

# FISCAL AND CASH RESERVE POLICY

## Riverside Public Utilities

City Council  
December 2, 2025

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1

## PURPOSE OF THE RESERVE POLICIES

Properly designed reserve policies:

1. **Send a positive signal** to ratepayers, investors, and regulatory and credit rating agencies **that the Board and City Council are committed to maintaining the long-term fiscal strength of RPU.**
2. **Are strong and transparent financial policies**, including maintaining prudent reserves for emergencies, rate stability, working capital, capital improvements, and debt service, are consistent with best practices in the utility industry.



2

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2

## PURPOSE OF THE RESERVE POLICIES

The policies are essential to the long-term financial health of RPU to:

1. Maintain the short-term and long-term financial health of RPU.
2. Maintain stable rates for customers and help ensure manageable rate increases.
3. Fund unanticipated cost contingencies.
4. Ensure funds exist for system improvements.
5. Ensure cash exists for the timely payment of bills.
6. Act as a significant positive credit factor in bond ratings.



3

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3

## POLICY HISTORY

2016

- **Approved policies documented and adopted financial goals for RPU utilities and established policies** for long-term, as well as day-to-day operations of both utilities.
- The policies cover areas including financial reporting, cash reserves, operating and capital budgeting, debt management, investments, risk management, financial planning, and others.

2017

- **Approved the Dark Fiber Leasing Program**, established uniform lease rates for the use of the dark fiber infrastructure, physical and cyber security policies, a master fiber lease license agreement, and a new cost center within the Electric Fund for related expenses.
- Approved the Dark Fiber designated reserve fund for leased fiber activities.



4

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4

## POLICY HISTORY

2018

- **City Council approved rates that include the use of a Line of Credit (LOC) as part of the 5-Year Rate proposal to keep utility rates as low as possible. Approved adding use of LOC into RPU's Cash Reserve Policy.**
- Utilizing a LOC reduced the electric and water rates by approximately 1% and 3%, respectively.
- Satisfied SB 1029 by incorporating City's Debt Management Policy.

2020

- The Board received an update on RPU's Cash Reserve Policy, funds, and use of funds.
- At this meeting, the Board requested a comparative analysis of RPU's cash reserve policies and the credit ratings compared to other similarly sized utility organizations in the region, as well as an analysis of potential impacts of the Covid-19 pandemic to RPU's cash reserve.



5

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5

## POLICY HISTORY

2021

- Increased annual funds to the SONGS Additional Decommissioning Liability Reserve;
- Removed calculation of operating and maintenance expenses from the Undesignated Reserves for Working Capital;
- Revised calculation to include a three-year average for Undesignated Reserves for System Improvement Capital;
- Removed capital improvement expenditures funded with restricted or designated reserves from Undesignated Reserves for System Improvement Capital; and
- Updated definitions to simplify reserve terminology.



6

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6

## POLICY HISTORY

2022

- January 10, 2022: **Introduction on how RPU uses bond financing and the role of the fiscal policy.**
- **Ad Hoc Committee (AHC) created to review and evaluate RPU and the City fiscal policies related to the use of bond financing to fund internal staff labor** used to design, construct, and administer capital projects, and report back to the Board.

2023

- **Board received a report from the AHC** regarding their review, evaluation, and recommended changes to fiscal policies related to the use of bond financing to funding internal staff labor used to design, construct, and administer capital projects. After discussion with the AHC, the **Board did not change the fiscal policies.**
- On June 26, 2023, the Board received an update on RPU's Cash Reserve Policy, as it related to the Water and Electric Five-Year Rate plans.



7

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7

## POLICY HISTORY

2024

- Board and City Council received an update on the Cash Reserve Policy and approved **reducing the annual funding to the San Onofre Nuclear Generating Station Additional Decommissioning Liability Reserve from \$2.0M to \$1.0M**, beginning in fiscal year 2024/25.

2025

- Board and City Council **approved establishing a Water Treatment Designated Reserve** to set aside proceeds from PFAS settlements to fund capital costs for water treatment plants.



8

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8

## RESERVE CATEGORIES

1. **Restricted Reserves** are established and utilized for narrowly defined purposes as specified by legal restrictions, bond covenants, and other regulations or ordinances.
2. **Designated Reserves** meet specific purposes set aside by the Board and City Council.
  - a. Ensure stable service delivery, meet future needs, and protect against financial instability.
  - b. May be held for specific capital and operating purposes.
3. **Undesignated Reserves** are the remaining unrestricted reserves that may be used for any lawful purpose and have not been designated for specific capital and operating purposes.
  - a. Maintaining a proper level of undesignated reserves is critical to ensure the utility can meet its fluctuating cashflow demands and mitigate financial volatility.



