



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: MARCH 11, 2019

ITEM NO: 15

SUBJECT: RIVERSIDE PUBLIC UTILITIES FISCAL YEAR 2018-19 MID-YEAR FINANCIAL REPORT

ISSUE:

Receive the Riverside Public Utilities fiscal year 2018-19 mid-year financial report as of December 31, 2018.

RECOMMENDATION:

That the Board of Public Utilities receive the Riverside Public Utilities fiscal year 2018-19 mid-year financial report as of December 31, 2018.

BACKGROUND:

This report provides a brief overview of revenues, expenditures, and capital projects as of December 31, 2018. The financial results for both Electric and Water Funds are presented herein. These results will be incorporated into City Finance's fiscal year 2018-19 second quarter financial report to be presented to City Council on March 26, 2019.

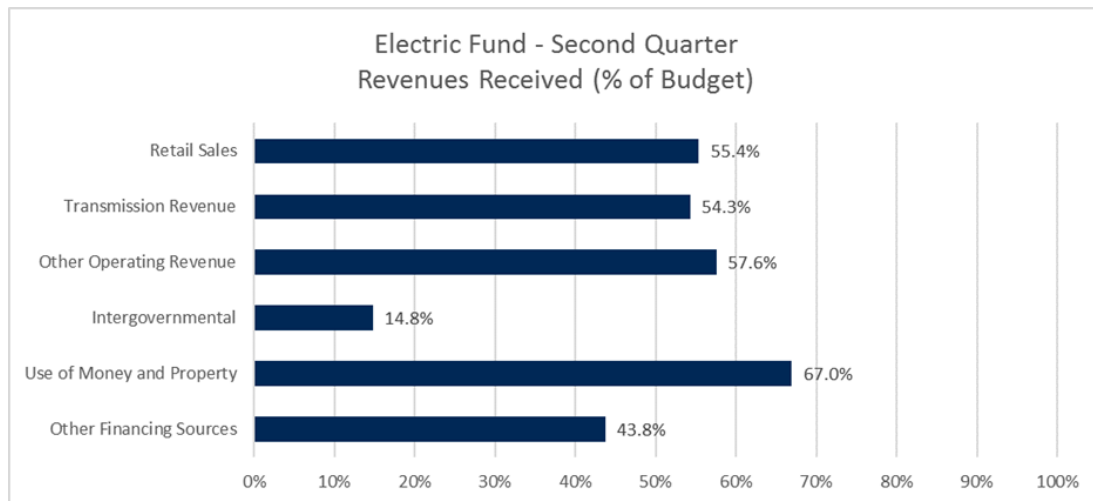
DISCUSSION:

ELECTRIC FUND

The mid-year analysis of the Electric Fund shows actual revenues and expenses are trending higher than anticipated. A supplemental appropriation for the power supply budget will be presented to the Board of Public Utilities (Board) and City Council in April 2019 due to unanticipated increases in power supply costs. Capital projects are progressing consistently with the Capital Improvement Program (CIP).

Revenue Analysis

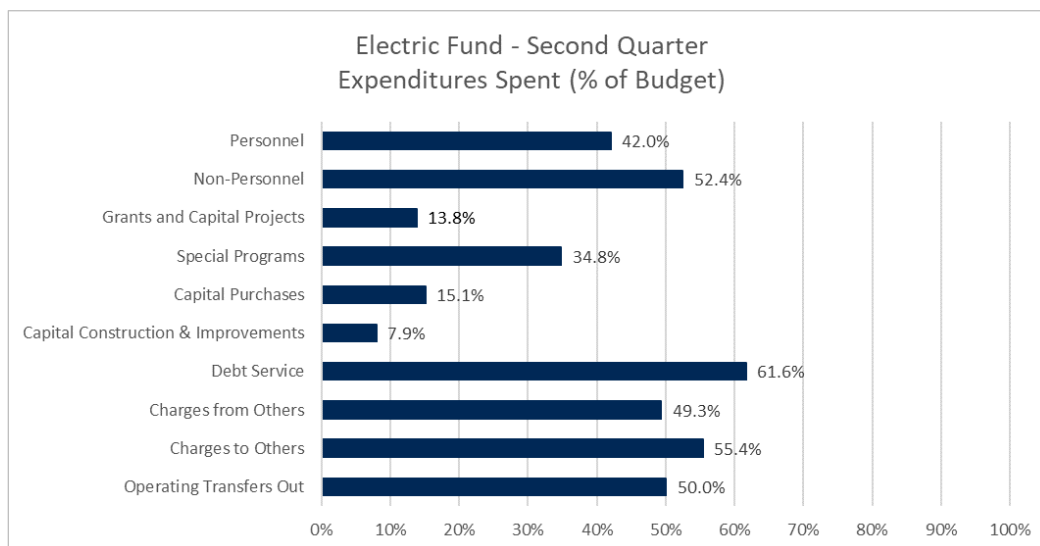
Overall, Electric revenues are trending higher than 50% of total budget as of December 31, 2018 due to the summer season in the first quarter of the fiscal year and higher than anticipated retail sales. Weather can significantly impact retail revenues, which will be monitored throughout the remainder of fiscal year (FY) 2018-19.



