



Introduction to Bond Financing and the Role of the Fiscal Policy Strategies

Finance Division

Board of Public Utilities
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SAMPLE BOND FINANCING LIFE CYCLE



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CAPITAL PLAN

1. Multi-year at least 5 years*
2. Capital project: the asset or improvement should have monetary value of at least \$20,000; and useful life of at least 10 years**
3. Fund no less than 10% of the current budget year CIP through the use of rates or current revenues or other reimbursements ***
4. Purpose of capitalizing costs is to line up the cost of using an asset with the length of time which the asset generates revenue – Generational Equity

* Admin Manual 06.001.00 Annual Budget and Capital Improvement Program Calendar

** Multi-Year Capital Planning Fiscal Policy <https://www.riversideca.gov/finance/PDF/2018/Multi-Year%20Capital%20Planning.pdf>

*** RPU Fiscal Policy <https://www.riversideca.gov/utilities/about-rpu/pdf/RPU%20Fiscal%20Policies%20UPDATED%207-24-18%20FINAL.pdf>

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CIP FUNDING RATIO – ELECTRIC

(in millions)

	Actual 18-19	Actual 19-20	Budget 20-21	Projected 21-22
Revenues and Sources of Funds				
Revenues from Rates	\$ 8.9	\$ 11.7	\$ 6.4	\$ 7.3
Bond Proceeds	29.8	23.8	30.7	38.4
Contribution in Aid	3.5	4.9	2.5	2.6
Transfers from Reserves	-	1.7	2.1	-
Total	\$ 42.2	\$ 42.1	\$ 41.7	\$ 48.3
Expenses and Uses of Funds				
Overhead	\$ 5.0	\$ 1.7	\$ 4.9	\$ 5.0
Underground	3.2	4.7	4.8	5.3
Substation	15.1	10.7	9.7	9.8
System Automation	1.4	5.4	10.1	8.4
Recurring/Obligation to Serve	17.5	19.6	12.2	19.8
Total	\$ 42.2	\$ 42.1	\$ 41.7	\$ 48.3

For FY 21/22:

Bond Proceeds \$38.4M
is 79.5% of the
\$48.3M CIP expense

* This CIP funding source slide was provided to the Board on 3/22/2021 for the FY 2021/22 Budget approval request

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CIP FUNDING RATIO – WATER

(in millions)

	Actual 18-19	Actual 19-20	Budget 20-21	Projected 21-22
Revenues and Sources of Funds				
Revenues from Rates	\$ 5.8	\$ 4.0	\$ 6.4	\$ 2.4
Bond Proceeds	12.7	11.8	22.4	18.1
Contribution in Aid	1.4	1.3	1.0	1.0
Transfers from Reserves	1.6	1.3	0.8	
Total	\$ 21.5	\$ 18.4	\$ 30.6	\$ 21.5
Expenses and Uses of Funds				
Water Supply	\$ 3.8	\$ 1.0	\$ 2.8	\$ -
Well Projects	-	3.5	3.3	1.2
Transmission Pipelines	8.3	1.1	10.4	6.2
Distribution Pipelines	6.9	10.0	8.3	9.1
Distribution Facilities	2.3	2.3	1.2	1.3
Reservoir Projects	-	-	0.6	-
System Automation	0.2	0.5	4.0	3.7
Total	\$ 21.5	\$ 18.4	\$ 30.6	\$ 21.5

For FY 21/22:

Bond Proceeds of \$18.1M
is 84.2% of \$21.5M CIP
expense

* This CIP funding source slide was provided to the Board on 3/22/2021 for the FY 2021/22 Budget approval request

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ASSET CAPITALIZATION

1. Assets value of \$5,000 or more * and a useful life greater than 1 year **
2. Acquisition value: cost of equipment and any associated costs incurred to make the equipment ready for service**
3. Intangible assets, such as software, that cost more than \$100,000 with useful lives of at least three years are capitalized at cost **
4. Capitalized Labor: All direct costs of labor associated with the construction, modification, or installation of specific items of capital assets **
5. The costs of improvements and replacements are capitalized if they meet certain criteria **

