



# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

**BOARD OF PUBLIC UTILITIES**

**DATE: JANUARY 10, 2022**

**SUBJECT: RIVERSIDE PUBLIC UTILITIES 2021 ANNUAL AUDIT REPORT AND FINANCIAL RESULTS**

**ISSUE:**

Consider receiving an update on the Riverside Public Utilities 2021 Annual Audit Report and Financial Results for the fiscal year ended June 30, 2021.

**RECOMMENDATION:**

That the Board of Public Utilities receive and file the Riverside Public Utilities 2021 Annual Audit Report and Financial Results.

**BACKGROUND:**

An independent audit is performed each year of the City of Riverside and its related entities' financial statements. On June 4, 2019, the City Council approved a five-year term with Lance, Soll & Lunghard to serve as independent external auditors for annual financial statements.

Riverside Public Utilities (RPU) fiscal policy was adopted by the Board of Public Utilities (Board) on May 23, 2016 and City Council on July 26, 2016. The cash reserve section of the fiscal policy was updated and approved by the Board on July 26, 2021 and City Council on September 7, 2021. Per the fiscal policy, RPU shall prepare annual full-accrual financial statements, including the Management's Discussion and Analysis and the accompanying Notes to the Financial Statements.

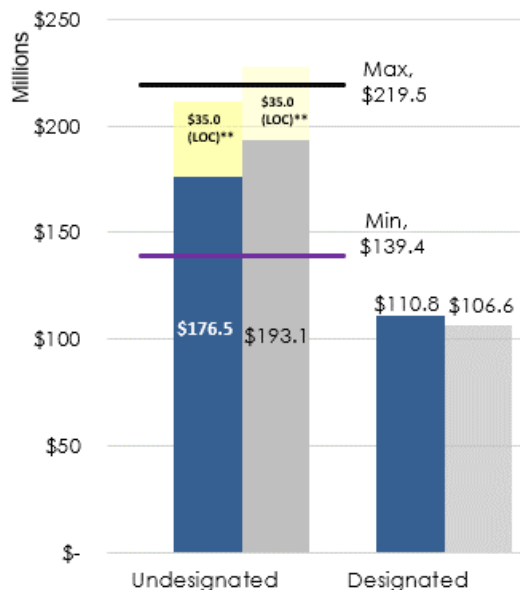
**DISCUSSION:**

The City's independent auditor, Lance, Soll & Lunghard, LLP has completed the Fiscal Year 2020-21 annual audit of RPU's financial statements. The auditors provided an unmodified, or clean, opinion that RPU's financial statements are presented fairly and in conformity with generally accepted accounting principles. This *clean* audit opinion supports the fact that RPU observed compliance with generally accepted accounting principles and statutory requirements. Additionally, RPU had no audit findings or instances of material weaknesses or significant deficiencies identified during the audit process.

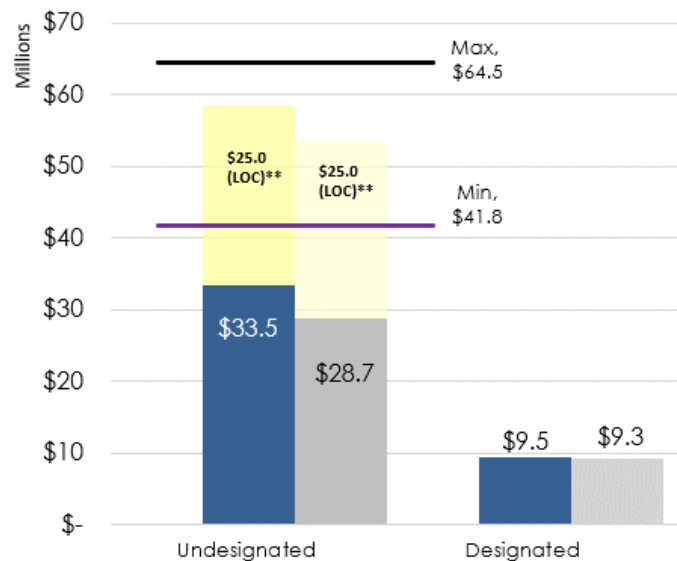
## Reserve Policy Compliance

The Riverside Public Utilities Cash Reserve Policy provides a defined level of undesignated reserves in both the Electric and Water Utility for strategic purposes to mitigate risk and maintain financial stability.

