



# CASH RESERVE POLICY

## Riverside Public Utilities

**Board of Public Utilities**  
June 24, 2024

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## POLICY HISTORY

- 2016**
  - The 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
- 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.
  - Utilizing a LOC reduced the electric and water rates by approximately 1% and 3%, respectively.
  - Approved the LOC into RPU's fiscal policies



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## POLICY HISTORY

2020

- The Board received an update on the Riverside Public Utility'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.

2021

- Approved the updated RPU Fiscal Policies and Cash Reserve Policy including:
  - the increase in annual funds to the SONGS Additional Decommissioning Liability Reserve;
  - the removal of calculation of operating and maintenance expenses from the Undesignated Reserves for Working Capital;
- Revised the calculation to include a three-year average for Undesignated Reserves for System Improvement Capital;
- the removal of capital improvement expenditures funded with restricted or designated reserves from Undesignated Reserves for System Improvement Capital; and
- updated definitions to simplify reserve terminology


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## POLICY HISTORY

2022

- On January 10, 2022, the Board received the introduction on how Riverside Public Utilities uses bond financing and the role of the fiscal policy.
- On August 8, 2022, the Board created an ad hoc committee to review and evaluate the Public Utilities Department 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

- On May 8, 2023, the Board received a report from the Ad Hoc Committee regarding the Committee's 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 the discussion with Ad Hoc Committee, the Board did not make recommendations to the fiscal policies.
- On June 26, 2023, the Board received an update on the Riverside Public Utility's Cash Reserve Policy, as it related to the Water and Electric Five-Year Rate plans.


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## PURPOSE OF THE RESERVE POLICIES

Properly designed reserve policies 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.

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.



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## PURPOSE OF THE RESERVE POLICIES

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

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



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## RESERVE ACCOUNT BALANCES

| Schedules of Cash and Cash Equivalents – Electric Utility |                       |                          |
|---|-----------------------|--------------------------|
|   | Audited June 30, 2023 | Unaudited March 31, 2024 |
| <b>Unrestricted cash and cash equivalents:</b>            |                       |                          |
| Undesignated reserve                                      | \$ 137,911,000        | \$ 136,848,000           |
| Customer deposits reserve                                 | 4,948,000             | 4,948,000                |
| Capital repair and replacement reserve                    | 2,287,000             | 2,287,000                |
| Electric reliability fund reserve                         | 87,127,000            | 91,919,000               |
| Mission Square improvement fund reserve                   | 2,113,000             | 2,113,000                |
| Additional decommissioning liability reserve              | 8,644,000             | 10,294,000               |
| Dark Fiber Reserve  | 4,801,000             | 4,801,000                |
| <i>Total unrestricted cash and cash equivalents</i>       | <i>\$ 247,831,000</i> | <i>\$ 253,210,000</i>    |
| <b>Legally restricted cash and cash equivalents:</b>      |                       |                          |
| Reserved for debt service                                 | \$ 19,292,000         | \$ 21,560,000            |
| Reserved for bond construction                            | 0                     | 132,418,000              |
| Reserved for regulatory requirements                      | 21,707,000            | 36,218,000               |
| Reserved for low carbon fuel standard                     | 3,795,000             | 4,670,000                |
| Reserved for Public Benefit Programs                      | 29,152,000            | 31,351,000               |
| <i>Total legally restricted cash and cash equivalents</i> | <i>\$ 73,946,000</i>  | <i>\$ 226,217,000</i>    |
| <b>Total cash and cash equivalents</b>                    | <b>\$ 321,777,000</b> | <b>\$ 479,427,000</b>    |



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## RESERVE ACCOUNT BALANCES

| Schedules of Cash and Cash Equivalents – Electric Utility (continued) |                       |                          |
|---|-----------------------|--------------------------|
|   | Audited June 30, 2023 | Unaudited March 31, 2024 |
| <b>Legally restricted cash and investments at fiscal agent:</b>       |                       |                          |
| Reserved for decommissioning liability                                | \$ 47,110,000         | \$ 44,006,000            |
| Reserved for other cash at fiscal agent                               | 224,000               | 13,000                   |
| Reserved for debt service   | 10,801,000            | 0                        |
| <i>Total legally restricted cash and investments at fiscal agent</i>  | <i>\$ 58,135,000</i>  | <i>\$ 44,019,000</i>     |
| <i>Total unrestricted and restricted cash</i>                         | <i>\$ 379,912,000</i> | <i>\$ 523,446,000</i>    |