- **Retail Sales:** With the summer season at the beginning of the fiscal year, projected retail sales were expected to be at 53% of total budget through December 2018. Actuals are higher at 55.4% of total budget due to higher than anticipated summer temperatures.
- **Transmission Revenue:** Transmission Revenue fluctuates similar to energy load. Actuals through December 2018 are at 54.3% of total budget due to the summer period at the beginning of the fiscal year. Electric is on target to meet budgeted revenue.
- **Other Operating Revenue:** Actuals through December 2018 are at 57.6% of total budget, primarily due to the timing of the sale of greenhouse gas allowances.
- **Use of Money and Property:** This revenue category represents non-operating revenues such as interest income, rental income, and miscellaneous one-time receipts that are not received evenly throughout the year. Actuals through December 2018 are at 67% of total budget, primarily due to better than anticipated interest earnings on investments and a settlement recovery of \$715,000 from San Onofre Nuclear Generating Station.

Expenditure Analysis

At December 31, 2018, Electric Fund expenditures, excluding capital projects, are slightly higher than 50% of the total budget due to unanticipated increases in power supply costs. Power supply costs are expected to trend higher than the adopted budget for power supply through the remainder of FY 2018-19.



- **Non-Personnel:** Non-Personnel is higher than 50% due to higher than expected power supply costs as a result of higher than anticipated consumption, market energy prices, and natural gas

prices. Power supply expenditures are projected to be higher than the power supply budget by the end of the fiscal year. A supplemental appropriation for the power supply budget will be presented to the Board and City Council in April 2019. The increase in power supply costs is expected to be offset by the increase in retail sales and savings in other operating budget line items.

- Capital Construction & Improvements: Actual capital expenditures of 7.9% through December 2018 are on track with the CIP plan. Capital project activities are further discussed below.
- Debt Service: Debt service is higher than 50% at December 31, 2018 primarily due to the annual principal payments made on bonds in October 2018. Total debt service is expected to be within total budget at year-end.
- Charges to Others: Charges to Others primarily represent the charge out of internal labor and overhead costs to capital projects. This category is trending higher than expected due to an increase in capital project work. This trend is expected to continue for the remainder of the year.

Capital Projects

For the Electric and Water Funds, total budget for capital construction and improvements includes the adopted budget for FY 2018-19 along with open FY 2017-18 purchase orders and selected portions of the FY 2017-18 budget carried forward to FY 2018-19 which were unexpended due to project timing. For both Funds, capital projects are budgeted on a program basis with many active projects in progress at the same time, ranging from less than \$50,000 in size to multi-million dollars in major projects that require Board approval. Major capital projects require several months, and in certain cases cross fiscal years or span multiple fiscal years to complete. The total budget will not be fully spent for any given year due to the timing of projects and extenuating circumstances that may cause a project to be delayed.

