



City of Rialto

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Title: Recommend City Council/Rialto Utility Authority Approval of the Proposed Consumer Price Index Rate Adjustments for Water and Wastewater Utility Services at the Public Hearing Scheduled for November 12, 2019, as supported by the FG Solutions Financial Planning Analysis Report.

Sponsors: Susanne Wilcox

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Attachments: 1. Attachment 1 - 081319 Report.pdf, 2. Attachment 2 - 218 Notice Water.pdf, 3. Attachment 3 - 218 Notice Sewer.pdf

Date	Ver.	Action By	Action	Result
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For Utilities Commission Meeting [September 17, 2019]

TO: Honorable Chairperson and Commission

APPROVAL: Thomas J. Crowley, P.E., Utilities Manager

FROM: Susanne Wilcox, Administrative Analyst

Recommend City Council/Rialto Utility Authority Approval of the Proposed Consumer Price Index Rate Adjustments for Water and Wastewater Utility Services at the Public Hearing Scheduled for November 12, 2019, as supported by the FG Solutions Financial Planning Analysis Report.

BACKGROUND:

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

In 2012, the City Council/Rialto Utility Authority adopted resolutions approving a Concession Agreement with Rialto Water Services (RWS). The Concession Agreement outsourced the operations and maintenance of the City's Water and Wastewater enterprise to a private contractor for a term of thirty years.

Per the Concession Agreement, the City maintains ownership of all assets and the authority and responsibility for setting utility rates subject to contractual obligations and financial performance standards.

As a result of years of declining revenues, the City deferred much of the utility-related maintenance

projects to avoid utility customer rate adjustments. Analysis done prior to the Concession Agreement, outlined projects and maintenance work that needed to be done to ensure continued operations and system reliability. A financial analysis was also completed and rate adjustments to both water and wastewater rates was recommended. In 2012, the City adopted a five-year rate schedule through a Proposition 218 process. The water and wastewater rates were last adjusted on January 1, 2018.

The rate adjustments approved in 2012 allowed for the financing and implementation of \$41 million in improvements and repairs that improved system reliability and efficiencies for both the water and wastewater systems.

Out of the \$41 million in financing, \$13 million was approved for water infrastructure investments in the following projects:

- Water Meter Replacements - As water meters age, the reliability and accuracy declines. By replacing old meters, the precision of usage data collected increases and the speed of collection improves, thereby improving the billing process and accuracy.
- Supervisory Control and Data Acquisition (SCADA) - Installation of a SCADA system that improved staff's ability to control the water system remotely and ensure there is an adequate supply of water and it can be delivered efficiently to customers.
- Water Booster Improvements - Boosters move water from one part of the system to another and replacement of valves pumps, motor control centers and associated mechanics have improved reliability and reduced electricity costs for the facilities.
- Cedar Reservoir Improvements - Improved safety by providing access and ensuring the Reservoir could withstand an earthquake.
- City Well #2 Improvements - Replacement of pumps, motor control centers and other associated mechanical equipment to improve reliability and reduce electricity costs.
- Small Mains Replacement - Replace mains as necessary to improve fire flow and reduce leakage thereby reducing costs.
- Dead-end Mains - Improvements to the water main system that allow for adequate circulation and improves water flow and quality.
- Large Valve Replacements - Replacements done to improve water system control.

Out of the \$41 million in financing was the \$28 million approved for wastewater infrastructure investments in the following projects:

- Sewer Manhole Rehabilitations - Rehabilitating the manholes protects the sewer line and staff that need them to access the system for maintenance purposes.
- Willow Avenue Sewer Pipe Upsizing - Project increased the size of sewage mains to provide for adequate capacity and provide for growth within the City.

- Wastewater Treatment Plant Improvements, also known as the “S1 Project” - This is a large-scale improvement project renovating and upgrading the Treatment Plant to replace aging infrastructure, reduce risks of emergency failure and increase capacity to treat sewage.

ANALYSIS/DISCUSSION:

As part of the City’s responsibility to provide safe and reliable water and wastewater services and as required by the Concession Agreement, the City retained FG Solutions, LLC, to evaluate the water and wastewater financial performance and to complete a Financial Planning Analysis (Analysis) on the City’s water and wastewater systems. A copy of the report is included as **Attachment 1**. As a result of this Analysis, the City is proposing Consumer Price Index (“CPI”) adjustments for the water and wastewater rates.

The general assumptions and methodologies used to support the proposed CPI adjustments to meet the cash needs of each utility included:

- Projecting expenses over the five-year period beginning in Fiscal Year (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 adjustments to water and wastewater rates.
- The projected revenues and expenses are based on factors including known contractual requirements, projected work needs, and recent historical expenses as reflected in the City’s FY 19/20 Budget.
- An estimated 1 percent annual system growth rate.
- An annual inflation rate of 3 percent was applied to most expenses. The proposed inflation rate is based on the most recent (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.
- CPI adjustments through FY 23/24. The formulas that will be used to define the CPI adjustments are shown below.
- CPI adjustments 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 adjustments 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 FY19/20 budget. This is because the City has not yet approved a capital improvement plan 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.

