



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: JUNE 1, 2020

ITEM NO: 13a

SUBJECT: RIVERSIDE PUBLIC UTILITIES PROPOSED EMERGENCY BUDGET FOR FISCAL YEAR 2020/21

ISSUE:

Recommend that the City Council approve the Riverside Public Utilities Department (RPU) proposed emergency budget for Fiscal Year 2020/21.

RECOMMENDATIONS:

That the Board of Public Utilities recommend that City Council:

1. Approve the Electric Funds (including Public Benefits Fund) proposed Fiscal Year 2020/21 emergency budget totaling \$404.7 million in revenues, \$426.2 million in operating expenditures and \$41.7 million in capital improvements. The difference between revenues and expenditures including capital improvements will be covered by bond proceeds and reserves;
2. Authorize the use of the Designated Electric Fund Capital Repair/Replacement Reserve for technology replacements in the amount of \$200,000 for Fiscal Year 2020/21;
3. Authorize the use of the Designated Electric Fund Dark Fiber Reserve for dark fiber leasing operating expenses in the amount of \$600,000 for Fiscal Year 2020/21;
4. Authorize the increase in annual funding to the SONGS Additional Decommissioning Liability Reserve by \$419,000 to a total of \$2 million annually beginning in Fiscal Year 2020/21; and
5. Approve the Water Funds (including Water Conservation Fund) proposed for Fiscal Year 2020/21 emergency budget totaling \$84.7 million in revenues, \$78.2 million in operating expenditures and \$30.6 million in capital improvements. The difference between revenues and expenditures including capital improvements will be covered by bond proceeds and reserves.

BACKGROUND:

Due to the unprecedented economic environment prompted by COVID-19 and the ongoing shelter-in-place order, a one-year emergency budget is proposed for adoption because the fiscal impact of COVID-19 cannot be reasonably estimated at this time: the shelter-in-place order is the primary driver of current economic conditions and until this order is lifted, the timing and nature of an economic recovery remains unknown. Even after the stay at home order is lifted the toll it has taken on the local economy and psyche of citizens will still be highly unpredictable. Time alone will provide us a better barometer of the impacts, but not until the order is lifted. Due to the impact of COVID-19 on public and community meetings, the City has streamlined the current budget process to adopt an emergency FY 2020/21 budget.

An updated FY 2020/21 budget with the full impacts of COVID-19 will be brought back to the Board during the calendar year. It is anticipated that a new two-year budget, FY 2021/22 – 2022/23, will be proposed next year at this time.

DISCUSSION:

BUDGET OVERVIEW

The proposed FY 2020/21 emergency budget has been developed to continue to maintain the level of quality electric and water services to our customers and to support the following objectives:

1. Support City Council Riverside 2.1 strategic priorities with an emphasis on customer service and customer value.
2. Meet RPU's strategic goals in the areas for customer experience, reliability and resiliency, affordability, sustainability, operational excellence and strong workforce.

The following are key challenges in developing this budget:

1. Planned use of electric and water reserves according to the approved five-year rate plan.
2. Regulatory constraints and mandates, including the latest renewable percentage, have caused increased supply costs.
3. Increased personnel costs with CalPERS costs outpacing salaries.
4. Significant capital needs due to aging infrastructure and equipment.

The proposed FY 2020/21 emergency budget have been developed to be in line with the rate proposal as previously approved the Board of Public Utilities (Board) and City Council.

MAJOR BUDGET ASSUMPTIONS

Retail Sales

The largest source of revenues for both the Electric and Water Funds is retail electric and water sales to customers. The forecasting approach includes the use of statistically estimated econometric models. This information is then used to statistically forecast retail sales.

Other Revenues

Consistent with the rate plan, RPU is maximizing the use of ongoing non-retail revenues such as transmission revenues from the use of electric transmission lines, scheduling coordinator services to other agencies, conveyance of water and wholesale water sales to Western Municipal Water District and City of Norco, and leases of real property owned by RPU. All other revenues have been reviewed and forecasted.

Personnel Costs

Personnel costs are budgeted under similar assumptions as the General Fund and based on COLA as adapted in labor contracts which are current through June 30, 2020 for SEIU and unrepresented, and September 30, 2021 for IBEW and IBEW Supervisory.