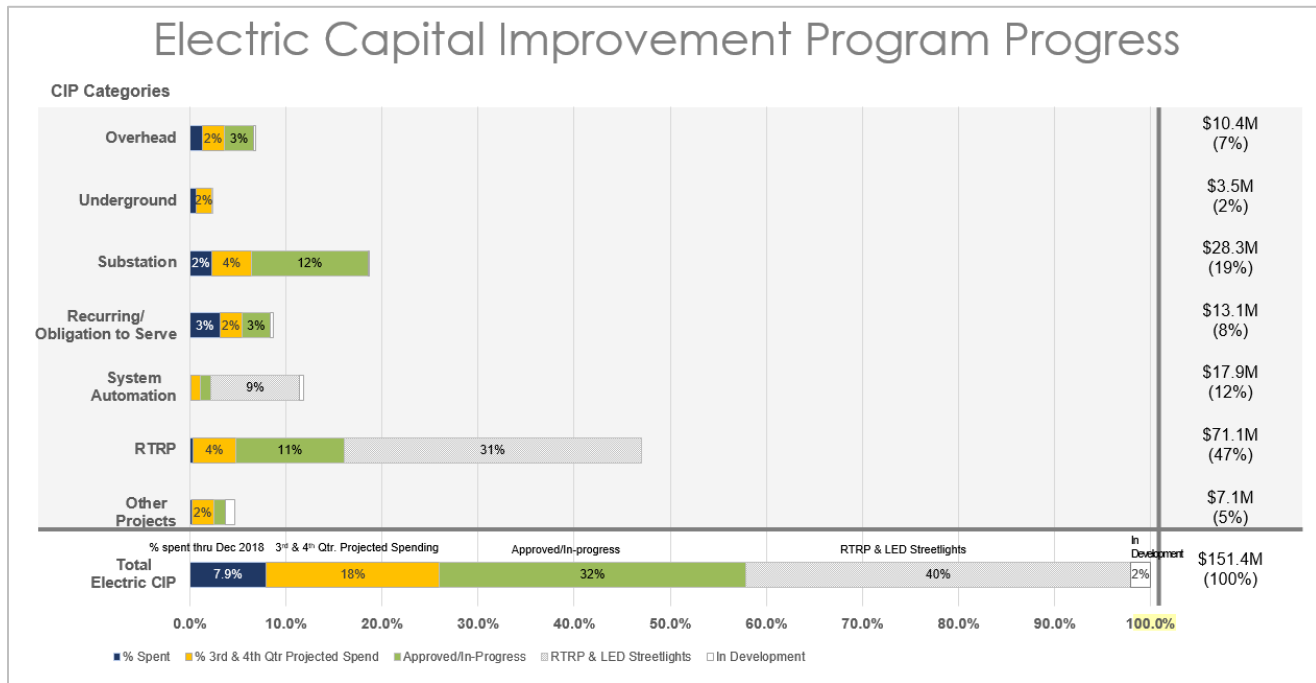
For the Electric Fund, capital activities and spending are on track. Consistent with the Utility 2.0 initiatives, areas of focus have been on electric system reliability and aging infrastructure replacement. Major projects taken to Board for approval from July through December 2018 include:

- \$8.2 million in Substation projects for switchgear and transformer upgrades to address aged substation equipment impacting system reliability and customer service in a large geographic area.
- \$3.2 million in Overhead projects for pole replacements and 12kV conversions to address aged 4kV equipment and deteriorated poles impacting system reliability and customer service.
- \$1.6 million in Recurring projects to serve new customers and expanded load within the service area.
- \$247,000 in Underground projects to replace cable failures impacting system reliability.
- \$761,000 in System Automation for Electric's portion of the Citywide Geographic Information System (GIS) Technology Upgrade project to provide for improved operational efficiencies.

January continued to be a busy month for the Energy Delivery division with \$6.4 million in major projects approved by Board. In addition, the Board also approved the first phase of implementation of an Electric Advanced Meter System and Meter Data Management System for FY 2018-19.

As previously indicated, these major projects require several months, and in certain cases cross fiscal years or span multiple fiscal years to complete. Fiscal year actual capital expenditures are comprised of small projects less than \$50,000, projects continued from previous fiscal year(s) and projects started in the current fiscal year.

As shown in the graph below, the Electric Fund spent 7.9% (\$12 million, in blue) of its total CIP budget for the first six (6) months of the fiscal year, comprised of the various CIP categories. The Electric Fund currently projects to spend an additional 18% (approximately \$27 million, in yellow) for the balance of FY 2018-19 based on the various stages of its capital projects.



The balance of the total budget is comprised of the following:

- 32% (approximately \$48 million, in green) of the total budget is comprised of major projects that have been approved by Board and may be completed subsequent to the current fiscal year due to the size and timing of the projects.
- 40% (approximately \$61 million, in grey) of the total budget is comprised of budget dedicated to Riverside Transmission Reliability Project (RTRP) and LED Streetlight projects in which spending will span multiple fiscal years and where project approval is brought to Board in phases.
- 2% (approximately \$3 million, in white) is in the development phase. Staff will bring these projects to Board for consideration when they are ready.

The Electric Fund completed the following capital improvements during the first six (6) months of FY 2018-19:

- Orangecrest Substation to La Colina Substation Line Relay Replacement Project
- University Substation to La Colina Substation Line Relay Replacement Project
- Riverside Substation to Vista Substation Line Relay Replacement Project
- Substation Distance Relay and SAS Upgrade
- Mobile Substation 3 acceptance and commissioning
- Multi substation–DC system upgrades
- Orangecrest Substation Switchgear 1-1 air conditioning upgrade project
- Harvey Lynn Substation grounding upgrade
- Hunter Substation land acquisition
- HMPE Cable Replacement at Canyon Crest Phase 1D
- Cable Replacement at American Drive
- G.O. 165 Underground Structure Rehab of vaults and manholes on Central Ave, Chicago Ave, and Pachappa Drive