### Electric Utility Unrestricted Reserves:



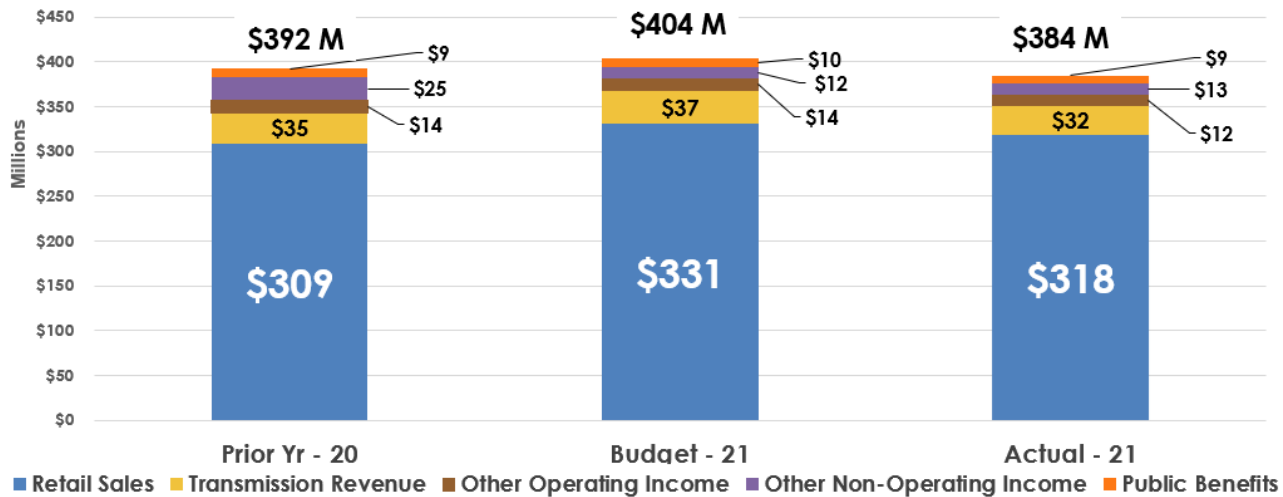
As of June 30, 2021, the Electric Utility balances were \$110.8 million for designated reserves, \$176.5 million for undesignated reserves, and \$35 million line of credit (LOC). The LOC provides flexibility and operating liquidity similar to cash reserves, but is not reflected as cash on the balance sheet. The Electric Fund's undesignated reserve balance at fiscal year-end met the minimum and maximum guidelines as set forth in the policy. Designated reserves are considered unrestricted assets and represent a portion of unrestricted reserves that meet specific purposes set aside by the Board and City Council. The designated reserve balance includes reserves for Customer Deposits, Additional Decommissioning Liability, Electric Reliability, Capital Repair and Replacement, the Mission Square Improvement, and Dark Fiber. The undesignated reserves have not been designated for a specific purpose and may be used for any lawful purpose including operating and maintenance expenses, debt service, emergency capital and system improvements capital as directed in the reserve policy.

