

Draft Report

Water and Wastewater Rates: Consumer Price Index Adjustment

Draft

City of Rialto, CA



August 2019

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DRAFT

Water and Wastewater Rates: Consumer Price Index Adjustment

Prepared for
City of Rialto
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Rialto, CA 92376
August 2019

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List of Abbreviations

CCF and HCF	Hundred Cubic Feet
CPI	Consumer Price Index
CPI-U	Consumer Price Index for All Urban Consumers
CVWD	Cucamonga Valley Water District
DIF	Development Impact Fee
FIP	Facilities Improvement Plan or Facilities Improvement Project
FOG	Fats, Oils, and Grease
FG Solutions	FG Solutions, LLC
FY	fiscal year (July 1–June 30)
IEUA	Inland Empire Utilities Agency
OR&R	Operating Repair and Replacement
PUC	Public Utilities Commission
R&R	Repair and Replacement
RUA	Rialto Utility Authority
RWS	Rialto Water Services
SBMWD	San Bernardino Municipal Water Department
SCADA	Supervisory Control and Data Acquisition
TSS	Total Suspended Solids
WWTP	Wastewater Treatment Plant
WWWD	West Valley Water District

Executive Summary

The City of Rialto (“City”) provides water and wastewater services to residences and businesses in the City limits. The wastewater service area is approximately the entire City limits with additional service outside the City limits from portions of Fontana and Bloomington. The water service area is approximately the central portion of the City. The City provides these services through the Rialto Utility Authority (“RUA”).

In 2012, the City entered into a Concession Agreement with Rialto Water Services (“RWS”), where RWS operates the water and wastewater system. Additionally, RWS is responsible for capital project delivery and in the first five years of the Concession Agreement, capital project financing.

The Concession Agreement outlines the roles and responsibilities of each party. The City retains the responsibility to set water and wastewater rates. In 2012, the City adopted a five-year schedule of rates through a process compliant with Proposition 218. Water and wastewater rates were last increased on January 1, 2018.

As part of its ongoing responsibility to provide safe and reliable water and wastewater service as the owner of the water and wastewater systems, the City has determined the need to evaluate the utility’s future financial needs. Because of the ongoing financial needs of the water and wastewater utilities, the City is proposing a series of increases to water and wastewater rates in amounts that approximate changes in the Consumer Price Index (“CPI”).

Separate analyses were completed for the City’s water and wastewater systems. The methodology used to generate the proposed CPI increases is based on meeting the cash needs of each utility. It consists of:

- Projecting expenses over the five-year period beginning in FY 19/20 and ending in FY 23/24.
- Projecting rate revenues under the current rate structure.
- Projecting revenues from sources other than rates, examples of which Development Impact Fees, interest income, delinquent utility service fees, rental income, and grants.
- Projecting the amount of revenue from CPI increases to water and wastewater rates.

The most significant assumptions include the following:

- The majority of projected revenues and expenses are based on the City’s FY 19/20 Budget. The City’s FY 19/20 Budget was in turn based on factors including known contractual requirements, projected work needs, and recent historical expenses.
- Most expenses escalated for inflation at 3.0 percent per year. A 3.0 percent inflation rate is based on an April 2019 projection issued by the California Department of Finance for the Riverside area that averages 3.0 percent per year from FY 19/20 through FY 21/22.
- A 1% annual system growth rate.
- CPI increases through FY 23/24. The formulas that will be used to define the CPI increases are shown below.
- CPI increases effective on January 1 of 2020, 2021, 2022, 2023, and 2024.
- Water use will remain at levels observed in FY 17/18 and FY 18/19. Water use decreased substantially from 2013 to 2015 as a result of the drought. Since that time, water use has partially rebounded, but no further increases in water use are projected. Conversely, factors which could decrease water use (such as a return to drought conditions or wet weather which decreases outdoor water use) are not projected for the purposes of this analysis.

On an ongoing basis, the City completes capital improvements that are necessary to continue to provide safe and reliable water and wastewater service. In this analysis, capital improvement spending is limited to projects identified

in the City's proposed Fiscal Year ("FY") 19/20 budget. This is because the City has not yet approved a set of future capital improvements beyond what is included in the FY 19/20 budget. Instead, the financial calculations contained in this report project the amount of the City's utility reserves that could be used to fund future capital improvements, if the City chooses to do so.

Although the total cost of future capital improvements through FY 23/24 is not yet known, wastewater system revenues and reserves are anticipated to be sufficient to cover future capital improvements through FY 23/24. There are less water system reserves available, and the City will prioritize capital spending with available reserves in mind. The City also has the option of holding reserves to cover the cost of emergency repairs in the event they are needed to address emergencies.

The proposed water rates to become effective on January 1, 2020 are based on the following formula:

- $1/1/20 \text{ Rate} = \text{Current Rate} * \text{May 2019 Riverside CPI-U Value} / \text{May 2018 Riverside CPI-U Value}$, where:
 - CPI-U is the Consumer Price Index for All Urban Consumers for the Riverside area, published bi-monthly by the U.S. Department of Labor, Bureau of Labor Statistics
 - Riverside CPI-U Value from May 2019 = 105.959
 - Riverside CPI-U Value from May 2018 = 102.929
 - % Increase = 2.944% ($2.944\% = 105.959/102.929 - 1$)

Water rates in subsequent years will be defined by the following formula:

- $\text{New Rate} = \text{Previous Rate} * \text{Most Recent September Riverside CPI-U Value} / \text{Previous September Riverside CPI-U Value}$
- For example, the formula for rates to become effective on January 1, 2021 will be:
 - $1/1/21 \text{ Rate} = 1/1/20 \text{ Rate} * \text{September 2020 Riverside CPI-U Value} / \text{September 2019 Riverside CPI-U Value}$

Table ES-1 shows proposed and projected water rates. The rates that will become effective on 1/1/20 are known, and are shown in Table ES-1, labeled "Proposed". The rates that will become effective on 1/1/21 and in subsequent years are not yet known and are labeled "Projected". The projected rates in Table ES-1 are based on a 3.0 annual percent change in the Riverside CPI-U.

Table ES-1. Proposed and Projected Water Rates

Line	Water Rate Component	Current 1/1/2019	Proposed 1/1/2020	1/1/2021	Projected			Unit
					1/1/2022	1/1/2023	1/1/2024	
1	Monthly Minimum Charge							
2	<u>Single Family Residences, Multiple Family Connections, Commercial, Landscape, and Industrial Service Customers</u>							
3	1/2 " & 5/8" meter	\$30.42	\$31.32	\$32.25	\$33.22	\$34.22	\$35.25	per month
4	3/4" meter	\$30.42	\$31.32	\$32.25	\$33.22	\$34.22	\$35.25	per month
5	1" meter	\$44.01	\$45.31	\$46.66	\$48.06	\$49.51	\$50.99	per month
6	1 1/2" meter	\$53.04	\$54.60	\$56.24	\$57.93	\$59.66	\$61.45	per month
7	2" meter	\$152.54	\$157.03	\$161.74	\$166.59	\$171.59	\$176.74	per month
8	3" meter	\$324.45	\$334.00	\$344.02	\$354.34	\$364.97	\$375.92	per month
9	4" meter	\$550.59	\$566.80	\$583.80	\$601.32	\$619.36	\$637.94	per month
10	6" meter	\$1,138.62	\$1,172.14	\$1,207.30	\$1,243.52	\$1,280.83	\$1,319.25	per month
11	8" meter	\$1,636.17	\$1,684.34	\$1,734.87	\$1,786.91	\$1,840.52	\$1,895.73	per month
12	Fire Hydrant Water	\$324.45	\$334.00	\$344.02	\$354.34	\$364.97	\$375.92	per month
13								
14	Volume Charge for Monthly Consumption							
15	<u>All Customers Except those Noted Below</u>							
16	1 - 5 Units	\$1.07	\$1.10	\$1.13	\$1.17	\$1.20	\$1.24	per HCF
17	6 - 30 Units	\$1.69	\$1.74	\$1.79	\$1.85	\$1.90	\$1.96	per HCF
18	31 - 60 Units	\$2.70	\$2.78	\$2.86	\$2.95	\$3.04	\$3.13	per HCF
19	61 - Over units	\$3.32	\$3.42	\$3.52	\$3.63	\$3.73	\$3.85	per HCF
20	<u>Multiple Apartments</u>							
21	Over 49 Units and Mobile Homes	\$2.40	\$2.47	\$2.54	\$2.62	\$2.70	\$2.78	per HCF
22	<u>Landscape</u>							
23	1 to 30 Units	\$2.70	\$2.78	\$2.86	\$2.95	\$3.04	\$3.13	per HCF
24	31 and over units	\$3.32	\$3.42	\$3.52	\$3.63	\$3.73	\$3.85	per HCF
25								
26	Fireline							
27	Rate	\$27.91	\$28.73	\$29.59	\$30.48	\$31.40	\$32.34	per inch of line
28	Hydrant							
29	Rate	\$3.33	\$3.43	\$3.53	\$3.64	\$3.75	\$3.86	per HCF
30	Per Day	\$10.81	\$11.13	\$11.46	\$11.81	\$12.16	\$12.52	per day

Table ES-2 shows proposed and projected wastewater rates. The proposed rates to become effective on January 1, 2020 are based on the following formula:

- $1/1/20 \text{ Rate} = \text{Current Rate} * 1.015$

Wastewater rates in subsequent years will be defined by the following formula:

- New Rate = the smaller of:
 - Previous Rate * Most Recent September Riverside CPI-U Value / Previous September Riverside CPI-U Value,
 - Previous Rate * 1.015
- For example, the formula for rates to become effective on January 1, 2021 will be the smaller of:
 - $1/1/21 \text{ Rate} = 1/1/20 \text{ Rate} * \text{September 2020 Riverside CPI-U Value} / \text{September 2019 Riverside CPI-U Value}$
 - $1/1/21 \text{ Rate} = 1/1/20 \text{ Rate} * 1.015$

The rates that will become effective on 1/1/20 are known, are shown in Table ES-2, and are labeled "Proposed". The rates that will become effective on 1/1/21 and in subsequent years are not yet known and are labeled "Projected". The projected rates in Table ES-2 are based on a 1.5 percent annual increases.