Non-Personnel Costs

During the budget development process, the divisions were provided with a roll-over budget from FY 2019/20 with no adjustment for inflationary increase in costs. The divisions were tasked with reviewing all budgeted expenditures, reallocate budget line items to cover necessary operating costs and reduce discretionary costs where possible.

Non-discretionary costs such as power supply and production costs are budgeted as necessary to serve projected customer load and consumption. Other non-discretionary costs such as debt obligations, taxes and assessment and other contractual obligations are budgeted as needed.

General Fund Transfer (GFT)

Pursuant to the City of Riverside Charter, the Electric and Water Funds may transfer up to 11.5% of prior year's gross operating revenues, including adjustments, to the City's General Fund. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits. Currently, the GFT is set at 11.5% for both the Electric and Water Funds. GFT for the 5-Year Plan is forecasted based on the previous year's projected gross operating revenues, including adjustments. Prior years and forecasted projections are identified in this report and in the attached budget.

Capital Improvement Program

The five-year capital improvement program is comprised of the capital projects as presented to Board of Public Utilities and City Council in the November 2017 and January 2018 rate proposal joint workshops.

Planned Use of Reserves and Line of Credit

RPU will need to utilize restricted, designated and undesignated reserves to balance the proposed budget. As provided in RPU Fiscal Policies, the use of reserves to balance the budget is permitted in the event a balanced budget is not attainable. If the use of reserves is expected to continue beyond one year, the planned use of reserves must be developed as part of a strategic financial plan. The use of electric and water reserves in the proposed budget is included within the rate plan. The financial strategy within the rate plan is to draw down reserves to minimum required levels in order to keep the rate increases as low as possible. In addition, as part of the rate plan, RPU is using a line of credit (LOC) to reduce the necessary required cash levels. With a LOC, RPU can meet the overall liquidity and target minimum reserve levels acceptable by bond rating agencies and maintain current bond ratings. RPU has acquired a LOC of \$35 million for the Electric Fund and \$25 million for the Water Fund.

Revenue and Expenditure Emergency Budget Summary

The following is the budget summary for the Electric Funds, including Public Benefits:

Electric	FY 18/19 Actuals	FY 19/20 Budget	FY 20/21 Proposed
Electric Fund - Revenues	\$378,383,551	\$382,074,694	\$395,239,794
Public Benefits (PB) - Revenues	9,292,027	9,302,790	9,471,199
Total Electric Revenues	\$387,675,577	\$391,377,484	\$404,710,993
Use of Bond Proceeds	29,760,154	27,586,000	30,654,623
Use (Incr.) of PB Fund Reserve	(353,699)	6,342,288	5,195,760
Total Electric – Revenues and Other Financing Sources	\$417,082,032	\$425,305,772	\$440,561,376
Electric Fund - Expenditures	\$406,104,930	\$440,949,858	\$453,236,507
Public Benefits - Expenditures	8,938,328	15,645,078	14,666,959
Total Electric Expenditures, Including Capital Improvements	\$415,043,258	\$456,594,936	\$467,903,466
Use (Incr.) of Electric Fund Reserves	(2,038,775)	31,289,164	27,342,090

The following is the budget summary for the Water Funds, including Water Conservation:

Water	FY 18/19 Actuals	FY 19/20 Budget	FY 20/21 Proposed
Water Fund - Revenues	\$72,432,280	\$80,710,703	\$83,693,756
Water Conservation (WC) - Revenues	942,560	995,783	1,033,000
Total Water Revenues	\$73,374,840	\$81,706,486	\$84,726,756

Use of Bond Proceeds	12,690,751	17,997,000	22,369,040
Use (Incr.) of WC Fund Reserves	(192,306)	760,667	554,876
Total Water – Revenues and Other Financing Sources	\$85,873,285	\$100,464,153	107,650,672
Water Fund - Expenditures	\$92,351,847	\$100,260,545	\$107,188,152
Water Conservation - Expenditures	750,254	1,756,450	1,587,876
Total Water Expenditures, Including Capital Improvements	\$93,102,101	\$102,016,995	108,776,028
Use of Water Fund Reserves	7,228,816	1,552,842	1,125,356