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# RESERVE ACCOUNT BALANCES

## Schedules of Cash and Cash Equivalents – Water Utility

|   | Audited June 30, 2023 | Unaudited March 31, 2024 |
|---|-----------------------|--------------------------|
| <b>Unrestricted cash and cash equivalents:</b>                  |                       |                          |
| Undesignated reserve  | \$ 39,071,000         | \$ 41,778,000            |
| Recycled water cash reserve                                     | 1,013,000             | 663,000                  |
| Property reserve  | 5,926,000             | 5,986,000                |
| Customer deposits reserve                                       | 803,000               | 802,000                  |
| Capital repair and replacement reserve                          | 2,378,000             | 2,378,000                |
| <i>Total unrestricted cash and cash equivalents</i>             | <i>\$ 49,191,000</i>  | <i>\$ 51,607,000</i>     |
| <b>Legally restricted cash and cash equivalents:</b>            |                       |                          |
| Reserved for debt service                                       | \$ 8,933,000          | \$ 9,959,000             |
| Reserved for bond construction                                  | 55,472,000            | 42,253,000               |
| Water Conservation Programs                                     | 3,545,000             | 3,588,000                |
| <i>Total legally restricted cash and cash equivalents</i>       | <i>\$ 67,950,000</i>  | <i>\$ 55,800,000</i>     |
| <b>Total cash and cash equivalents</b>                          | <b>\$ 117,141,000</b> | <b>\$ 107,407,000</b>    |
| <b>Legally Restricted cash and investments at fiscal agent:</b> |                       |                          |
| Other cash at fiscal agent                                      | 16,000                | 676,000                  |
| <i>Total cash and investments at fiscal agent</i>               | <i>\$ 16,000</i>      | <i>\$ 676,000</i>        |
| <i>Total unrestricted and restricted cash</i>                   | <i>\$ 117,157,000</i> | <i>\$ 108,083,000</i>    |



# 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* are that portion of unrestricted reserves that meet specific purposes set aside by the Board and City Council. Designated reserve funds ensure stable service delivery, meet future needs, and protect against financial instability. Designated reserves 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; however, maintaining a proper level of undesignated reserves is critical to ensure the utility can meet its fluctuating cashflow demands and mitigate financial volatility.



## RESTRICTED RESERVES

| Restricted Reserve   | Definition   | Electric | Water |
|--|--|----------|-------|
| San Onofre Nuclear Generating Station (SONGS) Decommissioning    | Riverside owns 1.79% of SONGS Units 2 & 3, within Camp Pendleton, that was permanently retired on June 7, 2013. This reserve was established in June 2017, for the Riverside's share of the decommissioning cost obligations that are held with the trustee for the decommissioning costs. | X        |       |
| Regulatory Requirements Reserve (Cap and Trade auction proceeds) | Funds set aside for regulatory requirements for greenhouse gas allowances and low carbon fuel standard proceeded as legally restricted for specific purposes.  | X        |       |
| Unspent Bond Proceeds to Fund Capital Projects                   | Funds restricted by bond covenant, allowable only for qualified approved capital projects  | X        | X     |
| Bond Redemption Reserve (Debt Service)                           | This reserve is set aside for future bond payments that are governed by bond covenants.  | X        | X     |
| Electric Public Benefits Fund                                    | Assembly Bill 1890, adopted in 1996, monthly surcharge of 2.85% of the total electric charge to be used for low-income customer assistance, energy efficiency and conservation programs, renewable resources and energy research and development.  | X        |       |
| Water Conservation Fund  | May 2004 City Council approved 10-year monthly surcharge of 1.5% of the total water charge to provide financing to create and encourage water conservation and efficiency programs, renewed March 2014.  |          | X     |



