

**RUBIDOUX COMMUNITY SERVICES DISTRICT  
BOARD OF DIRECTORS**

**MINUTES OF REGULAR MEETING  
Thursday, May 2, 2024**

**DIRECTORS PRESENT:** Bernard Murphy  
John Skerbelis  
F. Forest Trowbridge

**DIRECTORS VIA ZOOM:** Hank Trueba, Jr.  
Armando Muniz

**STAFF PRESENT:** Brian Laddusaw, General Manager  
Ted Beckwith, Director of Engineering  
Miguel Valdez, Director of Operations  
Martha Perez, Customer Service/Accounts Payable  
Manager  
Melissa Trujillo, HR Generalist/Safety and Facilities  
Coordinator  
Kirk Hamblin, Director of Finance and Administration

**VISITORS (SIGNED IN):** None

**ITEM 1. CALL TO ORDER**

The meeting of the Board of Directors of the Rubidoux Community Services District by President Skerbelis, at 4:00 P.M., Thursday, May 2, 2024, in-person and by teleconferencing at the District's Administrative Office, 3590 Rubidoux Boulevard, Jurupa Valley, California.

**ITEM 2. PLEDGE OF ALLEGIANCE – General Manager**

**ITEM 3. ROLL CALL – General Manager**

**ITEM 4. PUBLIC COMMENTS**

No public comments were provided during the meeting.

**ITEM 5. CONSENT CALENDAR**

- A. Approval of Minutes for April 18, 2024, Regular Meeting
- B. Consideration to Approve May 3, 2024, Salaries, Expenses and Transfers

**ACTION:**

**Director Murphy moved, and Director Muniz seconded to approve the Consent Calendar:**

**Roll call:**

**Ayes – 5**

**Noes – 0**

**Abstain – 0**

**Absent – 0**

**The motion was carried 5-0-0-0.**

**ITEM 6. CORRESPONDENCE AND RELATED INFORMATION**

GM Laddusaw shared with the Board an article from the Riverside Press Enterprise titled, “\$250 Million Sets Up Water Projects.” The Metropolitan Water District plans to spend up to \$250 million on four nontraditional water projects that, combined, could supply up to 100,000 Southern California households over the next few years. Wastewater recycling, rainwater reclamation and transforming ocean water into drinking water are some of the technologies that could get money in the coming wave of funding from MWD. The Los Angeles-based which helps transfer water from Northern California and the Colorado River to 26 retail water districts in the Los Angeles region, has spent about \$700 million on smaller, nontraditional water projects since launching its Local Resources Program in 1990. The amounts announced Monday represent some of MWD’s biggest investments in water innovation to date.

**ITEM 7. REPORTS**

- A. Operations Report (Second Meeting Each Month)**
- B. Emergency and Incident Report (Second Meeting Each Month)**
- C. General Manager and Staff Reports / Updates**

GM Laddusaw commented on the 12<sup>th</sup> Annual Mayor’s Breakfast on May 2<sup>nd</sup> from 7:30 am – 9:30 am. Director Trueba and GM Laddusaw attended the event. He also informed the Board of the City of Jurupa Valley Public Works Department Open House scheduled for Saturday, May 18, 2024, had a change of date to Saturday, June 1, 2024, from 8 am – 12 pm at the Jurupa Valley Operations Center.

**D. Committee Reports**

No Committee reports to report on.

Director Murphy inquired about the Personnel Committee status with the ongoing employee negotiations with LiUNA 777. GM Laddusaw is working on having a draft Memorandum of Understanding for the Board by the end of May for review.

## **ITEM 8. ACTION/DISCUSSION ITEMS.**

- A. DM 2024-33:** Approve LS-1 Option E Agreement with Southern California Edison to Replace High Pressure Sodium Vapor Street Lights with Light-Emitting Diode Street Lights District-Wide

### **BACKGROUND:**

The Rubidoux Community Services District (“District”) provides various services to the community, one of which is streetlights. Streetlights are typically established during development and are owned and maintained by Southern California Edison (“SCE”). The District is responsible for the cost of electricity and maintenance of the streetlights. These costs are funded by property taxes collected by the District. The property tax generation of new developments is not immediately recognized by the District, therefore, the District collects a deposit from developers upfront. This deposit is the estimated 36 month cost of the related streetlights.

The LS-1 Option E tariff is a turn-key program piloted by SCE and offered to local governments and community services districts to replace aging high pressure sodium vapor (“HPSV”) “cobra head” street lights with new, more efficient light-emitting diode (“LED”) street lights. This tariff facilitates street light replacements with local government concurrence and authorization after which SCE manages the implementation from start to finish. SCE does not require any up-front capital as part of this program. Instead, capital costs are amortized through energy savings over a 20-year period with zero interest.

### **ANALYSIS:**

After authorization, the wait time is expected to be roughly seven months until project implementation begins. With approximately 816 SCE owned lights within the District boundary, SCE teams will work during normal business hours for about six to seven business days to complete the project. As soon as the project is finished, SCE will begin the process of changing mapping and billing records which often takes several months to complete. SCE will credit Rubidoux’s street light billing back to the date of project completion to ensure savings are provided from the time the project was finished.

- After implementation, the District will save approximately \$30,310 annually on the District’s street lighting energy bills from SCE. This is calculated based on an estimated HPSV annual electricity cost of \$159,390 compared to an estimated LED annual electricity cost of \$129,080, a difference of \$30,310.
- As a reminder, this program requires no upfront capital contribution from the District. SCE will recoup its upfront capital cost of replacing the HPSV lights by retaining approximately \$1,269 of the District’s EEP (“Energy Efficiency Premium”) over the next 20 years.
- After the initial 20 years passes, Rubidoux’s savings will grow to an estimated \$45,541 annually (a snapshot based on today’s dollars and rates, and applicable to our District’s street lighting energy bill from SCE). This is when the District will capitalize on the energy savings gained by the upgrade as well as retaining the EEP, which will no longer be retained by SCE.