CAPITAL IMPROVEMENT PROGRAM

As part of the emergency budget process, RPU has prepared a One-Year Capital Improvement Program (CIP) for FY 2020/21. The proposed CIP for the Electric and Water Funds is \$41.7 million and \$30.6 million, respectively, comprised of capital projects as presented to the Board and City Council in the November 2017 and January 2018 rate proposal joint workshops, approved with the Five-Year CIP for FY 2018/19 to 2022/23, and is outlined in the presentation with adjustments for projects shifting among fiscal years. The proposed CIP for Electric includes identified capital improvements to Riverside Energy Resource Center (RERC) Units 3 & 4 and technology projects necessary for system operations. Funding for CIP is a combination of bond proceeds, developer contributions, rates and reserves.

OPERATING BUDGETS

The proposed FY 2020/21 emergency budget reflects a rollover budget with supplemental increases of \$4.8 million for Electric and \$3.0 million for Water. Non-discretionary costs such as power supply and productions costs budgeted as necessary to serve customer load and consumption. The proposed budget is supported by revenues within the rate proposal and planned use of reserves. Due to the reorganization of all RPU divisions and funds, the net FTE impact is a decrease of 3.15 FTE – Electric 510 Fund increase of 4.50 FTE; Public Benefit 511 Fund decrease of 13.50 FTE; Water 520 Fund increase of 8.50 FTE; and Water Conservation 521 Fund decrease of 2.65 FTE.

Staff estimates a vacancy factor of 5% for the Electric Fund, as part of the affordability plan, which is approximately \$3.4 million in personnel savings for FY 2020/21.

Electric Fund

Revenue Budget

The primary source of revenues for the Electric Fund is retail sales, which will fund 71% of Electric expenditure budget. Current revenue sources including other non-retail revenues will not be adequate to cover Electric Fund's expenditure budget, which is included in the rate plan. Bond proceeds of approximately \$30.6 million will be utilized to fund a major portion of the capital improvement projects for FY 2020/21. Various reserves will be utilized to cover the balance of the expenditures, as planned with the rate plan.

Expenditure Budget

The Electric Fund's proposed FY 2020/21 budget reflects a 2.5% (\$11.3 million) increase over FY 2019/20 amended budget. The overall increase is primarily due to:

- Increase in power supply costs reflecting a projected increase in the transmission costs, California Independent System Operator (CAISO) energy and congestion costs, Resource Adequacy program costs (obliges electricity providers to pay power plant owners for electricity-generating capacity), and an increase in natural gas purchases for the Utility's generating stations. Power supply costs represent 50% of the total Electric budget.
- Increase in personnel costs as a result of the department reorganization and repurposing positions to reflect the changing needs of the utility, as well as an increase in CalPERS and other benefit costs.

- Increase in annual funding to the SONGS Additional Decommissioning Liability Reserve by \$419,000 to a total of \$2 million annually due to an anticipated increase in the SONGS Decommissioning Cost Estimate.
- Increase in capital projects in support of approved rate plan and additional capital project funding of \$4.7 million for Riverside Energy Resource Center (RERC) Units 3 & 4 funded from Reliability Charge revenues and \$1.6 million technology projects necessary for system operations funded from reserves.
 - a. Actual CIP should be at \$41.0 million. A duplicate budget entry of \$0.7 million will be removed from the budget as of July 1, 2020.
- Decrease in debt service costs due primarily to the maturity of a portion of outstanding debt.
- Decrease in Operating and Maintenance expenses due to an increase in Charges To Others primarily due to increased personnel costs charged to capital projects.

The Electric expenditure budget also includes supplemental requests of \$3.5 million in Operating and Maintenance costs due primarily to RERC system upgrades and increases in professional services contracts; \$677,000 in Debt Service for capital lease of new equipment; and \$651,000 in Personnel costs for overtime and four new FTE's.