9

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9

## RESTRICTED RESERVES

Restricted Reserve	Electric	Water
Unspent Bond Proceeds (to fund capital projects)	X	X
Bond Redemption Reserve (for debt service)	X	X
Prefunding Section 115 Pension Trust – Unfunded Accrued Liability ( <i>Proposed</i> )	X	X
San Onofre Nuclear Generating Station (SONGS) Decommissioning Fund	X	
Regulatory Requirements Reserve (Cap and Trade auction and LCFS Credit sale proceeds)	X	
Electric Public Benefit Fund	X	
Water Conservation Fund		X



10

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10

## DESIGNATED RESERVES

Designated Reserve	Electric	Water
Customer Deposits	X	X
Capital Repair/Replacement	X	X
Additional Decommissioning Liability	X	
Electric Reliability	X	
Mission Square Improvement	X	
Dark Fiber	X	
Recycled Water		X
Property		X
Water Treatment ( <i>Proposed</i> )		X



11

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11

## UNDESIGNATED RESERVES

Undesignated Reserve	Electric	Water
Operating (Working Capital)	X	X
Rate Stabilization	X	X
Emergency Capital	X	X
System Improvements Capital	X	X
Debt Service	X	X



12

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12

## RESERVE ACCOUNT BALANCES – ELECTRIC

Unrestricted cash and cash equivalents:	Audited June 30, 2024	Unaudited June 30, 2025
Undesignated reserve	\$135,963,000	\$152,507,000
Customer deposits reserve	5,014,000	6,042,000
Capital repair/replacement reserve	2,336,000	2,406,000
Electric reliability reserve	95,689,000	95,418,000
Mission Square improvement reserve	2,757,000	3,408,000
Additional decommissioning liability reserve	10,885,000	12,226,000
Dark fiber reserve	5,556,000	4,767,000
<b>Total unrestricted cash and cash equivalents:</b>	<b>\$258,200,000</b>	<b>\$276,774,000</b>



13

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13

## RESERVE ACCOUNT BALANCES – ELECTRIC

Legally restricted cash and cash equivalents:	Audited June 30, 2024	Unaudited June 30, 2025
Reserved for debt service	\$23,981,000	\$21,916,000
Reserved for regulatory requirements	29,846,000	35,859,000
Reserved for low carbon fuel standard	4,414,000	5,903,000
Reserved for Public Benefit Programs	32,033,000	34,710,000
<b>Total legally restricted cash and cash equivalents</b>	<b>\$90,274,000</b>	<b>\$98,388,000</b>



14

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14

## RESERVE ACCOUNT BALANCES – ELECTRIC

<b>Legally restricted cash and investments at fiscal agent:</b>	<b>Audited June 30, 2024</b>	<b>Unaudited June 30, 2025</b>
Reserved for decommissioning liability	\$45,009,000	\$41,536,000
Reserved for other cash at fiscal agent	11,000	2,552,000
Reserved for Prefunding Section 115 Pension Trust – unfunded accrued liability	3,510,000	3,853,000
Reserved for bond construction	127,743,000	97,958,000
<b>Total legally restricted cash and investments at fiscal agent</b>	<b>\$176,273,000</b>	<b>\$145,899,000</b>
<b>Total Electric Utility Reserve Accounts:</b>	<b>\$524,747,000</b>	<b>\$521,061,000</b>
• Unrestricted cash and cash equivalents		
• Legally restricted cash and cash equivalents		
• Legally restricted cash and investments at fiscal agent		



15

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15

## RESERVE ACCOUNT BALANCES – WATER

<b>Unrestricted cash and cash equivalents:</b>	<b>Audited June 30, 2024</b>	<b>Unaudited June 30, 2025</b>
Undesignated reserve	\$43,241,000	\$49,890,000
Recycled water reserve	778,000	916,000
Property reserve	6,135,000	6,325,000
Customer deposits reserve	858,000	959,000
Capital repair/replacement reserve	2,437,000	2,511,000
<b>Total unrestricted cash and cash equivalents</b>	<b>\$53,449,000</b>	<b>\$60,601,000</b>
<b>Legally restricted cash and cash equivalents:</b>	<b>Audited June 30, 2024</b>	<b>Unaudited June 30, 2025</b>
Reserved for debt service	\$9,246,000	\$10,446,000
Water Conservation Programs	3,747,000	3,124,000
<b>Total legally restricted cash and cash equivalents</b>	<b>\$12,993,000</b>	<b>\$13,570,000</b>



