



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: DECEMBER 12, 2016

ITEM NO: 8

SUBJECT: RIVERSIDE PUBLIC UTILITIES 2016 FINANCIAL REPORT

ISSUE:

Receive and file the 2016 Riverside Public Utilities Financial Report for the fiscal year ending June 30, 2016.

RECOMMENDATION:

That the Board of Public Utilities receive and file the Riverside Public Utilities 2016 Financial Report.

BACKGROUND:

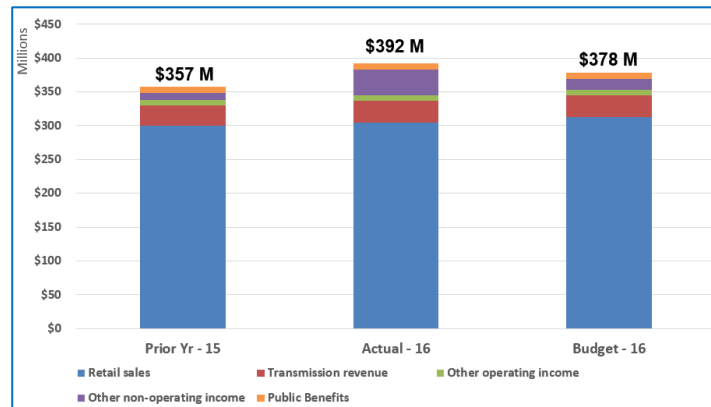
The financial report being presented outlines information about the operating performance and financial condition of Riverside Public Utilities (RPU) for the 2015-16 Fiscal Year. An independent audit is performed each year on the year-end financial report. Our current auditors are Macias, Gini and O'Connell, LLP. For the fiscal year ended June 30, 2016, the auditors issued an unmodified opinion, which is considered a clean opinion and is the best type of report RPU can receive from its auditors. The year-end financial results for both the Electric and Water Utilities are presented below.

Implementation of new accounting standard

During the fiscal year ended June 30, 2016, RPU implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. This new standard is intended to address accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard requires additional disclosure information but had no material financial impact to the financial report.

REVENUES

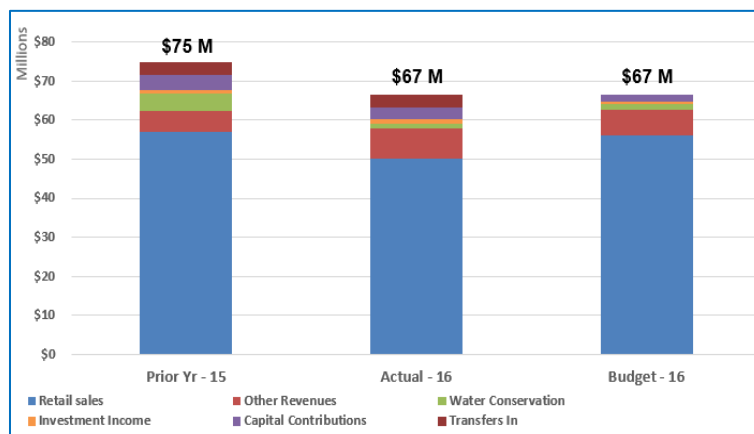
Electric Utility Revenue Results:



Total electric revenues, including non-operating, totaling \$392 million overall, were higher than budget by \$14 million or 3.7% and were also higher than prior year actuals of \$357 million.

- 1) Retail sales, net of uncollectibles/recovery, which represent 78% of revenues, totaled \$304 million which was lower than budget by \$8.1 million (2.6%) due to lower than anticipated consumption. Retail sales were higher than prior year actual by \$4.9 million (1.6%) due to a slight increase in residential and commercial consumption resulting from warmer weather.
- 2) Transmission revenues of \$32.9 million were in line with budget and higher than prior year by \$2.3 million (7.6%) due to an increase in the utility's high voltage rate per the annual filing with the Federal Energy Regulatory Commission (FERC).
- 3) Other non-operating revenues totaled \$32.6 million, was higher than budget by \$22.0 million and higher than prior year by \$27.8 million primarily due to one-time settlements resulting from recovery of costs and insurance claims related to the shutdown of San Onofre Nuclear Generating Station (SONGS); liquidated damages received on renewable power purchase agreements; and donated land rights and easements.

