



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: JULY 22, 2024

SUBJECT: UPDATE ON ADMINISTRATIVE CHARGES IN THE WATER CONSERVATION SURCHARGE FUND

ISSUE:

Consider receiving an update on the administrative charges in the Water Conservation Surcharge Fund.

RECOMMENDATION:

That the Board of Public Utilities receive an update on the administrative charges in the Water Conservation Surcharge Fund.

LEGISLATIVE HISTORY:

On May 24, 2022, the State Water Resources Control Board (SWRCB) adopted an emergency water conservation regulation to ensure water purveyors adopted more aggressive conservation measures across the state due to the drought. The regulation required all urban water suppliers to implement conservation actions under Level two (2) of their Water Shortage Contingency Plans. With abundant precipitation and snowpack in California starting in late 2022 and continuing into early 2023, California Governor Newsom on March 24, 2023, rescinded the conservation requirements and rolled back the call for voluntary conservation. As a result of the rescinded requirements, the Department of Water Resources (DWR) has announced the 100% delivery of requested water through the State Water Project.

On October 13, 2023, Assembly Bill AB 1572 was adopted by the State Legislature. The goal of the legislation is to prevent the use of potable water for irrigating nonfunctional turf (decorative grass). The Bill specifically prohibits potable water for the irrigation of nonfunctional turf on commercial, industrial, and institutional properties (CII), as well as on properties of homeowners' associations, common interest developments, and community service organizations or similar entities. In addition, AB 1572 establishes implementation dates by different types of organizations beginning in January 2027, starting with local governments, local or regional public agencies and public water systems; full implementation is expected by January 2031.

BACKGROUND:

Water Conservation Surcharge

On May 6, 2004, the Board of Public Utilities held a public hearing to present the Water Conservation Surcharge and provide written and verbal comments from customers. On May 14, 2004, the Board approved the Water Conservation Surcharge and adopted Board Resolution 2004-02 to adopt and establish the water conservation and reclamation surcharge. The charge was approved at one-half of a percent (0.5%) effective June 1, 2004, another one-half of a percent (0.5%) effective June 1, 2005, and a final additional one-half of a percent (0.5%) effective June 1, 2006, for a total of one- and one-half percent (1.5%) of total water rates and charges, through May 31, 2014. Approval of the surcharge included restrictions on the use of the funds:

1. Water conservation and reclamation education programs;
2. Water conservation and reclamation programs;
3. Science and technology advancement of water conservation and reclamation research, development and demonstration programs;
4. Water conservation and reclamation assistance for low-income customers in the City; and
5. Other programs consistent with the Board's water conservation and reclamations goals and objectives.

On May 25, 2004, City Council approved the Water Conservation program, adopting Resolution No. 20695, for the same one-half percent (0.5%) surcharge amounts and effective dates for a total of one- and one-half percent (1.5%) of the total retail water usage-based rates and charges, effective through May 31, 2014. Approval of the surcharge included the restricted use of the fund to be expended on such water conservation and reclamation programs recommended by the Board and approved by City Council.

On March 21, 2014, the Board conducted a public hearing to receive input on the renewal of the Water Conservation Charge and to eliminate the expiration date of the surcharge. At the meeting, the renewal of the program was approved by Board Resolution 2014-01 at the one- and one-half percent (1.5%) for a period of ten years following City Council approval of the renewal. The surcharge restrictions were modified from the original program to be used for only:

1. Conservation, education, and water use efficiency programs; and
2. Research, development, and demonstration programs to advance science and technology with respect to water conservation.

On April 22, 2014, City Council approved the renewal of the Water Conservation Surcharge, adopting Resolution No. 22675, for the one- and one-half percent (1.5%) for a period of ten years or April 22, 2024.

On January 22, 2024, the Board conducted a public hearing to receive input on the renewal of the Water Conservation Charge. At the meeting, the renewal of the program was approved by Board Resolution 2024-1 at one- and one-half percent (1.5%) for a period of ten years or April 22, 2034.

On April 16, 2024, continued from March 19, 2024, the City Council conducted a public hearing and received a report on the renewal of the Water Conservation Surcharge. City voted to discontinue the Water Conservation Surcharge and continue the Water Conservation Surcharge program until all funds are expended. During the vote discussion, there was a request for RPU to provide an analysis of the administrative costs incurred in the Water Conservation Fund.

DISCUSSION:

On April 16, 2024, the City Council conducted a public hearing and received a report on the renewal of the Water Conservation Surcharge, but it decided not to approve the renewal. During the discussion, a motion was made for RPU to analyze the administrative costs incurred in the Water Conservation Fund. While the motion to approve the Water Conservation Surcharge was not approved at the City Council meeting, this report provides information on the administrative costs in the Fund.