* Admin Manual 06.005.00 Equipment and Asset Inventory

** RPU Fiscal Policy <https://www.riversideca.gov/utilities/about-rpu/pdf/RPU%20Fiscal%20Policies%20UPDATED%207-24-18%20FINAL.pdf>

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FUNDING CONSIDERATIONS

Type of Funding	Advantages	Disadvantages
PayGo	<ol style="list-style-type: none"> 1. No debt service payments 2. Interest savings 	<ol style="list-style-type: none"> 1. Subject to limitations of available revenue 2. Rate considerations 3. Long wait time for new infrastructure
Grants	<ol style="list-style-type: none"> 1. Does not take away from any funding source 	<ol style="list-style-type: none"> 1. Unpredictable availability of grant programs to meet the capital needs 2. Funding may not cover all project costs 3. Funds are often received on reimbursement basis
Borrowing	<ol style="list-style-type: none"> 1. Inter-generational equity 2. Funds are received when needed 3. Costs are spread over the useful life of the asset 	<ol style="list-style-type: none"> 1. Interest costs 2. Various forms of borrowing may have specific terms/conditions 3. Covenants and disclosure reporting for the life of issuance



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CLEAN RENEWABLE BONDS

At the December 1, 2006 Board of Public Utilities, the Assistant Director of Finance & Customer Relations Jerry Rodger reported that RPU was awarded \$2.3 million in credit financing from the IRS for Clean and Renewable Bonds. The projects that RPU would be reimbursed under the program were:

- PV City Hall Project
- Janet Goeske PV Carport Project
- Airport PV project



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RENEWABLE ENERGY PRODUCTION INCENTIVE (REPI) PROGRAM

"The Renewable Energy Production Incentive (REPI) is a program that was created by the Energy Policy Act of 1992. It provides incentive payments for electricity generated and sold by new qualifying renewable energy facilities. Qualifying systems must generate electricity using solar, wind, geothermal (with certain restrictions), biomass (excluding municipal solid waste), landfill gas, livestock methane, or ocean resources (including tidal, wave, current and thermal)." - <https://archive.epa.gov/epawaste/hazard/wastemin/web/html/rpsinc.html>

In California, the program has evolved with the California Energy Commission and includes support for Renewable Energy project and services .<https://www.energy.ca.gov/programs-and-topics/programs/renewables-portfolio-standard>

Staff were unable to find any previous Board approvals for capital funding programs for RPU capital expenditures.



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STRUCTURE OF MUNICIPAL BONDS

1. Debt instrument where investors loan money to a borrower (i.e., RPU)
2. The Utility issues a bond that states the interest rate (coupon) that will be paid and when the loaned funds (bond principal) are to be returned (maturity date)
3. Bonds can be issued with a variety of interest rate structures
-Fixed rate; or Variable rate
4. Municipal entities are able to issue tax-exempt bonds for eligible projects



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GENERAL MUNICIPAL BOND PURPOSES

1. New Money Bonds used to issue capital projects
2. Refunding bonds
 - A. Issued to refinance existing debt
 - B. Sold at lower interest rates to create debt service savings
 - C. Remove restrictive requirements of existing bonds
 - D. Restructure the principal payment schedules
 - E. Provide savings to ratepayers

DEBT SERVICE COVERAGE CALCULATION

+	Total Revenues
	Operating Revenues (Excludes Restricted Revenues)
	Interest Income
	Capital Contributions
	Non-Operating Revenues
-	Total Expenses
	Operating and Maintenance Expenses (Excludes Restricted Revenues)
=	Net Operating Revenues Available for Debt Service and Depreciation
÷	Debt Service Requirements on Bonds
=	Debt Service Coverage Ratio

DEBT SERVICE COVERAGE RATIO

Electric*

Fiscal Year Ended	Description of Pledged Revenues	Annual Amount of Pledged Revenue (net of expenses) ^{1, 2}	Annual Debt Service Payments	Debt Service Coverage Ratio
June 30, 2020	Electric revenues	\$ 101,328	\$ 38,633	2.62
June 30, 2019	Electric revenues	\$ 95,052	\$ 42,409	2.24

¹ Excludes GASB 68 Accounting and Financial Reporting for Pension non-cash adjustments of 3,364 and (\$1,323) for June 30, 2020 and 2019, respectively.