Water Utility Revenue Results:



Total water revenues, including non-operating, totaling \$67 million overall, were consistent with budget and were lower than prior year actuals by \$8.2 million or 11%.

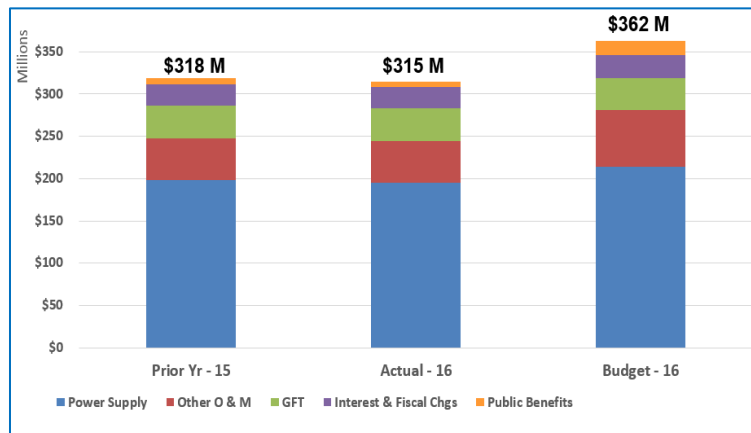
- 1) Retail sales, net of uncollectibles/recovery, which represent 75% of revenues, totaled \$50 million which were \$5.8 million (10.2%) lower than budget and \$6.8 million (11.9%) lower than prior year

due to lower consumption as a result of conservation measures taken by customers due to drought mandates.

- 2) Other revenues of \$7.6 million were slightly higher than budget by \$861,000 and \$2.1 million higher than prior year due to an increase in water conveyance revenues resulting from new contracts.
- 3) Water conservation program revenues of \$1.3 million were slightly lower than budget by \$259,000 (16.7%) and \$3.1 million (70.8%) lower than prior year due to a decrease in reimbursable costs received relating to the Water Conservation turf removal program which was completed in June 2015.

EXPENSES

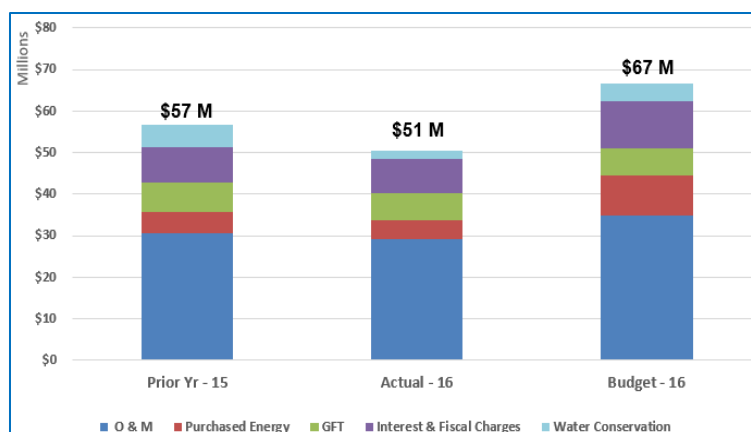
Electric Utility Expense Results:



Total electric expenses, excluding depreciation, totaling \$315 million, were lower than budget by \$48 million or 13% and lower than prior year actuals by \$4 million or 1%.

- 1) Power Supply costs of \$195.2 million were \$18.7 million (8.7%) lower than budget due to lower than anticipated market prices and load, offset by higher than anticipated transmission costs.
- 2) Other operating and maintenance expenses were \$17.5 million (26.2%) lower than anticipated levels primarily due to savings in personnel costs, professional services and other general operating expenses.
- 3) Pursuant to provisions in the City charter, the Electric Utility transferred to the general fund \$38.4 million for FY 2016 to help provide needed public services to residents, which was slightly higher than prior year by approximately \$182,000 (less than 1%).

