.

Customers who also receive water from the Gage Canal Company (Gage) as current Gage shareholders, or customers receiving water from Gage under the Utilities' WA-8 rate, shall have that amount of water reduced from the Water Allocation based on actual Gage water received, so as to ensure a property does not receive a double allocation of agricultural water (under WA-12 and from the Gage Canal Company).

#### WA-12 Agricultural Service Tier Structure

The tier structures differ if a residence is located on the property. Of the current 190 WA-3 and WA-9 customers, 169 have a residence on the property. The current number of WA-3 customers has reduced due to customers discontinuing service with RPU.

##### WA-12 (with residence)

Tier 1 – 0 to 9 CCF	Charged equivalent to WA-1A Tier 1
Tier 2 – Water Allocation	Calculated based on water needs of the tree or crop
Tier 3 – up to next 26 CCF > (Tier 1 + Tier 2)	Charged equivalent to WA-1A Tier 2
Tier 4 – All CCF usage > (Tier 1 + Tier 2 + Tier 3)	Charged equivalent to WA-1A Tier 3

##### WA-12 (without residence)

Tier 1 – Water Allocation	Calculated based on water needs of the tree or crop
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Tier 2 – All CCF usage > Tier 1	Charged equivalent to WA-6
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Prop 218 and New Customer Program Limit

As part of the Five (5) Year Water Rate plan, RPU studied the existing 197 customers on WA-3 and WA-9, and estimated that the utility was under collecting the costs to service these customers by approximately \$684,000. Prop 218 requires that only costs necessary to provide service be included in water rates. To comply with Prop 218, RPU offset the under collection with non-rate revenue. All other non-rate revenue was allocated to other customer classes to reduce rate increases.

In addition, the Task Force proposal opened the rate to all properties within the RPU service territory that are at least one-half acre. (The WA-3 rate is closed to new customers and the WA-9 rate is restricted to the City's Greenbelt area except for qualifying parcels over five (5) acres with a meter that does not serve a residence). Staff estimates that there are approximately 12,800 half-acre parcels in the City's sphere of influence.

All WA-3 and WA-9 customers will transition to the WA-12 water rate schedule, and under the WA-12 Water Allocation methodology, the under collection will decrease because water used for household needs and non-agricultural outdoor needs will be billed at the appropriate rate.

Under the proposed WA-12 and as requested by the Task Force, new agricultural customers may be added to the rate. However, staff is unsure as to how many customers will apply and qualify for WA-12, meaning that the under collection of costs could grow beyond the \$684,000 that is currently offset by non-rate revenue. Staff proposes that WA-12 be limited to \$684,000 of under collection of costs. This means that new customers with qualifying agriculture can qualify for WA-12 until the \$684,000 under collection is reached. When the \$684,000 limit is reached, the General Manager will immediately declare the rate closed to new customers, subject to approval of the Board and the City Council. The rate will remain closed until such time as additional non-rate revenues are established to subsidize the cost to provide WA-12 to new customers. The Board and City Council may, by resolution, identify such additional non-rate revenues and increase the program limit.

Reevaluation of Allocations and Actual Usage

Staff suggests that WA-12 be reevaluated after implementation. Staff will analyze how much water was annually allocated to each customer as compared to their actual historical usage, the level of participation, and the ongoing financial impacts of this rate. This evaluation will be included in the rate review process established by the City Council.

Customer Appeal Process

The appeal process for customers applying for WA-12 will follow the process outlined in Section B of the Water Rules General Provisions. The customer would submit a letter of appeal to the Utilities General Manager. The General Manager's decision could be appealed to the Water Committee upon request of the applicant. The Water Committee's decision could be appealed to the Board of Public Utilities.

WA-9 Grove Preservation Service Closure and Transition

Upon City Council approval of the WA-12 water rate schedule, the WA-9 water rate schedule will be closed to new customers. Existing WA-9 customers, along with existing WA-3 customers, will transition to the WA-12 water rate schedule on January 1, 2020.

### Prop 218 Procedural Compliance

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 cannot implement the proposed water rate increases. The City has provided the appropriate notice and the written protests will be tabulated at the close of the public hearing.

### Next Steps

Close WA-9 Water rate, Grove Preservation Service	October 15, 2019
WA-12 Agricultural Service Application Form mailed to current WA-3 and WA-9 customers and to new agricultural customers upon request	October 21, 2019
WA-12 water rate effective	January 1, 2020
WA-3 and WA-9 customers transition to WA-12 water rate	January 1, 2020

### **FISCAL IMPACT:**

Staff is unable to estimate the first full year of under collection of costs, because the number of new customers that will apply and qualify for the new rate is unknown. Originally, staff had estimated that the first full year of under collection of costs from the current 190 WA-3 and WA-9 customers would decrease from \$684,000 to \$271,000 when these customers transition to WA-12. With the 85% irrigation efficiency, the estimated first full year of under collection of costs will increase slightly from \$271,000 to approximately \$308,000. There will be a one-time cost of \$27,500 with annual maintenance of \$1,900 to add WA-12 to the City's billing system.

Prepared by: Todd M. Corbin, Utilities General Manager  
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availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer  
Approved by: Al Zelinka, FAICP, City Manager  
Approved as to form: Gary G. Geuss, City Attorney

### Attachments:

1. Board Resolution
2. City Council Resolution
3. Proposed WA-12 Agricultural Service Rate Schedule
4. Recommended Water Schedules WA-3 Irrigation Metered Service and WA-9 Grove Preservation Service (redlined).
5. WA-12 Agricultural Service Application Form
6. Revised WA-12 Monthly CCF Water Allocation Calculator
7. Revised Fiscal Impact Summary and Impacts of Current WA-3 and WA-9 Customers and Projected New WA-12 Customers Under Program Limit
8. Prop 218 Notice of Public Hearing
9. Presentation
10. Notice of Public Hearing