



STAFF REPORT

DATE: 11/20/2024

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

FROM: Utilities Department

REQUEST FOR CITY COUNCIL AND CORONA UTILITY AUTHORITY ACTION

SUBJECT:

PUBLIC HEARING FOR CITY COUNCIL AND CORONA UTILITY AUTHORITY CONSIDERATION OF ORDINANCE NO. 3405 MODIFYING THE BUDGET BASED WATER STRUCTURE AND ESTABLISHING RATES FOR POTABLE WATER, RECLAIMED WATER, AND SEWER SERVICE FEES AND CHARGES.

EXECUTIVE SUMMARY:

This staff report asks the City Council to hold a public hearing and approve Ordinance No. 3405 modifying potable water, reclaimed water, and sewer service fees and charges.

RECOMMENDED ACTION:

That the City Council:

- a. Introduce, by title only, and waive full reading of Ordinance No. 3405 first reading of an ordinance modifying the budget based water rate structure and establishing rates for potable water, reclaimed water, and sewer service fees and charges.
- b. Authorize estimated revenue increases in the amount of \$2,879,473 in the Water Utility Fund 570 and \$1,852,278 in the Sewer Utility Fund 572, for the remainder of Fiscal Year 2025.

That the Corona Utility Authority review, ratify, and to the extent necessary, direct that the City Council take the above actions.

BACKGROUND & HISTORY:

The City of Corona Utilities Department provides potable, reclaimed water, and sewer services to residents and business located within the City of Corona and adjacent communities. The Utilities Department is committed to providing the highest quality service to its customers 24 hours a day, 7 days a week, at the lowest possible rates. The City's utilities rely on revenues from water service fees and charges to fund ongoing operations and maintenance of each respective system. The last water rate changes were adopted in 2020 for potable and reclaimed water. The last sewer rate changes were made in 2013. The Utilities Department is committed to containing operational costs, but costs continue to rise and are anticipated to continue to increase over the next several years. In addition, the Utilities Department needs to invest in critical capital infrastructure replacement to maintain the operability and reliability of the systems and to avoid higher future replacement costs. In order to plan and assess the current and future financial position of the Utilities Department, the City conducted a Utilities Rate Study for water, reclaimed water, and sewer.

On April 3, 2024, City Council awarded Request for Proposals No. 24-051AS Utility Rate Study Project to Robert D. Niehaus, Inc. (RDN). On May 1, 2024, City Council received a presentation from RDN to clarify the policy objectives of City Council in preparing the Utility Rate Study. On June 5, 2024, City Council received a presentation regarding the financial plans for the water, sewer, and reclaimed water utilities and the anticipated shortfall in revenues over the next five years. On July 3, 2024, City Council received a presentation outlining options for rates for water, sewer, and reclaimed water. On August 21, 2024, City Council received a presentation by staff that provided responses to prior City Council requests and questions. On October 2, 2024, City Council received and filed the 2024 Water, Reclaimed Water, and Sewer Rate Study prepared by RDN ("Rate Study"), which included the cost of service and final proposed rates for all utilities.

ANALYSIS:

The Rate Study represents a plan for the future of the water, sewer and reclaimed water utilities over a five-year planning cycle. The Utilities Department is committed to continual monitoring of revenues and expenses to determine progress toward achievement of the plan as well as check on plan assumptions. The Rate Study calculated the revenue requirements for each utility over the next five years. It then functionalized expenses and allocated those expenses to appropriate rate categories.

For potable water and reclaimed water this includes 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 fixed costs for potable water and reclaimed water respectively.

Variable costs for potable water and reclaimed water, or Commodity charges, are based on the number of units of water delivered to a property. A unit of water is 1 CCF which is

equal to 748 gallons or 100 cubic feet. Each customer class is provided a water budget based on standard calculations. Residential customers receive an indoor and an outdoor budget. The residential indoor budget is based on the number of people in the household, the number of dwelling units, the number of the days in the billing cycle and a prescribed number of gallons per person per day. In 2022, the State of California passed SB 1157 establishing 47 gallons per person per day as the indoor water use standard in California effective January 1, 2025. The outdoor water budget is based on the square footage of the irrigated landscaped 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 comprises 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 adjusting the indoor water budget calculation from 55 gallons per person per day to 47 gallons per person per day to comply with SB1157. The Rate Study also recommended eliminating the Wasteful Tier for potable water, referred to as Tier 5, for residential customers, and Tier 4 for non-residential customers as shown in Exhibit "A" of Ordinance 3405, attached. The Rate Study recommended eliminating Tier 3 and Tier 4 for the reclaimed water budgets, which would result in a two-tier structure for reclaimed water with Tier 1 reflecting the unit cost for the water budget and Tier 2 reflecting the unit cost for all consumption exceeding the water budget.