Table ES-2. Proposed and Projected Wastewater Rates

Line	Customer Type	Current 1/1/2019	Proposed 1/1/2020	1/1/2021	Projected 1/1/2022	1/1/2023	1/1/2024	Unit
1	Group I							
2	Residential	\$62.19	\$63.12	\$64.07	\$65.03	\$66.01	\$67.00	per month
3	Residential X 1.3	\$80.84	\$82.05	\$83.28	\$84.53	\$85.80	\$87.09	per month
4	Residential Multi.	\$62.19	\$63.12	\$64.07	\$65.03	\$66.01	\$67.00	per month per unit
5								
6	Group II							
7	Commercial	\$6.77	\$6.87	\$6.97	\$7.08	\$7.19	\$7.29	per HCF
8	(includes - Softwater Service, Car Wash, Office Buildings, Cleaners,							
9	Department/Retail Stores, Warehouse, Car lots, Equipment Rental, Storage Units,							
10	Hospitals, Manufacturing, Indoor Theater, Day Care, Pre School,							
11	Disabled Care, Nail/Hair Salon, Church)							
12								
13	Group III							
14	Commercial	\$7.96	\$8.08	\$8.20	\$8.32	\$8.45	\$8.58	per HCF
15	(includes - Hotels /Motels (no restaurant), repair and Service Station,							
16	Shopping Center, Recreation Park, Nursery/Florist,							
17	Manufacturing - Non-Domestic, Lumber Yard, Nightclub, Bar, Hall)							
18								
19	Group IV							
20	Commercial	\$10.17	\$10.32	\$10.48	\$10.63	\$10.79	\$10.96	per HCF
21	(includes - Hotels /Motels (w/restaurants), Bakeries, Dairy,							
22	Supermarkets, Dairy, Meat Market, Mom & Pop, Mortuary, Restaurants,							
23	Fast Food, Catering)							
24								
25	Group V							
26	Schools -							
27	Elementary	\$0.85	\$0.86	\$0.88	\$0.89	\$0.90	\$0.92	per month per student
28	Junior High	\$2.03	\$2.06	\$2.09	\$2.12	\$2.15	\$2.19	per month per student
29	High	\$2.03	\$2.06	\$2.09	\$2.12	\$2.15	\$2.19	per month per student
30	Continuation	\$0.85	\$0.86	\$0.88	\$0.89	\$0.90	\$0.92	per month per student
31	Adult Education	\$0.85	\$0.86	\$0.88	\$0.89	\$0.90	\$0.92	per month per student
32								
33	Group VI							
34	Large Volume	\$6.77	\$6.87	\$6.97	\$7.08	\$7.19	\$7.29	per HCF
35	Hospital	\$6.77	\$6.87	\$6.97	\$7.08	\$7.19	\$7.29	per HCF
36	Commercial Building	\$6.77	\$6.87	\$6.97	\$7.08	\$7.19	\$7.29	per HCF

Section 1

Background and Report Organization

1.1 Introduction

The City of Rialto (“City”) provides water and wastewater services to residences and businesses in the City limits. The wastewater service area is approximately the entire City limits with additional service outside the City limits from portions of Fontana and Bloomington. The water service area is approximately the central portion of the City. The City provides these services through the Rialto Utility Authority (“RUA”).

In 2012, the City entered into a Concession Agreement with Rialto Water Services (“RWS”), where RWS operates the water and wastewater system. Additionally, RWS is responsible for capital project delivery and in the first five years of the Concession Agreement, capital project financing.

The Concession Agreement outlines the roles and responsibilities of each party. The City retains the responsibility to set water and wastewater rates. In 2012, the City adopted a five-year schedule of rates through a process compliant with Proposition 218. Water and wastewater rates were last increased on January 1, 2018.

As part of its ongoing responsibility to provide safe and reliable water and wastewater service as the owner of the water and wastewater systems, the City has determined the need to evaluate the utility’s future financial needs. Because of the ongoing financial needs of the water and wastewater utilities, the City is proposing a series of increases to water and wastewater rates in amounts that approximate changes in the Consumer Price Index (“CPI”).

This report describes the results of the analysis that support the proposed CPI Increases. Specifically, this report:

- Describes current water and wastewater rates,
- Describes the financial structure of the City’s water and wastewater utilities,
- Provides an overview of the trust account structure
- Outlines the projected expenses and revenues of the water and wastewater utilities,
- Shows the proposed CPI increases,
- Compares an example residential monthly water and wastewater bills with neighboring utilities, and
- Describes ongoing considerations that the City should monitor with financial implications.

Throughout this report, information for the water and wastewater utilities are shown separately.

1.2 Current Water and Wastewater Rates

1.2.1 Water

Table 1-1 shows current water rates, which were last adjusted on January 1, 2018.

Table 1-1. Current Water Rates

Monthly Minimum Charge	Current 2019	Unit
<u>Single Family Residences, Multiple Family Connections, Commercial, Landscape, and Industrial Service Customers</u>		
1/2 " & 5/8" meter	\$30.42	per month
3/4" meter	\$30.42	per month
1" meter	\$44.01	per month
1 1/2" meter	\$53.04	per month
2" meter	\$152.54	per month
3" meter	\$324.45	per month
4" meter	\$550.59	per month
6" meter	\$1,138.62	per month
8" meter	\$1,636.17	per month
Fire Hydrant Water	\$324.45	per month

Volume Charge for Monthly Consumption	Current 2019	Unit
<u>All Customers Except MF 50+ Units, Landscape, and Fire Protection/Hydrants</u>		
1 - 5 ccf/month	\$1.07	per HCF
6 - 30 ccf/month	\$1.69	per HCF
31 - 60 ccf/month	\$2.70	per HCF
61 - Over ccf/month	\$3.32	per HCF
<u>Multiple Apartments (Over 49 Units and Mobile Homes)</u>		
All consumption	\$2.40	per HCF
<u>Landscape</u>		
1 to 30 ccf/month	\$2.70	per HCF
31 and over ccf/month	\$3.32	per HCF
<u>Fireline</u>		
Rate, per in. diameter	\$27.91	per inch of line
<u>Hydrant</u>		
Rate, \$/ccf	\$3.33	per HCF
Per Day	\$10.81	per day

1.2.2 Wastewater

Table 1-2 shows current wastewater rates, which were also last adjusted on January 1, 2018.

Table 1-2. Current Wastewater Rates

Line	Customer Type	Current 1/1/2019	Unit
1	Group I		
2	Residential	\$62.19	per month
3	Residential X 1.3	\$80.84	per month
4	Residential Multi.	\$62.19	per month per unit
5			
6	Group II		
7	Commercial	\$6.77	per HCF
8	(includes - Softwater Service, Car Wash, Office Buildings, Cleaners,		
9	Department/Retail Stores, Warehouse, Car lots, Equipment Rental, Storage Units		
10	Hospitals, Manufacturing, Indoor Theater, Day Care, Pre School,		
11	Disabled Care, Nail/Hair Salon, Church)		
12			
13	Group III		
14	Commercial	\$7.96	per HCF
15	(includes - Hotels /Motels (no restaurant), repair and Service Station,		
16	Shopping Center, Recreation Park, Nursery/Florist,		
17	Manufacturing - Non-Domestic, Lumber Yard, Nightclub, Bar, Hall)		
18			
19	Group IV		
20	Commercial	\$10.17	per HCF
21	(includes - Hotels /Motels (w/restaurants), Bakeries, Dairy,		
22	Supermarkets, Dairy, Meat Market, Mom & Pop, Mortuary, Restaurants,		
23	Fast Food, Catering)		
24			
25	Group V		
26	Schools -		
27	Elementary	\$0.85	per month per student
28	Junior High	\$2.03	per month per student
29	High	\$2.03	per month per student
30	Continuation	\$0.85	per month per student
31	Adult Education	\$0.85	per month per student
32			
33	Group VI		
34	Large Volume	\$6.77	per HCF
35	Hospital	\$6.77	per HCF
36	Commercial Building	\$6.77	per HCF

1.3 RUA Financial Structure

The City maintains three funds where water and wastewater utility revenues and expenses are recorded, as shown in Figure 1-1. Fund 670 is the Water Fund, Fund 660 is the Wastewater Fund, and Fund 680 records the City's RUA Administration expenses. All water revenues are recorded in Fund 670, and nearly all water expenses are paid from Fund 670. Similarly, all wastewater revenues are recorded in Fund 660 and nearly all wastewater expenses are paid from Fund 660. Certain costs associated with City staff who are assigned to the water and wastewater utilities are paid from Fund 680 and the funding source for Fund 680 is transfers from the Water and Wastewater Funds. In addition, there are two types of transfers from the Water Fund and the Wastewater Fund to the City's General Fund:

- A transfer to cover the costs incurred by the General Fund that support the water and wastewater utilities, and
- The RUA Lease payment, as RUA leases the assets of the water and wastewater utilities from the City.

1.4 Overview of Trust Account Structure

RWS (the Concessionaire) is required to operate and maintain the water and wastewater systems and deliver capital projects. Accordingly, the majority of water and wastewater expenses are spent by RWS. The Concession Agreement established a series of accounts held in trust for these purposes, where water and wastewater system revenues are deposited, and from which expenses are paid. Water and wastewater revenues and expenses are accounted for separately within the series of trust accounts.

The Concession Agreement calls for all water and wastewater revenues to be deposited with the Trustee. The revenues are deposited into a Master Revenue Account held in trust, then transferred to various accounts established by the Concession Agreement and not shown in Figure 1-2. From these accounts, expenses are paid to RWS, the contract operator (Veolia), and third parties. Funds to cover expenses paid by the City (including all expenses paid from the 680 Fund) are transferred to the City, as is the RUA Lease Payment which is transferred from the trust accounts to the City's General Fund. In a very abbreviated form, Figure 1-2 illustrates the flow of funds in the trust accounts.

There are two types of financial performance criteria established within the trust accounts:

1. Minimum reserve balance requirements
2. Coverage requirements, where the Coverage requirement formula is described below.

At the end of each fiscal year, if there is more cash in the trust accounts than is necessary to meet these financial performance criteria, the excess cash is returned to the Water and Wastewater Funds.

If these minimum reserve balances are not met, additional revenue from the City is required. The City and RWS collaborate to estimate, in advance, if additional revenues from the City are expected to be required. If so, a "Revenue Stabilization" payment is made from Water Fund reserves or Wastewater Fund reserves to the Trustee. Often, as was the case in FY 18/19, the entire Revenue Stabilization payment was returned to the City after the end of the fiscal year.

The Concession Agreement also established a priority system for classifying expenses paid from the trust accounts, referred to colloquially and in this report as "the Waterfall". As noted above, separate accounts are maintained for water and wastewater expenses.

Waterfall 1

Waterfall 1 includes the following items, in no particular order of relative priority:

- RWS Wastewater Service Fee. This is the amount paid to RWS for operating and maintaining the water and wastewater systems.
- RWS Reimbursable Payments. These payments reimburse RWS for its insurance, an Independent Engineer required by the Concession Agreement, and maintenance expenses in excess of contractual limits specified in the Concession Agreement.
- Retained RUA Expenses. These are expenses including (but not limited to) electricity, natural gas, wages and benefits of City employees, biosolids disposal, and other services provided by the City.

Waterfall 2

Waterfall 2 are payments into the Operating Repair and Replacement ("OR&R") accounts. OR&R is a term defined in the Concession Agreement referring to a category of maintenance expenses that are more expensive than "Routine Repair & Replacement" but less expensive than a capital project.

Waterfall 3

Waterfall 3 are Capital Charges. This is similar to a debt service payment. RWS used debt and equity funding at the initiation of the Concession Agreement for items including:

- Capital Improvements (referred to in the Concession Agreement as the Facilities Improvement Plan (“FIP”))
- Refinancing existing City water and wastewater debt,
- Project development costs,
- Capitalizing a lump sum RUA Lease Payment to the City, and
- Revenue Stabilization over the first five years of the Concession Agreement to allow water and wastewater rate increases to be phased in.

Waterfall 4

Waterfall 4 is payments to meet trust account minimum reserve balance requirements as established in the Concession Agreement.

Waterfall 5

Waterfall 5 is the RUA Lease Payment, payable to the City’s General Fund.