Water Conservation Surcharge Benefits

The conservation programs and efforts are funded solely through the Water Conservation Surcharge. RPU has expended over \$13 million dollars and leveraged an additional \$5.2 million dollars in conservation program funding from Western Municipal Water District and the Metropolitan Water District of Southern California (WMD). Since the 2014 renewal of the Water Conservation Surcharge, RPU has received funding from Western Municipal Water District to administer programs such as Multi-family High Efficiency Toilet Direct Installation Program, FreeSprinklerNozzles.com and reimbursement for Weather Based Irrigation Controllers installed via the RPU Smart Irrigation Program.

During the 2014/15 drought in Southern California, MWD allocated \$3.5 million to RPU to enhance the RPU WaterWise Landscape Program. Since 2018, all RPU water rebate programs are administered by MWD's SoCalWaterSmart.com. RPU utilizes funding from the Water Conservation Surcharge to enhance the incentive level of certain water rebates that are deemed to show the best benefit for the City. The increased incentive provided by the Water Conservation Surcharge allowed RPU to offer \$5 per square of turf removed and has inspired other water districts to emulate the RPU incentive.

Since its adoption in 2004, the Water Conservation Surcharge has funded programs that have resulted in providing 61,318 customer rebates for water efficiency measures with a combined lifetime water savings of 13.4 billion gallons of water. The surcharge funded programs have helped customers save water and allowed RPU to meet state mandated water conservation targets while continuing to be a responsible environmental steward of water resources.

Lifetime Conservation Fund Activity

The April 16, 2024, City Council report included the financial details of funding in the Water Conservation Fund for the entirety of the Fund.

Fiscal Year	Surcharge Collected	Other Credits from WMWD, Interest Earned, GASB 68 & 75	Program Costs	Administrative Costs	Fund Balance
FY 04-05	\$152,913	\$2,576	\$2,029	\$22,098	
FY 05-06	\$377,485	\$56,249	\$187,013	\$40,875	\$131,362
FY 06-07	\$661,411	\$75,452	\$165,953	\$55,205	\$337,208
FY 07-08	\$703,051	\$122,216	\$140,197	\$143,821	\$852,913
FY 08-09	\$758,930	\$175,501	\$302,096	\$138,935	\$1,394,162
FY 09-10	\$781,026	\$55,955	\$265,024	\$293,673	\$1,887,562
FY 10-11	\$839,978	\$57,666	\$376,519	\$371,389	\$2,165,846
FY 11-12	\$907,722	\$20,182	\$527,696	\$397,089	\$2,315,582
FY 12-13	\$942,273	\$105,138	\$637,147	\$441,470	\$2,318,701
FY 13-14	\$954,477	\$92,368	\$471,428	\$364,236	\$2,287,495
FY 14-15	\$869,087	\$4,230,182	\$5,068,628	\$365,838	\$2,498,676
FY 15-16	\$754,834	\$1,283,677	\$1,580,118	\$396,340	\$2,163,479
FY 16-17	\$820,655	\$298,192	\$911,528	\$423,196	\$2,225,532
FY 17-18	\$875,328	\$76,754	\$483,697	\$431,095	\$2,009,655
FY 18-19	\$866,493	\$76,067	\$260,744	\$489,510	\$2,046,945
FY 19-20	\$931,938	\$351,409	\$228,467	\$391,632	\$2,239,251
FY 20-21	\$1,063,420	\$3,232	\$295,117	\$510,276	\$2,902,499
FY 21-22	\$1,091,280	\$(91,003)	\$214,711	\$518,135	\$3,163,758
FY 22-23	\$1,047,271	\$42,895	\$485,165	\$491,645	\$3,431,189
	\$15,399,572	\$7,034,708	\$12,603,277	\$6,286,458	

GASB 68 Accounting and Financial Reporting for Pensions non-cash adjustment. GASB 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions non-cash adjustment.

During the review of the direct charges, staff identified that in Fiscal Years 20-21 through 23-24, the Direct Costs from the Office of Communications were allocated to only the Customer Engagement Division instead of all of RPU. As the Customer Engagement Division is allocated to the Electric Fund, the Water Fund, the Electric Public Benefits Fund, and the Water Conservation Fund, a disproportionate amount of costs were charged to the Electric Public Benefits Fund and the Water Conservation Fund. A corrective journal entry was done in June 2024 and will be reflected as a Fiscal Year 23-24 entry to correct the allocations and is reflected in both the table above with details in the table below:

Fiscal Year	Amount returned to the Water Conservation Fund
FY 20-21	\$48,954
FY 21-22	\$50,876
FY 22-23	\$54,656
Total	\$154,486

Administrative Costs for the Program	
Prior to corrective action	\$6,286,458
Amount returned	(\$154,486)
Corrected Total Admin Charges	\$6,131,972

The analysis requested is for the administrative costs from the beginning of the surcharge collection. The table below includes the audited actual administrative expenses by category:

1. The number of full-time equivalent (FTE) RPU personnel members dedicated to serving the Water Conservation Programs, Education, and collateral development.
 - a. FTEs are based on the number of positions authorized.
 - b. Beginning in FY 20-21, FTEs are estimated based on the allocation of total authorized Customer Engagement FTEs, and the costs of these positions are included in Charges from other RPU Funds.
2. Direct charge of positions: Positions housed in other funds are dedicated, either in full or in part, to RPU support, and the proportional cost of each position is directly charged to RPU funds.
3. Non-personnel includes some small programming expenses in addition to educational and office supplies.
4. Bad Debt is Water Conservation accounting for the utility accounts that were written off due to uncollected debt.
5. Citywide cost allocation plan: Charges from the City's General Fund internal service departments to recipient funds.
6. Charges to and from other RPU funds are RPU overhead costs for labor and building occupancy related expenses.

