

RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: DECEMBER 10, 2018

ITEM NO: 11

SUBJECT: RIVERSIDE PUBLIC UTILITIES 2018 FINANCIAL REPORT

ISSUE:

Receive and file the Riverside Public Utilities 2018 Financial Report for the fiscal year ended June 30, 2018.

RECOMMENDATION:

That the Board of Public Utilities receive and file the Riverside Public Utilities 2018 Financial Report for the fiscal year ended June 30, 2018.

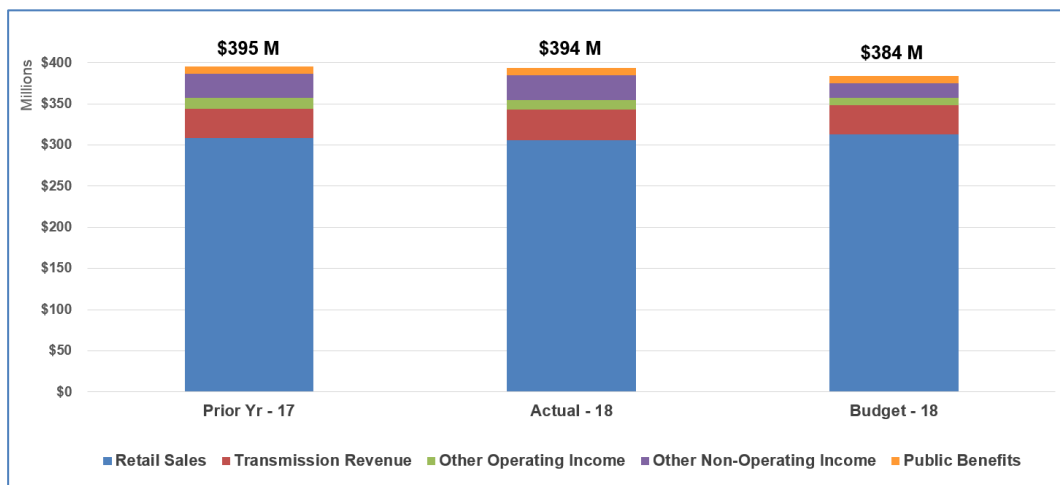
BACKGROUND:

The financial report being presented outlines information about the operating performance and financial condition of Riverside Public Utilities (RPU) for the 2017-18 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, 2018, 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.

DISCUSSION:

REVENUES

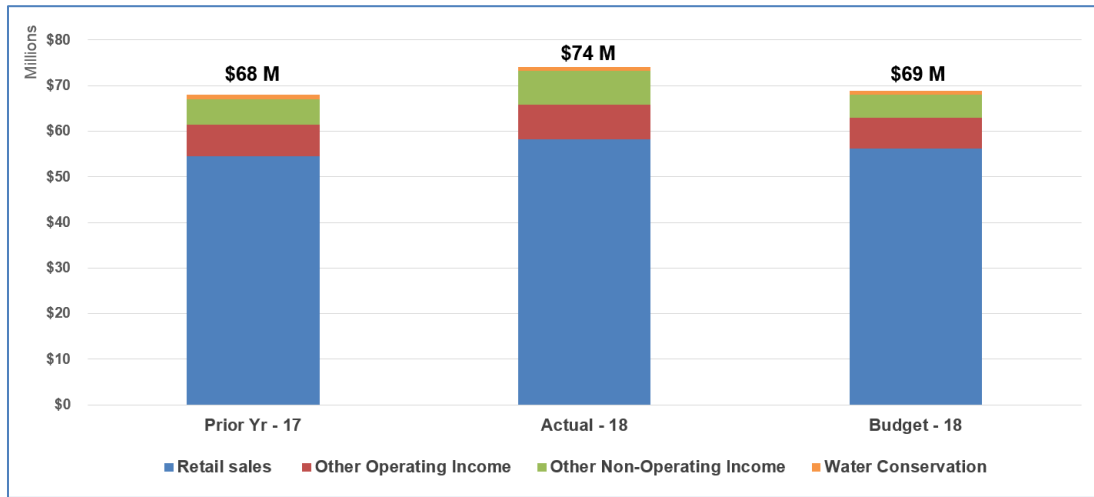
Electric Utility Revenue Results:



Total electric revenues, including non-operating, totaling \$394 million overall, were higher than budget by \$10 million or 2.6% but slightly lower than prior year actuals of \$395 million.