Section 2

Water Utility Proposed CPI Increases

2.1 Overview of Methodology and Key Assumptions

The methodology used to generate the proposed CPI increases is based on meeting the cash needs of the water utility. It consists of:

- Projecting expenses over the five-year period beginning in FY 19/20 and ending in FY 23/24. The expenses include those in all five Waterfall positions described above and are described below. Expenses also include items that are funded by the City and are outside the scope of the Concessionaire's work, including certain capital expenses and certain expenses related to ongoing perchlorate legal support.
- Projecting water rate revenues under the current rate structure.
- Projecting water system revenues from sources other than rates, examples of which Development Impact Fees, interest income, delinquent water service fees, rental income, and grants.
- Projecting the amount of revenue from CPI increases. The formulas used to define the CPI increases are described below.
- Projecting the reserve balance in RUA's Water Fund (Fund 670) and comparing with a minimum RUA Water Fund reserve balance criteria established for financial planning purposes (and not established by formal City policy).

The most significant assumptions include the following:

- The majority of projected revenues and expenses are based on the City's FY 19/20 Budget. The City's FY 19/20 Budget was in turn based on factors including known contractual requirements, projected work needs, and recent historical expenses.
- Most expenses escalated for inflation at 3.0 percent per year. Exceptions include certain contractual payments (such as the RWS Capital Charges) that are not escalated for inflation and the RUA Lease Payment. Additionally, some expenses (such as electricity) are escalated for both inflation and system growth.
- A 1% annual system growth rate.
- A CPI increase of 2.944 percent effective January 1, 2020. This is the change in the Riverside CPI from May 2018 through May 2019 (the most recent year-over-year data that are available as of August 1, 2019).
- CPI increases of 3.0 percent per year from January 2020 through January 2024. In April 2019, the California Department of Finance issued a CPI projection for the Riverside area that averages 3.0 percent per year from FY 19/20 through FY 21/22¹. To maintain consistency with the Department of Finance projection, 3.0 percent is the projected inflation rate and the projected amount of annual water CPI increases throughout this analysis.
- CPI increases effective on January 1 of 2020, 2021, 2022, 2023, and 2024.
- Water use will remain at levels observed in FY 17/18 and FY 18/19. Water use decreased substantially from 2013 to 2015 as a result of the drought. Since that time, water use has partially rebounded, but no further increases in water use are projected. Conversely, factors which could decrease water use (such as a return

¹ Source: http://www.dof.ca.gov/Forecasting/Economics/Eco_Forecasts_Us_Ca/index.html

to drought conditions or wet weather which decreases outdoor water use) are not projected for the purposes of this analysis.

2.2 Projected Expenses

2.2.1 Projected Waterfall 1 Expenses

Projected Waterfall 1 expenses are shown in Table 2-1. The largest single expense component is the RWS Service Fee (Lines 1 – 3), which is the City’s payment to RWS for the operation and maintenance services they provide. The Service Fee currently has five separate components, and the Concession Agreement specifies the amounts of the Service Fee and how the fee components are escalated for inflation. The Fixed, Routine Repair and Replacement (“R&R”), and Labor Components are escalated for inflation on January 1 of each year, and the Chemical Component and Union Labor Reset Component are not escalated for inflation.

Table 2-1. Projected Waterfall 1 Expenses

Line		Projected (1)				
		FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24
1	Waterfall 1: Water Service Fee					
2	Fixed, Routine R&R, and Labor Components	\$5,525,164	\$5,690,919	\$5,861,647	\$6,037,496	\$6,218,621
3	Chemical and Union Labor Reset Components	249,767	249,767	249,767	249,767	249,767
4	Waterfall 1: Reimbursements					
5	Insurance Reimbursement	525,000	540,750	556,973	573,682	590,892
6	Independent Engineer	84,703	87,244	87,244	89,861	89,861
7	Maintenance	75,000	75,000	75,000	75,000	75,000
8	Waterfall 1: Retained RUA Expenses (2)	4,473,420	4,071,413	4,211,248	4,356,148	4,506,301
9	Total, Projected Waterfall 1 Expenses	\$10,933,054	\$10,715,093	\$11,041,878	\$11,381,954	\$11,730,442

Notes:

(1) Most projected expenses are based on the FY 19/20 Budget and escalated for inflation. See Appendix A for more detail.

(2) See Table 2-2 and Appendix A for more detail.

Table 2-2 provides more detail on Retained RUA Expenses. Some of the items in Table 2-2 with the highest cost to the City include:

- **Water Purchases.** The City purchases water from San Bernardino Valley Municipal Water District (“Valley District”) and the West Valley Water District (“WVWD”). In FY 17/18, purchased water was approximately 42% of the City’s total water demands, with the remaining water obtained from the City’s wells. Purchased water costs are established primarily by the terms of agreements with Valley District and WVWD.
- **Electricity.** Electricity costs are for the City’s wells and booster pump stations.
- **City Reimbursement (680 Admin).** The amounts shown in Table 2-2 pay the portion of the City’s 680 Fund expenses attributed to the water system. The costs in FY 19/20 are higher than those in successive years because of some non-recurring consulting engineering projects.
- **City Contract.** This covers the costs incurred by the City’s General Fund related to the water system.
- **Perchlorate Treatment.** The City contracts with Veolia, outside the scope of services provided in the Concession Agreement, to operate perchlorate treatment systems. The majority of the projected cost is for labor and ion exchange resin replacement.

Table 2-2. Projected RUA Retained Expenses

Line		FY 19/20	FY 20/21	Projected (1)		FY 23/24
				FY 21/22	FY 22/23	
1	Audit	\$10,000	\$10,300	\$10,609	\$10,927	\$11,255
2	City Contract	456,212	469,898	483,995	498,515	513,471
3	City Reimbursement (680 Admin)	764,760	410,588	422,905	435,592	448,660
4	Conservation	50,000	51,500	53,045	54,636	56,275
5	Consulting Fees: Engineering	365,000	200,000	206,000	212,180	218,545
6	Consulting Fees: Financial	10,000	10,300	10,609	10,927	11,255
7	Electricity	713,440	742,192	772,102	803,218	835,587
8	IT	100,000	103,000	106,090	109,273	112,551
9	Legal	25,000	25,750	26,523	27,318	28,138
10	Miscellaneous Fees and Permits	180,000	185,400	190,962	196,691	202,592
11	Office Supplies	1,000	1,030	1,061	1,093	1,126
12	Pavement Restoration	130,000	130,000	130,000	130,000	130,000
13	Perchlorate Treatment Expenses	306,300	315,489	324,954	334,702	344,743
14	Water Purchase	1,301,708	1,354,167	1,408,740	1,465,512	1,524,572
15	Water Rebates	60,000	61,800	63,654	65,564	67,531
16	Total, Projected Retained RUA Expenses	\$4,473,420	\$4,071,413	\$4,211,248	\$4,356,148	\$4,506,301

Notes:

(1) Most projected expenses are based on the FY 19/20 Budget and escalated for inflation. See Appendix A for more detail.

2.2.2 Projected Waterfall 2 Expenses

Waterfall 2 expenses are the OR&R payments. The amount of the OR&R payment is mutually agreed to by the City and RWS. It was established initially in the Concession Agreement and has been adjusted from time to time. The estimated annual OR&R is approximately \$300,000, adjusted for inflation. In FY 19/20, the budgeted OR&R payment is \$410,000, and the increased amount is to rebuild the reserve balance in the trust account dedicated to the water OR&R program.

2.2.3 Projected Waterfall 3 Expenses

Waterfall 3 expenses are the RWS Capital Charges. The amount of the Capital Charges is \$2,900,000 per year, and Capital Charges are not adjusted for inflation.

2.2.4 Projected Waterfall 4 Expenses

Waterfall 4 expenses are deposits into the trust to meet required reserve accounts balances. There are no such deposits anticipated to be required through FY 23/24.

2.2.5 Projected Waterfall 5 Expenses

Waterfall 5 expenses are the RUA Lease Payment, which for the purposes of this analysis is projected to remain at \$530,000 per year through FY 23/24.

2.2.6 Expenses Outside the Waterfall

The City anticipates completing some services outside the scope of the Concession Agreement, and as a result, the funds to pay for these services are not sent to the trustee. These services include:

- **Perchlorate Legal Expenses.** \$100,000 per year is projected for continuing legal services related to perchlorate.
- **Contractual Services.** This is primarily \$50,000 in FY 19/20 for Geographical Information Systems (“GIS”) Implementation Support.

2.2.7 Projected Capital Expenses

As part of the Concession Agreement, RWS financed \$12,971,000 to be spent on water system capital improvements. Initially, a list of capital projects was prepared (including cost estimates) and this list constituted the Water FIP. Since 2012, the planned use of Water FIP Funds has been modified. Some of the projects were completed, some were cancelled, and new priorities have been identified. Table 2-3 shows the current status of Water FIP spending. As of 6/30/19, approximately 56% of the FIP funds have been spent, with another 8% committed to finish ongoing projects. Another \$1.5 million (12% of the FIP) is reserved to complete the Well 3 installation project, and this project is on hold pursuant to Council direction of June 25, 2019. Approximately \$3.145 million, or 24% of the FIP, remains uncommitted to specific projects. The total amount of unspent FIP is approximately \$5.738 million.

Table 2-3. 6/30/19 Status of Water FIP

Sources/Uses of Water FIP	Amount	Notes
Sources of FIP Funds	\$12,971,000	Funded by RWS in 2012. City repays RWS through Capital Charge.
Uses of FIP Funds		
FIP Spent to Date	\$7,233,248	56% of FIP spent.
To Finish Ongoing Projects (FY 19/20 Budget)	\$1,091,800	8% of FIP: SCADA, meter replacement, rehab City Well 2, Customer Info System.
Committed to Identified Projects (On Hold)	\$1,500,000	12% of FIP for Well 3 installation.
Uncommitted	\$3,145,952	24% of FIP. Potential projects identified, identified, but not approved by Council.
Total	\$12,971,000	

The proposed capital improvements included in this CPI Update analysis are all funded within the FIP, so no rate revenue is projected to be dedicated to identified and approved capital projects through FY 23/24. These capital improvements are as follows, all to be funded through the FIP:

- Finishing the Supervisory Control and Data Acquisition (“SCADA”) Upgrade: \$208,000
- Finishing Concession Agreement Year 5 water meter replacements: \$157,300
- Finishing City Well 2 Rehabilitation: \$314,000
- Finishing the Customer Information System: \$412,500

In addition, the City has committed \$1,500,000 from the FIP for Well 3 installation. This project is currently on hold.

Veolia has identified additional capital projects that would provide reliability and service benefits, and is discussing these potential capital projects with the City. To date, the City Council has not approved any list of future capital

projects. As shown below, funding for future water capital is limited and is restricted to the sum of the \$3.145 million in uncommitted FIP and available RUA reserves.

2.2.8 Financial Performance Criteria and Projected Revenue Stabilization Payments

There are four separate financial performance criteria that define water rates through FY 23/24 and influence the financial performance of the water utility.