² Excludes GASB 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions non-cash adjustments of \$489 and \$301 for June 30, 2020 and 2019, respectively.

Water**

Fiscal Year Ended	Description of Pledged Revenues	Pledged Revenue (net of expenses) ^{1, 2}	Annual Debt Service Payments	Debt Service Coverage Ratio
June 30, 2020	Water revenues	\$ 28,518	\$ 15,810	1.80
June 30, 2019	Water revenues	\$ 25,387	\$ 15,142	1.68

¹ Excludes GASB 68 Accounting and Financial Reporting for Pension non-cash adjustments of \$1,046 and (\$482) for June 30, 2020 and 2019, respectively.

² Excludes GASB 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions non-cash adjustments of \$197 and \$118 for June 30, 2020 and 2019, respectively.

* The Debt Service Coverage Ratio for Electric is on page 49 of the Annual Report.

** The Debt Service Coverage Ratio for Water is on page 116 of the Annual Report.

<https://www.riversideca.gov/utilities/about-rpu/pdf/2020%20Annual%20Report.pdf>

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DEBT MANAGEMENT POLICY

1. Governs the issuance and management of all debt and capital leases *
2. Maintain sound financial position *
3. Protect and enhance credit-worthiness *
4. Protect both current and future taxpayers, ratepayers and constituents *
5. Ensure flexibility to respond to changes in future service priorities *
6. Indicators show debt service coverage dropping below the minimum target, return to the minimum targeted levels within 3 years **
7. Minimum debt service coverage – Electric 110%, Water 125% & Target min of 175% **

* Debt Management Policy <https://www.riversideca.gov/finance/PDF/2018/Final%20Debt%20Mgmt%20Policy%201-2017.pdf>

** RPU Fiscal Policy <https://www.riversideca.gov/utilities/about-rpu/pdf/RPU%20Fiscal%20Policies%20UPDATED%207-24-18%20FINAL.pdf>

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DEBT MANAGEMENT LONG-TERM DEBT

Long-term debt financings are appropriate when the following conditions exist *:

1. When the project to be financed is necessary to provide basic services
2. When the project to be financed will provide benefit to constituents over multiple years
3. When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring

* Debt Management Policy <https://www.riversideca.gov/finance/PDF/2018/Final%20Debt%20Mgmt%20Policy%201-2017.pdf>

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EXISTING BOND ISSUANCES

Issuance	Fixed/Variable	Bond Yield / Swap Rate	FY of Maturity
2008A Electric Revenue Bonds	Variable	3.11%	2030
2008C Electric Revenue Bonds	Variable	3.20%	2036
2010A Electric Revenue Bonds	BABs Fixed	4.89%	2041
2011A Electric Revenue Bonds	Variable	3.20%	2036
2013A Electric Revenue Bonds	Fixed	4.28%	2044
2019A Refunding Electric Revenue Bonds	Fixed	3.18%	2049
2009B Water Revenue Bonds	BABs Fixed	4.09%	2040
2011A Water Revenue Bonds	Variable	3.20%	2036
2019A Refunding Water Revenue Bonds	Fixed	3.08%	2049

