



City of Rialto

Legislation Text

File #: 21-0829, Version: 1

For City Council and Rialto Utility Authority Meeting [December 14, 2021]

TO: Honorable Mayor and City Council

APPROVAL: Marcus Fuller, City Manager

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

Request City Council/Rialto Utility Authority Board to: (1) Receive a Presentation on the Rialto Utility Authority Financial Analysis, and (2) Adopt **Resolution No. 7819** Amending the 2021-2022 Fiscal Year Budget Authorizing a Transfer of \$4,873,105 from the American Rescue Plan Act Fund (Fund 232) to the Rialto Utility Authority Water Enterprise Fund (Fund 670).

(ACTION)

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 in portions of Fontana and Bloomington. The City's water service area is generally located within the central portion of the City between Baseline Road and I-10.

In 2012, the City Council/RUA 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.

In 2012, the City adopted a five-year rate schedule through a Proposition 218 rate setting majority protest 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.

ANALYSIS/DISCUSSION

The City Council/RUA Board of Directors adopted the fiscal year 2021/2022 RUA budget for the water and wastewater utilities on July 27, 2021, which included reasonable estimates of expenses, transfers and ending reserves. The RUA budget includes two separate Funds: Wastewater Fund (660) and Water Fund (Fund 670). The Wastewater Fund has an adopted budget of \$27.3 million in revenue and \$27.8 million in expenditures with a projected Fund Balance of \$4.4 million at end of fiscal year. The Water Fund has an adopted budget of \$14.2 million in revenue and \$14.9 million in expenditures requiring a transfer of Water Fund reserves of \$1.4 million to provide sufficient financial coverage required by the Concession Agreement. The Water Fund is estimated to end the fiscal year

with a balance of \$3.1 million.

The Wastewater Fund is currently stable. The Wastewater Fund has not required a transfer of supplemental reserves in the past and is not expected to require use of financial reserves in the near term. This forecast includes funding a planned wastewater Capital Improvement Program of \$15.85 million over the next 5-years.

At current rates, Wastewater revenue is expected to be sufficient to fund the next 5-years of operations. There has been modest increases in revenue due to growth and expansion of residential and commercial properties requiring connections to the City's sewer system, thereby increasing the customer base and related wastewater revenue.

On the other hand, over the past several years the Water Fund has been under pressure due to the revenue impact of a sustained 14.5% average annual decline in water consumption. The City has been successful in developing water conservation programs in furtherance of reducing consumption during periods of drought, however, these programs reduce revenue associated with water consumption leading to declining revenue. Many water agencies are suffering this same dilemma.

To remain stable, the Water Fund has required the transfer of reserves to address an operating cash flow deficit and to meet financial coverage requirements required in the Concession Agreement. A total of \$1,100,000 was transferred from Water Fund reserves to meet coverage requirements in Fiscal Year 2018-2019 with the full amount returned at the end of the fiscal year. The following year in Fiscal Year 2019-2020 a total of \$900,000 was transferred from Water Fund reserves to meet coverage requirements with \$586,062 returned, reducing Water Fund reserves by \$313,938. The following year in Fiscal Year 2020-2021 a total of \$2,000,000 was transferred from Water Fund reserves to meet coverage requirements with \$1,840,506 returned, reducing Water Fund reserves by \$159,494. The current Fiscal Year 2021-2022 budget includes a transfer of \$1,400,000 from Water Fund reserves to meet coverage requirements and may need to be increased to \$1,750,000 to address the water operating cash flow deficit.

The principal cause of the increase in reserve use in 2021 relates to a \$990,000 increase in delinquencies during the COVID water shut off moratorium. The State Water Board has instituted a water arrearage reimbursement program that is expected to provide an estimated \$400,000 reimbursement in December 2021 to address the cumulative water arrearage resulting from the water shut off moratorium. If this reimbursement is realized it will help eliminate the need for additional reserves to be transferred. Noting the financial implications of ongoing water payment delinquencies, staff is requesting a thorough review of the shut off moratorium policy.

There are many factors that go into the revenues not keeping pace with the expenses. It is anticipated that it will be necessary to continue to make transfers for the foreseeable future without a rate adjustment or some other means to meet operating cash needs and the coverage requirements of the Concession Agreement.

The need for additional revenue for the water utility is attributed to the following causes:

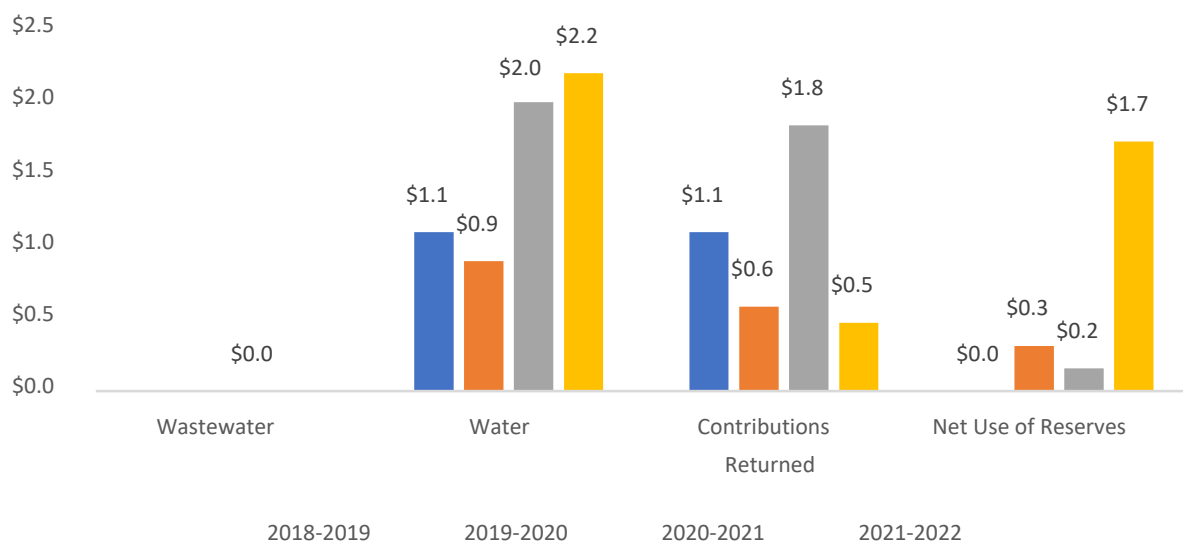
- A decline in water consumption (-14.5% vs. average),
- Lost revenue, and in particular the adverse impact of delinquencies accrued during the water shut off moratorium,