1. Policy direction regarding CPI rate adjustments. The City is proposing to limit rate increases to the CPI, using the year over year change in the Riverside CPI-U.
2. Trust Water Account Reserve Balance. The Concession Agreement established a Water Reserve Account in the trust. The minimum balance in this account must be 25% of the sum of Waterfall 1 through 3 expenses.
3. RUA Reserve Balance. Neither the City nor RUA have specific reserve account requirements for a minimum balance in the RUA 670 Fund. This is discussed in more detail below.
4. RWS Coverage Criteria. The Concession Agreement establishes the Coverage calculation procedure and criteria.

$$\begin{array}{r}
 \text{Revenues Going into Trust} \\
 \text{Less Development Impact Fee Revenues} \\
 \text{Plus Revenue Stabilization} \\
 \text{Less Waterfall 1 and 2 Expenses} \\
 \text{Equals Balance, Available for Capital Charge} \\
 \text{Less Capital Charges} \\
 \text{Equals Free Cash Flow Before Lease Payment} \\
 \\
 \text{Free Cash Flow Before Lease Payment} \\
 \text{Divided by Capital Charge} \\
 \text{Equals Coverage Ratio}
 \end{array}$$

The Coverage Ratio must exceed 17.7%. Alternatively stated, the Free Cash Flow Before Lease Payment must exceed 17.7% of the Capital Charge.

In recent years, the City and RWS have collaborated to estimate whether water utility revenues will be sufficient to meet the RWS Coverage Criteria. If projected revenues are insufficient to meet the RWS Coverage Criteria, the City has the option of making additional Revenue Stabilization payments from RUA reserves in lieu of additional rate increases. In FY 18/19, the City made a \$900,000 Revenue Stabilization payment into the trust. Depending on the overall level of spending, the City may get this money back during the succeeding fiscal year. This was the case in FY 18/19, where RWS anticipates returning the Revenue Stabilization payment to the City.

The following Revenue Stabilization payments are anticipated through FY 23/24, so that the RWS Coverage Criteria would be met:

- FY 19/20: \$900,000
- FY 20/21: \$400,000
- FY 21/22: \$300,000
- FY 22/23: \$200,000
- FY 23/24: \$100,000

Given the projected revenues, expenses, and Revenue Stabilization payments described above, the Coverage Ratio is projected to be between 28% and 30% through FY 23/24.

2.2.9 Projected Reserves

There are three different types of reserves related to Rialto's water utility, which are described below and summarized in Table 2-4:

- **RUA Reserves.** These are reserves held by the City, not held by the Trustee, and recorded in the City's 670 Fund. RUA reserves are generally unrestricted, but must be sufficient to cover variations in receivables and payables over the course of the year. For example, many water utility expenses (such as RWS Service Fees and Capital Charges) are the same every month, but water system revenues increase during the summer months when water consumption is highest.
- **Trust Reserves.** These reserves are also recorded in the City's 670 Fund (in account 670-108-0000-0000) but are held by the Trustee. These reserves are restricted for designated uses specified in the Concession Agreement.
- **Unspent FIP Funds.** The Unspent FIP funds are held by RWS. They are dedicated to capital improvements, and as noted above, as of June 2019 the unspent FIP balance is \$5.738 million.

Table 2-4. Reserves Related to Water Utility

	Balance as of 5/19/19	Notes
RUA		
RUA Cash	1,671,536	
RUA Escrow	210,101	City's accounting information notes Ayala/210
Plus Receivables	1,017,839	
Less Payable Interfund Loans	(4,300,000)	Related to Perchlorate legal expenses
Less Other Payables	<u>(1,763,596)</u>	
Total RUA	(3,164,120)	
Reserves Held in Trust	9,918,155	Restricted. Can't use these for capital
Unspent FIP	5,738,252	All proposed capital in FY 19/20 Budget from here
Total Water Reserves	12,492,287	

Table 2-4 shows that the RUA reserves for water can be considered to be a negative number. This is because there are two interfund loans on the City's books related to perchlorate legal expenses. The City is currently considering whether to forgive the loans, as allowed by the City Ordinances that authorized these loans.

For the purposes of this analysis, the financial performance criteria related to reserves is:

RUA Ending Year Cash must exceed 30 days of Waterfall 1 through 5 expenses

For FY 19/20, this criteria means that RUA Ending Year cash must exceed approximately \$1.21 million. There is no formal City policy regarding minimum reserve balance in the City's water and wastewater utilities. 30 days of expenses is comparatively low, and the City might choose to pursue accumulating a higher reserve balance. With the proposed rates, the primary barrier to accumulating additional reserves is competing financial needs for capital improvements. The City, in its future efforts to prioritize capital improvements, will decide the level of capital spending and consequently the available reserves.

2.2.10 Projected RUA Operating Statement

Table 2-5 is a projected Operating Statement from the perspective of RUA. Because revenues go directly into the trust, RUA's sources of funds are the funds from the Trustee to cover RUA Retained Expenses and the RUA Lease payment, plus any additional funds left over after other expenses have been paid from the trust and the trust reserve requirements are met. Additionally, RUA earns interest income on RUA's reserves.

RUA's uses of funds are the RUA retained expenses, the RUA Lease Payment, and other expenses (primarily perchlorate treatment and GIS implementation services) that are outside the scope of the Concession Agreement.

Table 2-5 shows no capital spending. This is because capital spending would only show up in Table 2-5 after the FIP is exhausted. There is currently over \$5.7 million in unspent FIP, and capital projects in the FY 19/20 Budget total just over \$1 million. Further, the City Council has placed all new capital projects on hold (as of June 2019), so planned future capital improvements have not yet been authorized by the City Council.

Table 2-5. Projected RUA Operating Statement, Water

Line	FY 19/20	FY 20/21	Projected FY 21/22	FY 22/23	FY 23/24
1 RUA Sources of Funds					
2 Beginning Cash Balance	\$1,572,570	\$2,212,570	\$2,148,866	\$2,643,600	\$3,089,997
3					
4 From Trustee: Funds Dropping Out of Waterfall					
5 Funds to Cover Retained Expenses	\$4,473,420	\$4,071,413	\$4,211,248	\$4,356,148	\$4,506,301
6 Funds to Cover Annual Lease Payment	530,000	530,000	530,000	530,000	530,000
7 Deposits From Waterfall	0	413,107	872,501	716,744	723,971
8					
9 Other Revenues					
10 RUA Investment Income	100,000	33,189	32,233	39,654	46,350
11 Use of Uncommitted FIP	0	0	0	0	0
12 FY 18/19 Deposit from Waterfall	1,600,000	0	0	0	0
13 Total Revenues	\$6,703,420	\$5,047,709	\$5,645,982	\$5,642,546	\$5,806,622
14					
15 RUA Uses of Funds					
16 Retained Expenses	\$4,473,420	\$4,071,413	\$4,211,248	\$4,356,148	\$4,506,301
17 Lease Payments	530,000	530,000	530,000	530,000	530,000
18 Capital Expenses (1)	0	0	0	0	0
19 Contract Services Outside Waterfall	60,000	10,000	10,000	10,000	10,000
20 Perchlorate Legal Expenses Outside Waterfall	100,000	100,000	100,000	100,000	100,000
21 Additional Revenue Stabilization	900,000	400,000	300,000	200,000	100,000
22 Total Expenses	\$6,063,420	\$5,111,413	\$5,151,248	\$5,196,148	\$5,246,301
23					
24 Ending RUA Cash Balance	\$2,212,570	\$2,148,866	\$2,643,600	\$3,089,997	\$3,650,319

Notes:

(1) Approved capital improvements would be funded from the remaining FIP funds, and no additional future capital improvements have been approved by the City. Therefore, there are no currently identified capital expenses to be funded from RUA funds.

2.2.11 Projected Operating Statement for Water System Trust Accounts

Table 2-6 shows the projected revenues for the water system trust accounts, through FY 23/24. Line 4 shows water rate revenues under the current rate structure, and lines 11 through 16 show the rate revenue generated by the CPI increases effective on January 1 of each year. Over the five-year period, these CPI increases are projected to generate approximately \$5.0 million.

Lines 18 through 30 show other sources of water utility revenue, including Development Impact Fees, delinquent water service fees, rental income, interest income, reimbursement from San Bernardino County for certain perchlorate-related expenses, and Revenue Stabilization payments from the City. Overall water system revenues (including Revenue Stabilization payments) are projected to be between \$15 million and \$17 million each year.

Table 2-6. Projected Sources of Funds for the Water System Trust Accounts

Line		FY 19/20	FY 20/21	Projected FY 21/22	FY 22/23	FY 23/24
1	Beginning Year RWS Water Reserve Fund Balance	\$3,239,285	\$3,560,764	\$3,478,773	\$3,562,720	\$3,650,056
2						
3	Rate Revenues Subject to Rate Increases					
4	Water Sales (Existing Rates)	12,862,670	12,900,634	12,938,598	12,976,562	13,014,527
5	Total Rate Revenues, Existing Rates, (Subject to Rate Increases)	\$12,862,670	\$12,900,634	\$12,938,598	\$12,976,562	\$13,014,527
6						
7	Future CPI Increases					
8						
9						
10						
11	FY 19/20	2.944%	6	\$189,000	\$380,000	\$381,000
12	FY 20/21	3.00%	6	0	199,000	400,000
13	FY 21/22	3.00%	6	0	0	206,000
14	FY 22/23	3.00%	6	0	0	213,000
15	FY 23/24	3.00%	6	0	0	220,000
16	Subtotal Rate Revenue from Future Rate Increases	\$189,000	\$579,000	\$987,000	\$1,409,000	\$1,845,000
17						
18	Other Revenues Not Subject to Rate Increases					
19	Meter Installation and Service	\$0	\$0	\$0	\$0	\$0
20	Fire Line Installation	200,000	200,000	200,000	200,000	200,000
21	Development Impact Fees	410,610	410,610	410,610	410,610	410,610
22	County Contract - SBCO Water Order	284,000	284,000	284,000	284,000	284,000
23	Rents & Concessions	73,680	73,680	73,680	73,680	73,680
24	Trustee Interest Income	0	0	0	0	0
25	Turn On/Off	51,490	51,490	51,490	51,490	51,490
26	Delinquent Water Service Fees	230,670	230,670	230,670	230,670	230,670
27	Other Charges for Current Services	105,520	105,520	105,520	105,520	105,520
28	Grant Revenue (Non-Recurring After FY 19/20)	200,000	0	0	0	0
29	Miscellaneous Revenue	0	0	0	0	0
30	New Revenue Stabilization	900,000	400,000	300,000	200,000	100,000
31	Total Revenue	\$15,507,640	\$15,235,604	\$15,581,568	\$15,941,532	\$16,315,497

Table 2-7 shows the projected uses of funds. The individual lines in Table 2-7 are shown in more detail earlier in this section.