More than 304,000 lights have been replaced by SCE in the last several years in over 210 communities across Southern California. This project meets both financial and sustainability goals for the District, lowering not only cost, but energy usage and reducing the District's carbon footprint. The new LED fixtures provide superior optics compared to the older generation HPSV lights, are dark sky compliant, and more effectively place light on the street surface with less light intrusion to residents. The lights also improve 'visual acuity,' allowing drivers, pedestrians, and cyclists to see more clearly and with more detail during the evening hours, providing a safer night environment for the District's residents.

SCE will utilize a standard wattage ratio to match existing lights and conditions on District streets and staff suggests adopting the standard warm color temperature of 3,000 kelvin across the District.

It's worth, a similar project was completed by Jurupa Community Services District a few years back and the City of Jurupa Valley is also currently working with SCE to accomplish the same HPSV to LED conversion. Staff plans to coordinate with the City staff to ensure kelvin consistency across the entire city.

#### **BUDGETARY AND FINANCIAL CONSIDERATIONS:**

SCE estimates that during the 20-year repayment period, RCSD will save approximately \$30,310 annually and \$45,541 annually after 20 years. Over the course of the initial 20 years, RCSD will see a cost reduction of \$606,200 in current dollars which is net of the embedded recovery mechanism in the LS-1 Option E tariff.

- Total savings for RCSD over 20 years – \$910,820
- Total embedded recovery mechanism collection over the initial 20 years – \$304,620
- Total net savings to RCSD after recovery mechanism – \$606,200

#### **ACTION:**

**Director Murphy moved, and Director Trowbridge seconded to authorize the General Manager to the following items:**

1. Approve an LS-1 Option E authorization with SCE to replace high pressure sodium vapor (HPSV) street lights with light-emitting diode (LED) street lights; and
2. Authorize the General Manager to sign the authorization (Attachment A).

#### **Roll call:**

**Ayes – 5**

**Noes – 0**

**Abstain – 0**

**Absent – 0**

**The motion was carried 5-0-0-0.**

**B. DM 2024-34:** Consideration to Direct Staff to Prepare Draft Ordinance for Water and Wastewater Rate Adjustments

**BACKGROUND:**

In January 2022, the Rubidoux Community Services District (“District”) Board of Directors (“Board”) hired IB Consulting (“IB”) to conduct a Comprehensive Cost of Services Study (“COSS”) to confirm the adequacy of revenues of the District’s then current rate plan to operate, maintain, and replace system assets to meet current and long-term needs of the District.

The COSS was a twelve (12) month process taking up all of calendar year 2022 and during this process, IB provided deliverables and financial resources to staff while also updating the Board at various milestones during their scope of work via Board presentations, which included:

Deliverables:

- Cost Allocation Plan
- Water Enterprise Financial Model
- Wastewater Enterprise Financial Model
- Utility Rate Report

Board Presentations:

- March 17, 2022 – Rates 101 Workshop
- April 21, 2022 – Financial Planning and Reserves
- June 16, 2022 – Long-Term Financial Plans
- September 14, 2022 – Long-Term Financial Plans and Proposed Rates
- October 20, 2022 – Drought Rates

In Fall of 2022, IB completed their work on the District’s COSS and it was determined the existing rates approved with the 2019 5-year rate plan were not adequate to meet the District’s future financial obligations. This work was detailed by IB in the form of an Administrative Record Report (“Report”). The Report became the nexus for establishing a new 5-year defensible rate plan to meet the District’s future financial obligations to ensure safe and reliable water supplies and wastewater conveyance and treatment are available 24 hours a day – 365 days a year.

On October 20, 2022, the Board authorized staff to prepare and mail the 5-year water, water conservation, and wastewater rate plan pursuant to the conditions of Proposition 218. The Proposition 218 mailings were completed on October 31, 2022, 45 days prior to the Public Protest Hearing on December 15, 2022. After the Proposition 218 notifications were mailed, the District performed the following additional outreach to its constituents:

- November 10 and 20, 2022 – Provided bill stuffer in the November billing highlighting the need for water and wastewater rate adjustments
- November 30, 2022 – Virtual Townhall
- December 1, 2022 – City of Jurupa Valley City Council Meeting presentation
- December 7, 2022 – Virtual Townhall

The purpose of the outreach events and mailings was to provide transparency to all affected property owners and tenants about the proposed rate adjustments and offer them various opportunities to contact staff for a better understanding of the adjustments.

On December 15, 2022, the Board conducted a Public Protest Hearing for all affected property owners and tenants. At the end of the Public Protest Hearing, staff tallied all protests against the 5-year rate plan and determined the public failed to achieve the required 50% + 1 protests for the rates to not be considered by the Board and “not take effect”. The Board then considered and adopted the new 5-year rate plan commencing July 1, 2023, with allowable increases every July 1 through 2027.

With the District’s investment in the COSS, the District intends to utilize this financial analysis and plan to be used as a foundational pillar into the District’s overall strategic plan.

### **PROPOSED FY 2024|2025 WATER AND WASTEWATER RATE ADJUSTMENTS:**

Adopting a five-year rate plan in Fiscal Year 2023|2024 (“FY 2024”) allowed the District flexibility to adjust rates as necessary to cover future operating costs, and major maintenance and asset replacement, while also working to achieve its targeted reserve balances. Although adopted in December 2022, rates are not automatically adjusted every July 1 to the noticed rate amounts. The noticed rates are the maximum allowable rates under Proposition 218 the District may charge its customers. On an annual basis, staff will perform the necessary financial analysis to determine if a rate adjustment is necessary. During this analysis, staff may determine whether the District can achieve its financial targets with a rate adjustment less than the maximum allowed rates or alternatively, delay the date of implementation.