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## DESIGNATED RESERVES

| Designated Reserve                   | Definition  | Electric | Water |
|--------------------------------------|---|----------|-------|
| Customer Deposits                    | Monies held on behalf of RPU's customers as required to be utilized if a customer fails to pay their utility bill.  | X        | X     |
| Additional Decommissioning Liability | Established in June 1998, and updated March 2016 to accumulate extra funds held at the City (not with the SONGS trustee) for the uncertainty of costs associated with the SONGS Decommissioning activities.   | X        |       |
| Electric Reliability                 | Established in December 2007 to fund the debt service and capital expenditures for construction of internal electric generation and purchase of state transmission grid capacity, annual repair and improvements to internal generation facilities, and fund internal RPU sub-transmission system upgrades for RTRP improvements. The funds are received from retail customers through the Reliability Charge on each monthly bill. | X        |       |
| Mission Square Improvement           | Established June 2015 to accumulate funds for major improvements to the Mission Square facility; funded by an annual contribution equal to 2% of the building value up to a maximum reserve equal to 25% of the building value.   | X        |       |
| Capital Repair/Replacement           | Established March 2016 to accumulate amounts for repairs and replacement of facilities, vehicles, and technology outside of the Capital Improvement Program.  | X        | X     |
| Recycled Water                       | Established June 2014 to set aside funds for a recycled water program. Funding was from a legal settlement from the City.   |          | X     |
| Property                             | Established July 2005 to accumulate all proceeds from surplus property sales to be used in the future for the purchase of property needed for operations, or for other long-term capital assets/projects. Funding is from proceeds from the sale of surplus property.   |          | X     |
| Dark Fiber                           | Established July 2017 to accumulate proceeds from fiber leasing activity and account for expenditures of the dark fiber program.  | X        |       |



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## UNDESIGNATED RESERVES

| Undesignated Reserve        | Definition   | Electric | Water |
|-----------------------------|--|----------|-------|
| Operating (Working Capital) | Ensures sufficient resources to pay budgeted operating and maintenance expenses, including power supply costs, recognizing the timing differences between payment of expenditures and receipt of revenues.   | X        | X     |
| Rate Stabilization          | Mitigates rate shock due to temporary and transitional regulatory changes, loss of a major resource, sharp demand reduction or market volatility.  | X        | X     |
| Emergency Capital           | Provides funds to ensure ability to repair system after an emergency or natural disaster such as a flood, earthquake or major windstorm  | X        | X     |
| System Improvements Capital | Provide funds to ensure continuity of construction over fiscal years to be reimbursed by bond proceeds or other resources.   | X        | X     |
| Debt Service                | Ensures ability to make debt service payments in an extreme event that may impact RPU's ability to provide services, thus impacting revenues at a time critical infrastructure repairs are needed to restore systems. The Debt Service Reserve is intended to prevent an event where RPU would be unable to pay its debt service obligations during such emergencies, or extreme market disruptions. | X        | X     |



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## 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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## 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.



## MINIMUM RESERVE TARGET CALCULATIONS

| Minimum Reserve Target - Electric |           |  |
|-----------------------------------|-----------|--|
| Source                            | Target    | Formula  |
| Operating (Working Capital)       | 60 days   | $\frac{\text{Annual Operating Exp}}{365 \text{ Days}} \times 60$   |
| Rate Stabilization                | 10%       | $\text{Operating Revenues} \times 10\%$  |
| Emergency Capital                 | 1%        | $\text{Depreciable Assets} \times 1\%$   |
| System Improvement Capital        | 6 months  | $\frac{\text{Prev FY actual CIP exp} + \text{Curent FY CIP} + \text{Next FY CIP}}{3 \text{ (years for average CIP exp)}} \times 6$ |
| Debt Service                      | 1 payment | Annual Payment for principal and 6 months of interest  |
| Total                             |           | Sum of above   |





# MINIMUM RESERVE TARGET CALCULATIONS

| Minimum Reserve Target for Water |           |   |
|----------------------------------|-----------|---|
| Source                           | Target    | Formula   |
| Operating (Working Capital)      | 60 days   | $\frac{\text{Annual Operating Exp}}{365 \text{ Days}} \times 60$  |
| Rate Stabilization               | 7%        | $\text{Operating Revenues} \times 7\%$  |
| Emergency Capital                | 1%        | $\text{Depreciable Assets} \times 1\%$  |
| System Improvement Capital       | 6 months  | $\frac{\text{Prev FY actual CIP exp} + \text{Curent FY CIP} + \text{Next FY CIP}}{3 \text{ (years for average CIP exp)}} \times 6$<br><br>$\frac{3 \text{ year Average CIP exp}}{12 \text{ Months}} \times 6$ |
| Debt Service                     | 1 payment | Annual Payment for principal and 6 months of interest   |
| Total                            |           | Sum of above  |