16

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16



## RESERVE ACCOUNT BALANCES - WATER

Legally restricted cash and investments at fiscal agent:	Audited June 30, 2024	Unaudited June 30, 2025
Reserved for other cash at fiscal agent	\$683,000	\$1,461,000
Reserved for Prefunding Section 115 Pension Trust – unfunded accrued liability	1,157,000	1,270,000
Reserved for bond construction	34,555,000	25,482,000
<b>Total legally restricted cash and investments at fiscal agent</b>	<b>\$36,395,000</b>	<b>\$28,213,000</b>
<b>Total Water Utility Reserve Accounts:</b>	<b>\$102,837,000</b>	<b>\$102,384,000</b>
• Unrestricted cash and cash equivalents		
• Legally restricted cash and cash equivalents		
• Legally restricted cash and investments at fiscal agent		



17

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17

## MINIMUM RESERVE TARGET CALCULATIONS

### Electric

Source	Target	Formula
Operating (Working Capital)	60 days	$\frac{\text{Annual Operating Expense}}{365 \text{ days}} \times 60$
Rate Stabilization	10%	Operating Revenues $\times$ 10%
Emergency Capital	1%	Depreciable Assets $\times$ 1%
System Improvements Capital	6 months	$\frac{\text{Prev FY actual CIP exp} + \text{Current FY CIP} + \text{Next FY CIP}}{3 \text{ (years for average CIP exp)}} \times 6$
Debt Service	1 payment	$\frac{3\text{-year average CIP exp}}{12 \text{ months}} \times 6$
Total		Annual payment for principal + 6 months of interest
		Sum of above



18

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18

## MINIMUM RESERVE TARGET CALCULATIONS

### Water

Source	Target	Formula
Operating (Working Capital)	60 days	$\frac{\text{Annual Operating Expense}}{365 \text{ days}} \times 60$
Rate Stabilization	7%	$\text{Operating Revenues} \times 7\%$
Emergency Capital	1%	$\text{Depreciable Assets} \times 1\%$
System Improvements Capital	6 months	$\frac{\text{Prev FY actual CIP exp} + \text{Current FY CIP} + \text{Next FY CIP}}{3 \text{ (years for average CIP exp)}} \times 6$ $\frac{3\text{-year average CIP exp}}{12 \text{ months}} \times 6$
Debt Service	1 payment	$\text{Annual payment for principal} + 6 \text{ months of interest}$
Total		Sum of above