Analysis on the District’s current rate structure began in March 2024 when staff commenced work on the District’s Fiscal Year 2024|2025 (“FY 2025”) operating and capital fund budgets. During this time, District management met on a weekly basis to discuss all facets of the District’s operations which ultimately become factors when setting budgetary figures. Items considered include but are not limited to the following:

- Current and forecasted operational challenges related to supply chain shortages, inflation, and new treatment processes.
- Critical capital infrastructure spending related to the water and sewer enterprise.
- Costs and debt service associated with the Field/Admin. Building project.
- Allocation of central services and discretionary property tax revenue.
- Preventative maintenance programs and other programmatic initiatives.
- TDS mitigation i.e. elevated levels above 650 mg/l (maximum allowed based on City of Riverside discharge permit).
- Emphasis on reducing the District’s Unfunded Accrued Liability (“UAL”) through Additional Discretionary Payments (“ADPs”).
- Potential capital contributions to the City of Riverside for wastewater treatment plant upgrades.

Each week during the budgeting cycle, management would continuously assign costs to the District’s operational and capital fund budgets. As costs were assigned, management simultaneously looked at anticipated revenues associated with each enterprise to determine if sufficient revenues could be generated at the District’s current rates or if a rate adjustment was necessary. Due to significant challenges facing the District as noted above, rate adjustments

across all three enterprises were necessary for FY 25. The solid waste enterprise performs an annual prop 218 separate from water and wastewater and is excluded from this memorandum.

#### Water Enterprise:

Over the last couple of years, the District's Water Enterprise has seen significant changes impacting its operating environment and financial stability. In 2020, the District, along with the entire water industry, was given approximately 2-years to respond/mitigate the emergence of the presence of perfluorooctane sulfonate (PFOS) and perfluorooctanoic acid (PFOA) in the groundwater pumped for potable supplies. This was accomplished as a two-pronged approach by implementing treatment processes at the Anita B. Smith and Leland Thompson Water Treatment Facilities. The total project costs for mitigating these contaminants were approximately \$5.0 million, all of which was funded through various District reserve accounts. In September 2021, the District successfully achieved non-detect in its potable water for these contaminants.

Along with these new capital improvements have come additional routine operating costs, most notable the periodic change out of media (GAC or resin) held in these pressure vessels, and additional energy costs and sampling, among other costs. Prior to these new emerging contaminants, the District was already dealing with 1,2,3-TCP and relatively high ambient TDS levels in the District's drinking water wells. Based on current operating efforts for PFAS Treatment combined with existing 1,2,3-TCP Treatment, the District is utilizing 13 pressure vessels. Excluding capital expenses, the media change out expenses and added energy and chemical costs add approximately \$1,250,000 to the annual water system operating expense budget. In addition, each year the District is required to treat new per- and polyfluoralkyl substances that are within the family of the original PFOS and PFOA compounds. It is estimated there are over 9,000 total PFAS variations. Further, supply chain issues have increased lead times on various District parts/chemicals and the rising cost of inflation has put significant financial constraints on the District's operating budgets.

This highlights the District's effort and focus with two of the more pressing issues, PFOS/PFOA and 1,2,3-TCP. Also in addition as previously mentioned in FY 2024, many of the District's infrastructure and long-lived assets are showing their age. The District's four (4) potable water tanks (Hunter 1, Atkinson, Watson, Perone) are 20+ years old each. In December 2019, the Board of Directors authorized a professional services contract with Harper & Associates to inspect the tanks with specific emphasis on: 1) corrosion evaluation, 2) structural/seismic, and 3) safety evaluation. The results of the assessment were not good, but otherwise not unexpected given the age and usage of the tanks over the years. All tanks require substantial structural and safety upgrades to meet AWWA and OSHA regulations.

On August 3, 2023, under DM 2023-76, the Board authorized Harper & Associates to prepare a multi-year corrective action plan to be completed over seven phases, or fiscal years. Phase I commenced in FY2024 and has focused on safety and structural repairs to the four existing water reservoirs. The remaining phases will focus on interior coating, rehabilitation work, and seismic upgrading. Phase VII is expected to be completed in FY2029. The aggregate cost of this work is estimated at \$5.2 million (in today's dollars), but is expected to be more in future years due to inflationary pressures.

The District is also working to not only maintain current infrastructure, but to also establish new infrastructure for a growing community. In FY 2025 the District is anticipating nearly \$2 million in capital costs for a new Well. Well 25 and its treatment will bring an additional water source

and treatment capacity for the District and will help the District maintain sufficient water supply for a growing community.

In addition, the District is investing in new water metering equipment, which will establish high quality water metering for several years to come. In FY 2025 the District is anticipating nearly \$3.4 million in capital costs for AMI metering and related infrastructure.

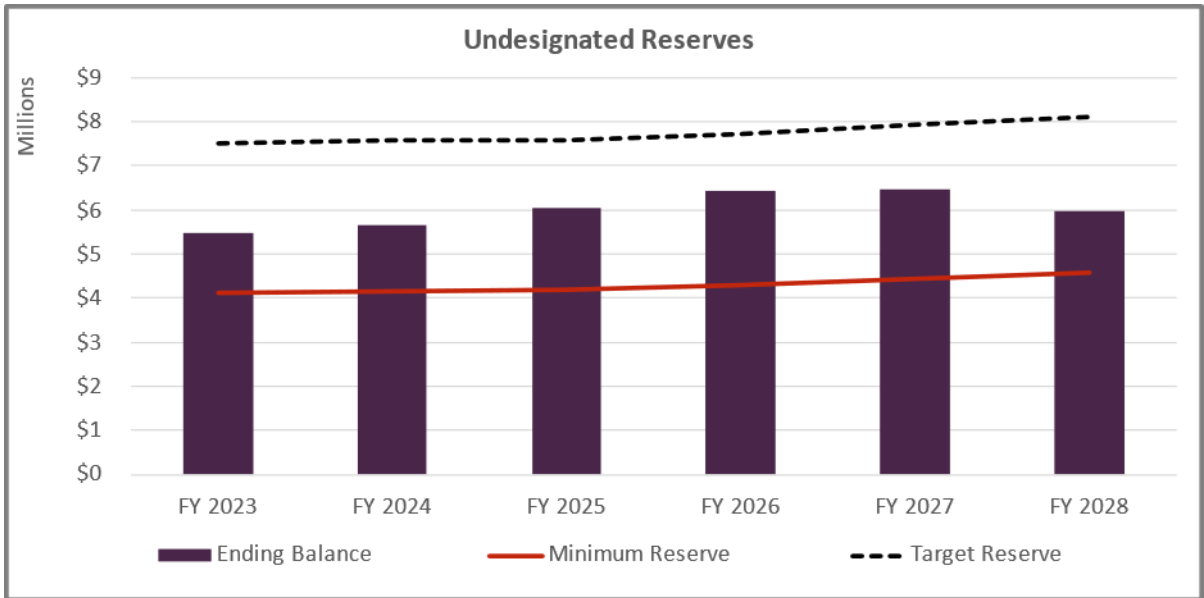
Management recognizes raising rates is not ideal, especially considering the impact of inflation on other household expenses; however, the District has a fundamental obligation to provide clean and reliable drinking water to its customers and to ensure sewage is collected and adequately treated, and these costs for service need to be included in the rates.