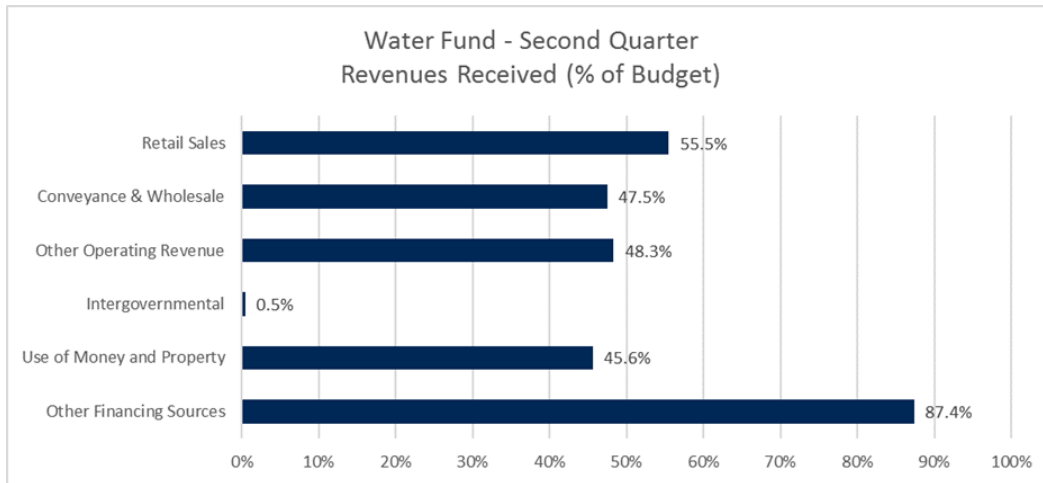
These completed projects focused on the three (3) major infrastructure replacement categories of Overhead, Underground, and Substation, which are part of Utility 2.0 initiatives. Completed projects in these categories benefit system reliability and mitigate the potential for widespread, prolonged customer outages.

WATER FUND

The mid-year analysis of the Water Fund shows actual revenues and expenses are trending lower than anticipated. Capital projects are progressing consistently with the CIP.

Revenue Analysis

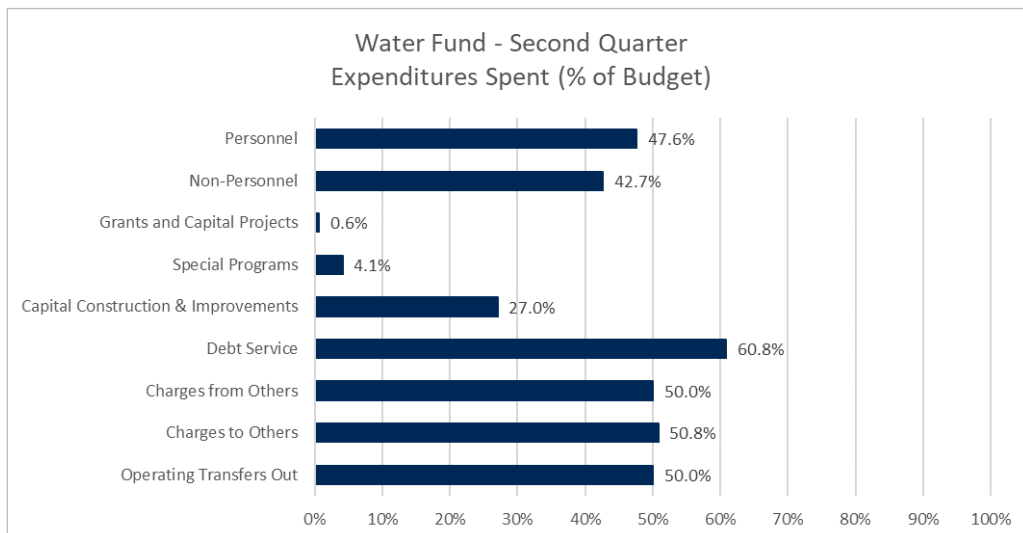
Overall, Water revenues are trending at 50% of total budget at December 31, 2018, which is less than anticipated primarily due to lower than expected retail sales resulting from higher precipitation weather. Weather, including precipitation, can significantly impact retail revenues, which will be monitored throughout the remainder of FY 2018-19.



- **Retail Sales:** With the summer season at the beginning of the fiscal year, projected retail sales were expected to be at 56.2% of total budget through December 2018. Actuals are lower at 55.5% of total budget due to higher than anticipated precipitation from October through December 2018. Retail revenues can be significantly impacted by weather, including precipitation, and will be monitored throughout the remainder of FY 2018-19.
- **Other Financing Sources:** This revenue category is primarily comprised of proceeds from sale of salvage materials and damage claim recoveries, which are unpredictable and not received evenly throughout the fiscal year.

