



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JUNE 15, 2021**
FROM: PUBLIC UTILITIES DEPARTMENT **WARDS: ALL**
SUBJECT: IMPLEMENTATION OF THE THIRD YEAR OF THE ELECTRIC RATE PLAN

ISSUE:

Receive a report on utility customer delinquency rates and consider implementing the third year of the electric rate plan, originally approved for January 1, 2021.

RECOMMENDATIONS:

That the City Council:

1. Receive a report on utility customer delinquency rates; and
2. Implement the Third Year of the Electric Rate Plan (originally scheduled for January 2021) in the approved amount of 3.0% to become effective July 1, 2021;

Or

3. Direct the City Manager to establish the date on which to implement the third year of the electric rate plan (originally scheduled for January 2021), and forward that recommendation to the Board of Public Utilities per Charter Section 1202, (e) for consideration and ratification before implementation.

BOARD RECOMMENDATION:

On April 19, 2021, the Board of Public Utilities unanimously voted to receive the report on utility year-to-date revenues and customer delinquency and to approve delaying the implementation of the Third Year of the Electric Rate Plan to no later than July 1, 2021, with an estimated electric fund revenue reduction of \$4.4 million to meet fiscal year 2021/2022 budget assumptions.

BACKGROUND:

Strategic Plan Alignment

On September 15, 2020, the City Council gave preliminary approval of the Riverside 2025 Vision

Statement, Cross-Cutting Threads, Strategic Priorities, Indicators and Goals for the Envision Riverside 2025 Strategic Plan. The final Strategic Plan was approved by the City Council on October 20, 2020 and can be located online at <https://www.riversideca.gov/citymanager/strategic-plan-2025>

The Riverside Public Utilities Fiscal Policies are aligned with the City Council's Strategic Plan 2025 Cross-Cutting Thread themes for:

Fiscal Responsibility - Riverside is a prudent steward of public funds and ensures responsible management of the City's financial resources while providing quality public services to all.

Sustainability and Resiliency - Riverside is committed to meeting the needs of the present without compromising the needs of the future and ensuring the City's capacity to persevere, adapt and grow during good and difficult times alike.

RPU's Fiscal Policies also support the following City Council Strategic Plan 2025 priorities of:

High Performing Government:

Goal 5.4. Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.

Infrastructure, Mobility & Connectivity:

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 Riverside Public Utilities Department (RPU) is responsible for the management of the City-owned water and electric utilities. RPU provides high quality and reliable services to over 111,000 metered electric customers and approximately 66,000 metered water customers throughout the City of Riverside. The electric and water utility funds are self-supporting enterprise funds that provide services for a fee. The Board of Public Utilities (Board) has the authority to adopt, and the City Council has the authority to approve rate changes when necessary to ensure the continued recovery of costs for services and to secure reinvestment into the system infrastructure for long-term sustainability.

On May 14, 2018, the Board conducted a public hearing to receive public input related to the water and electric utility five-year rate proposal. With all members present, the Board unanimously recommended that the City Council approve the 2018-2023 Electric and Water Rules and Rates.

On May 22, 2018, the City Council approved the proposed utility rates with water rate increases effective July 1, 2018 and electric rate increases effective January 1, 2019. Additionally, the City Council directed staff to provide an annual review of the adopted rates.

The Board and City Council received the first annual electric and water utility rate plan update for Fiscal Year (FY) 2018-19 on January 13, 2020 and February 11, 2020. The annual rate plan update outlined information about the operating performance, financial condition, and capital improvement projects of RPU for the FY 2018-19.

On December 22, 2020, the Board, with three members absent, unanimously voted to receive the annual electric and water utility rate plan update for the results of Fiscal Year 2019-20 and

recommended the City Council direct the City Manager to delay the implementation of the third year of the electric rate plan until March 31, 2021.

On January 5, 2021, the City Council, unanimously voted to receive the annual electric and water utility rate plan update for the results of Fiscal Year 2019-20 and directed the City Manager to delay the implementation of the third year of the electric rate plan until March 31, 2021. During this meeting, City Council members directed staff to return with a discussion on utility accounts delinquency information and the implementation of the third year of the electric rate plan in March 2021.

On March 23, 2021, City Council voted with six ayes and one no, to receive and file a report on utility customer account delinquencies; and refer to the Board of Public Utilities for recommendation on the implementation of a restructured three percent increase of the electric rate plan, per Charter Section 1202(e).