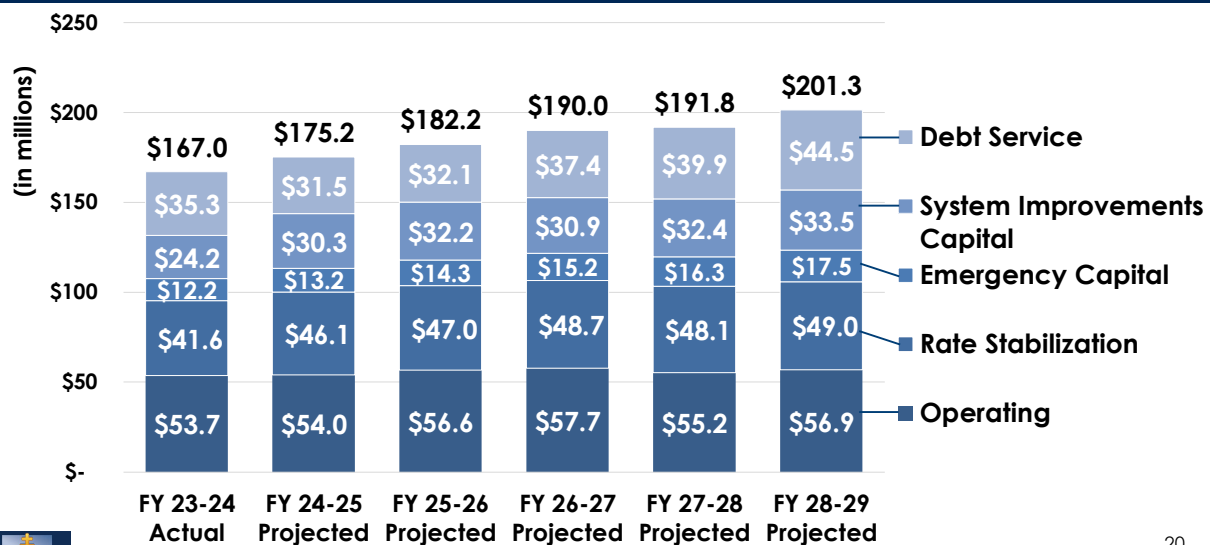


19

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19

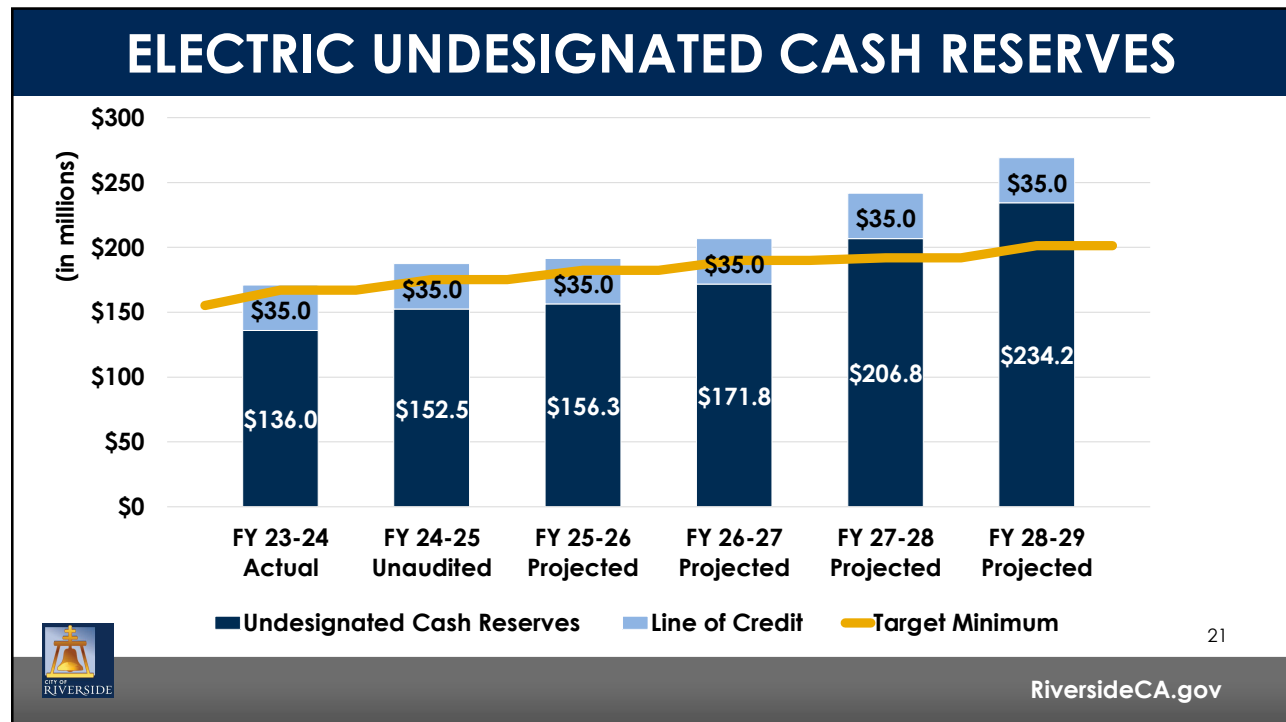
## ELECTRIC UNDESIGNATED TARGET MINIMUM