Adjusting the District's water rates to the fully noticed year two rate under the adopted 5-year rate plan is estimated to generate an additional \$455,000 in revenue. Staff anticipated the need to increase the District's water rates to the fully noticed rates and incorporated the fully noticed year two rate increase into the Board approved FY 25 operating budget. For illustrative purposes, the following schedule shows the projected revenues and expenses with the overall net cash flow anticipated. Notice, this schedule solely focuses on operations costs compared to revenue and does not factor into consideration the capital requirements of the District. Even though these estimated cash flows are positive, they alone are financially insufficient for the District's capital requirements. Although rate increases do increase monthly costs to the District customers, these increases are imperative for the District to establish higher undesignated reserves. The District aims to be proactive at generating appropriate reserve funding levels, so it can be funded for proactive infrastructure maintenance and/or financially ready for major repairs and avoid costly debt.

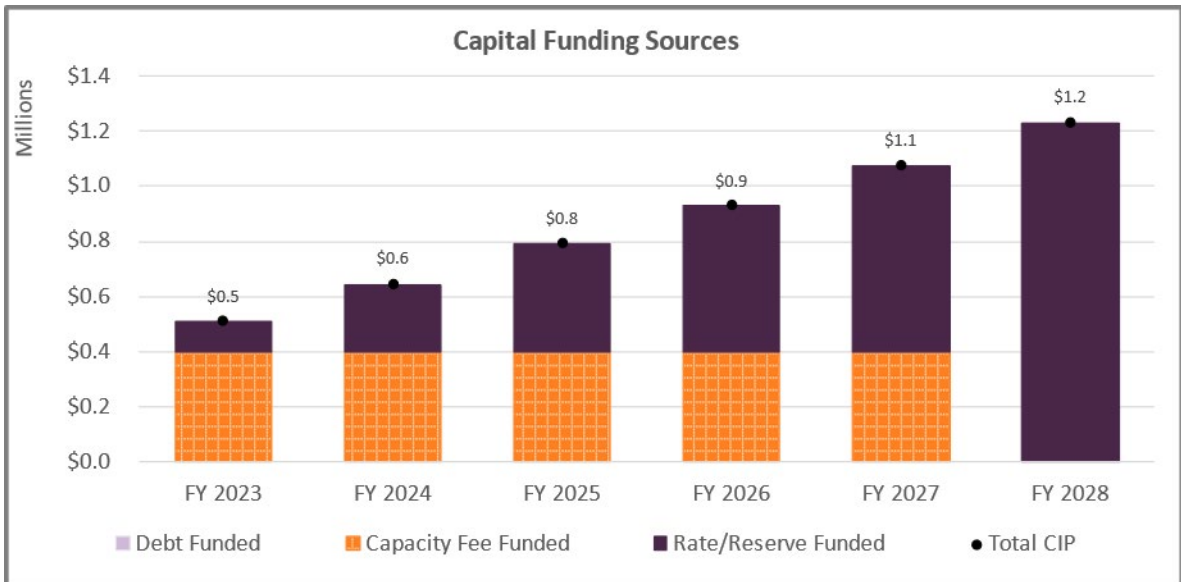


| Revenue   | FY 2023                   | FY 2024                | FY 2025             | FY 2026             | FY 2027             | FY 2028             |
|---|---------------------------|------------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Total Rate Revenues</b>                            | <b>\$7,858,000</b>        | <b>\$7,858,000</b>     | <b>\$7,858,000</b>  | <b>\$7,858,000</b>  | <b>\$7,858,000</b>  | <b>\$7,858,000</b>  |
| <b>Additional Revenue (from revenue adjustments):</b> |                           |                        |                     |                     |                     |                     |
| <b>Fiscal Year</b>                                    | <b>Revenue Adjustment</b> | <b>Effective Month</b> |                     |                     |                     |                     |
| FY 2023   | 0.0%                      | July                   | \$0                 | \$0                 | \$0                 | \$0                 |
| FY 2024   | 5.5%                      | July                   |                     | \$432,000           | \$432,000           | \$432,000           |
| FY 2025   | 5.5%                      | July                   |                     |                     | \$455,000           | \$455,000           |
| FY 2026   | 5.5%                      | July                   |                     |                     | \$480,000           | \$480,000           |
| FY 2027   | 5.5%                      | July                   |                     |                     | \$507,000           | \$507,000           |
| FY 2028   | 5.5%                      | July                   |                     |                     |                     | \$535,000           |
| <b>Total Additional Revenue</b>                       |                           |                        | <b>\$0</b>          | <b>\$432,000</b>    | <b>\$887,000</b>    | <b>\$1,367,000</b>  |
| <b>Projected Rate Revenues</b>                        | <b>\$7,858,000</b>        | <b>\$8,290,000</b>     | <b>\$8,745,000</b>  | <b>\$9,225,000</b>  | <b>\$9,732,000</b>  | <b>\$10,267,000</b> |
| <b>Operating Revenues</b>                             |                           |                        |                     |                     |                     |                     |
| Sales - Late Charges                                  | \$56,000                  | \$56,000               | \$56,000            | \$56,000            | \$56,000            | \$56,000            |
| Sales - Service Charges                               | \$7,000                   | \$7,000                | \$7,000             | \$7,000             | \$7,000             | \$7,000             |
| Sales - Reconnect Charge                              | \$5,000                   | \$5,000                | \$5,000             | \$5,000             | \$5,000             | \$5,000             |
| Sales - Meters  | \$73,000                  | \$73,000               | \$73,000            | \$73,000            | \$73,000            | \$73,000            |
| Sales - Jum per Income                                | \$50,000                  | \$50,000               | \$50,000            | \$50,000            | \$50,000            | \$50,000            |
| Miscellaneous Revenue                                 | \$10,000                  | \$10,000               | \$10,000            | \$10,000            | \$10,000            | \$10,000            |
| Non-Potable Revenue                                   | \$17,000                  | \$17,000               | \$17,000            | \$17,000            | \$17,000            | \$17,000            |
| <b>Subtotal Operating Revenues</b>                    | <b>\$218,000</b>          | <b>\$218,000</b>       | <b>\$218,000</b>    | <b>\$218,000</b>    | <b>\$218,000</b>    | <b>\$218,000</b>    |
| <b>Other Revenues</b>                                 |                           |                        |                     |                     |                     |                     |
| Interest Income                                       | \$18,000                  | \$41,000               | \$35,000            | \$35,000            | \$36,000            | \$38,000            |