- Increase in city administrative costs,
- Planned cost escalation, and,
- Increasing operating expenditures.

To meet this need, reserve funds are being transferred to meet financial requirements. Although, most excess reserves have been returned to the Water Fund reserve after meeting the coverage requirements, now for the first time the Water Fund anticipates a cash deficit related to meeting operating expenses. Current projections indicate that the cash deficit is becoming more severe and is projected to rise to a cumulative operating loss of \$7.8 million from 2022 to 2026. When coverage requirements are added, total cash needed to support operating cash flow and coverage increases to \$11.08 million over the 2022-2026 period.

Use of Reserves to Support Water Utility

Finances



Water Utility Outlook FY 2022-2026

	FY22	FY23	FY24	FY25	FY26	Total
Water Rate Revenue	13.5	13.5	13.5	13.5	13.5	67.5
Water Expenses	14.5	14.8	15.1	15.1	15.8	75.3
Net Cash Flow	-1	-1.3	-1.6	-1.6	-2.3	-7.8
Add back lease payment	0.7	0.7	0.7	0.7	0.7	
Coverage	0.5	0.5	0.5	0.5	0.5	
Excess Coverage	-1.5	-1.8	-2.1	-2.1	-2.8	
Net Capital Required	-2.5	-3.1	-3.7	-3.7	-5.1	11.08

On alternative to stabilizing the Water Fund is the use of the City's allocation of Coronavirus State

and Local Fiscal Recovery (SLFR) Funds through the American Rescue Plan Act (ARPA). The City was awarded \$29,373,105 in SLFR funds through the ARPA, and on October 26, 2021, the City Council amended the Fiscal Year 2021-2022 Budget to appropriate the full amount of SLFR funds into various uses leaving a balance of \$4,873,105 that will be allocated to future capital projects or other uses to be determined by the City Council.

At this time, given the concern with financial stability of the Water Fund staff recommends the City Council amend the Fiscal Year 2021-2022 Budget and appropriate the balance of \$4,873,105 in SLFR funds as a transfer to the Water Fund for the water rate stabilization account. These funds will address immediate cash flow requirements for Fiscal Year 2021-2022 and Fiscal Year 2022-2023. The City will need to evaluate the adequacy of Water Fund revenue in 2023 to ensure that the Water Fund is stabilized moving forward.

Items for consideration on stabilizing the Water Fund includes:

- (1) Restoring the water shut off policy for delinquencies to address the adverse impact of the COVID water shut off moratorium on the financial condition of the water utility at the time the state suspends its moratorium, subject to a repayment plan.
- (2) Evaluating operational revenues with operational expenditures in light of the 14.8% average annual decline in water consumption since 2012, understanding that the decline in water consumption and related revenue will not likely recover.

Most of the water systems in California and western United States are experiencing similar declines in water use attributed to water conservation, drought and climate change. Most water utility expenses are fixed and the decline in water use results in the need to look at long term water utility revenue requirements, rate structure, and overall water affordability.

For the future, staff is working with RWS to develop a plan to ensure the water utility meets the financial coverage requirements, maintain the City's support to senior citizens and lower income community members, and identify all possible sources of revenue, including grants and securing financing by using the Clean Water State Revolving Fund (CWSRF) and Water Infrastructure Finance and Innovation Act (WIFIA).

ENVIRONMENTAL IMPACT

This report is not a "Project" as defined by the California Environmental Quality Act (CEQA). Pursuant to Section 15378(a), a "Project" means the whole of an action, which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. According to Section 15378(b), a Project does not include: (5) Organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment.

GENERAL PLAN CONSISTENCY

This action is consistent with Guiding Principle 3 in the General Plan:

Our City government will lead by example, and will operate in an open, transparent, and responsive manner that meets the needs of the citizens and is a good place to do business.

LEGAL REVIEW

The City Attorney has reviewed and supports the staff report.

FINANCIAL IMPACT:

Operating Budget Impact

The requested action does allow for the stabilization of the RUA Operating Budget.

Capital Improvement Budget Impact

The requested action does not impact the Capital Improvement Budget.

Licensing

The requested action does not impact Business Licensing in the City.

RECOMMENDATION

Staff recommends that the City Council/Rialto Utility Authority Board:

- 1) Receive a Presentation on the Rialto Utility Authority Financial Analysis, and
- 2) Adopt **Resolution No. 7819** Amending the 2021-2022 Fiscal Year Budget Authorizing a Transfer of \$4,873,105 from the American Rescue Plan Act Fund (Fund 232) to the Rialto Utility Authority Water Enterprise Fund (Fund 670).