Table 2-7. Projected Uses of Funds for the Water System Trust Accounts

Line	FY 19/20	FY 20/21	Projected FY 21/22	FY 22/23	FY 23/24
1 Waterfall 1: Water Service Fee					
2 Fixed, Routine R&R, and Labor Components	\$5,525,164	\$5,690,919	\$5,861,647	\$6,037,496	\$6,218,621
3 Chemical Component and Union Labor Reset Component	249,767	249,767	249,767	249,767	249,767
4 Waterfall 1: Reimbursements					
5 Insurance Reimbursement	525,000	540,750	556,973	573,682	590,892
6 Independent Engineer	84,703	87,244	87,244	89,861	89,861
7 Maintenance	75,000	75,000	75,000	75,000	75,000
8 Waterfall 1: Retained RUA Expenses	4,473,420	4,071,413	4,211,248	4,356,148	4,506,301
9 Waterfall 2: Annual Operating R&R Payment	410,000	300,000	309,000	318,270	327,818
10 Waterfall 3: Capital Charges	2,900,000	2,900,000	2,900,000	2,900,000	2,900,000
11 Waterfall 3: New Capital Charges	0	0	0	0	0
12 Waterfall 4: Water Reserve Account Deposits	0	0	0	0	0
13 Waterfall 5: RUA Lease Payment	530,000	530,000	530,000	530,000	530,000
14 Total Uses of Funds	\$14,773,054	\$14,445,093	\$14,780,878	\$15,130,224	\$15,488,260
15					
16 Additional \$ Out the Waterfall	\$413,107	\$872,501	\$716,744	\$723,971	\$737,727
17					
18 Ending RWS Water Reserve Balance	\$3,560,764	\$3,478,773	\$3,562,720	\$3,650,056	\$3,739,565

Table 2-8 shows the financial performance criteria, including the Trust Reserve Requirement calculation and the Trust Coverage Calculation. This table shows that all three financial performance criteria are met through FY 23/24.

Table 2-8. Projected Financial Performance Criteria

Line	FY 19/20	FY 20/21	Projected FY 21/22	FY 22/23	FY 23/24
1 COVERAGE CALCULATION (Criterion: Free Cash Flow After Waterfall 1 -3 Paid > 17.7% of Capital Charges)					
2 Revenues Going into Trust	\$14,607,640	\$14,835,604	\$15,281,568	\$15,741,532	\$16,215,497
3 Less Development Impact Fees	(410,610)	(410,610)	(410,610)	(410,610)	(410,610)
4 Plus Revenue Stabilization	900,000	400,000	300,000	200,000	100,000
5 <u>Less Waterfall 1-2</u>	<u>(\$11,343,054)</u>	<u>(\$11,015,093)</u>	<u>(\$11,350,878)</u>	<u>(\$11,700,224)</u>	<u>(\$12,058,260)</u>
6 Balance, Available for Capital Charge	\$3,753,976	\$3,809,901	\$3,820,080	\$3,830,698	\$3,846,626
7 <u>Less Capital Charges</u>	<u>(\$2,900,000)</u>	<u>(\$2,900,000)</u>	<u>(\$2,900,000)</u>	<u>(\$2,900,000)</u>	<u>(\$2,900,000)</u>
8 Free Cash Flow Before Lease Payment	\$853,976	\$909,901	\$920,080	\$930,698	\$946,626
9 Ratio (Free Cash Flow Divided by Capital Charges)	29.4%	31.4%	31.7%	32.1%	32.6%
10					
11 REQUIRED WATER FUND RESERVE CALCULATION					
12 (Criteria: 25% service fees, reimbursable pmts, facility auth expenses, ORR pmts, Capital Charges (waterfall 1 - 3))					
13 Required Water Reserve Fund Reserve Balance					
14 Sum of required items	\$14,243,054	\$13,915,093	\$14,250,878	\$14,600,224	\$14,958,260
15 25% of the sum of required items	\$3,560,764	\$3,478,773	\$3,562,720	\$3,650,056	\$3,739,565
16					
17 RWS EOY Reserve Balance Before Adjusting to Min. Value	\$3,973,871	\$4,351,274	\$4,279,463	\$4,374,028	\$4,477,292
18 Amount Out of Waterfall	\$413,107	\$872,501	\$716,744	\$723,971	\$737,727
19					
20 CALCULATED DAYS OF RESERVES (Criteria: Ending Year RUA Reserve Balance Divided by Waterfall 1 - 5 Expenses * 365)					
21 Days of Reserves	55	54	65	75	86
22 30 Days of Waterfall 1-5 Expenses	\$1,214,224	\$1,187,268	\$1,214,867	\$1,243,580	\$1,273,008

The projected RUA ending reserve balance in FY 23/24 is \$3,650,319 (see Table 2-5), which exceeds the projected 30 days of Waterfall 1-5 expenses by approximately \$2.4 million. This implies that in addition to the Unspent FIP of \$5.74 million (see Table 2-4), there may be some additional RUA reserves that the City may choose to also devote to future capital projects once they are defined. Alternatively, the City has the option of accumulating a larger reserve balance for emergency repairs in the event they are needed to address emergencies.

2.3 Projected Water Rate Schedule

Table 2-9 shows the projected water rate schedule, defined by applying annual CPI increases to the existing water rate schedule.

The proposed rates to become effective on January 1, 2020 are based on the following formula:

- $1/1/20 \text{ Rate} = \text{Current Rate} * \text{May 2019 Riverside CPI-U Value} / \text{May 2018 Riverside CPI-U Value}$, where:
 - CPI-U is the Consumer Price Index for All Urban Consumers, published bi-monthly by the U.S. Department of Labor, Bureau of Labor Statistics
 - Riverside CPI-U Value from May 2019 = 105.959
 - Riverside CPI-U Value from May 2018 = 102.929
 - % Increase = 2.944% ($2.944\% = 105.959/102.929 - 1$)

Water rates in subsequent years will be defined by the following formula:

- $\text{New Rate} = \text{Previous Rate} * \text{Most Recent September Riverside CPI-U Value} / \text{Previous September Riverside CPI-U Value}$
- For example, the formula for rates to become effective on January 1, 2021 will be:
 - $1/1/21 \text{ Rate} = 1/1/20 \text{ Rate} * \text{September 2020 Riverside CPI-U Value} / \text{September 2019 Riverside CPI-U Value}$

The rates that will become effective on 1/1/20 are known, are shown in Table 2-9, and are labeled “Proposed”. The rates that will become effective on 1/1/21 and in subsequent years are not yet known and are labeled “Projected”. The projected rates in Table 2-9 are based on a 3.0 annual percent change in the Riverside CPI-U.

Table 2-9. Proposed and Projected Water Rates

Line	Water Rate Component	Current 1/1/2019	Proposed 1/1/2020	Projected 1/1/2021	Projected 1/1/2022	Projected 1/1/2023	Projected 1/1/2024	Unit
1	Monthly Minimum Charge							
2	<u>Single Family Residences, Multiple Family Connections, Commercial, Landscape, and Industrial Service Customers</u>							
3	1/2 " & 5/8" meter	\$30.42	\$31.32	\$32.25	\$33.22	\$34.22	\$35.25	per month
4	3/4" meter	\$30.42	\$31.32	\$32.25	\$33.22	\$34.22	\$35.25	per month
5	1" meter	\$44.01	\$45.31	\$46.66	\$48.06	\$49.51	\$50.99	per month
6	1 1/2" meter	\$53.04	\$54.60	\$56.24	\$57.93	\$59.66	\$61.45	per month
7	2" meter	\$152.54	\$157.03	\$161.74	\$166.59	\$171.59	\$176.74	per month
8	3" meter	\$324.45	\$334.00	\$344.02	\$354.34	\$364.97	\$375.92	per month
9	4" meter	\$550.59	\$566.80	\$583.80	\$601.32	\$619.36	\$637.94	per month
10	6" meter	\$1,138.62	\$1,172.14	\$1,207.30	\$1,243.52	\$1,280.83	\$1,319.25	per month
11	8" meter	\$1,636.17	\$1,684.34	\$1,734.87	\$1,786.91	\$1,840.52	\$1,895.73	per month
12	Fire Hydrant Water	\$324.45	\$334.00	\$344.02	\$354.34	\$364.97	\$375.92	per month
13								
14	Volume Charge for Monthly Consumption							
15	<u>All Customers Except those Noted Below</u>							
16	1 - 5 Units	\$1.07	\$1.10	\$1.13	\$1.17	\$1.20	\$1.24	per HCF
17	6 - 30 Units	\$1.69	\$1.74	\$1.79	\$1.85	\$1.90	\$1.96	per HCF
18	31 - 60 Units	\$2.70	\$2.78	\$2.86	\$2.95	\$3.04	\$3.13	per HCF
19	61 - Over units	\$3.32	\$3.42	\$3.52	\$3.63	\$3.73	\$3.85	per HCF
20	<u>Multiple Apartments</u>							
21	Over 49 Units and Mobile Homes	\$2.40	\$2.47	\$2.54	\$2.62	\$2.70	\$2.78	per HCF
22	<u>Landscape</u>							
23	1 to 30 Units	\$2.70	\$2.78	\$2.86	\$2.95	\$3.04	\$3.13	per HCF
24	31 and over units	\$3.32	\$3.42	\$3.52	\$3.63	\$3.73	\$3.85	per HCF
25								
26	Fireline							
27	Rate	\$27.91	\$28.73	\$29.59	\$30.48	\$31.40	\$32.34	per inch of line
28	Hydrant							
29	Rate	\$3.33	\$3.43	\$3.53	\$3.64	\$3.75	\$3.86	per HCF
30	Per Day	\$10.81	\$11.13	\$11.46	\$11.81	\$12.16	\$12.52	per day

Section 3

Wastewater Utility Proposed CPI Increases

3.1 Overview of Methodology and Key Assumptions

The methodology for the proposed Wastewater CPI Increases is identical to that described in Section 2.1 for the water utility, with differences noted below.

The methodology used to generate the proposed CPI increases is based on meeting the cash needs of the water utility. It consists of:

- Projecting expenses over the five-year period beginning in FY 19/20 and ending in FY 23/24. The expenses include those in all five Waterfall positions described above, and are described below. Expenses also include items that are funded by the City and are outside the scope of the Concessionaire's work which are primarily certain capital expenses.
- Projecting wastewater rate revenues under the current rate structure.
- Projecting wastewater system revenues from sources other than rates, examples of which Development Impact Fees, interest income, delinquent water service fees, rental income, and grants.
- Projecting the amount of revenue from CPI increases. The formulas used to define the CPI increases are described below.
- Projecting the reserve balance in RUA's Wastewater Fund (Fund 660) and comparing with a minimum RUA Wastewater Fund reserve balance criteria established for financial planning purposes (and not established by formal City policy).

The most significant assumptions include the following:

- The majority of projected revenues and expenses are based on the City's FY 19/20 Budget. The City's FY 19/20 Budget was in turn based on factors including known contractual requirements, projected work needs, and recent historical expenses.
- Most expenses escalated for inflation at 3.0 percent per year. Exceptions include certain contractual payments (such as the RWS Capital Charges) that are not escalated for inflation, and the RUA Lease Payment. Additionally, some expenses (such as electricity) are escalated for both inflation and system growth.
- A 1% annual system growth rate.
- CPI increases will use the same formulas shown in Section 2 for the water system. However, rate increases will be capped at 1.5 percent per year.
 - The change in CPI between May 2018 through May 2019 (the most recent year-over-year data that are available as of August 1, 2019) was 2.944 percent. This value of 2.944 percent was used to define the water rate increase effective on 1/1/20. However, since proposed wastewater rate increases are capped at 1.5 percent per year, the proposed wastewater rate increase effective 1/1/20 will be 1.5 percent.
- CPI increases (capped at 1.5 percent per year) effective on January 1 of 2020, 2021, 2022, 2023, and 2024.