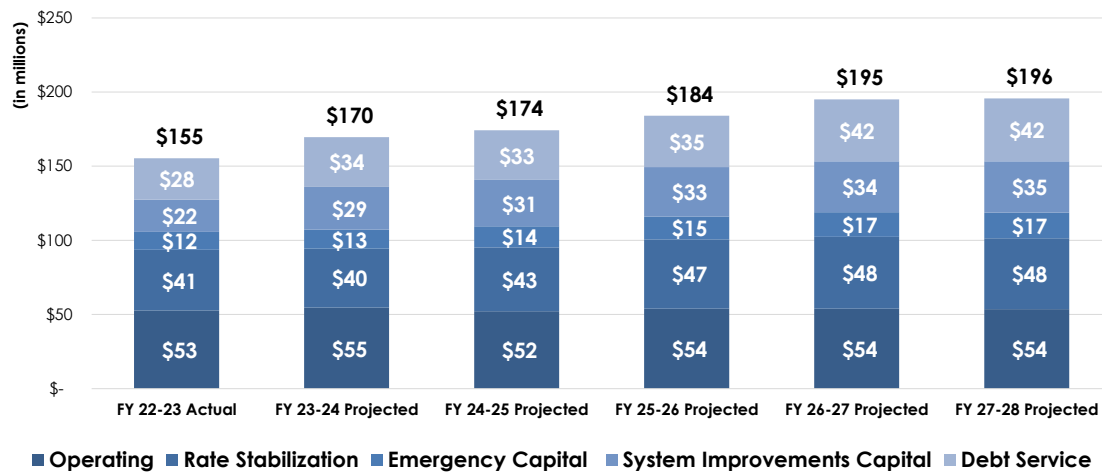


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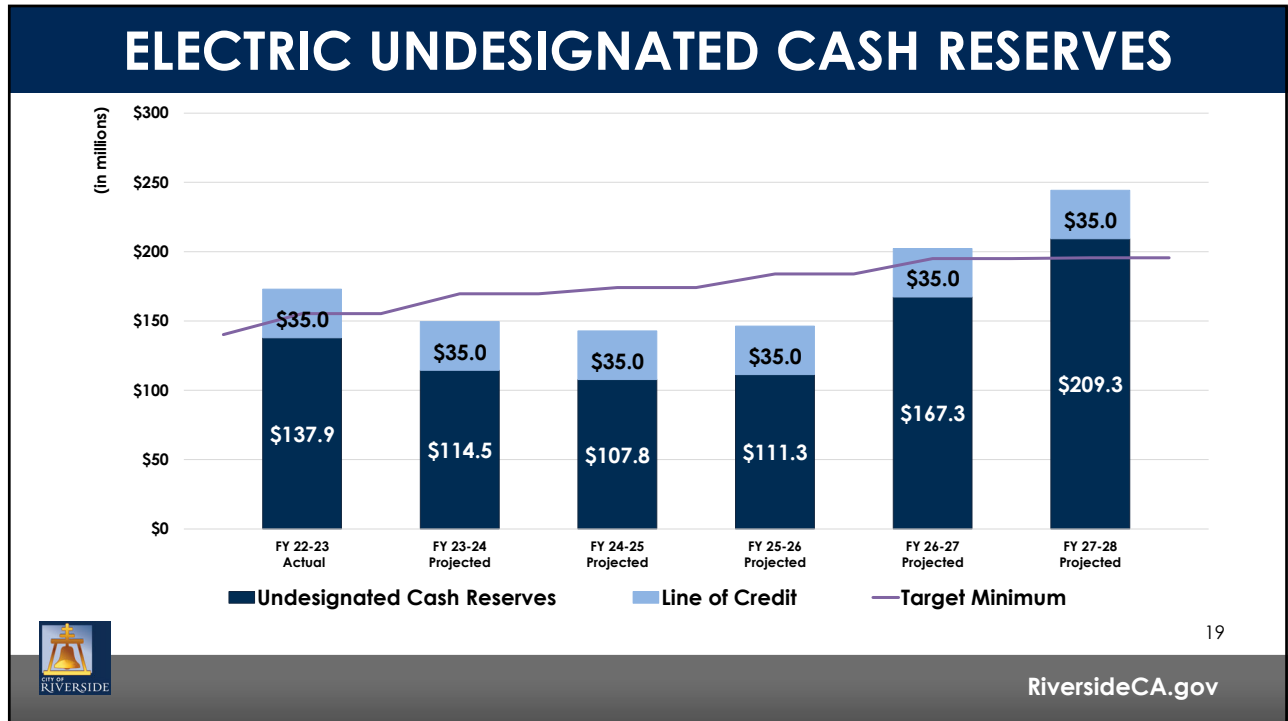
# ELECTRIC UNDESIGNATED TARGET MINIMUM