Expenditure Analysis

As of December 31, 2018, Water Fund expenditures, excluding capital projects, are less than 50% of the total budget. This trend is expected to continue for the remainder of FY 2018-19.



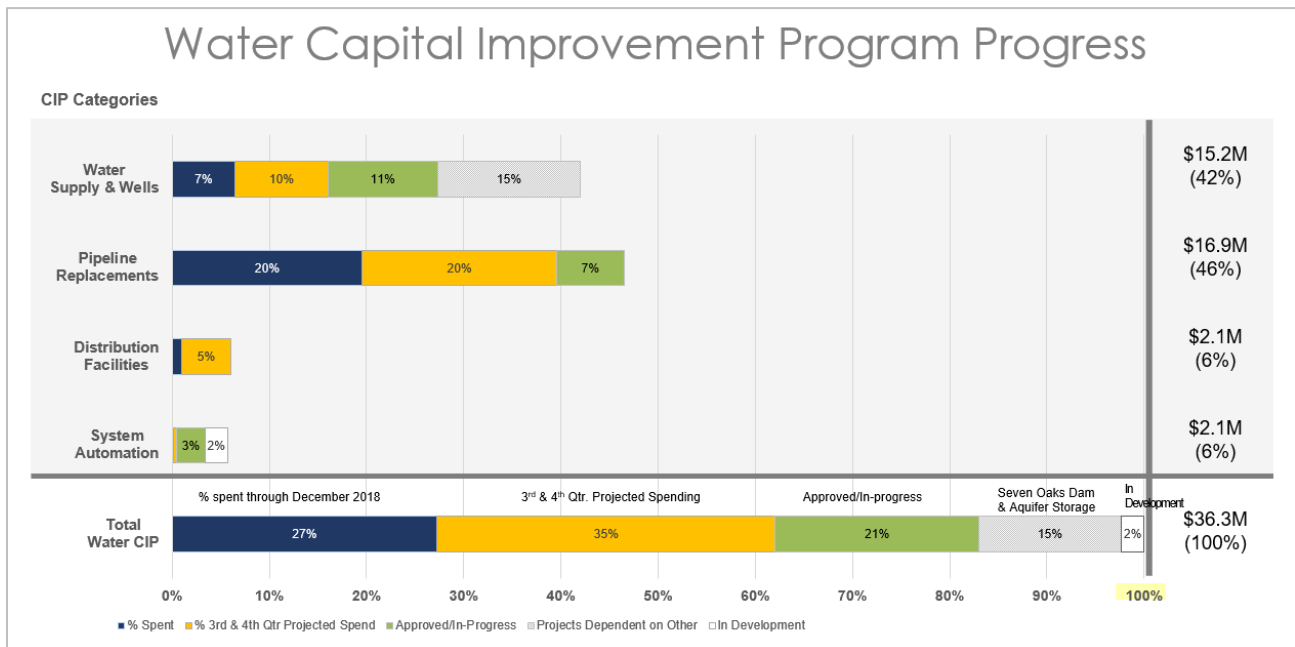
- Capital Construction & Improvements: Actual capital expenditures of 27% through December 2018 are on track with the CIP plan. Capital project activities are further discussed below.
- Debt Service: Debt service is higher than 50% at December 31, 2018 primarily due to the annual principal payments made on bonds in October 2018. Total debt service is expected to be within total budget at year-end.

Capital Projects

The Water Fund's capital activities and spending are on track. Consistent with the Utility 2.0 initiatives, areas of focus have been on water system reliability and aging infrastructure replacement. Major capital projects taken to Board for approval from July through December 2018 include:

- \$1.5 million in Well projects to rehabilitate three wells to improve water supply reliability and address aging infrastructure.
- \$3.75 million Water Supply project for recycled water improvements at the Riverside Water Quality Control Plant to invest in recycled water supply infrastructure.
- \$9.6 million in Pipeline Replacement projects primarily comprise of two major projects, the Magnolia Techite Pipeline Replacement project and Iowa Ave. Transmission Main Replacement project to improve reliability and address aging infrastructure.
- \$599,000 in Distribution Facilities project for pressure reducing station replacement, replacing an aging pressure reducing station.
- \$446,000 in System Automation for Water's portion of the citywide GIS Technology Upgrade project to provide for improved operational efficiencies.