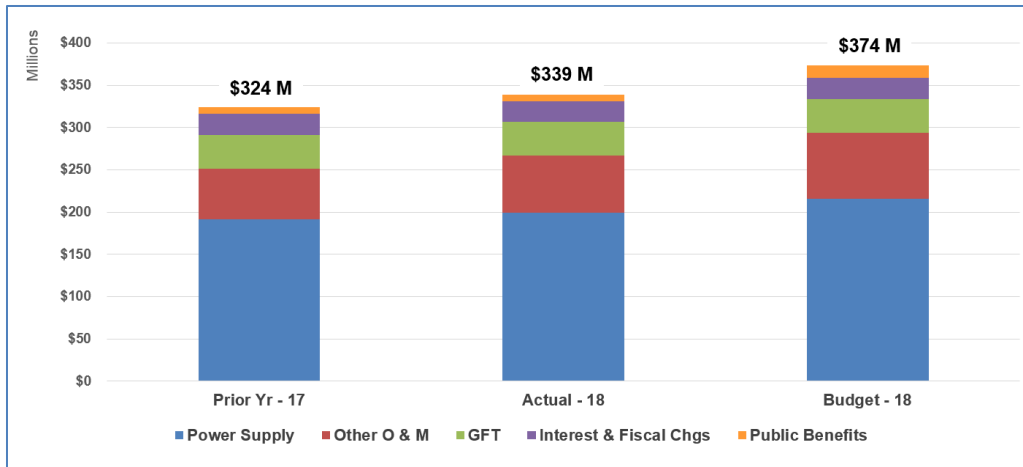
1. Retail sales, net of uncollectibles/recovery, which represent 78% of revenues, totaled \$306.0 million which was lower than budget by \$7.1 million or 2.3% due to lower than anticipated industrial consumption, partially offset by higher than anticipated residential consumption. Retail sales were slightly lower than prior year actuals by \$2.8 million (0.9%) due to a slight decrease in customer consumption.
2. Transmission revenues of \$37.5 million were higher than both budget and prior year by \$2.0 million (5.6%) due to an increase in the utility's high voltage rate per the annual filing with the Federal Energy Regulatory Commission (FERC).
3. Other operating revenues of \$11.5 million were higher than budget by \$2.4 million (26.7%) due to an increase in proceeds on the sale of greenhouse gas allowances. Other operating revenues were lower than prior year by \$1.4 million due to a decrease in proceeds from the sale of renewable energy credits.
4. Other non-operating revenues, totaled \$30.2 million, were higher than budget by \$12.8 million and slightly higher than prior year by \$1.1 million primarily due to an increase in capital contributions received for capital projects.

Water Utility Revenue Results:



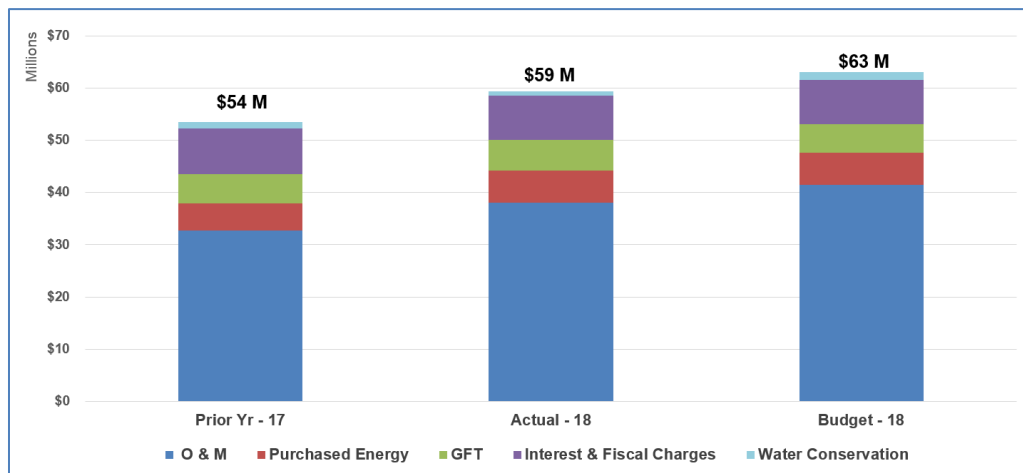
Total water revenues, including non-operating, totaling \$74 million overall, were higher than budget by \$5 million or 7.6% and were higher than prior year actuals by \$6 million or 8.9%.