Water Utility Unrestricted Reserves:

As of June 30, 2021, the Water Utility balances were \$9.5 million for designated reserves, \$33.5 million for undesignated reserves, and \$25 million line of credit (LOC). Water Fund's undesignated reserve balance combined with the line of credit in compliance with RPU Cash Reserve Policy, at June 30, 2021, is above target minimum which is consistent with projections provided during the biennial budget and rate plan proposal processes. The LOC provides flexibility and operating liquidity similar to cash reserve, but is not recorded as cash on the financial statement and allows the Water Fund to maintain compliance with RPU Cash Reserve Policy. Designated reserves are considered unrestricted assets and represent a portion of unrestricted reserves that meet specific purposes set aside by the Board and City Council. The designated reserve balance includes reserves for Recycled Water, Property, Customer Deposits and Capital Repair/Replacement. The undesignated reserves have not been designated for a specific purpose and may be used for any lawful purpose including operating and maintenance expenses, debt service, emergency capital and system improvements capital as directed in the reserve policy.

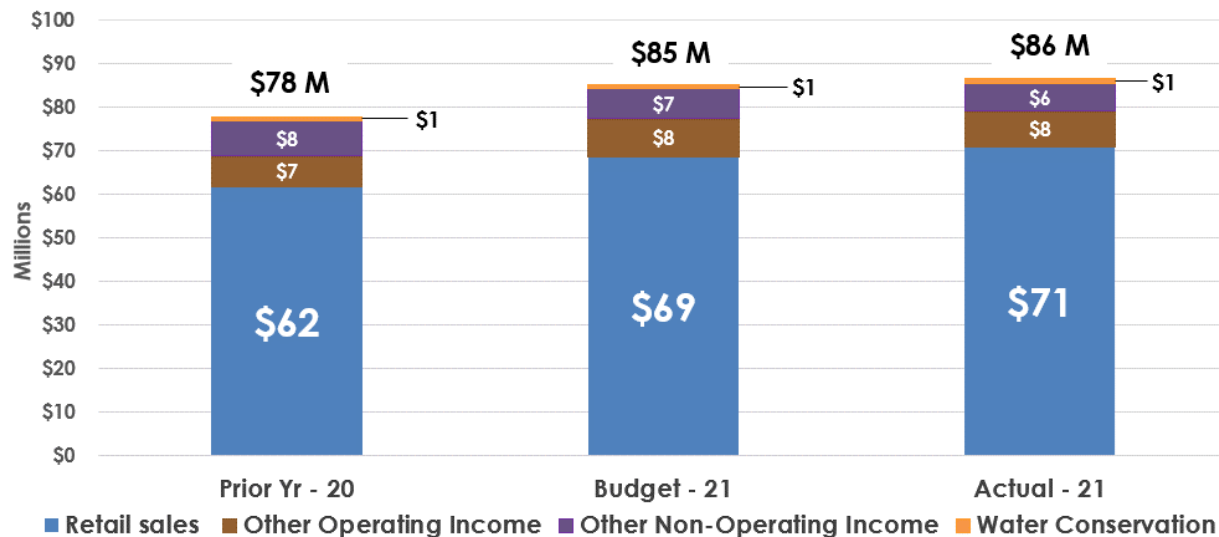
## Revenues

### Electric Utility Revenue Results:



Total electric revenues of \$384 million, including non-operating, were lower than budget of \$404 million by \$20 million (5.0%) and lower than prior year actuals of \$392 by \$8 million (2.0%).

- 1) Retail sales, net of uncollectibles/recovery, which represent 83% of revenues, totaled \$318 million which was lower than budget by \$13 million (3.9%) due to lower actual consumption than projections and higher than prior year by \$9 million (2.9%), primarily due to an increase in residential sales as a result of rate plan increases, offset by a decrease in commercial and industrial sales along with increased uncollectibles.
- 2) Transmission revenues of \$32 million were lower than budget by \$5 million (13.5%) and lower than prior year by \$3 million (8.6%), primarily due to a decrease of \$1.35 per megawatt hour in the average Transmission Revenue Requirement rate.
- 3) Other non-operating revenues of \$13 million were consistent with the budget and were lower than prior year by \$12 million (48%), primarily due to decrease in investment income due to a fair market value adjustment of investments and a lower overall interest rate in the current fiscal year.