Similar to the Electric Fund, the Water Fund's fiscal year actual capital expenditures are comprised of small projects less than \$50,000, projects continued from previous fiscal year(s) and projects started in the current fiscal year. As shown in the graph below, the Water Fund spent 27% (\$9.8 million, in blue) of its total CIP budget for the first six (6) months of the fiscal year, comprised of the various CIP categories. The Water Fund currently projects to spend an additional 35% (approximately \$12.7 million, in yellow) for the balance of FY 2018-19 based on the various stages of its capital projects.



The balance of the total budget is comprised of the following:

- 21% (approximately \$7.6 million, in green) of the total budget is comprised of major projects that have been approved by Board and may be completed subsequent to the current fiscal year due to the size and timing of the projects.
- 15% (approximately \$5.4 million, in grey) of the total budget is comprised of budget dedicated to the Seven Oaks Dam Conservation and Aquifer Storage & Recovery System projects in which spending will span multiple fiscal years and is dependent on other agencies' activities.
- 2% (approximately \$0.8 million) is in the development phase. Staff will bring these projects to Board for consideration when they are ready.

The Water Fund completed the following capital improvements during the first six (6) months of FY 2018-19:

- Substantial completion of the Jackson Street Recycled Water Pipeline Project – Phase I
- Completion of the Iowa ARB main extension project
- Completion of 5 well rehab projects
- Completed 559 service lateral replacements
- Completed 26 fire hydrant replacements
- Completed 5 valve replacements
- Replaced 7 booster pumps/motors and rebuilt 3 booster pumps/motors
- Refurbished 2 potable well pumps/motors
- Replaced 865 small meters, 45 large meters, and performed 182 large meter calibrations.

Installation of recycled water infrastructure benefits all of RPU customers by freeing up water supply through making recycled water available for landscaping and irrigation needs. Installations of new mains provide water to new customers and support the City's development and growth. Pipeline and distribution facilities replacements along with well rehabilitations help address aging infrastructure and improve system reliability to maintain RPU's high level of service to its customers.

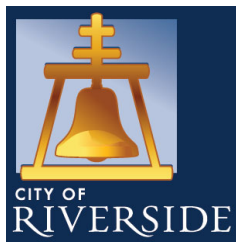
FISCAL IMPACT:

There is no fiscal impact associated with this report.

Prepared by:	Aileen Ma, Interim Utilities Assistant General Manager/Finance & Administration
Approved by:	Todd M. Corbin, Utilities General Manager
Approved by:	Al Zelinka, FAICP, City Manager
Approved as to form:	Gary G. Geuss, City Attorney

Certifies availability of funds:	Aileen Ma, Interim Utilities Assistant General Manager/Finance & Administration
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Attachment:	Presentation
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FISCAL YEAR 2018-19 MID-YEAR FINANCIAL REPORT

RIVERSIDE PUBLIC UTILITIES

Board of Public Utilities
March 11, 2019

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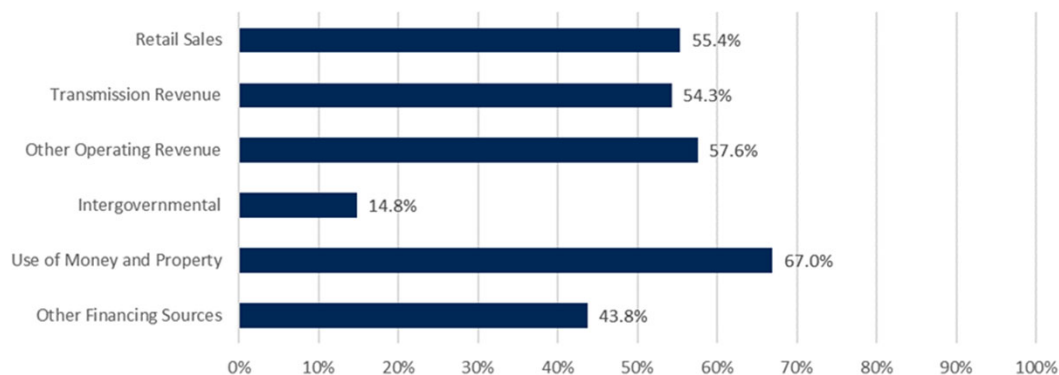
FINANCIAL HIGHLIGHTS

1. Electric
 - A. Revenues are higher than anticipated
 - B. Expenditures, excluding capital, are higher than anticipated
 - C. Capital projects are progressing consistent with the Capital Improvement Program
2. Water
 - A. Revenues are lower than anticipated
 - B. Expenditures, excluding capital, are less than 50% of total budget
 - C. Capital projects are progressing consistent with the Capital Improvement Program

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ELECTRIC FUND – SECOND QUARTER REVENUE RECEIVED (% OF BUDGET)