WATER

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

- The January 1, 2020, rate was calculated by using the Current Rate and multiplying it by the May 2019 Riverside CPI-U Value then dividing the subtotal by the 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
 - Percent (%) Increase = 2.944% (2.944% = 105.959 divided by the 102.929 - 1)

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

- New Rate will equal the Previous Rate multiplied by Most Recent September Riverside CPI-U Value, divided by the Previous September Riverside CPI-U Value
- For example, the formula for rates to become effective on January 1, 2021 will be:
- The January 1, 2021, rate equals the rate in place on January 1, 2020, multiplied by the September 2020 Riverside CPI-U Value and then divided by the September 2019 Riverside CPI-U Value.

Although the total cost of future capital improvements through FY 23/24 is not yet known, water system revenues including the proposed CIP in addition to current reserves are anticipated to be sufficient to cover operating expenses, future capital improvements, and financial performance requirements through FY 23/24. When the City adopts a future capital improvement plan, the City will prioritize capital spending with available reserves in mind. The City also has the option of not spending its reserves to cover the costs of emergency repairs.

Table 1 below shows proposed and projected water rates. The rates that are proposed to become effective on January 1, 2020, are known, and are shown in Table 1, labeled “Proposed”. The rates that are proposed to become effective on January 1, 2021, and in subsequent years are not yet known and are labeled “Projected” and are based on an estimated 3.0 annual percent change in the Riverside CPI-U

Table 1. Proposed and Projected Water Rates

Line	Water Rate Component	Current	Proposed	Projected			Unit
		1/1/2019	1/1/2020	1/1/2021	1/1/2022	1/1/2023	
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	per month
4	3/4" meter	\$30.42	\$31.32	\$32.25	\$33.22	\$34.22	per month
5	1" meter	\$44.01	\$45.31	\$46.66	\$48.06	\$49.51	per month
6	1 1/2" meter	\$53.04	\$54.60	\$56.24	\$57.93	\$59.66	per month
7	2" meter	\$152.54	\$157.03	\$161.74	\$166.59	\$171.59	per month
8	3" meter	\$324.45	\$334.00	\$344.02	\$354.34	\$364.97	per month
9	4" meter	\$550.59	\$566.80	\$583.80	\$601.32	\$619.36	per month
10	6" meter	\$1,138.62	\$1,172.14	\$1,207.30	\$1,243.52	\$1,280.83	per month
11	8" meter	\$1,636.17	\$1,684.34	\$1,734.87	\$1,786.91	\$1,840.52	per month
12	Fire Hydrant Water	\$324.45	\$334.00	\$344.02	\$354.34	\$364.97	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	per HCF
17	6 - 30 Units	\$1.69	\$1.74	\$1.79	\$1.85	\$1.90	per HCF
18	31 - 60 Units	\$2.70	\$2.78	\$2.86	\$2.95	\$3.04	per HCF
19	61 - Over units	\$3.32	\$3.42	\$3.52	\$3.63	\$3.73	per HCF
20	<u>Multiple Apartments</u>						
21	Over 49 Units and Mobile Homes	\$2.40	\$2.47	\$2.54	\$2.62	\$2.70	per HCF
22	<u>Landscape</u>						
23	1 to 30 Units	\$2.70	\$2.78	\$2.86	\$2.95	\$3.04	per HCF
24	31 and over units	\$3.32	\$3.42	\$3.52	\$3.63	\$3.73	per HCF
25							
26	Fireline						
27	Rate	\$27.91	\$28.73	\$29.59	\$30.48	\$31.40	per inch of line
28	Hydrant						
29	Rate	\$3.33	\$3.43	\$3.53	\$3.64	\$3.75	per HCF
30	Per Day	\$10.81	\$11.13	\$11.46	\$11.81	\$12.16	per day

WASTEWATER

The proposed rates effective on January 1, 2020, are based on the following formula with a maximum of 1.5 percent:

- The January 1, 2020, rate is equal to the Current Rate multiplied by 1.015.

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

- New Rate equals the smaller of:
- Previous Rate multiplied by Most Recent September Riverside CPI-U Value divided by the Previous September Riverside CPI-U Value, or
- Previous Rate multiplied by 1.015
- For example, the formula for rates to become effective on January 1, 2021, will be the smaller of:
- January 1, 2021, rate is equal to the January 1, 2020, Rate multiplied by September 2020 Riverside CPI-U Value, then divided by the September 2019 Riverside CPI-U Value, or
- January 1, 2021, rate is equal to the January 1, 2020 Rate multiplied by 1.015.

Table 2 below, shows proposed and projected wastewater rates. A 1.5 percent cap on wastewater rate adjustments is proposed because larger adjustments are not projected to be necessary, even if inflation increases. Annual 1.5 percent adjustments are projected to provide sufficient revenues to fund wastewater utility expenses through FY 23/24, meet financial performance criteria, and provide sufficient RUA reserves to either fund capital projects the City may approve or hold to address emergency repairs.