DISCUSSION:

Electric Fund

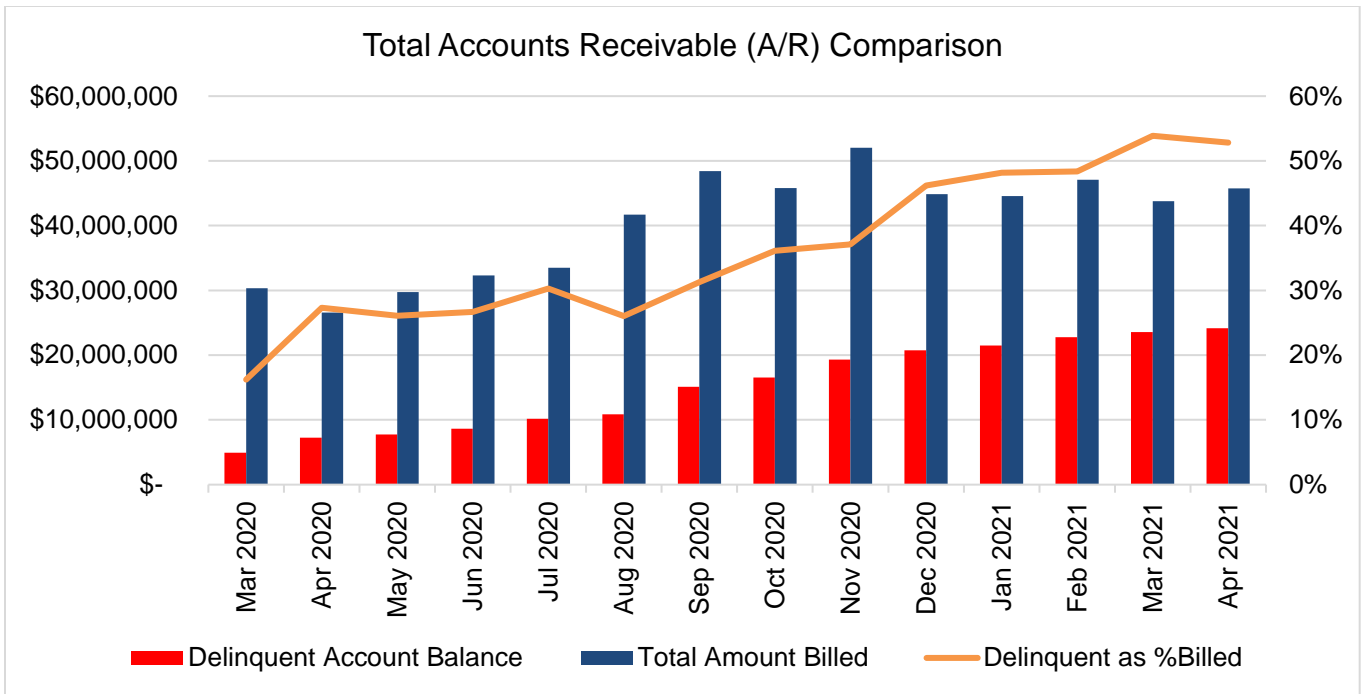
The Electric Utility maintains and operates 99 circuit miles of transmission lines, 1,351 circuit miles of distribution lines, 14 substations, and three (3) generating plants totaling 270 megawatts. Charges for service through rates are the primary source of funding for operations and funds a portion of the capital improvement program. The capital improvement program is funded by a combination of bond proceeds, rates, reserves, and developer fees.

Electric rates for customers are comprised of a fixed monthly customer charge, a reliability charge based on the customers' energy consumed or service plan size, a network access charge, a commercial demand charge, and energy charges that are based on the quantity of energy consumed by the user.

Account Delinquency Rates

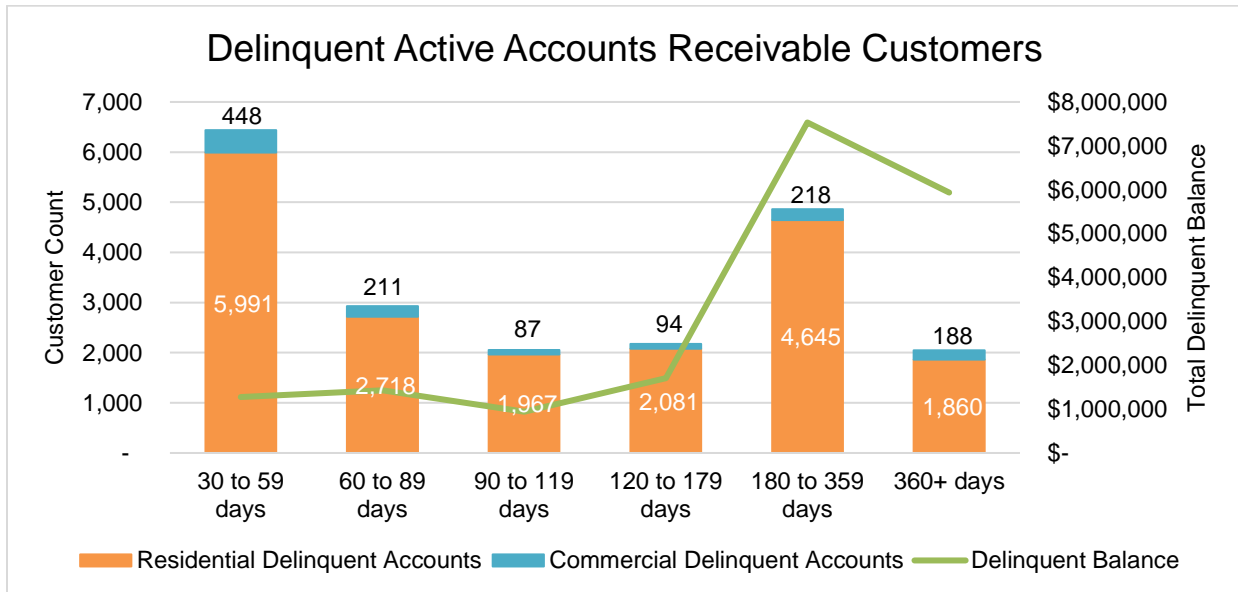
Since the COVID-19 Local Emergency Declaration, the City has experienced significant increases in utility customer accounts receivable. This includes increases in delinquent account balances and the number of utility accounts that have become delinquent.