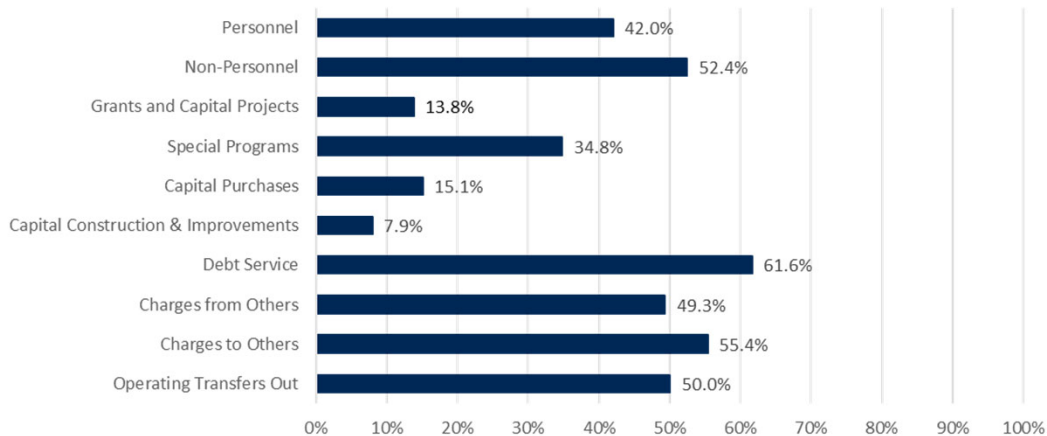


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ELECTRIC FUND – SECOND QUARTER EXPENDITURES SPENT (% OF BUDGET)