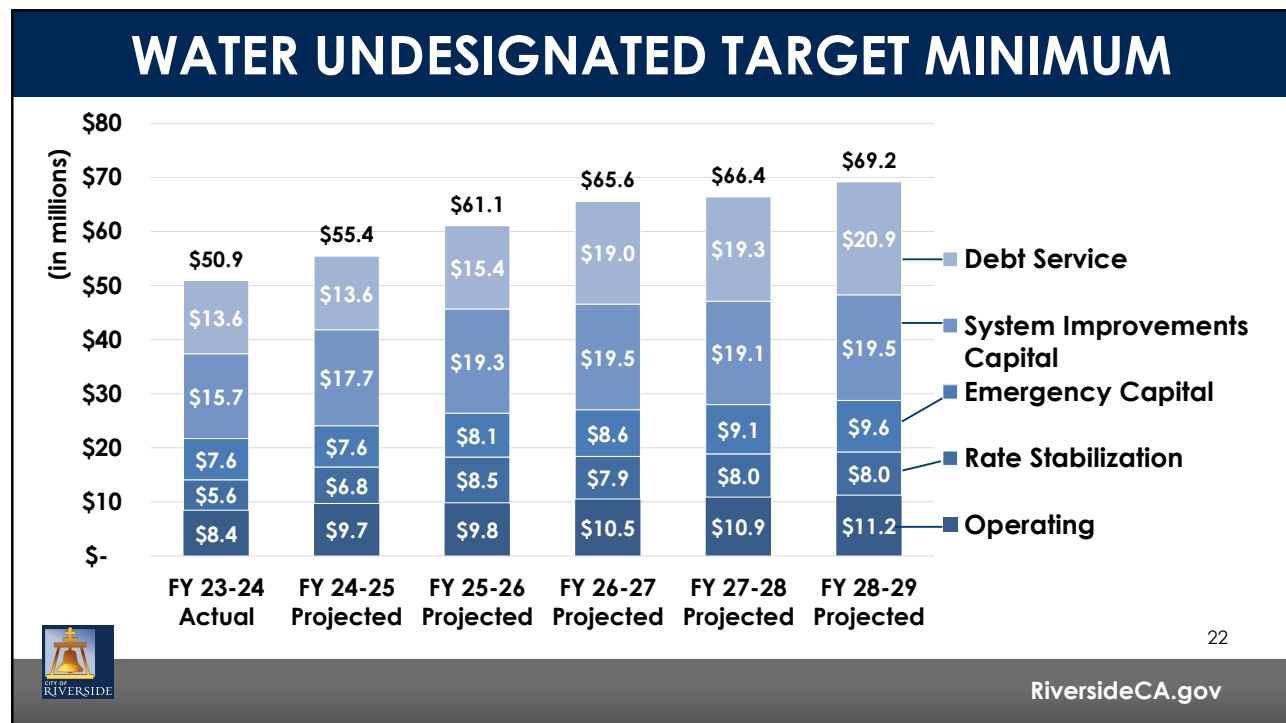
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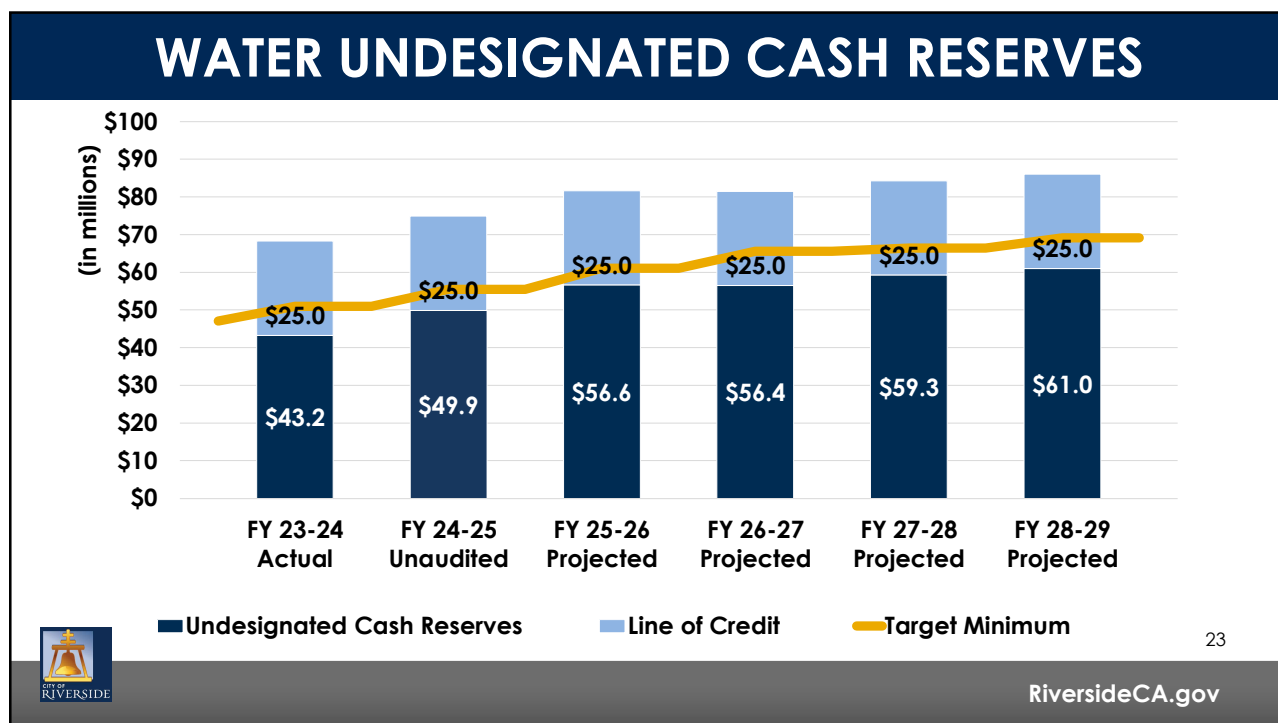
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21