| Interest Income Non-Operational                       | \$4,000                   | \$4,000                | \$4,000             | \$4,000             | \$4,000             | \$4,000             |
| Property Tax  | \$229,000                 | \$229,000              | \$229,000           | \$229,000           | \$229,000           | \$229,000           |
| JCSD Water Sales (Potable Contract)                   | \$1200,000                | \$1200,000             | \$1200,000          | \$1200,000          | \$1200,000          | \$1200,000          |
| <b>Subtotal Other Revenues</b>                        | <b>\$1,451,000</b>        | <b>\$1,474,000</b>     | <b>\$1,468,000</b>  | <b>\$1,468,000</b>  | <b>\$1,469,000</b>  | <b>\$1,471,000</b>  |
| <b>Total Revenues</b>                                 | <b>\$9,527,000</b>        | <b>\$9,982,000</b>     | <b>\$10,431,000</b> | <b>\$10,911,000</b> | <b>\$11,419,000</b> | <b>\$11,956,000</b> |
| <b>O&amp;M Expenses</b>                               |                           |                        |                     |                     |                     |                     |
| <b>Operating Expenses</b>                             |                           |                        |                     |                     |                     |                     |
| Salaries & Benefits                                   | \$3,126,000               | \$3,251,000            | \$3,381,000         | \$3,516,000         | \$3,656,000         | \$3,803,000         |
| Energy  | \$560,000                 | \$588,000              | \$617,000           | \$648,000           | \$681,000           | \$715,000           |
| Operating & Maintenance                               | \$379,000                 | \$398,000              | \$418,000           | \$433,000           | \$450,000           | \$467,000           |
| Operating Treatment                                   | \$803,000                 | \$843,000              | \$885,000           | \$919,000           | \$954,000           | \$991,000           |
| Other Expenses  | \$831,000                 | \$480,000              | \$504,000           | \$523,000           | \$543,000           | \$564,000           |
| Professional Fees                                     | \$120,000                 | \$142,000              | \$149,000           | \$154,000           | \$160,000           | \$167,000           |
| Administrative  | \$1,159,000               | \$951,000              | \$999,000           | \$1,037,000         | \$1,076,000         | \$1,117,000         |
| Water Purchases - GW Blending                         | \$0                       | \$1,035,000            | \$1,087,000         | \$1,142,000         | \$1,199,000         | \$1,259,000         |
| PFAS Treatment  | \$1,250,000               | \$1,313,000            | \$1,379,000         | \$1,431,000         | \$1,486,000         | \$1,543,000         |
| <b>Subtotal Operating Expenses</b>                    | <b>\$8,228,000</b>        | <b>\$9,010,000</b>     | <b>\$9,419,000</b>  | <b>\$9,803,000</b>  | <b>\$10,205,000</b> | <b>\$10,626,000</b> |
| <b>Debt Service</b>                                   |                           |                        |                     |                     |                     |                     |
| Existing Debt - 1998 COPs                             | \$709,533                 | \$706,893              | \$707,595           | \$0                 | \$0                 | \$0                 |
| Existing Debt - SRF Loan                              | \$364,196                 | \$364,196              | \$364,196           | \$364,196           | \$364,196           | \$364,196           |
| Existing Debt - Field/Adm in Building Loan            | \$59,393                  | \$237,000              | \$237,000           | \$237,000           | \$237,000           | \$237,000           |
| Release of Debt Reserve                               | \$0                       | (\$94,394)             | (\$707,595)         | \$0                 | \$0                 | \$0                 |
| Transfers to/from COP Restricted Reserve              | \$0                       | (\$612,498)            | (\$364,196)         | (\$364,196)         | (\$73,655)          | \$0                 |
| New/Proposed Debt                                     | \$0                       | \$0                    | \$0                 | \$0                 | \$0                 | \$0                 |
| <b>Subtotal Debt Service</b>                          | <b>\$1,133,121</b>        | <b>\$601,196</b>       | <b>\$237,000</b>    | <b>\$237,000</b>    | <b>\$527,541</b>    | <b>\$601,196</b>    |
| <b>Total Expenses</b>                                 | <b>\$9,361,121</b>        | <b>\$9,602,196</b>     | <b>\$9,656,000</b>  | <b>\$10,040,000</b> | <b>\$10,732,541</b> | <b>\$11,227,196</b> |
| <b>Net Cashflow</b>                                   | <b>\$165,879</b>          | <b>\$379,804</b>       | <b>\$775,000</b>    | <b>\$871,000</b>    | <b>\$686,459</b>    | <b>\$728,804</b>    |

The following chart shows the anticipated growth of the District's unrestricted reserves as identified during the COSS. As outlined in the chart, the District is currently significantly below its targeted reserve level.