- For non-residential wastewater customers that are billed according to water use, water use will remain at levels observed in FY 17/18 and FY 18/19. Water use decreased substantially from 2013 to 2015 as a result of the drought. Since that time, water use has partially rebounded, but no further increases in water use are projected. Conversely, factors which could decrease water use (such as a return to drought conditions or wet weather which decreases outdoor water use) are not projected for the purposes of this analysis.

3.2 Projected Expenses

3.2.1 Projected Waterfall 1 Expenses

Projected Waterfall 1 expenses are shown in Table 3-1. The largest single expense component is the RWS Service Fee, which is shown in Lines 1 -3 of Table 3-1, which is the City's payment to RWS for the operation and maintenance services they provide. The Service Fee currently has five separate components, and the Concession Agreement specifies the amounts of the Service Fee and how the fee components are escalated for inflation. The Fixed, Routine Repair and Replacement ("R&R"), and Labor Components are escalated for inflation on January 1 of each year, and the Chemical Component and Union Labor Reset Component are not escalated for inflation.

Table 3-1. Projected Waterfall 1 Expenses

Line		Projected (1)				
		FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24
1	Waterfall 1: Wastewater Service Fee					
2	Fixed, Routine R&R, and Labor Components	\$5,830,587	\$5,983,607	\$6,163,115	\$6,348,008	\$6,538,448
3	Chemical and Union Labor Reset Components	933,278	933,278	933,278	933,278	933,278
4	Chemical Charge Reconciliation	(147,948)	(147,948)	(147,948)	(147,948)	(147,948)
5	Waterfall 1: Reimbursements					
6	Insurance Reimbursement	600,000	618,000	636,540	655,636	675,305
7	Independent Engineer	77,688	80,019	80,019	82,419	82,419
8	Maintenance	175,000	175,000	175,000	175,000	175,000
9	Waterfall 1: Retained RUA Expenses (2)	3,937,584	3,230,708	3,341,678	3,456,543	3,575,444
10	Total, Projected Waterfall 1 Expenses	\$11,406,189	\$10,872,664	\$11,181,682	\$11,502,937	\$11,831,947

Notes:

(1) Most projected expenses are based on the FY 19/20 Budget and escalated for inflation. See Appendix A for more detail.

(2) See Table 3-2 and Appendix A for more detail.

Table 3-2 provides more detail on Retained RUA Expenses. Some of the items in Table 2-2 with the highest cost to the City include:

- City Reimbursement (680 Admin). The amounts shown in Table 2-2 pay the portion of the City's 680 Fund expenses attributed to the water system. The costs in FY 19/20 are higher than those in successive years because of some non-recurring consulting engineering projects.
- City Contract. This covers the costs incurred by the City's General Fund related to the wastewater system.
- Electricity. This covers electricity costs at the Wastewater Treatment Plant and sewage lift stations in the collection system.
- Biosolids. This covers the costs for disposal of biosolids generated at the Wastewater Treatment Plant.
- Consulting Services. Primarily engineering services, the FY 19/20 Budgeted amount is higher than that projected by City staff in subsequent years because of non-recurring activities.

Table 3-2. Projected RUA Retained Expenses

Line		FY 19/20	FY 20/21	Projected (1)		FY 23/24
				FY 21/22	FY 22/23	
1	Electricity	\$700,000	\$728,210	\$757,557	\$788,086	\$819,846
2	Gas	42,440	44,150	45,930	47,781	49,706
3	Legal Services	25,000	26,008	26,788	27,591	28,419
4	Audit	10,000	10,300	10,609	10,927	11,255
5	Biosolids	574,366	591,597	615,438	640,241	666,042
6	City Contract	684,318	704,848	725,993	747,773	770,206
7	City Reimbursement (680 Admin)	664,460	451,796	465,350	479,310	493,690
8	Consulting Services: West Yost	777,000	200,000	206,000	212,180	218,545
9	Consulting Services: FG Solutions	10,000	10,300	10,609	10,927	11,255
10	IT	140,000	144,200	148,526	152,982	157,571
11	Miscellaneous Fees and Permits	300,000	309,000	318,270	327,818	337,653
12	Pavement Restoration	10,000	10,300	10,609	10,927	11,255
13	Total, Projected Retained RUA Expenses	\$3,937,584	\$3,230,708	\$3,341,678	\$3,456,543	\$3,575,444

Notes:

(1) Most projected expenses are based on the FY 19/20 Budget and escalated for inflation. See Appendix A for more detail.

3.2.2 Projected Waterfall 2 Expenses

Waterfall 2 expenses are the OR&R payments. The amount of the OR&R payment is mutually agreed to by the City and RWS. It was established initially in the Concession Agreement, and has been adjusted from time to time. The estimated annual OR&R is \$420,000 in FY 19/20, with adjustments for inflation in subsequent years.

3.2.3 Projected Waterfall 3 Expenses

Waterfall 3 expenses are the RWS Capital Charges. The amount of the Capital Charges is \$12,682,000 per year, and Capital Charges are not adjusted for inflation. The Capital Charges amount are rounded up to \$12,700,000 in the City's FY 19/20 Budget and this value of \$12,700,000 is used in this analysis to be consistent with the City's budget.

3.2.4 Projected Waterfall 4 Expenses

Waterfall 4 expenses are deposits into the trust to meet required reserve accounts balances. There are no such deposits anticipated to be required through FY 23/24.

3.2.5 Projected Waterfall 5 Expenses

Waterfall 5 expenses are the RUA Lease Payment, which for the purposes of this analysis is projected to remain at \$1,470,000 per year through FY 23/24. The combined RUA Lease Payment for the water and wastewater systems is \$2,000,000 per year.

3.2.6 Expenses Outside the Waterfall

The City anticipates completing some services outside the scope of the Concession Agreement, and as a result, the funds to pay for these services are not sent to the trustee. These services are projected to be limited to contractual services. This is primarily \$50,000 in FY 19/20 for Geographical Information Systems ("GIS") Implementation Support.

3.2.7 Projected Capital Expenses

As part of the Concession Agreement, RWS financed \$28,066,000 to be spent on wastewater system capital improvements. Initially, a list of capital projects was prepared (including cost estimates) and this list constituted the Wastewater FIP. Since 2012, the planned use of Wastewater FIP Funds has been modified. Some of the projects were completed, some were determined not to be needed, and new priorities have been identified. Table 2-3 shows the current status of Wastewater FIP spending. As of 6/30/19, approximately 55% of the FIP funds have been spent, and the balance is committed to the Wastewater Treatment Plant project S1.

Table 3-3. 6/30/19 Status of Wastewater FIP

Sources/Uses of Wastewater FIP	Amount	Notes
Sources of FIP Funds	\$28,066,000	Funded by RWS in 2012. City repays RWS through Capital Charge.
Uses of FIP Funds		
FIP Spent to Date	\$15,454,103	55% of FIP spent.
To Finish Ongoing Projects (FY 19/20 Budget)	\$12,611,897	45% of FIP: Wastewater Treatment Plant project S1
Total	\$28,066,000	

Additional capital improvements included in the City's FY 19/20 Budget will be funded from pre-existing RUA reserves. These projects include the following:

- Wastewater Treatment Plant Project S1: \$4,000,000 from RUA reserves (in addition to using the remainder of the FIP) to finish the project.
- Digester Completion Project: \$267,723 from RUA reserves to complete digester improvements at the Wastewater Treatment Plant.
- Frisbie Park Lift Station: \$1,540,000 from RUA reserves to complete this new pump station.
- Finishing the Customer Information System: \$412,500

Veolia has identified additional capital projects that would provide reliability and service benefits and is discussing these potential capital projects with the City. In addition, there are two additional lift stations (Agua Mansa and Sycamore) that are planned to accommodate service area growth that are on hold. To date, the City Council has not approved any list of future capital projects. As shown below, funding for future wastewater capital is available from the use of RUA reserves.

3.2.8 Financial Performance Criteria and Projected Revenue Stabilization Payments

There are four separate financial performance criteria that define wastewater rates through FY 23/24 and influence the financial performance of the water utility.

1. Policy direction regarding CPI adjustments. The City is proposing to limit rate increases to the CPI using the year of year change in the Riverside CPI-U, capped at 1.5 percent per year. As described above, for the purposes of projecting future rates, proposed rate increases will be 1.5% annually.
2. Trust Wastewater Account Reserve Balance. The Concession Agreement established a Water Reserve Account in the trust. The minimum balance in this account must be 25% of the sum of Waterfall 1 through 3 expenses).

3. RUA Reserve Balance. Neither the City nor RUA have specific reserve account requirements for a minimum balance in the RUA 660 Fund. This is discussed in more detail below.
4. RWS Coverage Criteria. The Concession Agreement establishes the Coverage calculation procedure and criteria.

Revenues Going into Trust
 Less Development Impact Fee Revenues
 Plus Revenue Stabilization
Less Waterfall 1 and 2 Expenses
 Equals Balance, Available for Capital Charge
Less Capital Charges
 Equals Free Cash Flow Before Lease Payment

 Free Cash Flow Before Lease Payment
 Divided by Capital Charge
 Equals Coverage Ratio

This is the same formula as described in Section 2 of this report for the water system. However, the Coverage Ratio criteria is different: the Coverage Ratio must exceed 15%. Alternatively stated, the Free Cash Flow Before Lease Payment must exceed 15% of the wastewater Capital Charge.

In recent years, the City and RWS have collaborated to estimate whether wastewater utility revenues will be sufficient to meet the RWS Coverage Criteria. If projected revenues are insufficient to meet the RWS Coverage Criteria, the City has the option of making additional Revenue Stabilization payments from RUA reserves in lieu of additional rate increases. Through FY 23/24, no additional Revenue Stabilization payments are projected to be necessary.

Given the projected revenues and expenses described above, the Coverage Ratio is projected to be 19% in FY 19/20, and between 27% and 34% between FY 20/21 and FY 23/24.

3.2.9 Projected Reserves

There are three different types of reserves related to Rialto's wastewater utility, which are described below and summarized in Table 3-4:

- RUA Reserves. These are reserves held by the City, not held by the Trustee, and recorded in the City's 660 Fund. RUA reserves are generally unrestricted, but must be sufficient to cover variations in receivables and payables over the course of the year.
- Trust Reserves. These reserves are also recorded in the City's 660 Fund (in account 660-108-0000-0000) but are held by the Trustee. These reserves are restricted for designated uses specified in the Concession Agreement.
- Unspent FIP Funds. The Unspent FIP funds are held by RWS. They are dedicated to capital improvements, and as noted above, as of June 2019 the unspent FIP balance is \$12.61 million.

Table 3-4. Reserves Related to Wastewater Utility

	Balance as of 5/19/19	Notes
RUA		
RUA Cash	19,977,161	
RUA Escrow	820,060	City's accounting information notes Ayala/210 and Miro
Plus Receivables	3,475,637	
Plus Receivable Interfund Loan	3,000,000	Related to Perchlorate legal expenses
Less Other Payables	(689,139)	
Total RUA	26,583,719	
Reserves Held in Trust	12,147,493	Restricted. Can't use these for capital
Unspent FIP	12,611,897	Will be used for S1
Total Wastewater Reserves	51,343,109	

For the purposes of this analysis, the financial performance criteria related to RUA reserves is:

RUA Ending Year Cash must exceed 90 days of Waterfall 1 through 5 expenses

For FY 19/20, this criteria means that RUA Ending Year cash must exceed approximately \$6.41 million. There is no formal City policy regarding minimum reserve balance in the City's water and wastewater utilities. With the proposed rates, the primary barrier to accumulating additional reserves is competing financial needs for capital improvements. The City, in its future efforts to prioritize capital improvements, will decide the level of capital spending and consequently the available reserves.