22



23

## WITHDRAWAL AND REPLENISHMENT OF RESERVES

1. RPU treats the targeted reserves as practical minimums and allow reserves to increase or decrease as necessary within the minimum and maximum prescribed levels.
2. To the extent that undesignated reserves are above the target and below the maximum, the Board and City Council have the flexibility to direct staff to:
  - a. utilize those available funds to pay for capital projects (reducing the need for future debt),
  - b. pay down unfunded liabilities such as pension obligations,
  - c. defease outstanding debt, or
  - d. fund other strategic objectives.
3. No other action by RPU would be required if reserves are between the minimum and maximum level unless directed by the Board and City Council.
4. Reserve levels below the minimum targeted reserves will leave RPU exposed to significant operational risks. Should RPU draw down reserves below the minimum targeted level, RPU will implement plans to return reserves to their minimum targeted levels within three years. Such plans will be provided within 12 months.

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24

## REPORTING AND OVERSIGHT

1. Reserve levels are monitored throughout the fiscal year and reported in the monthly and quarterly financial reports.
2. Reserve target (minimum) and maximum levels are analyzed annually, and an over/under-reserve determination is made in conjunction with year-end financial results.
3. These results are reported to the Board and City Council as part of the year-end financial report presentation.
4. Should designated or undesignated reserve levels need adjustment due to new risk factors due to changes in the industry, these will be brought to the Board and City Council as part of the year-end report.
5. The Policy is to be reviewed annually and updated (at a minimum of every three years) if there are material changes in the risk exposures or new conditions that require changes in reserve levels.



25

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25

## UPDATE TO CASH RESERVE POLICY

### Restricted Reserves:

1. **Update to clarify that the Regulatory Requirements Reserve includes Low Carbon Fuel Standard (LCFS) funds.**
  - Regulatory Requirements Reserve (Cap and Trade auction proceeds and Low Carbon Fuel Standards-LCFS)
2. **Add the Prefunding Section 115 Pension Trust** as a reserve to finance any unfunded accrued pension liability related to the cost of pension benefits earned by employees during the year.
  - Prefunding Section 115 Pension Trust – Unfunded Accrued Liability



26

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26

## UPDATE TO CASH RESERVE POLICY

### Designated Reserves:

1. *Capital Repair/Replacement Reserve* – Add clarification to the examples for which the reserve may be used.
  - **Capital Repair/Replacement Reserve** (electric and water funds) – Established to accumulate amounts for repairs and replacement of facilities, vehicles, and technology outside of the Capital Improvement Program. Examples would be roof replacement, vehicle replacement to meet zero emission State of California Requirements, desktop technology replacement, etc. Funding for this reserve will be accumulated over a three-year period based on a historical 10-year averages of replacement costs.



27

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27

## UPDATE TO CASH RESERVE POLICY

### Designated Reserves:

1. **Add the Water Treatment Reserve (water fund only)** to set aside funds for water treatment operating and capital costs, including water treatment plants, and that funding for the reserve will be from legal settlements from responsible parties.
  - Water Treatment Reserve (water fund only) – Established to set aside funds for water treatment operating and capital costs including water treatment plants. Funding will be from legal settlements from responsible parties.



28

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28

## RECOMMENDATION

That the City Council approve the updated Riverside Public Utilities Fiscal and Cash Reserve Policy to establish the Section 115 Pension Trust – Unfunded Accrued Liability Reserve, include the approved Water Treatment Reserve (water fund only), and to clarify certain existing policy definitions.



29

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