TO: **FINANCE COMMITTEE MEMBERS**   DATE: **JULY 11, 2018**

FROM: **PUBLIC UTILITIES DEPARTMENT**   WARDS: **ALL**

SUBJECT: **UPDATED RIVERSIDE PUBLIC UTILITIES FISCAL POLICIES - DIRECT SUBMITTAL**

ISSUE:

Recommend that the City Council approve the updated Riverside Public Utilities Fiscal Policies and Cash Reserve Policy.

RECOMMENDATION:

That the Finance Committee recommend that the City Council approve the updated Riverside Public Utilities Fiscal Policies and Cash Reserve Policy.

BOARD OF PUBLIC UTILITIES RECOMMENDATION:

The Board of Public Utilities unanimously approved this item at their regular meeting on June 25, 2018.

LEGISLATIVE HISTORY:

Senate Bill (SB) 1029 became effective on January 1, 2017. Among other things, SB 1029 requires issuers of bonds after January 1, 2017, to have adopted a "local debt policy" that contains certain enumerated items. Issuers must certify compliance with this requirement to California Debt and Investment Advisory Commission (CDIAC) at least 30 days before the pricing date for bonds (where the certification occurs on or after January 1, 2017), meaning that appropriate policies must be adopted by an issuer's governing board by the time of certification.

Here are the items that SB 1029 requires the debt policy to include:
- (A)   The purposes for which any debt proceeds may be used.
- (B)   The types of debt that may be issued.
- (C)   The relationship of the debt to, and integration with, the issuer's capital improvement program or budget.
- (D)   Policy goals related to the issuer's planning goals and objectives.

(E)   The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

BACKGROUND:

On December 18, 2015 and March 22, 2016, the Board of Public Utilities (Board) and the City Council, respectively, approved the Cash Reserve Policy. On May 23, 2016, and July 26, 2016, the Board and the City Council, respectively, approved the existing Riverside Public Utilities (RPU) Fiscal Policies which incorporated the Cash Reserve Policy in Appendix A. The approved policies documented and adopted financial goals for both the water and electric utilities and established policies for long-term, as well as day-to-day operations of both utilities. The policies covers a number of areas including financial reporting, cash reserves, operating and capital budgeting, debt management, investments, risk management, financial planning, and others.

On January 10, 2017, the City Council adopted the City's existing Debt Management Policy to satisfy the requirements of SB 1029.

On May 22, 2017 and July 11, 2017, the Board and City Council, respectively, approved the Dark Fiber Leasing Program, which included establishing 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 and revenue with an appropriation of $1,800,000 for the dark fiber program construction and management activities. The Board and City Council also approved the transfer of $1,800,000 to a new dark fiber designated reserve to fund leased fiber activities.

On May 22, 2018, the City Council approved rates that include the use of a Line of Credit (LOC) as part of the 5-Year Rate proposal to keep rates as low as possible. Utilizing a LOC reduced the electric and water rates by approximately 1% and 3%, respectively. An LOC is a low-cost financial tool available to entities with strong credit ratings that provides flexibility and operating liquidity similar to cash reserves if there is an emergency need. The LOC allows RPU to reduce the rate impact to customers by enabling RPU to spend cash reserves on capital projects while the LOC is used in lieu of cash to meet the overall liquidity and reserve levels necessary to maintain RPU's strong bond ratings.

DISCUSSION:

The updated RPU Fiscal Policies provide reference and a link to the City's Debt Management Policy, which became effective January 10, 2017 and satisfies all of the elements required by SB 1029. A separate appendix for a RPU Debt Management Policy is therefore no longer needed and has been removed.

In addition, the Cash Reserve Policy was updated to reflect the establishment of a Dark Fiber Designated Reserve to accumulate proceeds from fiber leasing activity and account for expenditures of the dark fiber program.

The use of the Line of Credit was also added to the Cash Reserve Policy as an alternative to holding cash reserves to meet its target minimum reserve level as prescribed. In addition, the policy outlines procedures should the Board and City Council decide to no longer utilize the LOC

as a reserves balance tool that would require staff would to prepare the financial planning and required increase in rates necessary over time to build back cash reserves to minimum required targets without the LOC. RPU recommends incorporating the ability to utilize this tool as a component of the Cash Reserve Policy.

Other minor revisions were completed as needed throughout the document, as can be seen in the attached redline version, to bring it current.

The Chief Financial Officer/City Treasurer concurs with the updates to the RPU Fiscal Policies.

FISCAL IMPACT:

While not having an immediate direct impact on the current financial health of RPU, adoption of these fiscal policies sets guidelines and parameters for ongoing activities that will direct the financial management of RPU for the future.

Prepared by: Todd L. Jorgensen, Utilities Interim General Manager
Certified as to
availability of funds: Adam Raymond, Chief Financial Officer/City Treasurer
Approved by: Al Zelinka, FAICP, City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:
1. RPU Fiscal Policies (redline)
2. RPU Fiscal Policies (clean)
3. City's Debt Management Policy
4. 6-25-18 Board of Public Utilities Minutes
5. Presentation