Water Utility Expense Results:

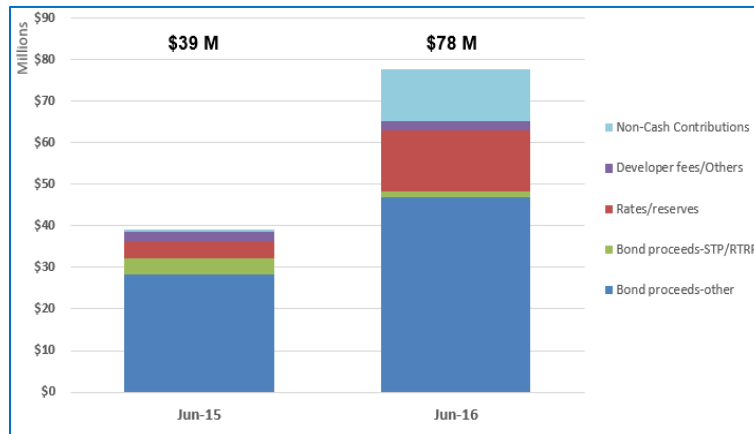


Total water expenses, excluding depreciation, totaling \$51 million, were lower than budget by \$16 million or 24% and lower than prior year actuals by \$6.1 million or 10.8%.

- 1) Operations and maintenance expenses, excluding water conservation, were lower than budget by \$5.8 million (16.6%) and \$1.4 million (4.6%) lower than prior year. Savings are due to a reduction in general operating and maintenance costs mainly due to lower consumption levels as a result of conservation efforts.
- 2) Water conservation expenses of \$2.0 million were lower than budget by \$2.1 million (52%) and lower than prior year by \$3.5 million (63.6%) reflecting a decrease in reimbursable costs due to the completion of the Water Conservation turf removal program in conjunction with WMWD.
- 3) Pursuant to provisions in the City charter, the Water Utility transferred to the general fund \$6.4 million for FY 2016 to help provide needed public services to residents, which was lower than prior year by approximately \$668,000 (9.4%).

CAPITAL ASSETS

Electric Utility Capital Assets



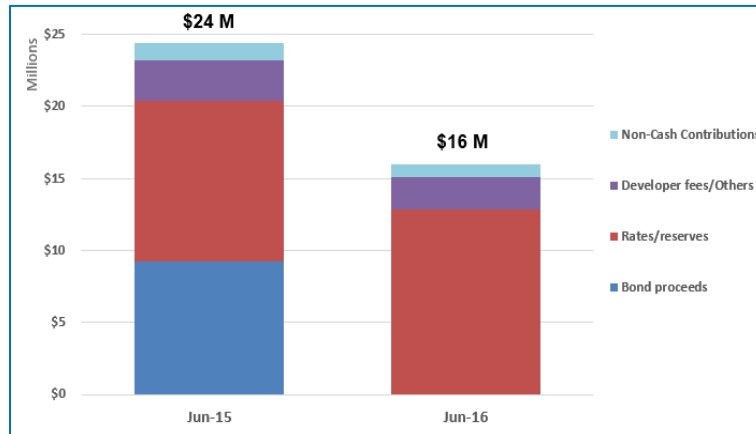
Bond proceeds accounted for \$46.8 million (60%) of capital expenditures in 2016, an increase of \$18.5 million (65%) and are depleted as of June 30, 2016. Rates and reserves contributed toward \$14.5 million (18.6%) of capital expenditures in 2016, an increase of \$10.2 million (240%). Significant capital projects include the \$38 million purchase of Mission Square building, \$19.5 million in additions and improvements to the Electric system, \$9.2 million in donated land rights and easements, and \$3.8 million in technology upgrades.