The charts below include account information through April 27, 2021. Accounts receivable for all services including electric, water, sewer, and refuse have increased by 51% or \$15.4 million from \$30.3 million in March 2020 to \$45.7 million on April 27, 2021. During the same period, delinquent accounts receivable has increased 391% or \$19.2 million from \$4.9 million in March 2020 to \$24.1 million on April 27, 2021.



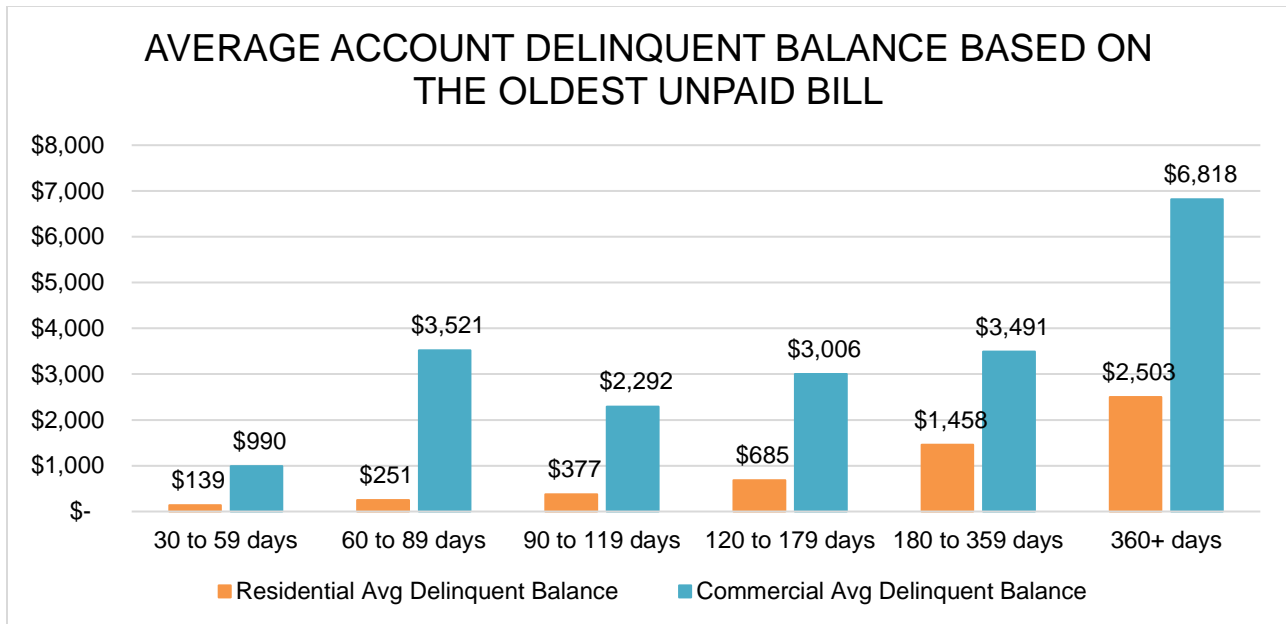
Notes: 1. Delinquent Account Balance includes active & inactive accounts.
 2. Updated through April 27, 2021 for electric, water, sewer, and refuse.

The next chart demonstrates the number of active customers based on the oldest unpaid utility bill:



Note: Updated through April 27, 2021 for electric, water, sewer, and refuse.

The average total unpaid utility account balance for each customer grouped by the oldest unpaid bill on the active account is calculated in the below table.



Note: Updated through April 27, 2021 for electric, water, sewer, and refuse.