As planned with the rate proposal, a portion of the Electric expenditure budget will be funded by various reserves. The following restricted and designated reserves are proposed to be utilized for the FY 2020/21 budget, with the balance to be funded from unrestricted, undesignated reserves:

The Designated Capital Repair/Replacement reserve accumulates funds for repair and replacement of facilities, vehicles, and technology outside of CIP. The Electric Fund proposes utilizing \$200,000 from this reserve to fund technology equipment replacement for the two-year budget.

The Designated Dark Fiber reserve was established to capture the dark fiber leasing activities for both revenues and expenditures. Annual revenue is approximately \$600,000; and \$600,000 in expenditures have been budgeted in FY 2020/21 for the operation and maintenance of the dark fiber network to be paid from the designated reserve.

Water Fund

Revenue Budget

Similar to the Electric Fund, the primary source of revenues for the Water Fund is retail sales, which will fund 63% of the Water expenditure budget. Current revenue sources including other non-retail revenues will not be adequate to cover the Water Fund's expenditure budget, which is anticipated with the rate proposal. Bond proceeds of approximately \$22.4 million will be utilized to fund a major portion of the capital improvement projects for FY 2020/21. Unrestricted, undesignated reserves will be utilized to fund the balance of the expenditures.

Expenditure Budget

The Water Fund's proposed FY 2020/21 budget reflects a 6.6% (\$6.8 million) increase over FY 2019/20 amended budget. The increase is primarily due to:

- Increase in personnel costs as a result of the department reorganization and repurposing positions to reflect the changing needs of the utility, as well as an increase in CalPERS and other benefit costs.
- Increase in capital projects in support of approved rate plan.
- Decrease in debt service costs due to the partial maturity and refunding of outstanding debt.

The Water expenditure budget also includes supplemental requests of \$2.2 million in System Operations costs due primarily to increases in production costs and increases in professional services contracts; \$520,000 in Debt Service for capital lease of new equipment; and \$320,000 in Personnel costs for four new FTE's.

ELECTRIC AND WATER RESERVES

The reserves of the Electric Fund, in conjunction with a line of credit, will be used to balance the FY 2020/21 budget and maintain the target minimum reserve level established by the RPU Cash Reserve Policy. The financial strategy within the adopted Electric Rate Plan is to draw down reserves to minimum required levels in order to keep the rate increases as low as possible.

A line of credit will allow the use of reserves in the Water Fund to balance the FY 2020/21 budget while maintaining cash reserves above the target minimum reserve level.

POTENTIAL COVID-19 IMPACTS

While the extent of the revenue impacts due to the COVID-19 pandemic have not yet been realized, the Electric and Water Funds will likely see a reduction in retail sales revenue due to reduced overall customer usage.

The reduction in electric retail sales will likely be due to the closures of businesses deemed non-essential or businesses that are permanently closed and unable to recover. This reduction from commercial customers may be partially offset by an increase in residential usage as a result of the Governor's Stay at Home Order. Additionally, the suspension of disconnecting utility services for nonpayment during the COVID-19 Local Emergency may result in retail revenues being deferred and collected in a future period. If the suspension continues for a prolonged period, the electric utility could see a reduction in other operating revenues due to customers no longer receiving notices of termination of service for nonpayment and the associated fee and avoid charges for reconnection of service.

The reduction water retail sales will likely be due to the closures of businesses deemed non-essential or businesses that are permanently closed and unable to recover. This reduction from commercial customers may be partially offset by an increase in residential usage as a result of the Governor's Stay at Home Order. Additionally, the suspension of disconnecting utility services for nonpayment during the COVID-19 Local Emergency may result in retail revenues being deferred and collected in a future period.

The Chief Financial Officer/Treasurer concurs with the report recommendations.

FISCAL IMPACT:

The Electric Funds (including Public Benefits Fund) proposed FY 2020/21 budget totals \$404.7 million in revenues, \$426.2 million in operating expenditures and \$41.7 million in capital improvements.

The Water Funds (including Water Conservation Fund) proposed FY 2020/21 budget totals \$84.7 million in revenues, \$78.2 million in operating expenditures and \$30.6 million in capital improvements.

Prepared and Approved by:	Todd M. Corbin, Utilities General Manager
Approved by:	Al Zelinka, FAICP, City Manager
Approved as to form:	Gary G. Geuss, City Attorney

Attachment: Presentation