1. Retail sales, net of uncollectibles/recovery, which represent 79% of revenues, totaled \$58.2 million which were \$2.0 million (3.5%) higher than budget and \$3.6 million (6.6%) higher than prior year due to higher consumption as a result of the lifting of water restriction mandates.
2. Other non-operating revenues of \$7.4 million were 2.3 million (44.0%) higher than budget and \$2.0 million (36.2%) higher than prior year primarily due to an increase in non-cash contributions for donated assets received and liquidated damages from construction delays on certain water well projects.

EXPENSES**Electric Utility Expense Results:**

Total electric expenses, excluding depreciation, totaling \$339 million, were lower than budget by \$35 million or 9.3% and higher than prior year actuals by \$15 million or 4.6%.

1. Power Supply costs of \$199.4 million were \$16.6 million (7.7%) lower than budget due to lower than anticipated market prices, offset by higher than anticipated transmission costs. Power supply costs were higher than prior year by \$7.6 million (3.9%) due to increases in transmission and renewable energy costs.
2. Other operating and maintenance expenses of \$67.4 million were \$10.6 million (13.6%) lower than budget primarily due to timing of expenditures on current projects to be completed in fiscal year 2019 and savings in professional services and other general operating expenses. Other operating and maintenance expenses were \$7.5 million (12.6%) higher than prior year mainly due to a non-cash pension expense adjustment of \$9.1 million as a result of pension accounting standards, as well as an overall increase in general operating expenses. This is partially offset by a decrease of a one-time expenditure in the prior year of \$2.6 million of additional obligations for the Electric Utility's share of the City's 2017 refinanced pension obligation bonds.
3. Pursuant to provisions in the City charter, the Electric Utility transferred to the general fund \$40.1 million for fiscal year 2018 to help provide needed public services to residents, which was higher than prior year by \$843,000 (2.1%).

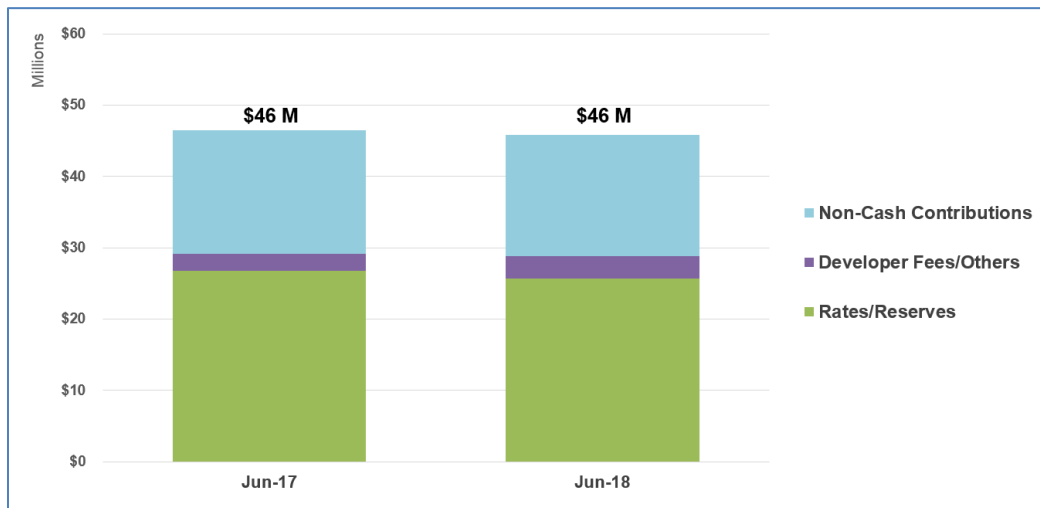
Water Utility Expense Results:

Total water expenses, excluding depreciation, totaling \$59 million, were lower than budget by \$4 million or 5.7% and higher than prior year actuals by \$5 million or 11%.