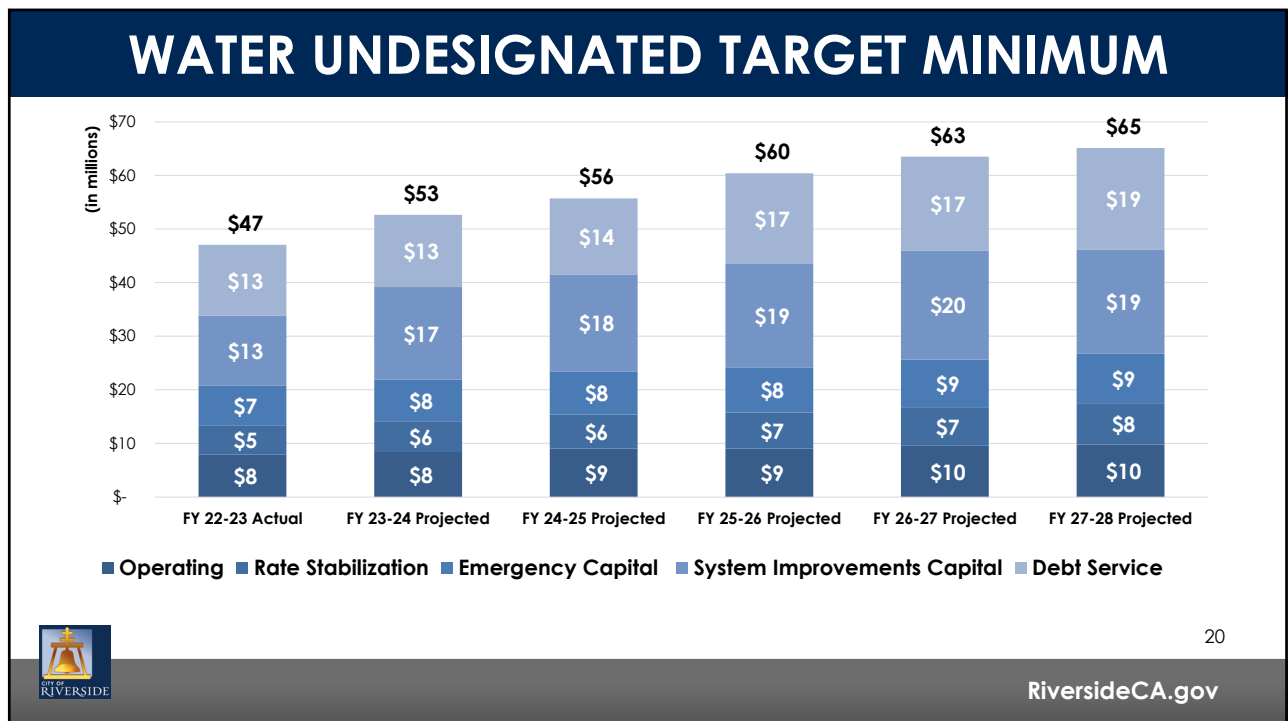
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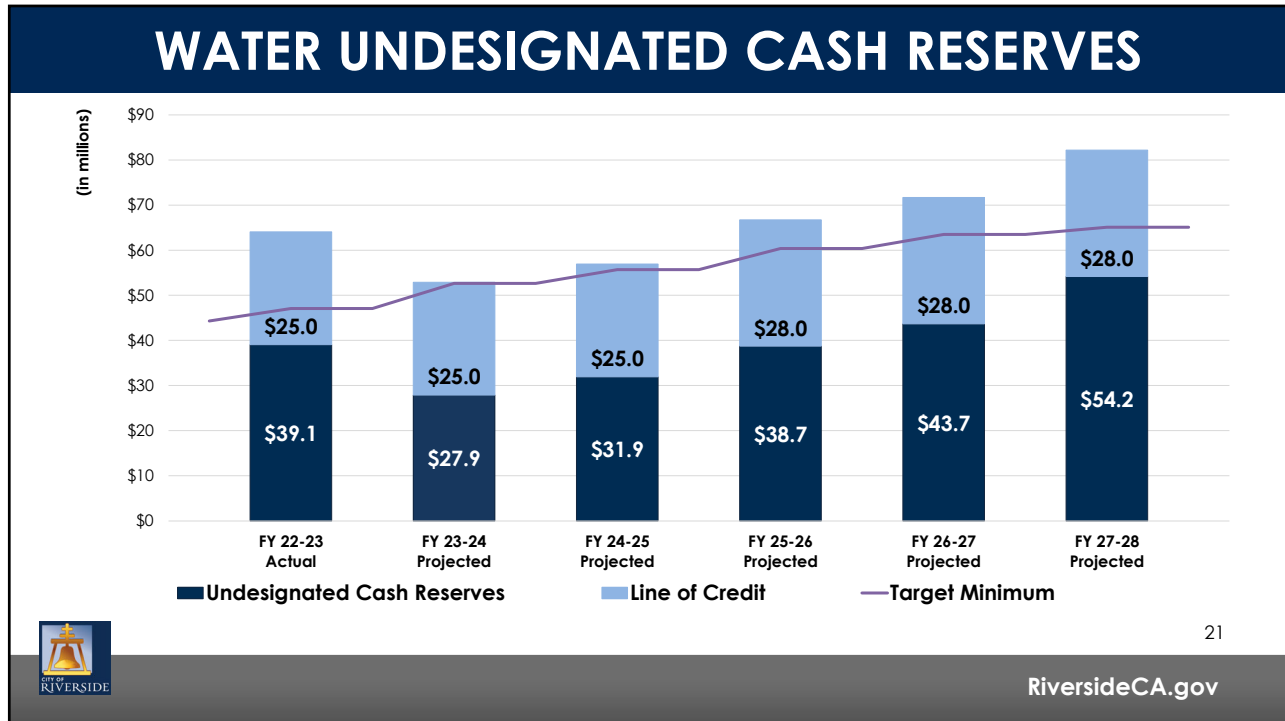
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## UPDATE TO CASH RESERVE POLICY