Fiscal Year	FTEs in Water Programs	Direct Charges for Personnel	Non-Personnel	Bad Debt	Cost Allocation Charges	Charges to and from other RPU Funds	Total
FY 04-05	0	\$0	\$22,098	\$0	\$0	\$0	\$22,098
FY 05-06	0	\$0	\$28,218	\$2,054	\$10,603	\$0	\$40,875
FY 06-07	0	\$0	\$37,697	\$580	\$16,928	\$0	\$55,205
FY 07-08	0	\$0	\$66,578	\$2,750	\$74,492	\$0	\$143,820
FY 08-09	0	\$1,303	\$101,867	\$2,604	\$33,583	\$(422)	\$138,935
FY 09-10	1.65	\$103,651	\$68,159	\$2,838	\$95,975	\$23,051	\$293,673
FY 10-11	2.65	\$150,525	\$75,801	\$1,532	\$129,418	\$14,113	\$371,389
FY 11-12	2.65	\$223,145	\$34,784	\$2,030	\$122,358	\$14,772	\$397,089
FY 12-13	2.65	\$235,514	\$33,714	\$1,719	\$139,279	\$31,245	\$441,470
FY 13-14	2.65	\$172,100	\$47,962	\$1,029	\$106,246	\$36,898	\$364,236
FY 14-15	2.65	\$208,924	\$79,742	\$1,929	\$32,528	\$42,715	\$365,838
FY 15-16	2.65	\$196,714	\$132,375	\$1,553	\$25,285	\$40,413	\$396,340
FY 16-17	2.65	\$189,685	\$77,292	\$2,949	\$107,895	\$45,375	\$423,196
FY 17-18	2.65	\$239,133	\$56,550	\$1,362	\$98,478	\$35,573	\$431,095
FY 18-19	2.65	\$330,910	\$32,255	\$1,743	\$92,038	\$32,564	\$489,510
FY 19-20	2.65	\$163,735	\$88,816	\$5,511	\$101,071	\$32,499	\$391,632
FY 20-21	3.30	\$(6,238)	\$0	\$1,677	\$43,227	*\$422,657	\$461,322
FY 21-22	3.30	\$0	\$3	\$6,972	\$22,888	*\$437,395	\$467,259
FY 22-23	3.30	\$0	\$0	\$(2,204)	\$11,784	*\$427,409	\$436,989
Subtotal		\$2,209,102	\$983,911	\$38,628	\$1,264,075	*\$1,636,257	\$6,131,972
Total for Administrative Charges		* \$6,131,972					

**Includes the corrections for the respective Fiscal Years from the Office of Communications Charges, the audited financial statement will adjust FY 23-24.*

The Water Conservation Fund is presented to the Board and City Council for each budget year. The details of RPU's water efficiency program activities are included in the attached General Manager Report presented to the Board on July 8, 2024. All administrative charges will continue to be evaluated for opportunities to direct more dollars to program costs.

STRATEGIC PLAN ALIGNMENT:

This report aligns with Strategic Priority No. 5 - High Performing Government, and Goal 5.3 Enhance communication and collaboration with community members to improve transparency, build public trust, and encourage shared decision-making.

This item aligns with each of the five Cross-Cutting Threads as follows:

- Community Trust** – The report's analysis reflects the City's dedication to sound policy and the use of reliable information for the greater public good.
- Equity** – The report provides equal access to the details on the administrative costs charged to the Water Conservation fund.

3. **Fiscal Responsibility** – Staff's continuous evaluation, improvement, and budgeting strategies align with industry best practices demonstrate dedication to fair and accurate distribution of costs.
4. **Innovation** – Staff's dedication to continuous improvement and conformity with industry-wide best practices demonstrates innovation in meeting the City's changing needs.
5. **Sustainability & Resiliency** – The Water Conservation Surcharge Administrative cost update allows for a transparent method of providing cost details to the community without compromising the needs of the future.

FISCAL IMPACT:

There is no total fiscal impact for receiving this informational update.

Approved by: David A. Garcia, Interim Utilities General Manager
Certified as to availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by: Rafael Guzman, Assistant City Manager
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. May 2024 General Manager Report presented to the Board of Public Utilities on July 8, 2024
2. Presentation