1. Operations and maintenance expenses of \$38.1 million were lower than budget by \$3.4 million (8.3%) due to timing of expenditures on current projects to be completed in fiscal year 2019 and savings in other general operating expenses. Operations and maintenance expenses were \$5.3 million (16.3%) higher than prior year mainly due to a non-cash pension expense adjustment of \$3.1 million as a result of pension accounting standards and increases in production costs resulting from higher consumption and general operating expenses in fiscal year 2018.
2. Pursuant to provisions in the City charter, the Water Utility transferred to the general fund \$6.2 million for fiscal year 2018 to help provide needed public services to residents, which was higher than prior year by \$500,000 (8.8%).

CAPITAL ASSETS

Electric Utility Capital Assets:



Rates and reserves contributed \$25.7 million (56%) toward capital expenditures in 2018, a decrease of \$1.1 million (4.1%) from prior year. Significant capital projects include \$22.1 million in additions and improvements to the Electric system, \$13.6 million in donated land rights and easements, \$2.2 million in upgrades of lower voltage (4kV) to higher voltage (12kV) electric distribution facilities to improve system reliability and \$3.2 million in continued progress of the Riverside Transmission Reliability Project.



Pole Replacement - Citywide



Multi-Substation Transformer, Switchgear & Protection Upgrades

Water Utility Capital Assets:



Rates and reserves accounted for \$24.8 million (85.6%) of capital expenditures in 2018, an increase of \$9.6 million (63.4%). Significant capital projects include \$10.8 million for continued pipeline replacement programs, \$7 million for recycled water facilities, and \$7.4 million for system expansion and improvements, meter replacements and facilities rehabilitation.



Jackson St. Phase I RW Pipeline Project



Gage 66-1 Well Rehabilitation

DEBT ADMINISTRATION

Electric Utility Revenue Bonds (in millions)	2016	2017	2018
Outstanding Principal Balance	\$567	\$554	\$529
Principal and Interest Payments	\$41.3	\$38.5	\$38.4

The outstanding Electric Utility revenue bonds as of June 30, 2018 totaled \$529 million. No new debt was issued during the fiscal year. Long-term debt decreased by \$24.8 million due to principal payments and a bond defeasance of \$11 million. As of June 30, 2018, the debt service coverage ratio was 2.71 and was within established bond covenants. The Electric Utility continues to maintain a credit rating of AA- from both Standard & Poor's (S&P) and Fitch Ratings (Fitch).

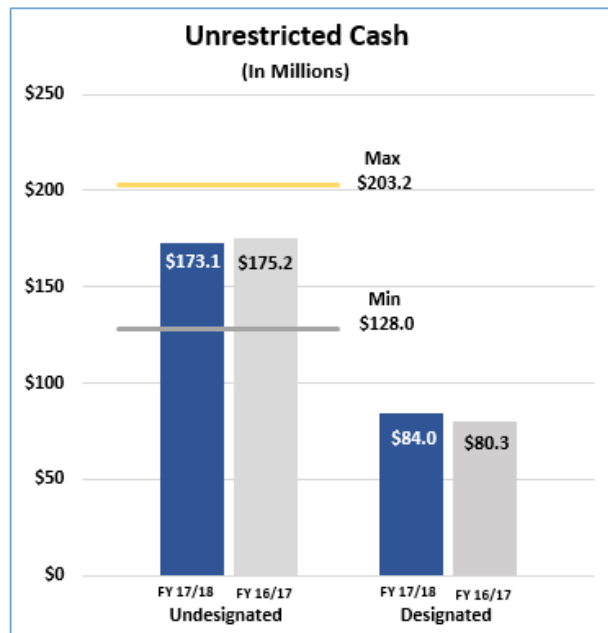
Water Utility Revenue Bonds (in millions)	2016	2017	2018
Outstanding Principal Balance	\$193	\$188	\$183
Principal and Interest Payments	\$13.3	\$13.2	\$13.3

The outstanding Water Utility revenue bonds as of June 30, 2018 totaled \$183 million. No new debt was issued during the fiscal year. Long-term debt decreased by \$5.4 million due to principal payments. As of June 30, 2018, the debt service coverage ratio was 2.14 and was within established bond covenants. In July 2018, Moody's affirmed the Water Utility's Aa2 rating, reflecting its strong financial performance, advantageous water supply, investments in infrastructure and rate competitiveness, among other factors. The Water Utility continues to maintain a credit rating of AAA and AA+ from S&P and Fitch, respectively.