*Designated Reserves:*


**Additional Decommissioning Liability Reserve** (electric fund only) – Reflects the decrease in annual funding to the SONGS Additional Decommissioning Liability Reserve from \$2.0M to \$1.0M beginning in fiscal year 2024/25.


- Additional Decommissioning Liability Reserve** (electric fund only) – Established to accumulate funds for the uncertainty of costs associated with the SONGS Decommissioning activities. These funds are in addition to RPU's funded trust held by the trustee (restricted reserve). The decommissioning funds held in the restricted reserve represent RPU's proportionate share of the independent Decommissioning Cost Estimate ("DCE"). If the DCE is increased, RPU will need to fund additional monies to the trust for decommissioning. On June 8, 2020 and June 16, 2020, the Board of Public Utilities and City Council, respectively, approved the increase in annual funding to the SONGS Additional Decommissioning Liability Reserve from \$1.6M to \$2.0M annually beginning in fiscal year 2020/21, due to an anticipated increase in the SONGS DCE. On November 28, 2022 and December 13, 2022, the Board of Public Utilities and City Council, respectively, received an update on the SONGS 2020 DCE and approved transferring \$9.7M to the Restricted Decommissioning Fund for SONGS. Beginning in fiscal year 2024/25, the annual funding to the SONGS Additional Decommissioning Liability Reserve reduced from \$2.0M to \$1.0M. This amount can be evaluated and adjusted as needed.

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## STRATEGIC PLAN ALIGNMENT


 **High Performing Government:**  
Goal 5.4. Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.


 **Infrastructure, Mobility & Connectivity:**  
Goal 6.2. Maintain, protect and improve assets and infrastructure within the City's built environment to ensure and enhance reliability, resiliency, sustainability, and facilitate connectivity.


### Cross-Cutting Threads


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 Community Trust

 Fiscal Responsibility

 Sustainability & Resiliency

 Equity

 Innovation




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## RECOMMENDATIONS

That the Board of Public Utilities:

1. Receive the annual update on the Riverside Public Utilities Cash Reserve Policy;
2. Approve the Cash Reserve Policy update to reduce the annual funding to the SONGS Additional Decommissioning Liability Reserve from \$2.0M to \$1.0M, beginning in Fiscal Year 2024/25; and
3. Recommend the City Council approve the updated Riverside Public Utilities Cash Reserve Policy to reduce the annual funding to the SONGS Additional Decommissioning Liability Reserve.



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