Further, capital projects are not entirely funded by collected capacity fees. The District’s capital planning requires reserve funding to be contributed. A failure to maintain adequate reserve levels over an extended period will ultimately result in deferred maintenance to the District’s water infrastructure, which will increase the risk of failure and potential for inefficient repairs. It is the District’s goal to provide reliable services to its customers and financial planning is vital to accomplish this.



Wastewater Enterprise:

The largest financial component of the wastewater enterprise are payment obligations to the City of Riverside (“Riverside”) for sewage treatment. Payments to Riverside are broken into two main categories, flow and surcharges. The flow rate is determined by the Regional Advisory Committee (“RAC”) and is set for each fiscal year. Flow is billed in million gallons. The District currently has capacity rights to send up to 3.055 million gallons per day (mgd) to Riverside’s Wastewater Treatment Plant. The District averages about 1.6-1.7 mgd and 610-620 mg annually.

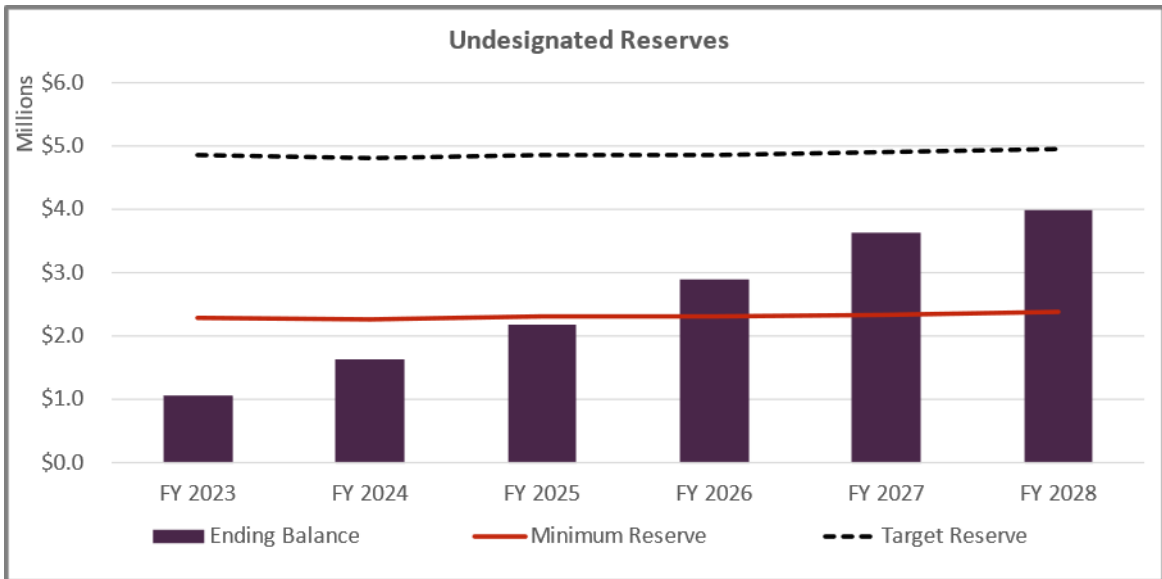
There are three surcharges Riverside are allowed to bill the District for monthly and they are: flow, total suspended solids (“TSS”), and biochemical oxygen demand (“BOD”). The District does not exceed its flow capacity and is not billed a flow surcharge. The District’s TSS and BOD limits are set forth by agreements with Riverside and currently the District routinely exceeds these limits. On average, the District pays about \$20,000 per month in TSS and BOD surcharges.

In FY 23, Riverside estimated the treatment cost to be \$2,255 per million gallons. Although FY 23 is still being reconciled by the RAC, actual treatment costs are expected to be approximately \$2,500 per million gallons, or approximately 11% more than estimated cost. This increase was due to significant inflationary pressures related to all facets of the plant but most notably solid waste disposal, chemicals, and natural gas. Further, treatment costs for FY 24 are currently being billed at \$2,420 per million gallons which again are expected to be reconciled to an actual treatment cost of \$2,500 or more per million gallons. FY 24 treatment costs likely won’t be reconciled until late Fall or early Winter. The District has not been provided an estimated treatment cost per million gallons for FY 25 although this amount is expected to be more than the current year. For budgeting purposes, the District will use the projected FY 24 treatment cost plus 5% (\$2,640). The Technical Advisory Committee is expected to meet on May 8, 2024, at which time the partner agencies will be provided with FY 25 financial information. The District will revise the sewer fund budget based upon the amounts provided during this meeting.