Plaza Substation



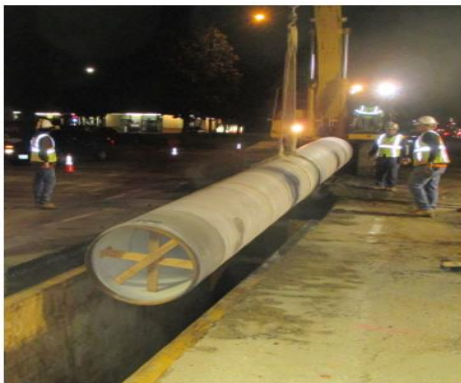
Infrastructure Replacement



Water Utility Capital Assets

Rates and reserves accounted for \$12.9 million (80.4%) of capital expenditures in 2016, an increase of \$1.8 million (16.1%). Bond proceeds, which previously contributed toward 38.1% of capital expenditures in 2015, were depleted in prior year. Significant capital projects include \$6.8 million for system expansion and improvements, transmission mains, and facilities rehabilitation and \$7.1 million for continued pipeline replacement programs.

Magnolia Techite Replacement



Gratton Booster Station

**DEBT ADMINISTRATION**

Electric Utility Revenue Bonds (in millions)	2014	2015	2016
Outstanding Principal Balance	\$598	\$583	\$567
Principal and Interest Payments	\$48.4	\$41.2	\$41.3

The outstanding Electric Utility long-term debt as of June 30, 2016 totals \$567 million. No new debt was issued during the fiscal year. Long-term debt decreased by \$16 million due to principal payments. As of June 30, 2016 the debt service coverage ratio is 2.99 and is within established bond covenants. In June 2015, Fitch affirmed the Electric Utility's AA- rating reflecting its traditionally strong debt service coverage, strong liquidity position, stable financial performance and the utility's diverse and low-cost resource portfolio, including an emphasis on renewable energy resources.

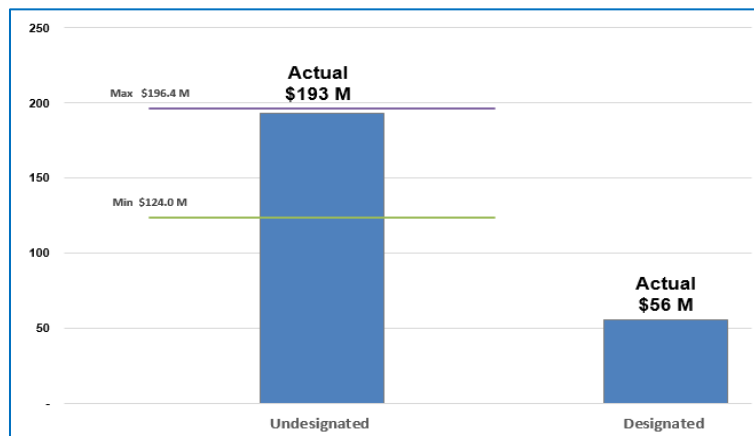
Water Utility Revenue Bonds (in millions)	2014	2015	2016
Outstanding Principal Balance	\$204	\$199	\$193
Principal and Interest Payments	\$12.8	\$13.2	\$13.5

The outstanding Water Utility long-term debt as of June 30, 2016 totals \$193 million. No new debt was issued during the fiscal year. Long-term debt decreased by \$6 million due to principal payments. As of June 30, 2016 the debt service coverage ratio is 1.93 and is within established bond covenants. In April 2015 Fitch affirmed the Water Utility's AA+ rate and subsequently in July 2016, S&P affirmed the Water Utility's AAA rating reflecting its strong financial performance, advantageous water supply, investments in infrastructure and rate competitiveness, among other factors.

