



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: DECEMBER 9, 2019

ITEM NO: 11

SUBJECT: RIVERSIDE PUBLIC UTILITIES 2019 FINANCIAL REPORT

ISSUE:

Receive and file the 2019 Riverside Public Utilities Financial Report for the fiscal year ending June 30, 2019.

RECOMMENDATION:

That the Board of Public Utilities receive and file the Riverside Public Utilities 2019 Financial Report for the fiscal year ending June 30, 2019.

BACKGROUND:

An independent audit is performed each year of the City of Riverside and its related entities' financial statements. On June 4, 2019, the City Council approved a five-year term with Lance, Soll & Lunghard to serve as independent external auditors for annual financial statements.

Per Riverside Public Utilities (RPU) fiscal policy adopted by the Board of Public Utilities (Board) on May 23, 2016 and City Council on July 26, 2016, RPU shall prepare annual full-accrual financial statements, including the Management's Discussion and Analysis and the accompanying Notes to the Financial Statements.

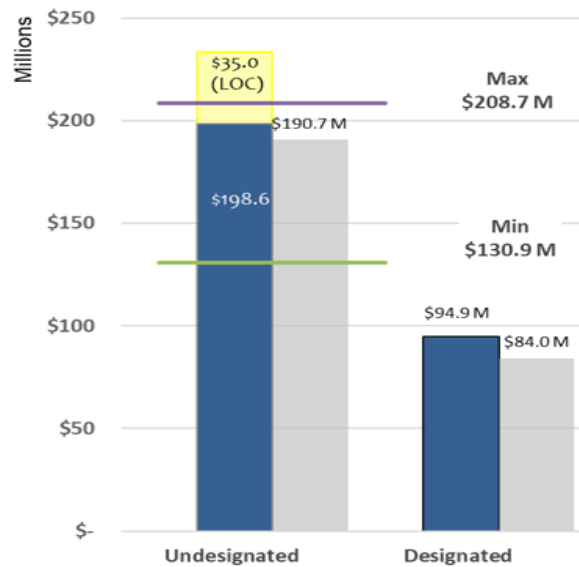
DISCUSSION:

The City's independent auditor, Lance, Soll & Lunghard, LLP has completed the Fiscal Year 2018-19 annual audit of RPU's financial statements. The auditors provided an unmodified, or clean, opinion that RPU's financial statements are presented fairly and in conformity with generally accepted accounting principles. This clean audit opinion supports the fact that RPU observed compliance with generally accepted accounting principles and statutory requirements. Additionally, RPU had no audit findings or instances of material weaknesses or significant deficiencies identified during the audit process.

Reserve Policy Compliance

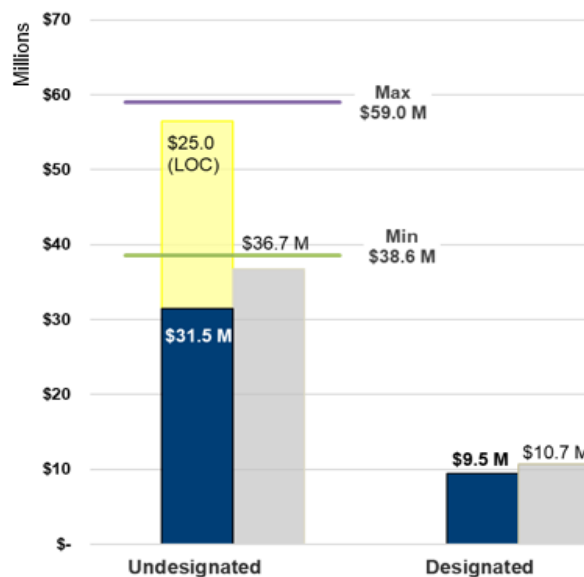
The Riverside Public Utilities Cash Reserve Policy provides a defined level of unrestricted undesignated reserves in both the Electric and Water Utility for strategic purposes to mitigate risk and maintain financial stability.