The Rate Study evaluated the current sewer rate structure and recommended an adjustment to increase equity across customer classes as well as within customers classes. Under the recommended sewer rate structure customers will only pay a bill based on their actual impact on the system. The recommended sewer rate structure includes a fixed monthly charge for all customers and a variable charge for non-residential customers. The variable charge will be assessed for each unit (CCF) of water used above 8 CCF. The City will implement a variance program for commercial customers whose water use and sewer flow may not be directly comparable. The City will review the variances on a case-by-case basis.

The proposed rates are set forth in Exhibit "A" of Ordinance No. 3405, attached to this report. If approved, the proposed rates will be effective on January 3, 2025, with scheduled annual rate increases effective each January 1st from 2026 through 2029. If the proposed rate schedule is approved, the City Council will review the schedule at a public meeting prior to the implementation of the rate increase scheduled for January 1, 2028, to assess the accuracy of the City's cost and revenue estimates and to reaffirm that the 2028 increase remains necessary based upon the costs expended and revenues received during the first two years of the rate increases. After such review, the City Council may direct City staff to proceed with implementing the remaining scheduled rate increases in 2028 through 2029 in an amount that does not exceed the rates set forth in the proposed schedule set forth in Exhibit "A" of Ordinance No. 3405.

Proposition 218 Process

On October 3, 2024, the City mailed a Proposition 218 notice to property owners and tenants of 41,190 parcels that receive water and reclaimed water services and 37,330 parcels that receive sewer services advising them of this public hearing and the procedure for submitting a written protest for the proposed rate changes.

The City held four community meetings to engage with the public about the proposed rates. The outreach for these meetings is summarized in the table below.

Date	Type	Media Type	Sent to	Metrics
10/28	Community Meeting reminder (11/2)	Social Media	Facebook, Instagram, LinkedIn	3,018 Impressions
11/1	Community Meeting reminder (11/2) <i>second post</i>	Social Media	Facebook, Instagram, LinkedIn	2,668 Impressions
10/28	Community Meeting reminder (11/2)	Email	22,556	12,191 Opens
11/1	Community Meeting reminder (11/7)	Social Media	Facebook, Instagram, LinkedIn	3,152 Impressions
11/5	Community Meeting reminder (11/7) <i>second post</i>	Social Media	Facebook, Instagram, LinkedIn	3,919 Impressions
11/5	Community Meeting reminder (11/7)	Email	22,341	11,714 Opens

A total of 30 people attended the community meetings to hear about the proposed water budgets and water, reclaimed water, and sewer, rate structures. Staff from the Customer Care and Utility Billing division, as well as staff from the Water Resources division, were on hand to provide real-time assistance to the community on billing questions, estimated bill information, and conservation opportunities.

Date	Attendees
11/2/2024 @ 2:00 pm at City Hall	13
11/7/2024 @ 11:00 am at City Hall	12
11/7/2024 @ 6:30 pm at City Hall	5
Total	30

The City Clerk's office accepted written protests regarding the rates via mail and email to Prop218@CoronaCA.gov. A total of 58 were received as of November 7, 2024, and an updated number will be provided at the Public Hearing along with copies of all protest letters.

FINANCIAL IMPACT:

Approval of the recommended actions will result in estimated revenue increases in the amount of \$2,879,473 in the Water Utility Fund 570, and \$1,852,278 in the Sewer Utility Fund 572 for the remainder of Fiscal Year 2025. There is no impact to the Reclaimed Water Utility Fund 567 because the Fiscal Year 2025 estimated revenues are higher than the adjusted revenue estimate projection. Future revenue adjustments will be submitted during the annual budget process.

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, reclaimed water, and sewer services are necessary and reasonable to fund the administration, operation, maintenance, and improvements of the potable water, reclaimed water, and sewer 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: KATIE HOCKETT, ASSISTANT DIRECTOR OF UTILITIES

REVIEWED BY: TOM MOODY, DIRECTOR OF UTILITIES

ATTACHMENTS:

1. Exhibit 1 – Presentation
2. Exhibit 2 – Ordinance No. 3405
3. Exhibit 3 – Proposition 218 notice