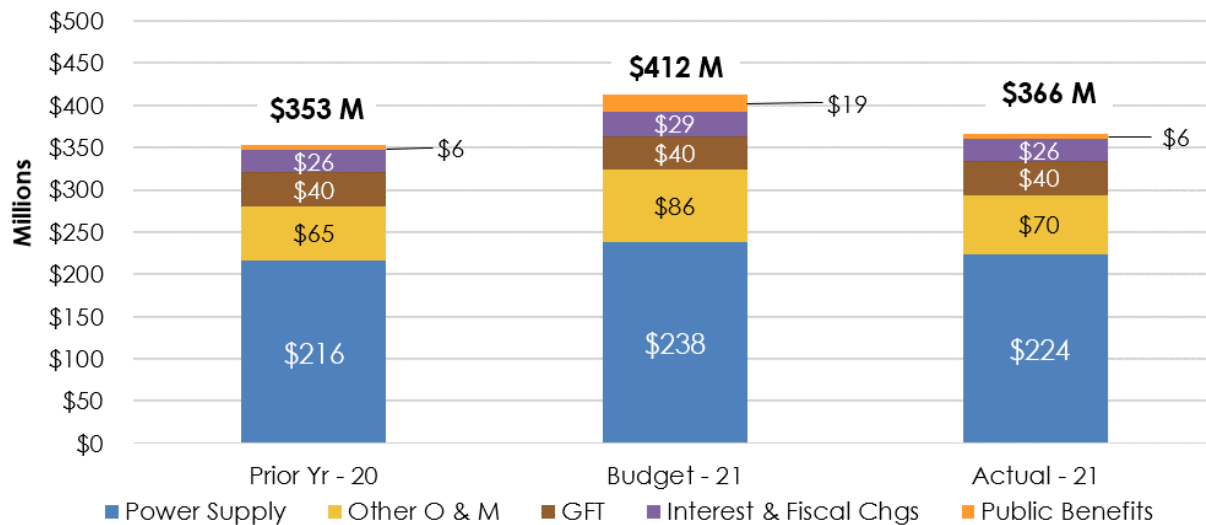
Water Utility Revenue Results:

Total water revenues, including non-operating, totaling \$86 million were consistent with the budget and were higher than prior year actuals by \$8 million (10.3%).

- 1) Retail sales, net of uncollectibles/recovery, which represent 83% of revenues, totaled \$71 million which were \$2 million (2.9%) higher than budget mainly due to higher actual consumption than projections and \$9 million (14.5%) higher than prior year primarily due to the rate plan increase and a 10.32% increase in consumption.
- 2) Other operating revenues of \$8 million were consistent with the budget and were \$1 million (14.3%) higher than prior year actuals due to an increase in water conveyance revenue from Western Municipal Water District (WMWD).
- 3) Other non-operating revenues of \$6 million were \$1 million (14.3%) lower than budget and \$2 million (25.0%) lower than prior year primarily due to a decrease in investment income as a result of lower overall interest rate in the current fiscal year and the accounting standard for fair market value adjustment of investments.