Electric Utility Unrestricted Reserves:



As of June 30, 2019, the Electric Utility balances were \$94.9 million for unrestricted, designated reserves, \$198.6 million for unrestricted, undesignated reserves, and \$35 million line of credit (LOC). The LOC provides flexibility and operating liquidity similar to cash 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, Capital Repair and Replacement, the 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 capital as directed in the reserve policy.

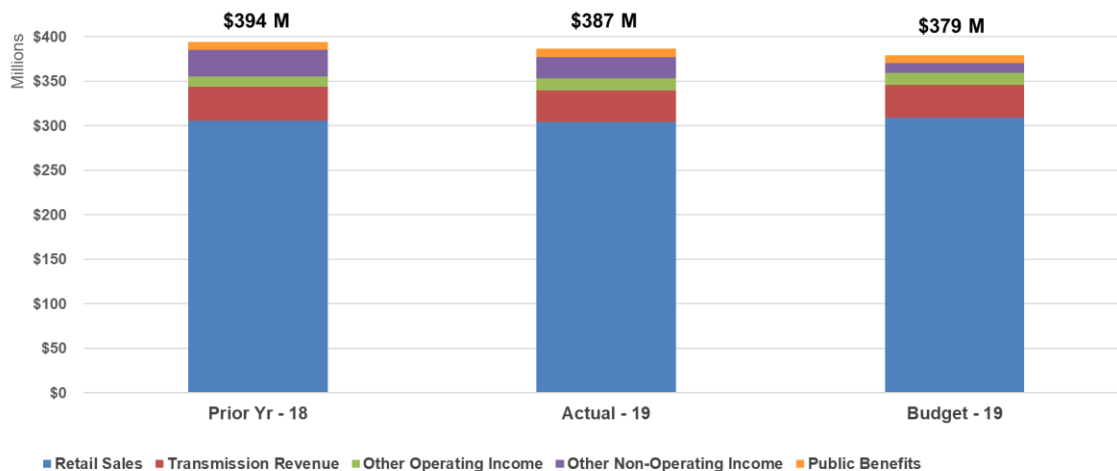
Water Utility Unrestricted Reserves:



As of June 30, 2019, the Water Utility balances were \$9.5 million for unrestricted, designated reserves, \$31.5 million for unrestricted, undesignated reserves, and \$25 million line of credit (LOC). Water Fund's unrestricted, undesignated reserve balance combined with the line of credit in compliance with RPU Cash Reserve Policy, at 6/30/2019 is above target minimum which is consistent with projections provided during the biennial budget and rate plan proposal processes. The LOC provides flexibility and operating liquidity similar to cash reserve allowing the Water Fund to maintain compliance with RPU Cash Reserve 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.

Revenues

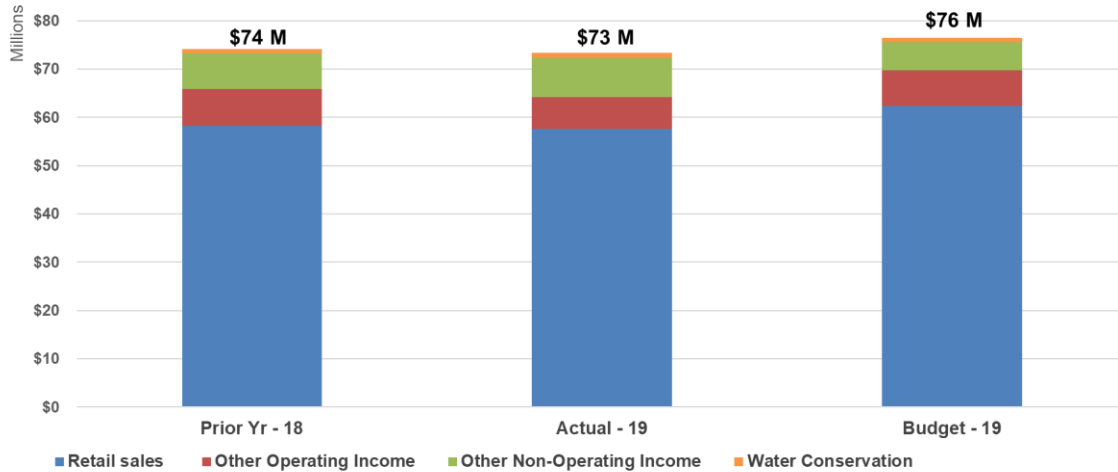
Electric Utility Revenue Results:



Total electric revenues of \$387 million, including non-operating, were higher than budget by \$8 million or 2.1% but slightly lower than prior year actuals of \$394 million.