CASH RESERVES

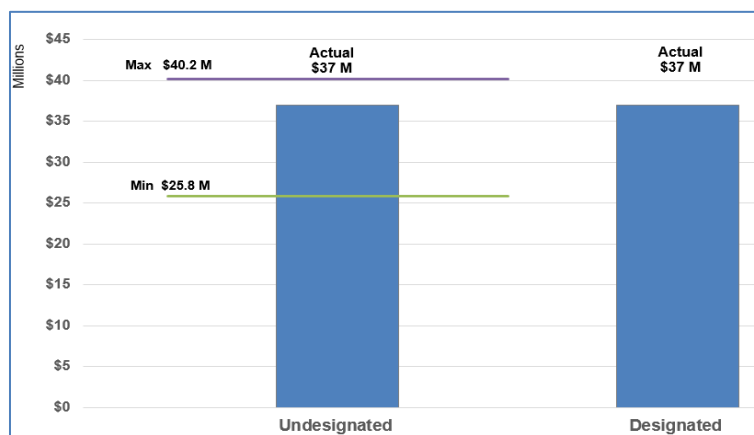
On March 22, 2016, the City Council adopted the Riverside Public Utilities Cash Reserve Policy providing a defined level of unrestricted and undesignated reserves in both the Electric and Water Utility for strategic purposes to mitigate risk and maintain financial stability.

Electric Utility Unrestricted Reserves as of June 30, 2016



As of June 30, 2016, the Electric Utility balances were \$56 million for unrestricted, designated reserves and \$193 million for unrestricted, undesignated reserves. The Electric Fund's unrestricted, 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 unrestricted, designated reserve balance includes reserves for Customer Deposits, Additional Decommissioning Liability, Electric Reliability Fund, Capital Repair and Replacement, and the Mission Square Improvement Fund. The unrestricted, 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, 2016



As of June 30, 2016, the Water Utility balances were \$37 million for unrestricted, designated reserves and \$37 million for unrestricted, undesignated reserves. The Water Fund's unrestricted, 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 unrestricted, designated reserve balance includes reserves for Recycled Water, Property, Customer Deposits and Capital Repair/Replacement. The unrestricted, 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.

SUMMARY

Overall, both Electric and Water Utilities ended this year with solid financial results. For fiscal year 2016-17 and future years, RPU will need to continue to monitor and evaluate its cash position, mandates for green energy procurement and water conservation, and infrastructure improvements to implement our Utility 2.0 Strategic Plan.

- There are a number of items impacting future energy sales including the impacts of energy efficiency, distribution generation including solar, and slower than anticipated load growth. These factors combined reduce the retail sales forecasts which is consistent with industry trends reflecting minimal to negative load growth. The forecasts are included in future financial planning and will continue to be monitored by staff.
- While the drought mandates ended earlier this year, water conservation continues to be the prevailing message to consumers. As a result, we expect water revenues to increase with the end of the drought mandates, but still remain lower due to conservation efforts. This could impact the Water Utility's ability to maintain the same level of debt service coverage. Staff is currently analyzing the impact of decreased revenues as compared to operating costs, debt service coverage and credit ratings.
- With bond proceeds depleted, as discussed above in the Capital Assets section, both the Electric and Water Utility will continue to fund its capital improvement program with cash reserves until a new rate plan is approved. As noted above, staff will continue to monitor its cash position to ensure meeting required minimum cash levels.
- As outlined in the Thriving Financially Roadmap, staff will evaluate the financial balance and affordability of the recommended infrastructure improvements under the Utility 2.0 Strategic Plan and bring funding recommendations to the Board and City Council.

FISCAL IMPACT:

There is no fiscal impact associated with this report.

Prepared by:	Laura Chavez-Nomura, Public Utilities Assistant General Manager/Finance
Approved by:	Girish Balachandran, Public Utilities General Manager
Approved by:	John A. Russo, City Manager
Approved as to form:	Gary G. Geuss, City Attorney

Certifies as to funds availability:	Laura Chavez-Nomura, Public Utilities Assistant General Manager/Finance
-------------------------------------	---

Attachments:	1. Riverside Public Utilities 2016 Annual Report
	2. 2016 Year End Financial Report Presentation