



Agenda Report

File #: 19-0998

**AGENDA REPORT
REQUEST FOR CITY COUNCIL AND
CORONA UTILITY AUTHORITY ACTION**

DATE: 12/04/2019

TO: Honorable Mayor and City Council Members
Honorable President and Board Members

FROM: Department of Water and Power

SUBJECT:

Public Hearing for City Council and Corona Utility Authority consideration of Ordinance No. 3309 modifying the Budget Based Water Structure and establishing rates for potable and reclaimed water service fees and charges and Temporary Revenue Stability Charges.

RECOMMENDED ACTION:

That the:

1. City Council review and adopt the City of Corona Potable and Reclaimed Water Rate Study Final Report dated October 2019.
2. City Council introduce, by title only, and waive full reading of Ordinance No. 3309, first reading of an ordinance modifying the Budget Based Water Structure and establishing rates for potable and reclaimed water service fees and charges and Temporary Revenue Stability Charges.
3. City Council authorize estimated revenue increases of \$1,252,964 in the Water Utility Fund 570 and \$436,753 in the Reclaimed Water Utility Fund 567, respectively, for the remainder of Fiscal Year 2019-20.
4. City Council approve an agreement for purchase of wholesale reclaimed water for groundwater recharge between the Potable and Reclaimed Water Utilities.
5. Corona Utility Authority ("CUA") review, ratify and to the extent necessary direct that the City Council take the above actions.

ANALYSIS:

The City of Corona Department of Water and Power (“DWP”) provides potable and reclaimed water services to the residents and businesses located within the City of Corona as well as several adjacent communities. DWP is committed to providing the highest quality water and reliable water service to its customers 24 hours a day, 7 days a week, at the lowest possible rates. The City’s water utility relies mainly on revenues derived from water and reclaimed water service fees and charges to fund its ongoing operations and maintenance of each respective system. The last water rate changes were in 2014 for potable water and in 2013 for reclaimed water. Since that time, DWP has worked to contain operational costs; however, costs continue to rise and are anticipated to increase over the next several years. Additionally, there are upcoming capital improvement projects that need to be completed in order to maintain the operability and reliability of the respective systems.

In order to plan and assess the current and future fiscal position of the potable and reclaimed water utilities, the DWP hired Raftelis Financial Consultants, Inc. (“Raftelis”) to perform an independent rate study to evaluate the infrastructure needs, programs and operations and maintenance costs for these two systems. DWP’s goal for the Rate Study was to establish fair and equitable rates that not only fund operational and capital expenses necessary to maintain the water systems, but also provide revenue stability in times of water supply shortages and mandatory conservation, affordable charges for customers with low water usage, and also an indirect price signal for customers with higher usage. Additionally, it was important for DWP to have an updated administrative record that properly documents the proportionate allocation of costs of providing service in accordance with both Proposition 218 as well as past court challenges related to water rates that have provided additional standards for rate justification and calculation.

The final report is attached to this staff report and is titled the ‘City of Corona Potable and Reclaimed Water Rate Study Final Report, October 2019’ (“Rate Study”). The Rate Study evaluated the revenues necessary to recover the costs for providing these services over the next five years, analyzed the cost of providing water and reclaimed water service, and the current rate design and structure. The results of the Rate Study indicate that in order to maintain current levels of service, provide for the financial stability of the water utilities and fund the planned capital replacement projects over the five-year Rate Study period, rate increases are necessary in all years of the Rate Study for both potable and reclaimed water.

The Rate Study noted that DWP has experienced revenue declines over the past several years due to drought conditions and state-mandated water use reductions. While DWP purchases and treats less water during these time periods, most of the expenses for distribution, maintenance, customer services and others remain fixed. DWP exercises fiscal responsibility during drought years by lowering operating costs where feasible. However, in order to provide for financial stability during such reduced water use experienced during times of drought and/or mandated water use reductions, the Rate Study recommended and developed Temporary Revenue Stability Charges to help bridge any future budget shortfalls caused by similar events.