- 1) Retail sales, net of uncollectibles/recovery, which represent 79% of revenues, totaled \$304 million which was lower than budget and prior year by \$5.1 million (1.6%) and \$1.8 million (0.6%), respectively, was primarily due to reduced consumption.
- 2) Transmission revenues of \$35.7 million were lower than both budget and prior year by \$0.5 million (1.4%) and \$1.8 million (4.8%), respectively, due to a slight decrease in the load requirements as a result of a decrease in consumption.
- 3) Other operating revenues of \$13.5 million were slightly lower than budget. Other operating revenues were higher than prior year by \$2.0 million (17.4%) due to a decrease settlement recoveries and refunds and reimbursements, offset by an increase in proceeds from sale of renewable energy credits.
- 4) Other non-operating revenues totaled \$24.0 million, was higher than budget by \$13.1 million due to an unanticipated increase in capital projects funded by developers and interest income. Other non-operating revenues was lower than prior year by \$6.1 million due to a decrease in capital projects funded by developers.

Water Utility Revenue Results:

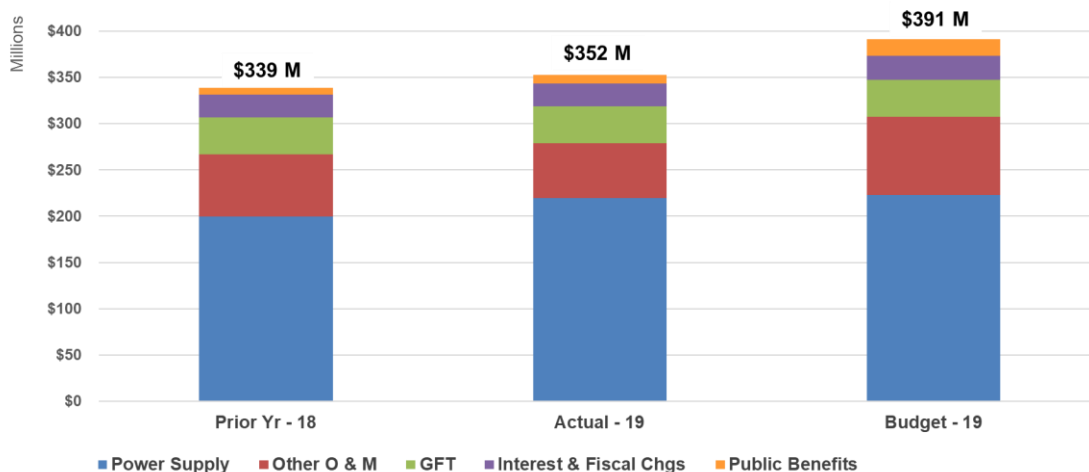


Total water revenues, including non-operating, totaling \$73 million overall, were lower than budget by \$3 million or 3.9% and were lower than prior year actuals by \$1 million or 1.3%.

- 1) Retail sales, net of uncollectibles/recovery, which represent 79% of revenues, totaled \$57.6 million which were \$4.7 million (7.5%) lower than budget and \$0.6 million (1%) lower than prior year due to reduced consumption.
- 2) Other non-operating revenues of \$8.2 million were 2.4 million (41.4%) higher than budget and \$0.8 million (10.8%) higher than prior year due to an increase interest income and completion of water system expansion project for Riverwalk Vista Improvement project.