3.2.10 Projected RUA Operating Statement

Table 3-5 is a projected Operating Statement from the perspective of RUA. Because revenues go directly into the trust, RUA's sources of funds are the funds from the Trustee to cover RUA Retained Expenses and the RUA Lease payment, plus any additional funds left over after other expenses have been paid from the trust and the trust reserve requirements are met. Additionally, RUA earns interest income on RUA's reserves.

RUA's uses of funds are the RUA retained expenses, the RUA Lease Payment, and other expenses that are outside the scope of the Concession Agreement.

Table 3-5 only shows capital spending for ongoing projects that are not covered by the FIP. The City Council has temporarily placed all new capital projects on hold (as of June 2019), so planned future capital improvements have not yet been authorized by the City Council.

Table 3-5. Projected RUA Operating Statement, Wastewater

Line	FY 19/20	FY 20/21	Projected FY 21/22	FY 22/23	FY 23/24
1 RUA Sources of Funds					
2 Beginning Fund Balance	\$19,977,161	\$15,296,938	\$17,167,236	\$20,392,207	\$23,789,364
3					
4 From Trustee: Funds Dropping Out of Waterfall					
5 Funds to Cover Retained Expenses	\$3,937,584	\$3,230,708	\$3,341,678	\$3,456,543	\$3,575,444
6 Funds to Cover Annual Lease Payment	1,470,000	1,470,000	1,470,000	1,470,000	1,470,000
7 Deposits From Waterfall	0	1,780,299	2,977,762	3,101,883	3,435,411
8					
9 Other Revenues					
10 Interest Income on RUA Reserves	100,000	100,000	257,509	305,883	356,840
11 Revenues Not Coming Through the Waterfall	0	0	0	0	0
12 FY 18/19 Deposit from Waterfall	1,500,000	0	0	0	0
13 Total Revenues	\$7,007,584	\$6,581,007	\$8,046,949	\$8,334,310	\$8,837,695
14					
15 RUA Uses of Funds					
16 Retained Expenses	\$3,937,584	\$3,230,708	\$3,341,678	\$3,456,543	\$3,575,444
17 Lease Payments	1,470,000	1,470,000	1,470,000	1,470,000	1,470,000
18 RUA Expenses Outside Waterfall	60,000	10,000	10,300	10,609	10,927
19 Additional Capital: Reserves for S1, Post-FIP	6,220,223	0	0	0	0
20 Additional Revenue Stabilization	0	0	0	0	0
21 Total Expenses	\$11,687,807	\$4,710,708	\$4,821,978	\$4,937,152	\$5,056,371
22					
23 Ending RUA Fund Balance	\$15,296,938	\$17,167,236	\$20,392,207	\$23,789,364	\$27,570,688

3.2.11 Projected Operating Statement for Wastewater System Trust Accounts

Table 3-6 shows the projected revenues for the wastewater system trust accounts, through FY 23/24. Line 4 shows wastewater rate revenues under the current rate structure from inside the city limits, and Line 5 is extraterritorial wastewater rate revenues from outside the city limits. Lines 12 through 17 show the rate revenue generated by the CPI increases effective on January 1 of each year. Over the five-year period, these CPI increases (capped at 1.5%) are projected to generate approximately \$4.9 million.

Lines 18 through 30 show other sources of water utility revenue, including Development Impact Fees (separately shown for sewer collection and sewer treatment), delinquent wastewater service fees, rental income, interest income, and a one-time grant in FY 19/20. No fats/oil/grease ("FOG") revenues are projected because FOG deliveries are not currently accepted at the Wastewater Treatment Plant. Overall wastewater system revenues are projected to be between \$27 million and \$31 million each year, with the increase primarily the result of the wastewater CPI increases (capped at 1.5%).

Table 3-6. Projected Sources of Funds for the Wastewater System Trust Accounts

Line		FY 19/20	FY 20/21	Projected FY 21/22	FY 22/23	FY 23/24
1	Beginning Year RWS Wastewater Reserve Fund Balance	\$6,150,655	\$6,131,547	\$6,001,316	\$6,081,815	\$6,165,471
2						
3	Rate Revenues Subject to Rate Increases					
4	Sewer Service Fees (Existing Rates)	24,341,400	24,584,814	24,830,662	25,078,969	25,329,758
5	Other Charges for Current Services (Extraterritorial)	1,553,800	1,553,800	1,553,800	1,553,800	1,553,800
6	Total Rate Revenues, Existing Rates, (Subject to Rate Increases)	\$25,895,200	\$26,138,614	\$26,384,462	\$26,632,769	\$26,883,558
7						
8	Future Wastewater Rate Increases					
9						
10		%	Months Effective in			
11		Increase	Initial Year			
12	FY 19/20	1.50%	6	\$194,000	\$392,000	\$396,000
13	FY 20/21	1.50%	6	0	199,000	\$399,000
14	FY 21/22	1.50%	6	0	402,000	405,000
15	FY 22/23	1.50%	6	0	204,000	412,000
16	FY 23/24	1.50%	6	0	0	209,000
17	Subtotal Rate Revenue from Future Rate Increases	\$194,000	\$591,000	\$1,002,000	\$1,425,000	\$1,649,000
18						
19	Other Revenues Not Subject to Rate Increases					
20	Sewage Collection Fees	\$137,610	\$137,610	\$137,610	\$137,610	\$137,610
21	Sewer Treatment Fees	649,440	649,440	649,440	649,440	649,440
22	Fines/Forfeitures/Penalties	6,000	6,000	6,000	6,000	6,000
23	Rents and Concessions	120,000	120,000	120,000	120,000	120,000
24	Trustee Interest Income	0	0	0	0	0
25	Recycled/Reclaimed Water Sales	0	0	0	0	0
26	FOG	0	0	0	0	0
27	Delinquent Sewer Service Fees	680,130	680,130	680,130	680,130	680,130
28	Grants	75,000	0	0	0	0
29	New Revenue Stabilization from Pre-Existing RUA Reserves	0	0	0	0	0
30	Total Revenue	\$27,757,380	\$28,322,794	\$28,979,642	\$29,650,949	\$30,125,738

Table 3-7 shows the projected uses of funds. The individual lines in Table 3-7 are shown in more detail earlier in this section.

Table 3-7. Projected Uses of Funds for the Wastewater System Trust Accounts

Line	FY 19/20	FY 20/21	Projected FY 21/22	FY 22/23	FY 23/24
1 Waterfall 1: Wastewater Service Fee					
2 Fixed, Routine R&R, and Labor Components	\$5,830,587	\$5,983,607	\$6,163,115	\$6,348,008	\$6,538,448
3 Chemical Component and Labor Reset Component	933,278	933,278	933,278	933,278	933,278
4 Chemical Charge Reconciliation	(147,948)	(147,948)	(147,948)	(147,948)	(147,948)
5 Waterfall 1: Reimbursements					
6 Insurance Reimbursement	600,000	618,000	636,540	655,636	675,305
7 Independent Engineer	77,688	80,019	80,019	82,419	82,419
8 Maintenance	175,000	175,000	175,000	175,000	175,000
9 Waterfall 1: Retained RUA Expenses	3,937,584	3,230,708	3,341,678	3,456,543	3,575,444
10 Waterfall 2: Annual Operating R&R Payment	420,000	432,600	445,578	458,945	472,714
11 Waterfall 3: Capital Charges	12,700,000	12,700,000	12,700,000	12,700,000	12,700,000
12 Waterfall 3: New Capital Charges	0	0	0	0	0
13 Waterfall 4: Wastewater Reserve Account Deposits	0	0	0	0	0
14 Waterfall 5: RUA Lease Payment	1,470,000	1,470,000	1,470,000	1,470,000	1,470,000
15 Total Uses of Funds	\$25,996,189	\$25,475,264	\$25,797,260	\$26,131,883	\$26,474,660
16					
17 Additional \$ Out the Waterfall	\$1,780,299	\$2,977,762	\$3,101,883	\$3,435,411	\$3,565,384
18					
19 Ending Wastewater Reserve Balance	\$6,131,547	\$6,001,316	\$6,081,815	\$6,165,471	\$6,251,165

Table 3-8 shows the financial performance criteria, including the Trust Reserve Requirement calculation and the Trust Coverage Calculation. This table shows that all three financial performance criteria are met through FY 23/24.

Table 3-8. Projected Financial Performance Criteria

Line	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24
1 TRUSTEE COVERAGE CALCULATION (Criterion: Free Cash Flow After Waterfall 1 -3 Paid > 15% of Capital Charges)					
2 Revenues Going into Trust	\$27,757,380	\$28,322,794	\$28,979,642	\$29,650,949	\$30,125,738
3 Less Development Impact Fee/Connection Charge Revenues	(787,050)	(787,050)	(787,050)	(787,050)	(787,050)
4 Plus Revenue Stabilization from City's Pre-Existing Reserves	0	0	0	0	0
5 <u>Less Waterfall 1-2</u>	(\$11,826,189)	(\$11,305,264)	(\$11,627,260)	(\$11,961,883)	(\$12,304,660)
6 Balance, Available for Capital Charge	\$15,144,141	\$16,230,480	\$16,565,332	\$16,902,016	\$17,034,028
7 <u>Less Capital Charges</u>	(\$12,700,000)	(\$12,700,000)	(\$12,700,000)	(\$12,700,000)	(\$12,700,000)
8 Free Cash Flow Before RUA Lease Payment	\$2,444,141	\$3,530,480	\$3,865,332	\$4,202,016	\$4,334,028
9 Ratio (Free Cash Flow Divided by Capital Charges)	19.2%	27.8%	30.4%	33.1%	34.1%
10					
11 TRUSTEE REQUIRED WASTEWATER FUND RESERVE CALCULATION					
12 (Criteria: 25% service fees, reimbursable pmts, facility auth expenses, ORR pmts, Capital Charges (waterfall 1 - 3))					
13 Required Water Reserve Fund Reserve Balance					
14 Sum of above items	\$24,526,189	\$24,005,264	\$24,327,260	\$24,661,883	\$25,004,660
15 25% of the sum of above items	\$6,131,547	\$6,001,316	\$6,081,815	\$6,165,471	\$6,251,165
16					
17 RUA EOY Reserve Balance Before Adjusting to Minimum Value	\$7,911,846	\$8,979,078	\$9,183,698	\$9,600,881	\$9,816,549
18 Additional Amount Out of Waterfall	\$1,780,299	\$2,977,762	\$3,101,883	\$3,435,411	\$3,565,384
19					
20 CALCULATED DAYS OF RESERVES (Criteria: Ending Year RUA Reserve Balance Divided by Waterfall 1 - 5 Expenses * 365)					
21 Days of Reserves	215	246	289	332	380
22 90 Days of Waterfall 1-5 Expenses	\$6,410,019	\$6,281,572	\$6,360,968	\$6,443,478	\$6,527,998

The projected RUA ending reserve balance in FY 23/24 is approximately \$27.6 million (see Table 3-5), which exceeds the projected 90 days of Waterfall 1-5 expenses by approximately \$21.1 million. This implies that a significant amount of RUA reserves would be available for the City to devote to future capital projects (if the City chooses to) once they are defined. Alternatively, the City has the option of holding its reserve balance for emergency repairs in the event they are needed to address emergencies.