The rates that are proposed to become effective on January 1, 2020, are known, are shown in Table 2, and are labeled “Proposed”. The rates that are proposed to become effective on January 1, 2021, and in subsequent years are not yet known and are labeled “Projected” and are based on 1.5 percent annual adjustments.

Table 2. Proposed and Projected Wastewater Rates

Line	Customer Type	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	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

Comparison with Other Utility Agencies

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)

Water Comparison

Table 3 below, 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 3 are for a customer with a ¾” meter except for SBMWD (which uses 5/8” meters for the majority of their single-family residential customers) and Colton (which uses 1” meters). Table 3 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 percent to become effective on July 1, 2020. The other utilities in this table have not adopted rate adjustments 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 3 because they have not yet received PUC approval to implement their proposed rate increases.

**Table 3. July 1, 2019 Monthly Water Bill Comparison
Single-Family Residence, 17 hcf/month**

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

Wastewater Comparison

The following table is a comparison of monthly wastewater bills.

**Table 4. July 1, 2019 Monthly Wastewater Bill
Single-Family Residence**

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

The table above shows Rialto’s current rates. The difference in rates between the agencies listed

can be directly attributed to the following reasons:

- After many years of deferred maintenance, the City made a notable investment into the existing sewer collection and treatment facilities that will protect the sewer system and prolong the operating capabilities for years to come.
- Construction of projects that increased the size of sewer lines in key areas. These projects provided improved system capacity and ability to handle growth within the sewer service area.
- Efforts have been made and projects implemented that have enhanced system efficiencies, safety and reduced operating costs.
- Existing debt that was refinanced by the City and directly chargeable to the Wastewater Fund.
- Financing required to implement the Concession Agreement and directly chargeable to the Wastewater Fund.
- Construction of capital projects necessary to ensure the continued reliability of the sewer system. These projects are referred to as Facility Improvement Projects or “FIPs.”
- Investments made in the City’s growth and development and the resulting increase in sewage carried through the sewage distribution system and processed by the Wastewater Treatment Plant.

It should be noted that the above discussed debt financing makes up approximately 50% of the rate and that the portion of the rate attributable to operations and maintenance lies within the midrange of the agencies surveyed.

In addition, as with water rates, the other utilities shown in Table 4 have not adopted rate increases that would become effective after July 1, 2019, although future rate increases by these agencies should be expected.

Finally, Inland Empire Utilities Agency (“IEUA”) provides wastewater treatment services to the City of Fontana and CVWD which is reflected on the property tax bill as opposed to a monthly bill. 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 service areas will increase from what is shown in Table 4.

Proposition 218 Public Hearing Requirements/Protest Voting

Proposition 218 requires that the following take place prior to the approval of any fee or charge imposed upon property:

1. The parcel upon which the fee or charge is proposed for imposition must be identified;2. The amount of the fee or charge to be imposed must be calculated;
3. Written notice by mail of the proposed fee or charge must be provided to the record owner of each identified parcel; and

4. A public hearing must be conducted upon the proposed fee or charge no earlier than 45 days after written notice is mailed.

The water and wastewater rate adjustments are subject to majority protest, which means that the rates cannot be imposed if a majority of owners (or renters if they are financially responsible for the bill) submit a written protest (one vote per parcel). The protests will be tabulated and submitted as part of the public record for the public hearing. The first rate adjustment is proposed to become effective on January 1, 2020.

Per Proposition 218, the City may adopt automatic adjustments to the water rates; provided they not exceed five years, the formula for the adjustments are clearly defined, and the City provides notice not less than 30 days before each annual adjustment. (Gov. Code sec. 53756.) If approved, the City will provide such annual notices per Proposition 218 requirements.

Attachments 2 and 3 are the Proposition 218 Notifications for water and wastewater, respectively. The Notices were distributed to the eligible property owners within the water and wastewater service areas on or before September 13, 2019. The Notices were mailed to the utility customer with the regular monthly billing statement and to the property owner's address on the last equalized assessment roll if that address is different than the service address.

FINANCIAL IMPACT:

Operating Budget Impact

The proposed water and wastewater user rates will provide resources that will create operating and capital budget impacts for the Water and Wastewater Enterprise Funds and the City General Fund. Over the five-year period, the water rate adjustments are projected to generate an additional \$5.0 million in revenue and the wastewater rate adjustments are projected to generate an additional \$4.9 million in revenue.

If the proposed rate adjustment is adopted, the projected sewer reserve revenues will be an estimated \$7.6 million, by the end of the 2023/24 Fiscal Year. The projected water reserve revenues are estimated at \$2.1 million for the same time period.

Capital Improvement Budget Impact

There is no impact on the Capital Improvement Budget.

RECOMMENDATION:

Staff requests the Utility Commission recommend City Council/Rialto Utility Authority approval of the proposed Consumer Price Index Rate Adjustments for Water and Wastewater utility services at the Public Hearing scheduled for November 12, 2019, and supported by the FG Solutions Financial Planning Analysis Report.