Expenses

Electric Utility Expense Results:



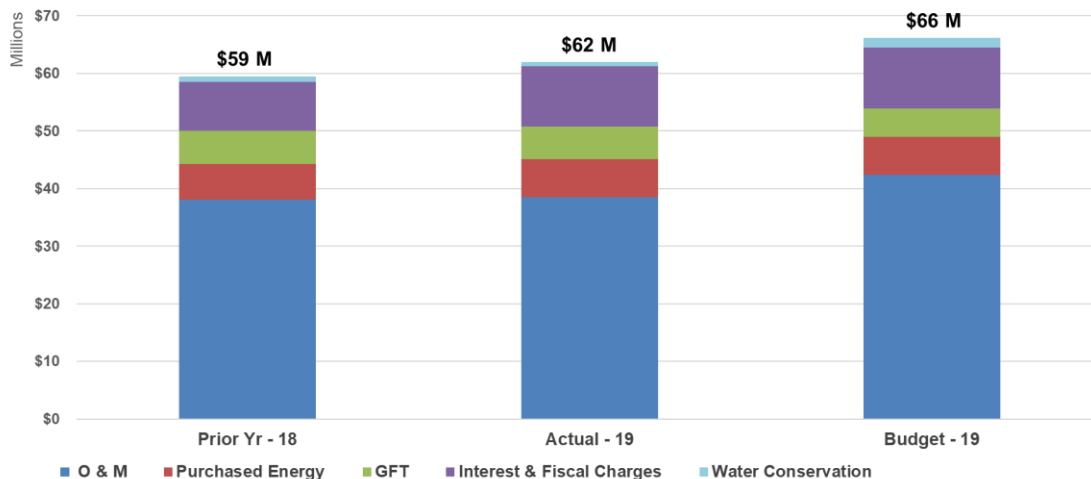
Total electric expenses, excluding depreciation, totaling \$352 million, were lower than budget by \$39 million or 10% and higher than prior year actuals by \$13 million or 3.8%.

- 1) Power Supply costs of \$219.7 million were \$3.3 million (1.5%) lower than budget due to a supplemental appropriation of \$7 million due to increase in natural gas prices and power costs offset by unanticipated increase in maintenance costs for Southern Transmission System. Power

supply costs were higher than prior year by \$20.3 million (10.2%) due to an increase in power supply costs related to elevated market energy and natural gas prices during the summer season.

- 2) Other operating and maintenance expenses of \$58.7 million were \$25.4 million (30.2%) lower than budget primarily due to savings in professional services and other general operating expenses. Other operating and maintenance expenses were \$8.8 million (13.0%) lower than prior year mainly due to a non-cash pension credit adjustment of \$1.3 million compared to prior year non-cash pension adjustment of \$9.1 million as a result of pension accounting standards, offset by an overall increase in general operating expenses.
- 3) Pursuant to provisions in the City Charter, the Electric Utility transferred to the General Fund \$39.9 million for Fiscal Year 2018-19 to help provide needed public services to residents, which was in line with prior year.

Water Utility Expense Results:



Total water expenses, excluding depreciation, totaling \$62 million, were lower than budget by \$4 million or 6.1% and higher than prior year actuals by \$3 million or 5.1%.

- 1) Operations and maintenance expenses of \$38.5 million were lower than budget by \$3.9 million (9.2%) due to actual progress of current projects to be completed in fiscal year 2019 and savings in personnel costs and other general operating expenses. Operations and maintenance expenses were slightly higher than prior year.
- 2) Pursuant to provisions in the City Charter, the Water Utility transferred to the General Fund \$6.6 million for Fiscal Year 2018-19 to help provide needed public services to residents, which was higher than prior year by \$411,000 (6.5%).

Summary

In conjunction with the Finance Department, RPU staff and leadership team worked very closely to be prudent and thorough in financial practices. The lack of audit findings confirms that RPU operates with high ethical standards and has necessary internal controls to ensure an accurate and accountable use of public funds. Good finance is important to everything government does, and ratepayers expect this kind of accountability.

The RPU annual financial report is distributed to the City Council, the Board of Public Utilities, federal and state government agencies per contract requirements, bond holders, rating and financial institutions, and is published on the City's website.

FISCAL IMPACT:

There is no fiscal impact associated with this report.

Prepared & 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 as to funds availability:	Brian Seinturier, Utilities Fiscal Manager
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Attachments:

1. Riverside Public Utilities 2019 Annual Report
2. 2019 Year End Financial Report Presentation