Customer Benefit Programs

In addition to the recent Federal program for Emergency Rental and Utility Assistance, RPU provides low-income customer utility assistance and an emergency bill credit for customers that have experienced financial impacts due to COVID:

SHARE Sharing Households Assist Riverside Energy Program

This program is an income-qualified program (200% Federal Poverty Guidelines) and provides emergency/ deposit and monthly bill credit assistance. On March 8, 2021, and March 22, 2021, the Board and City Council respectively approved the SHARE emergency/deposit assistance increase from \$150 to \$250.

ERAP Emergency Recovery Assistance Program

This program was established in response to the COVID pandemic and a \$400 bill credit assistance for residential customers whose incomes have been negatively impacted due to the pandemic. This program has been approved to expire three months after the local emergency has been terminated. From May 20,2020 to the date of this report, 4,699 customer accounts have benefitted with a total value of \$1,879,600.

Emergency Rental Assistance Program

This program was established through funding provided by the United States Treasury to pay the past due rent and utility balances to low-income residents whose incomes were negatively affected due to the pandemic. Program funds were exhausted April 16, 2021 and is now administered through United Lift. During the duration of the program, 59 customer utility accounts have benefitted with a total value of \$60,346.

Rate Plan

RPU implemented the second year of the water rate plan on July 1, 2019, and the second year of the electric rate plan on January 1, 2020. The five-year annual rate plan is listed on the chart below.

		Years 1-5	
Electric	January 2019		2.95%
	January 2020		3.0%
	January 2021		3.0%
	January 2022		3.0%
	January 2023		3.0%
Water	July 2018		4.50%
	July 2019		5.75%
	July 2020		5.75%
	July 2021		5.75%
	July 2022		6.50%

Based on system average, rate increases vary by customer class and consumption levels.

In the second year of the electric plan, effective January 1, 2020, the average residential customer experienced an additional monthly cost of \$3.08 for electric service. In the third year of the electric plan, not yet implemented, the average residential customer is estimated to experience an additional \$3.22 per month for electric service.

Current Electric Rate Implementation

On March 23, 2021, City Council voted with six ayes and one no to receive and file a report on utility customer account delinquencies; and refer to the Board of Public Utilities for recommendation on the implementation of a restructured three percent increase of the electric rate plan, per Charter Section 1202(e). Different options were discussed as an alternative to the annual three percent increase, including consideration of a two percent increase now and a four percent increase later.

The third year of the electric rate plan was adopted and approved after an extensive public hearing and approval process. If the Board and City Council wish to change the amount of the rate increase for the third year of the electric rate plan, a new rate for the third year of the plan will need to be adopted. Adoption of a new rate would require a public hearing and approval by both the Board and City Council. A delay of the currently adopted and approved rate is not the adoption of a new rate but does require Board and Council approval; a public hearing is not required for a delay in implementation. The Board upon reconsideration of the recommendation from the City Council elected to adopt an implementation of the third year of the rate plan date of July 1, 2021. There are two provisions of the City Charter, as approved voters, which require both Board and Council approval for the delay of implementation of an approved rate. First, Section 1202(b) provides that any “diminution” to the public utility system in excess of \$50,000 must be approved by the Board. Because the impact of the delay in the implementation of the rate increase is in excess of \$50,000 (a “diminution”), both Board and Council approval is required. Second, Section 1202(e) requires that rates must be approved by both Board and Council. Here, the Council could only rescind its approval of the rate plan. Per the Council rules, the time for rescission of that approval has expired.

Potential Mitigation

The fiscal impact of delaying the third year of the electric rate plan from January 1, 2021 to June 30, 2021, is estimated at \$4.4M revenue reduction for the electric fund. The attached presentation includes the current cash reserve balance for the electric fund. Also included is the electric infrastructure projects that were approved to be partially funded by the five-year rate plan.

FISCAL IMPACT:

The fiscal impact of delaying the implementation of the third year of the electric rate plan until March 31, 2021 is an estimated \$2.1 million reduction in utility revenues in FY 2020/21, an estimated \$114,000 reduction in General Fund Utility Tax Revenue in FY 2020/21, and an estimated \$241,500 reduction in the General Fund Transfer in FY 2021/22.

The additional delay in the implementation of the third year of the electric rate plan through June 30, 2021, with an effective date of July 1, 2021, is an estimated \$2.3 million additional reduction in utility revenues in FY 2020/21, an estimated \$125,000 additional reduction in General Fund Utility Tax Revenue in FY 2020/21, and an estimated \$266,000 additional reduction in the General Fund Transfer in FY 2021/22.

Further delays also reduce Electric Fund Reserves greater than projected in the approved rate plan.

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Approved by: Al Zelinka, FAICP, City Manager
Approved as to form: Kristi J. Smith, Interim City Attorney

Attachment: Presentation