3.3 Proposed Wastewater Rate Schedule

Table 3-9 shows the proposed wastewater rate schedule, defined by applying 2.5 percent annual rate increases to the existing wastewater rate schedule.

The proposed rates to become effective on January 1, 2020 are based on the following formula:

- $1/1/20 \text{ Rate} = \text{Current Rate} * 1.015$

Wastewater rates in subsequent years will be defined by the following formula:

- New Rate = the smaller of:
 - $\text{Previous Rate} * \text{Most Recent September Riverside CPI-U Value} / \text{Previous September Riverside CPI-U Value}$,
 - $\text{Previous Rate} * 1.015$
- For example, the formula for rates to become effective on January 1, 2021 will be the smaller of:
 - $1/1/21 \text{ Rate} = 1/1/20 \text{ Rate} * \text{September 2020 Riverside CPI-U Value} / \text{September 2019 Riverside CPI-U Value}$
 - $1/1/21 \text{ Rate} = 1/1/20 \text{ Rate} * 1.015$

The rates that will become effective on 1/1/20 are known, are shown in Table 3-9, and are labeled “Proposed”. The rates that will become effective on 1/1/21 and in subsequent years are not yet known and are labeled “Projected”. The projected rates in Table 3-9 are based on a 1.5 percent annual increases.

Table 3-9. Proposed and Projected Wastewater Rates

Line	Customer Type	Current 1/1/2019	Proposed 1/1/2020	1/1/2021	Projected 1/1/2022		1/1/2023	1/1/2024	Unit
1	Group I								
2	Residential	\$62.19	\$63.12	\$64.07	\$65.03	\$66.01	\$67.00	per month	
3	Residential X 1.3	\$80.84	\$82.05	\$83.28	\$84.53	\$85.80	\$87.09	per month	
4	Residential Multi.	\$62.19	\$63.12	\$64.07	\$65.03	\$66.01	\$67.00	per month per unit	
5									
6	Group II								
7	Commercial	\$6.77	\$6.87	\$6.97	\$7.08	\$7.19	\$7.29	per HCF	
8	(includes - Softwater Service, Car Wash, Office Buildings, Cleaners,								
9	Department/Retail Stores, Warehouse, Car lots, Equipment Rental, Storage Units,								
10	Hospitals, Manufacturing, Indoor Theater, Day Care, Pre School,								
11	Disabled Care, Nail/Hair Salon, Church)								
12									
13	Group III								
14	Commercial	\$7.96	\$8.08	\$8.20	\$8.32	\$8.45	\$8.58	per HCF	
15	(includes - Hotels /Motels (no restaurant), repair and Service Station,								
16	Shopping Center, Recreation Park, Nursery/Florist,								
17	Manufacturing - Non-Domestic, Lumber Yard, Nightclub, Bar, Hall)								
18									
19	Group IV								
20	Commercial	\$10.17	\$10.32	\$10.48	\$10.63	\$10.79	\$10.96	per HCF	
21	(includes - Hotels /Motels (w/restaurants), Bakeries, Dairy,								
22	Supermarkets, Dairy, Meat Market, Mom & Pop, Mortuary, Restaurants,								
23	Fast Food, Catering)								
24									
25	Group V								
26	Schools -								
27	Elementary	\$0.85	\$0.86	\$0.88	\$0.89	\$0.90	\$0.92	per month per student	
28	Junior High	\$2.03	\$2.06	\$2.09	\$2.12	\$2.15	\$2.19	per month per student	
29	High	\$2.03	\$2.06	\$2.09	\$2.12	\$2.15	\$2.19	per month per student	
30	Continuation	\$0.85	\$0.86	\$0.88	\$0.89	\$0.90	\$0.92	per month per student	
31	Adult Education	\$0.85	\$0.86	\$0.88	\$0.89	\$0.90	\$0.92	per month per student	
32									
33	Group VI								
34	Large Volume	\$6.77	\$6.87	\$6.97	\$7.08	\$7.19	\$7.29	per HCF	
35	Hospital	\$6.77	\$6.87	\$6.97	\$7.08	\$7.19	\$7.29	per HCF	
36	Commercial Building	\$6.77	\$6.87	\$6.97	\$7.08	\$7.19	\$7.29	per HCF	

Section 4

Comparison with Other Utilities

This section shows comparisons of existing monthly water and wastewater bills for the following utilities:

- City of Rialto
- City of Colton
- Cucamonga Valley Water District (“CVWD”)
- Fontana Water Company (water only)
- City of Redlands
- San Bernardino Municipal Water Department (“SBMWD”)
- West Valley Water District (water only)
- City of Fontana (wastewater only)

Table 4-1 shows a monthly water bill comparison for a single-family residence using 17 hcf/month, which is the current average monthly water consumption in Rialto for a single-family residence. Water bills shown in Table 4-1 are for a customer with a $\frac{3}{4}$ ” meter except for SBMWD (which uses $\frac{5}{8}$ ” meters for the majority of their single-family residential customers) and Colton (which uses 1” meters). Table 4-1 shows that Rialto’s current rates are in the middle of the range of the other utilities.

Colton has adopted a rate increase of approximately 1% to become effective on 7/1/20. The other utilities in this table have not adopted rate increases that will become effective in the future. However, utilities typically review their rates periodically and are expected to increase their rates in the future. Fontana Water Company is in the process of seeking Public Utilities Commission (“PUC”) approval for further rate increases. These rate increases are not shown in Table 4-1 because they have not yet received PUC approval.

Table 4-1. 7/1/19 Monthly Water Bill Comparison, Single-Family Residence, 17 hcf/month

	Monthly Bill
Rialto	\$56.05
Colton	\$54.19
Cucamonga Valley Water District	\$59.02
Fontana Water Company	\$93.78
Redlands	\$60.04
SBMWD	\$48.86
West Valley WD	\$59.61

Notes:

(1) Rates effective as of 7/1/19 unless otherwise noted, and for a customer with a $\frac{3}{4}$ ” water meter (except $\frac{5}{8}$ ” in SBMWD and 1” in Colton)

(2) Colton has adopted a ~1% rate increase to become effective

(3) Fontana Water Company is currently in the process of seeking Public Utility Commission approval for a rate increase

Table 4-2 is a comparison of monthly wastewater bills. This table shows that Rialto’s rates are higher than neighboring utilities. As with water rates, the other utilities shown in Table 4-2 have not adopted rate increases that would become effective after 7/1/19, though future rate increases should be expected.

Inland Empire Utilities Agency (“IEUA”) provides wastewater treatment services to the City of Fontana and CVWD. IEUA is in the process of completing a rate study, and if rate increases are adopted, the rates shown for the City of Fontana and CVWD will increase from what is shown in Table 4-2. Additionally, IEUA charges property taxes in its service area to support its wastewater system. Table 4-2 only shows wastewater rates, and the total amount paid for wastewater service (including property taxes) is higher than what is shown in Table 4-2.

Table 4-2. 7/1/19 Monthly Wastewater Bill, Single-Family Residence

	Monthly Bill
Rialto	\$62.19
Colton	\$34.33
Cucamonga Valley Water District	\$25.73
City of Fontana	\$26.96
Redlands	\$25.03
SBMWD	\$33.00

Notes:

(1) Rates effective as of 7/1/19 unless otherwise noted

(2) Inland Empire Utilities Agency (“IEUA”) provides wastewater treatment service to CVWD and the City of Fontana. IEUA is currently completing a rate study which is expected to propose rate increases that will increase the rates charged by Fontana and CVWD.

(3) IEUA collects property taxes in addition to wastewater rates. Data in this table only shows wastewater rates, and the total amount paid by CVWD and Fontana ratepayers (including property taxes) is higher than shown in Table 3-2.

(4) City of Fontana's monthly bill is an estimate, based on the 7/1/18 rate for local wastewater collection and IEUA's 7/1/19 rate for wastewater treatment as reported by CVWD.

Section 5

Ongoing Considerations

This CPI Adjustment Report and the projected rate schedules shown in Sections 2 and 3 cover a planning period through FY 23/24. There are a number of factors that could change over the next few years that have financial implications. The extent to which these factors change will influence the financial condition of the water and wastewater systems and the City's ongoing reviews of water and wastewater rates.

The City should continue to monitor its financial status on an ongoing basis, and should continue to monitor the following:

- *Water consumption.* Water system revenues depend on water consumption. Water consumption decreased during the drought and has partially rebounded since 2015. The financial projections in this analysis are based on FY 17/18 and FY 18/19 consumption. Lower water consumption (whether resulting from additional conservation or wet months where outdoor irrigation is lower), will result in less reliance on imported water, which reduces costs, but it will also result in reduced revenues. The City is aware of the need to monitor water consumption and make necessary adjustments to spending.
- *Capital project spending.* The City Council has placed a hold on new capital projects until ongoing projects are finished and capital plans are reviewed and approved. The financial projections in this report do not include any capital spending beyond what is included in the proposed FY 19/20 RUA Budget. For the wastewater system, RUA reserves are anticipated to be sufficient to cover future capital spending needs through FY 23/24. Funding for water system improvements will rely on the remaining uncommitted FIP and a small amount of RUA water system reserves.
- *Inflation rates.*
 - Inflation rates will affect revenues, because the rate increases are based on the actual change in the Consumer Price Index. The projected water rates from 2021 through 2024 shown in this analysis are based on an inflation rate of 3.0 percent per year. Deviation in inflation rates from this value will have financial implications.
 - Inflation rates also will affect expenses. Many expenses, including the RWS Service Fees, are also tied to actual changes in inflation rates. Projected expenses are based on a 3.0 percent annual inflation rate for most items. Deviations in inflation rates from this value will also have financial implications.
- *Development activity in the Division's service area.* The financial calculations incorporate a 1% annual system growth rate, corresponding to approximately 330 new wastewater Equivalent Residential Units ("ERUs") per year and approximately 130 new water system ERUs per year. Higher system growth through FY 23/24 will result in more revenues than projected in this analysis (from both Development Impact Fees and utility rate revenues paid by the future customers). The City should monitor system growth and make any appropriate adjustments to budgeting and spending plans.
- *Ongoing negotiations with RWS and Veolia regarding labor costs.* RWS and Veolia have proposed two adjustments to the Service Fee:
 1. A Service Fee revision to reflect what RWS and Veolia consider additional needed staff for certain clerical and managerial tasks, referred to as the "Clerical and Managerial Labor Reset". This would increase both the Water Service Fee and the Wastewater Service Fee.
 2. A Service Fee revision to reflect what RWS and Veolia consider additional needed staff for the City's Municipal Industrial Pretreatment Program ("MIPP"), referred to as the "MIPP Labor Reset." This would increase the Wastewater Service Fee and it would not affect the Water Service Fee.

The City is reviewing these requests and negotiations with RWS and Veolia are ongoing. Since neither Labor Reset has been approved by the City, potential costs are not incorporated into this CPI Adjustment analysis.

Appendix A: Supporting Calculations