There are several important points to make regarding the Rate Study and resulting recommendations. One is that the Rate Study represents a plan for the future of the utilities; while there may be changes during the execution of the plan, this is the overall plan and starting point that DWP has for the next five-year cycle. It will be important over the next five years to monitor progress towards achievement of the plan as a check on the plan assumptions and for future planning purposes. Another point is that utilities have mostly fixed costs in providing service. Rates that do not distribute fixed costs in an effective manner could either jeopardize the financial security of the utility

or conversely disincentivize the conservation of a precious resource - water. Even though water usage may decline, the infrastructure, personnel and capital needed to ensure its continued operation largely remain constant. Regulatory issues are a point of concern for the utility that must be considered as DWP must ensure that it can deliver safe and clean water to the community. As the City has seen over the past several years, monitoring activities for constituents such as perfluorooctanoic acid (PFOA) and perfluorooctanesulfonic acid (PFOS) can have an impact on the operation of the water system, which, in turn, can generate increased costs in the form of importing more expensive water and/or necessitating the creation of new testing and treatment processes. DWP is currently in the process of updating its potable water master plan; the results of that planning process will need to be considered in future rate studies in order to ensure the water utilities are continuing to collect sufficient revenues for necessary upgrades to the respective water systems as identified in the utility master plans. Lastly, it is imperative to note that while severe drought conditions have subsided, water efficiency is a new normal way of life for Californians. DWP is responsible for ensuring the long-term supply of water for Corona. As the State of California takes a larger role in water efficiency and mandated conservation, DWP will continue to look at increasing self-reliance and reducing water usage through efficiency as a means of managing water supplies.

The Rate Study calculated the revenue requirements for each utility over the five-year Rate Study period. It functionalized expenses and then allocated those expenses to the appropriate rate category - either fixed or Ready to Serve (RTS) charges and volumetric and variable Commodity Charges. The rates for the RTS charge are established based upon the size of the meter and are calculated to recover a portion of DWP's fixed costs. The Rate Study recommended shifting more fixed costs towards the RTS charge for revenue stability.

Variable costs for potable and reclaimed water, or Commodity Charges, are based on the number of units of water delivered to a property. A unit of water is equal to 748 gallons or 100 cubic feet. Each customer class (residential, non-residential and dedicated landscape customers) is provided a water budget based on standard calculations. Residential customers receive an indoor and an outdoor water budget. The residential indoor water budget is based on the number of people in the household, the number of dwelling units, the number of days in the billing cycle and prescribed number of gallons per person per day. The outdoor water budget is based on the square footage of landscape area per parcel, the daily plant water loss, referred to as evapotranspiration, and a factor, referred to as an evapotranspiration area factor or efficiency factor. The summation of the indoor and outdoor water budgets comprise the total water budget for residential customers. Non-residential customers without a dedicated landscape meter receive a water budget based on a three-year rolling average; and customers with a dedicated landscape meter receive a water budget that is the same as the residential outdoor water budget.

The Rate Study recommended making changes to the budget factors in the residential and dedicated landscape meter water budgets. The changes are summarized in the table below and are consistent with State of California regulations, guidelines, anticipated future regulations and other water agencies in the region:

Water Budget Factors	Current	Proposed
Gallons per capita per day (GPCD)	60	55
Evapotranspiration Area Factor (ETAF)	114%	80%
Inefficient Use Definition	1%-20% over water budget	1%-50% over water budget
Excessive Use	21-40% over water budget	51-100% over water budget
Wasteful Use	Greater than 40% over water budget	Greater than 100% over water budget

The Rate Study calculated rates for potable and reclaimed water services, and fire protection customers as well. Temporary Revenue Stability Charges (TRSC) have also been calculated and included in the Rate Study. The TRSC represent a per unit charge that will only be applied when the City is in a declared Water Conservation Stage 3 or higher due to an emergency, natural disaster, or other period of mandated reduced water use. The proposed rates are set forth in Exhibit “A” of Ordinance No. 3309, attached to this report. If approved, the proposed rates will be effective on January 19, 2020, with scheduled annual rate increases effective each January 1st from 2021 through 2024.

During the course of the Rate Study, DWP discussed a plan to sell excess reclaimed water from the reclaimed water utility to the potable water utility for use as groundwater recharge. The Rate Study includes a calculation of a wholesale groundwater rate to be charged by the reclaimed water utility to the potable water utility for this purpose. The Rate Study includes proposed revenues derived from this exchange in the reclaimed water financial plan and corresponding expenses to the potable water utility as part of its plan. Appendix A of the Rate Study explains how the wholesale groundwater rate charge of \$160 was calculated based upon the cost, including debt service and reserve funding, of two capital improvement projects that will allow for excess reclaimed water to be sold by the reclaimed water utility. The wholesale reclaimed water rate will be the purchase price for the potable water utility to purchase reclaimed water from the reclaimed water utility for purposes of groundwater recharge. To document such purchase, staff recommends approval of a purchase agreement between the reclaimed water and potable water utility to set forth the terms and conditions for the potable water utility’s purchase of excess reclaimed water for groundwater recharge.