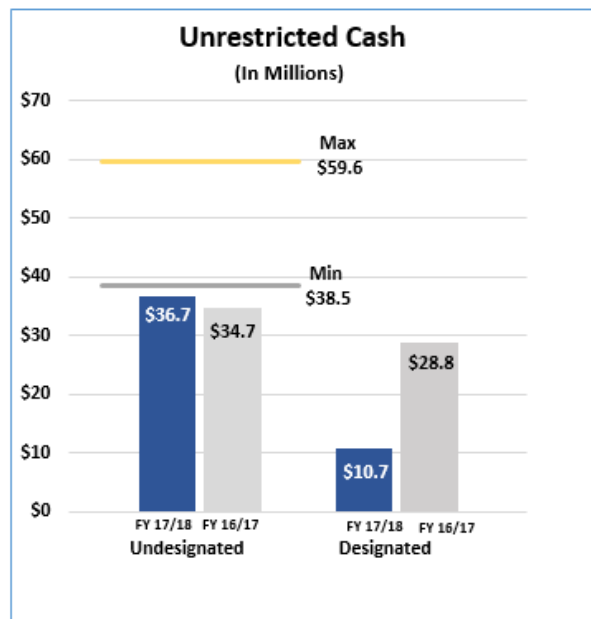
CASH RESERVES

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

Electric Utility Unrestricted Reserves:



As of June 30, 2018, the Electric Utility balances were \$173.1 million for unrestricted, undesignated reserves and \$84 million for unrestricted, designated reserves. The Electric Utility's unrestricted, undesignated reserve balance at fiscal year-end was within 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 of Public Utilities and City Council. The unrestricted, designated reserve balance includes reserves for Customer Deposits, Additional Decommissioning Liability, Electric Reliability, Capital Repair and Replacement, Mission Square Improvement, and Dark Fiber. 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.

Water Utility Unrestricted Reserves:

As of June 30, 2018, the Water Utility balances were \$36.7 million for unrestricted, undesignated reserves and \$10.7 million for unrestricted, designated reserves. The Water Utility's unrestricted, undesignated reserve balance at fiscal year-end was slightly below minimum guidelines, which is consistent with projections provided during the biennial budget and rate plan proposal processes. Per RPU Cash Reserve Policy, 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 twelve months. The Water Utility's unrestricted, undesignated reserve balance is expected to be within minimum and maximum level by 6/30/2019 with the establishment of a line of credit, as planned with the approved rate plan. The Water Utility's unrestricted, designated reserve balance includes reserves for Recycled Water, Property, Customer Deposits and Capital Repair/Replacement.

SUMMARY

Overall, both Electric and Water Utilities ended fiscal year 2018 with positive financial results. At the same time, due to the depletion of bond proceeds, both utilities had relied on reserves to continue their capital program in replacing aging and critical infrastructure to ensure system reliability. The use of reserves for infrastructure improvements can only be sustained for a short period before reserve levels fall below target minimum. On May 22, 2018, the City Council approved a five-year rate plan with new water rates that went into effect on July 1, 2018 and new electric rates that will go into effect on January 1, 2019. These rates provide for a gradual increase in rates through 2023 with annual reviews of the adopted rates by the Board of Public Utilities and City Council. The rate plan is essential to maintaining utility financial health, repairing and replacing aging and critical utility infrastructure, maintaining public health and safety and improving customer service. For the current fiscal year 2018-19, the implementation of the rate plan is well underway with planned capital improvement projects, upcoming planned bond financing to fund infrastructure improvements, establishing a line of credit as an alternative to holding cash reserves to meet target minimum reserve level as prescribed by RPU Cash Reserve Policy, and implementing expanded programs to assist low-income and fixed income customers. In addition, staff will continue to proactively take advantage of potential alternative revenue sources, as well as finding cost savings wherever possible.

FISCAL IMPACT:

There is no fiscal impact associated with this report.

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Attachments:

1. Riverside Public Utilities 2018 Annual Report
2. Presentation