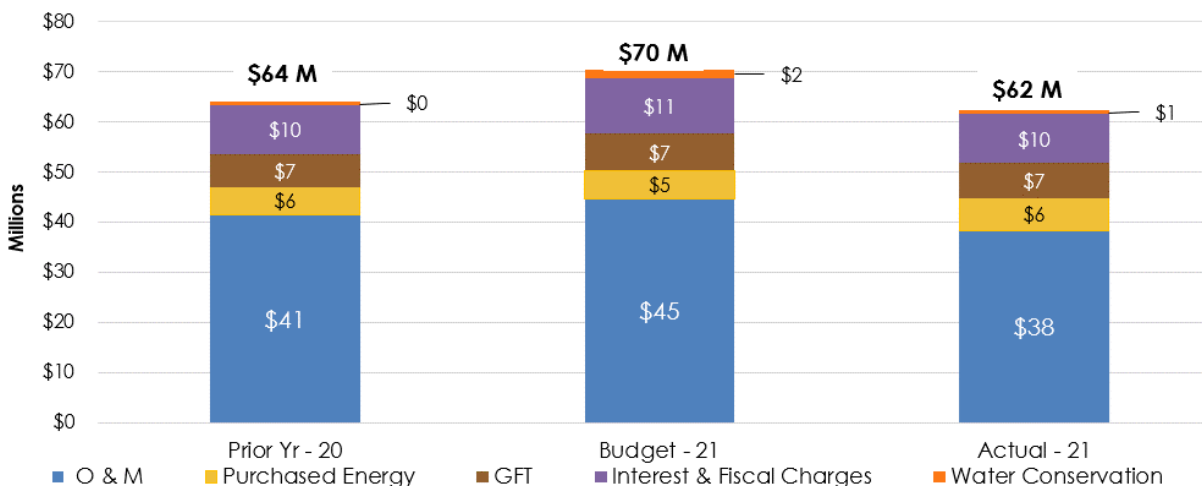
## Expenses

### Electric Utility Expense Results:



Total electric expenses, excluding depreciation, totaling \$366 million, were lower than budget by \$46 million or 11.2% and higher than prior year by \$13 million or 3.7%.

- 1) Power Supply costs of \$224 million were \$14 million (5.9%) lower than budget due to lower than anticipated consumption and lower than anticipated transmission costs. Power Supply costs were higher than prior year by \$8 million (3.7%) due to an increase in the cost of energy and transmission costs.
- 2) Other operating and maintenance expenses of \$70 million were \$16 million (18.6%) lower than budget primarily due to savings in both personnel and non-personnel general operating expenses. Other operating and maintenance expenses were \$5 million (7.7%) higher than prior year mainly due to a non-cash pension credit adjustment of \$9.7M compared to prior year non-cash pension adjustment of \$3.4M as a result of pension accounting standards.

**Water Utility Expense Results:**

Total water expenses, excluding depreciation, totaling \$62 million, were lower than budget by \$8 million (11.4%) and lower than prior year actuals by \$2 million (3.1%).

Operations and maintenance expenses of \$38 million were lower than budget by \$7 million (15.6%) due to savings in personnel costs, other general operating expenses, and delays in Information Technology projects. Operations and maintenance expenses were lower than prior year by \$3 million (7.3%) mainly due to a non-cash pension adjustment of (\$1.1) million compared to prior year non-cash pension adjustment of \$1 million as a result of pension accounting standards.

**Summary**

In conjunction with the Finance Department, RPU staff and leadership team worked very closely to be prudent and thorough in our financial practices. The “clean” audit opinion confirms that RPU operates with strong internal controls to ensure accurate accounting and transparent reporting of financial results to the public.

The RPU annual financial report is distributed to the City Council, the Board of Public Utilities, federal and state government agencies per contract requirements, bondholders, rating and financial institutions, and is published on the City’s website. For further details refer to the 2021 Financial Report.

**STRATEGIC PLAN ALIGNMENT:**

This item contributes to Strategic Priority No. 5 *High Performing Government* and Goal No. 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.

This item aligns with EACH of the five Cross-Cutting Threads as follows:

1. Community Trust – The financial reports attached enhance transparency regarding the financial situation of Riverside Public Utilities.

2. Equity – This report is neutral towards this cross-cutting thread.
3. Fiscal Responsibility – The financial reports display fiscal responsibility and accountability to show the current financial situation of Riverside Public Utilities.
4. Innovation – This report is neutral towards this cross-cutting thread.
5. Sustainability & Resiliency – These financial reports communicate and help ensure Riverside Public Utilities funds are used in a sustainable way without compromising future needs.

### **FISCAL IMPACT:**

There is no fiscal impact related to this informational update.

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Approved by: Kris Martinez, Assistant City Manager  
Approved as to form: Phaedra A. Norton, City Attorney

Certifies availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer

### **Attachments:**

1. Riverside Public Utilities 2021 Annual Report
2. Presentation