Proposition 218 Process

Rate increases for water service, which are considered property-related fees under Proposition 218, are subject to Proposition 218’s notice, hearing and majority protest procedures (*Cal. Const.* Art. 13D, Sec. 6). In particular, Proposition 218 requires that written notice of the proposed rate increase and the date of the public hearing be provided to the record owner (at the address shown on the last assessment roll or to the address where the billing statement is sent) at least 45 days prior to the public hearing. At the public hearing, if written protests from a majority of the property owners / tenants are received, the rate increase may not be implemented.

On October 18, 2019, City staff sent notices to its customers at the addresses where the regular billing statements are sent for water charges, which states the date and time of the public hearing on this matter, as well as the process for submitting written protests. After mailing of the public hearing notice, an error in the table containing the calculation of the Ready to Serve charges for the potable water utility was discovered; which resulted in the rate for the potable water Ready to Serve charge being less than what was indicated in the public hearing notice. The Rate Study was corrected, and corrected information was posted on the City’s website and mailed to customers in the form of a bill insert, a copy of which is attached. As of November 25, 2019, 65 written protests have been received on this matter from owners and/or tenants representing 50 separate parcels. Staff recommends

holding a public hearing on the matter and proceeding with the recommended actions.

COMMITTEE ACTION:

Not applicable.

STRATEGIC PLAN:

This item supports the City’s Strategic Plan Goal 1: Promote Public Safety: Protect our Residents and Businesses; Objective C: Ensure adequate funding for investments and improvement in infrastructure that support public safety. The recommended action will help achieve these goals by increasing the funding received through the water service fees to offset the expenses incurred by DWP for providing water service, maintaining critical infrastructure and planning for the replacement of assets at the end of their useful life.

FISCAL IMPACT:

Approval of the recommended actions will result in estimated revenue increase of \$1,252,964 in the Water Utility Fund 570 and \$436,753 in the Reclaimed Water Utility Fund 567 for the remainder of Fiscal Year 2019-20. The current budgeted revenues for the Water Utility Fund 570 are \$53,079,857. An additional \$1,252,964 increases the budgeted revenues to \$54,332,821 for Fiscal Year 2019-20. The current budgeted revenues for the Reclaimed Water Utility Fund 567 are \$3,439,396, and an additional \$436,753 will increase this to \$3,876,149 for Fiscal year 2019-20. Future revenue adjustments will be submitted during the annual budget process.

Fund	07/01/19 Est. Working Capital	Budgeted Revenues/ Sources	Budgeted Expenditures/ Uses	Working Capital Impacts	06/30/20 Est. Working Capital
Reclaimed Water Utility Fund 567	\$613,935	\$4,273,366	(\$4,887,301)	Revenue \$436,753	\$436,753
Water Utility Fund 570	\$7,813,895	\$53,079,857	(\$60,711,067)	Revenue \$1,252,964	\$1,435,649

ENVIRONMENTAL ANALYSIS:

This action is exempt pursuant to California Public Resources Code Section 21080(b)(8) and Section 15273 of the State CEQA Guidelines because the proposed increase in the rates for potable water and reclaimed water services are necessary and reasonable to fund the administration, operation, maintenance, and improvements of the potable water and reclaimed water systems and will not result in the expansion of such systems. Therefore, no further environmental analysis is required and staff will file a Notice of Exemption with the County of Riverside.

PREPARED BY: TRACY MARTIN, UTILITIES PROJECT MANAGER

REVIEWED BY: KIM SITTON, ACTING ADMINISTRATIVE SERVICES DIRECTOR

REVIEWED BY: TOM MOODY, GENERAL MANAGER

File #: 19-0998

REVIEWED BY: DEAN DERLETH, CITY ATTORNEY

SUBMITTED BY: JACOB ELLIS, CITY MANAGER & EXECUTIVE DIRECTOR

Attachments:

1. Potable and Reclaimed Water Rate Study Final Report, October 2019
2. Ordinance No. 3309
3. Proposition 218 Notice
4. Proof of Mailing for Proposition 218 Notice
5. Bill Insert - Changes to Ready to Serve Charges
6. Agreement for Purchase of Wholesale Reclaimed Water for Groundwater Recharge