Preliminary Projected CIP Needs: Electric \$191 Million & Water \$63M

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ESTIMATED FISCAL IMPACT OF FINANCING RPU LABOR FOR CAPITAL PROJECTS

ELECTRIC CAPITALIZED LABOR ESTIMATES						
	Adopted	Proposed	Proposed	Proposed	Proposed	
	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	Total
Total CIP Budget	\$ 41,663,797	\$ 42,265,364	\$ 41,761,648	\$ 56,657,003	\$ 57,338,490	\$ 239,686,302
Est. % of Bond Financing	64%	64%	64%	64%	64%	
Est. Total CIP Funded by Bonds	26,660,846	27,045,792	26,723,462	36,255,065	36,691,151	153,376,315
Est. % of Labor	30%	30%	30%	30%	30%	
Est. Total Labor Funded by Bonds	\$ 7,894,087	\$ 8,008,066	\$ 7,912,627	\$ 10,734,866	\$ 10,863,988	\$ 45,413,634

- 1) The impact of not using bond funding for labor expenses will decrease our operating cash by approximately \$45.4M in 5 years based on the original CIP budget.
 2) **An estimated one time 3% rate increase would be necessary to maintain cash reserve levels and financial metrics.**
 3) The use of multi-year bond financing distributes the cost of the asset over its useful life providing generational equity.

This information is an example only. The estimated percentages are based on typical CIP projects but is not an analysis of the actual financial transactions



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ESTIMATED FISCAL IMPACT OF FINANCING RPU LABOR FOR CAPITAL PROJECTS

WATER CAPITALIZED LABOR ESTIMATES						
	Adopted	Proposed	Proposed	Proposed	Proposed	
	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	Total
Total CIP Budget	\$ 30,616,405	\$ 21,501,562	\$ 29,089,738	\$ 29,930,773	\$ 28,692,773	\$ 139,831,251
Est. % of Bond Financing	60%	60%	60%	60%	60%	
Est. Total CIP Funded by Bonds	18,258,753	12,822,920	17,348,292	17,849,861	17,111,553	83,391,379
Est. % of Labor	37%	37%	37%	37%	37%	
Est. Total Labor Funded by Bonds	\$ 6,779,610	\$ 4,761,245	\$ 6,441,549	\$ 6,627,785	\$ 6,353,646	\$ 30,963,835

- 1) The impact of not using bond funding for labor expenses will decrease our operating cash by approximately \$31M in 5 years based on the original CIP budget.
 2) **An estimated one time 10% rate increase would be necessary to maintain cash reserve levels and financial metrics.**
 3) The use of multi-year bond financing distributes the cost of the asset over its useful life providing generational equity.

This information is an example only. The estimated percentages are based on typical CIP projects but is not an analysis of the actual financial transactions



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OTHER AGENCIES CAPITALIZING INTERNAL LABOR



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STRATEGIC PLAN ALIGNMENT

This item contributes to Strategic Priority No. 6 *Infrastructure, Mobility & Connectivity* and Goal No. 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.

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STRATEGIC PLAN ALIGNMENT

Cross-Cutting Threads:

1. Community Trust - The use of bond proceeds to finance capital expenditures supports the City of Riverside's Multi-year Capital Planning Fiscal Policy.
2. Equity - Using bonded indebtedness to fund long-term capital projects ensures generational equity. The repayment of the cost of the facility (20 to 30 years) is made by the generation of ratepayers that receive the actual benefits of the project.
3. Fiscal Responsibility - Proactive planning and flexibility allows the Utility to enter the bond market at the most advantageous time in terms of cost of capital and availability of resources.
4. Innovation – Ensuring accessibility to the tax-exempt capital securities market allows Riverside to expand and upgrade to meet the future needs of its ratepayers.
5. Sustainability & Resiliency - Sound analysis and consideration of all funding options are the key to Riverside's resilient and sustainable debt portfolio.



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RECOMMENDATIONS

That the Board of Public Utilities:

1. Receive the introduction on how Riverside Public Utilities uses bond financing; and
2. Provide feedback to staff regarding the fiscal policies that direct the use of bond financing for Riverside Public Utilities.



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