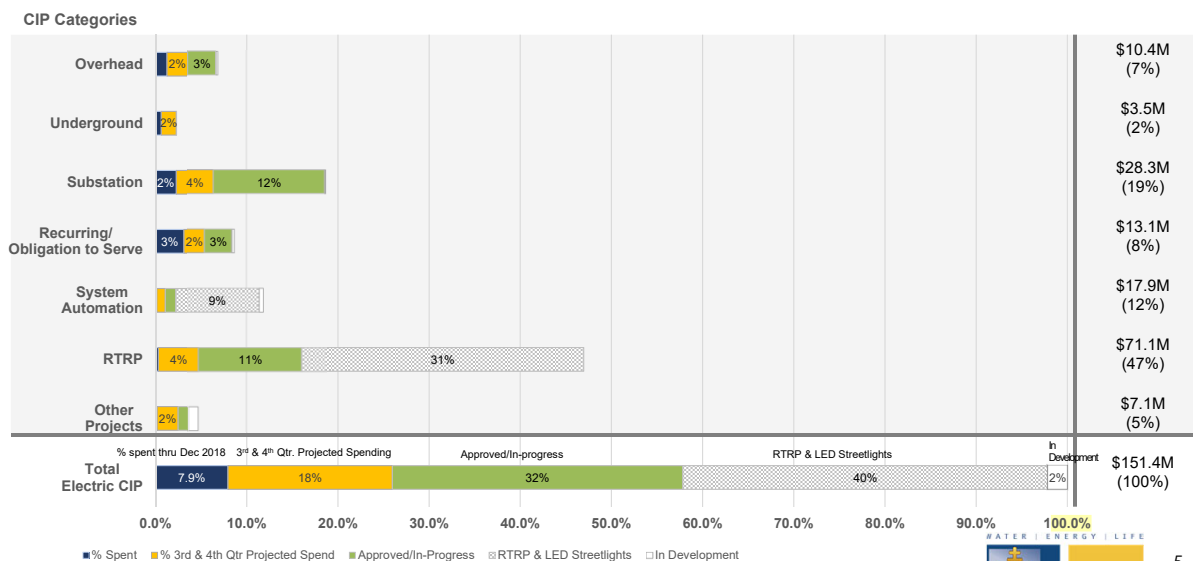


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ELECTRIC CAPITAL IMPROVEMENT PROGRAM PROGRESS

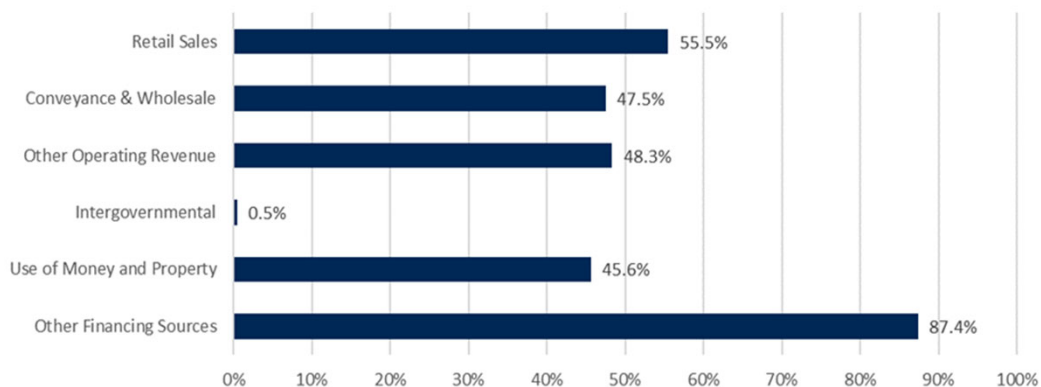


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WATER FUND – SECOND QUARTER REVENUE RECEIVED (% OF BUDGET)

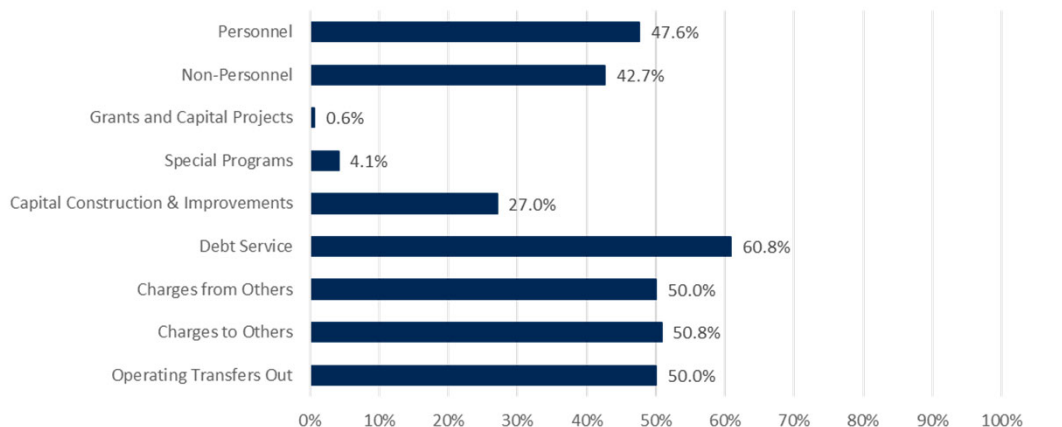


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WATER FUND – SECOND QUARTER EXPENDITURES SPENT (% OF BUDGET)



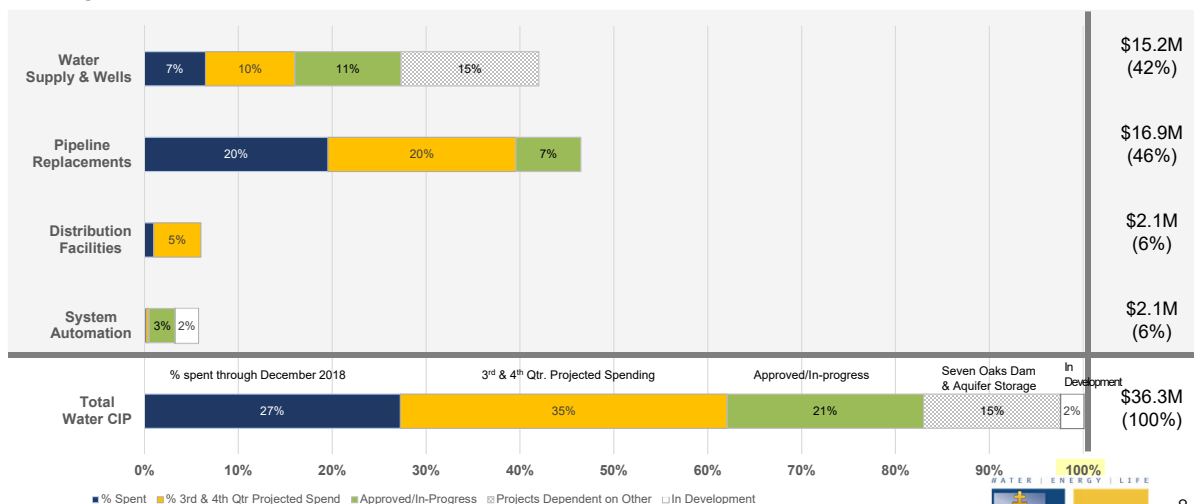
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WATER CAPITAL IMPROVEMENT PROGRAM PROGRESS

CIP Categories



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RECOMMENDATION

That the Board of Public Utilities receive the Riverside Public Utilities fiscal year 2018-19 mid-year financial report as of December 31, 2018.