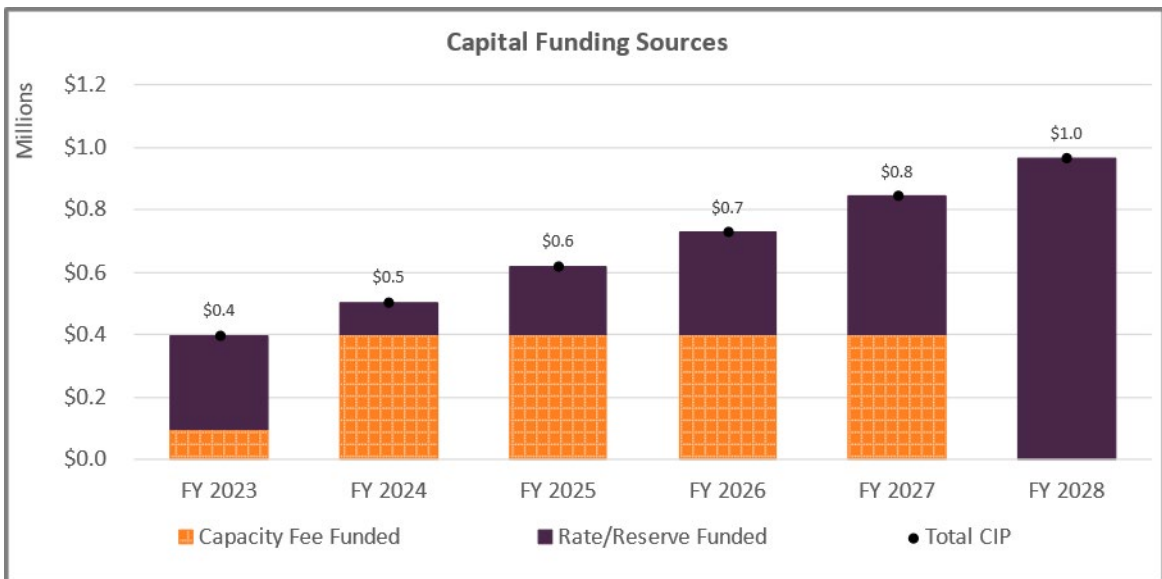
Adjusting the District’s wastewater rates to the fully noticed year two rate under the adopted 5-year rate plan is estimated to generate an additional \$240,000 in revenue. Staff anticipated the need to increase the District’s wastewater rates to the fully noticed rates and incorporated the fully noticed year two rate increase into the Board approved FY 25 operating budget. For illustrative purposes, the following schedule shows the projected revenues and expenses with the overall net cash flow anticipated. Notice, this schedule focuses solely on operational costs compared to revenue and does not factor into consideration the capital requirements of the District. Even though these estimated cash flows are positive, they alone are financially insufficient for the District’s capital requirements. Although rate increases do increase monthly costs to the District customers, these increases are imperative for the District to establish higher undesignated reserves. The District aims to be proactive at generating appropriate reserve funding levels, so it can be funded for proactive infrastructure maintenance and/or financially ready for major repairs and avoid costly debt.

| Revenue   | FY 2023                   | FY 2024                | FY 2025            | FY 2026            | FY 2027            | FY 2028            |
|---|---------------------------|------------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Rate Revenues</b>                                  |                           |                        |                    |                    |                    |                    |
| Sewer Treatment Charge                                | \$2,552,000               | \$2,552,000            | \$2,552,000        | \$2,552,000        | \$2,552,000        | \$2,552,000        |
| Sewer Collection Charge                               | \$655,000                 | \$655,000              | \$655,000          | \$655,000          | \$655,000          | \$655,000          |
| <b>Total Rate Revenues</b>                            | <b>\$3,207,000</b>        | <b>\$3,207,000</b>     | <b>\$3,207,000</b> | <b>\$3,207,000</b> | <b>\$3,207,000</b> | <b>\$3,207,000</b> |
| <b>Additional Revenue (from revenue adjustments):</b> |                           |                        |                    |                    |                    |                    |
| <b>Fiscal Year</b>                                    | <b>Revenue Adjustment</b> | <b>Effective Month</b> |                    |                    |                    |                    |
| FY 2023   | 0.0%                      | July                   | \$0                | \$0                | \$0                | \$0                |
| FY 2024   | 7.0%                      | July                   |                    | \$224,000          | \$224,000          | \$224,000          |
| FY 2025   | 7.0%                      | July                   |                    | \$240,000          | \$240,000          | \$240,000          |
| FY 2026   | 7.0%                      | July                   |                    | \$256,000          | \$256,000          | \$256,000          |
| FY 2027   | 7.0%                      | July                   |                    |                    | \$274,000          | \$274,000          |
| FY 2028   | 7.0%                      | July                   |                    |                    |                    | \$294,000          |
| <b>Total Additional Revenue</b>                       |                           |                        | <b>\$0</b>         | <b>\$224,000</b>   | <b>\$464,000</b>   | <b>\$720,000</b>   |
| <b>Projected Rate Revenues</b>                        | <b>\$3,207,000</b>        | <b>\$3,431,000</b>     | <b>\$3,671,000</b> | <b>\$3,927,000</b> | <b>\$4,201,000</b> | <b>\$4,495,000</b> |
| <b>Operating Revenues</b>                             |                           |                        |                    |                    |                    |                    |
| Miscellaneous Income                                  | \$2,000                   | \$2,000                | \$2,000            | \$2,000            | \$2,000            | \$2,000            |
| Permits & Licenses                                    | \$2,000                   | \$2,000                | \$2,000            | \$2,000            | \$2,000            | \$2,000            |
| <b>Subtotal Operating Revenues</b>                    | <b>\$4,000</b>            | <b>\$4,000</b>         | <b>\$4,000</b>     | <b>\$4,000</b>     | <b>\$4,000</b>     | <b>\$4,000</b>     |
| <b>Other Revenues</b>                                 |                           |                        |                    |                    |                    |                    |
| Interest Income                                       | \$4,000                   | \$8,000                | \$10,000           | \$10,000           | \$10,000           | \$10,000           |
| Interest Income/Non Operational                       | \$1,000                   | \$1,000                | \$1,000            | \$1,000            | \$1,000            | \$1,000            |
| Property Tax  | \$211,000                 | \$211,000              | \$211,000          | \$211,000          | \$211,000          | \$211,000          |
| <b>Subtotal Other Revenues</b>                        | <b>\$216,000</b>          | <b>\$220,000</b>       | <b>\$222,000</b>   | <b>\$222,000</b>   | <b>\$222,000</b>   | <b>\$222,000</b>   |
| <b>Total Revenues</b>                                 | <b>\$3,427,000</b>        | <b>\$3,655,000</b>     | <b>\$3,897,000</b> | <b>\$4,153,000</b> | <b>\$4,427,000</b> | <b>\$4,721,000</b> |
| <b>O&amp;M Expenses</b>                               |                           |                        |                    |                    |                    |                    |
| <b>Operating Expenses</b>                             |                           |                        |                    |                    |                    |                    |
| Salaries & Benefits                                   | \$117,000                 | \$122,000              | \$127,000          | \$132,000          | \$137,000          | \$142,000          |
| Electrical Power                                      | \$43,000                  | \$45,000               | \$47,000           | \$50,000           | \$52,000           | \$55,000           |
| Operating & Maintenance                               | \$297,000                 | \$312,000              | \$328,000          | \$340,000          | \$354,000          | \$367,000          |
| Operating Treatment                                   | \$1,572,000               | \$1,650,000            | \$1,733,000        | \$1,819,000        | \$1,910,000        | \$2,006,000        |
| Other Expenses  | \$67,000                  | \$70,000               | \$74,000           | \$77,000           | \$80,000           | \$83,000           |
| Professional Fees                                     | \$86,000                  | \$4,000                | \$4,000            | \$5,000            | \$5,000            | \$5,000            |
| Administrative  | \$678,000                 | \$554,000              | \$581,000          | \$604,000          | \$627,000          | \$651,000          |
| Litigation Expense                                    | \$150,000                 | \$150,000              | \$150,000          | \$0                | \$0                | \$0                |
| Industrial Pretreatment Costs                         | \$80,000                  | \$84,000               | \$89,000           | \$93,000           | \$98,000           | \$103,000          |
| <b>Subtotal Operating Expenses</b>                    | <b>\$3,090,000</b>        | <b>\$2,991,000</b>     | <b>\$3,133,000</b> | <b>\$3,120,000</b> | <b>\$3,263,000</b> | <b>\$3,412,000</b> |
| <b>Debt Service</b>                                   |                           |                        |                    |                    |                    |                    |
| Existing Debt   | \$0                       | \$0                    | \$0                | \$0                | \$0                | \$0                |
| New/Proposed Debt                                     | \$0                       | \$0                    | \$0                | \$0                | \$0                | \$0                |
| <b>Subtotal Debt Service</b>                          | <b>\$0</b>                | <b>\$0</b>             | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         |
| <b>Total Expenses</b>                                 | <b>\$3,090,000</b>        | <b>\$2,991,000</b>     | <b>\$3,133,000</b> | <b>\$3,120,000</b> | <b>\$3,263,000</b> | <b>\$3,412,000</b> |
| <b>Net Cashflow</b>                                   | <b>\$337,000</b>          | <b>\$664,000</b>       | <b>\$764,000</b>   | <b>\$1,033,000</b> | <b>\$1,164,000</b> | <b>\$1,309,000</b> |

The following chart shows the anticipated growth of the District's unrestricted reserves as identified during the COSS. As outlined in the chart, the District is currently significantly below its targeted reserve level.



Further, capital projects are not entirely funded by collected capacity fees. The District capital planning requires reserve funding to be contributed. A failure to maintain adequate reserves levels over an extended period will ultimately result in deferred maintenance to the District’s wastewater infrastructure, which will increase the risk of failure and potential for inefficient repairs. It is the District’s goal to provide reliable services to its customers and financial planning is vital to accomplish this.



Timeline:

As detailed above, with the District’s previous establishment of a 5-year rate plan, the water and wastewater enterprises rates are not automatically adjusted every July 1 for each period of the rate plan. For rates to be adjusted, the Board must formally do so through the proper Ordinance adoption procedures. For an Ordinance to be properly adopted, the District must adhere to the following criteria:

1. First and Second Reading of Draft Ordinance – No less than 2 weeks apart.

2. Public Hearing (not a protest hearing) with a minimum 10-day notice period. Must notice public in Press Enterprise, on the District’s website, and on the District’s administrative office windows.
3. Requires a 30-day delayed effective date.

Based on the criteria above, staff is proposing the following water and wastewater Ordinance adoption and rate adjustment timeline:

- Regular Board Meeting – May 16, 2024 (1<sup>st</sup> Reading of Ordinance)
- Regular Board Meeting – June 6, 2024 (2<sup>nd</sup> Reading of Ordinance and Public Hearing)
- Effective – July 6, 2024

Staff understands raising rates is not ideal, especially considering the impact of inflation on other household expenses; however, the District has a fundamental obligation to provide clean and reliable drinking water to its customers and to ensure wastewater is collected and adequately treated, and these costs for service need to be included in the rates. Additionally, the District must increase its system reinvestments and maintain healthy reserve balances. Sufficient reserve balances provide financial stability to the District by having adequate cash on hand to mitigate financial risks related to operating cashflow needs, unexpected increases in expenses, shortages in system reinvestment, and mitigating potential system failures.

**ACTION:**

**Director Murphy moved, and Director Trowbridge seconded to authorize the General Manager to the following items:**

Prepare Draft Ordinance No. 2024-136 and Ordinance No. 2024-137 for adjusting wastewater and water rates, respectively, to the fully noticed year two rates of the 5-year rate plan adopted by the Board of Directors on December 15, 2022, and complete the following:

- a. Schedule First Readings of Ordinances at the regular Board meeting on May 16, 2024.
- b. Schedule Public Hearing and Second Readings of Ordinances at the regular Board meeting on June 6, 2024.

**Roll call:**

**Ayes – 5**

**Noes – 0**

**Abstain – 0**

**Absent – 0**

**The motion was carried 5-0-0-0.**

## **ITEM 9. DIRECTOR'S COMMENTS AND REQUESTS**

Director Murphy commented that the District contracts with the same vendors for District projects but encourages District staff to use and/or inquire with different vendors for future projects. Director Trowbridge would like to know how much it will cost the District to replace all lights in the District building to LED lights. He would like District staff to receive a quote for the price of the LED lights replacement. Director Muniz apologized for not attending the meeting in person but attended the meeting via Zoom. Director Skerbelis and Director Trueba did not have any comments and/or requests.

## **ITEM 10. NEXT MEETING**

Thursday, May 16, 2024, at 4:00 P.M.

## **ITEM 11. ADJOURNMENT**

President Skerbelis adjourned the meeting at 4:43 P.M.