

RIVERSIDE PUBLIC UTILITIES ELECTRIC & WATER FUNDS



Consultant's Report
on Special Procedures

May 5, 2020

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Executive Summary

The following report to the Riverside City Council consists of our analysis, findings, and recommendations in relation to the Riverside Public Utilities Electric and Water Fund (RPU) for the period from July 1, 2013, to December 31, 2018.

The City Council engaged Eadie and Payne LLP (E+P) to perform several tasks to address concerns of its Members. The objective of this report is to provide the City Council and its constituents with information that provides confidence regarding the reliability of financial data reported by RPU which was utilized in developing the rate increases implemented in 2018 and 2019.

All seven City Councilmembers and the Mayor were interviewed, identifying seven areas of concern to be reviewed during the project.

Conclusion: Based on our study and review of prior RPU reports, we found no confirmation for concerns that had been expressed as the reason for this report.

(1) There are no material findings

(2) The financial data provided by RPU appears reasonable and reliable.

However, we noted a few areas for improvement. Our recommendations are:

1. City Council should review the rate increase on an annual basis to determine its necessity, in keeping with City Council resolution.
2. RPU should increase community outreach and communication about its services, goals, compliance, and financial responsibilities.
3. RPU should consider conducting a study to determine the feasibility of increasing non-potable water sales.
4. The City Council should consider conducting an organizational assessment of its departments and their use of resources to determine whether structural inefficiencies exist between City departments and RPU.

The body of this report discusses the background of the City and RPU, providing a basis for the procedures performed per the contract between E+P and the City. Following the background section, we provide a detailed analysis of the four tasks performed to identify and address the concerns of the Council. We close the report with a summary of our recommendations.

Background

Riverside Public Utilities (RPU) was established in 1895 as part of the City of Riverside (City) and provides electric and water utilities for its customers. As a publicly-owned utility, it does not have shareholders to report to, rather its mission is to serve the needs of its “customer-owners.”

RPU is governed by a Board composed of nine volunteer citizens. The Board is appointed to four-year, non-compensated terms by the City Council and oversees operations, rates, revenues, expenditures, policies, and regulatory compliance of RPU. Per RPU’s annual report, the Board “provides an ongoing, year-round review of all actions by Riverside Public Utilities before any measure is sent to the elected City Council representatives for final determination.”

Sources of Water and Electricity

RPU’s water supply consists entirely of underground sources located in San Bernardino, Colton, and Riverside Basins, making RPU completely water independent.

RPU’s potable water system consists of ground water basins, groundwater wells, a supply transmissions system, water distribution system, and water treatment plants to meet ongoing, year-round and peak summer demands. RPU services approximately 65,000 water service connections, primarily within the City limits, though RPU services some areas outside the City limits.

RPU receives its electric energy from a variety of sources including coal, nuclear, biomass, geothermal, solar, wind, and hydroelectric power plants. By owning and operating several gas-fired turbines and the Clearwater Cogeneration Power Plant, RPU can provide high-quality services for lower rates than privately-owned utilities. They provide electric services to approximately 109,000 connections.

Strategic Plan and Rate Increases

RPU has developed the Utility 2.0 Strategic Plan (Utility Plan) in connection with the City’s Overall 2.0 Strategic Plan. The Utility Plan seeks to ensure RPU provides safe and affordable drinking water for years to come. RPU engaged Carollo Engineers (Carollo) to perform a study on the water rates, including an assessment of revenues required to run the water utility, an examination of the cost of providing water, and development of rates conforming to regulations.

Carollo issued their findings in their report dated August 2017 entitled “Water Cost of Service and Rate Design.” Subsequently, Carollo was engaged to perform a rate scaling analysis to update the rates proposed in the 2017 cost of service study.

The analysis report was based on RPU’s updated ten-year financial pro forma. This updated report was issued in March 2018.

Based on RPU’s proposal, the City Council approved a five-year rate increase averaging 5.7% per year on May 22, 2018. For single family residential customers, the increases add up to 14-15% increase for Tier 1 and 28-30 % for Tier 3, depending on the season. For multi-family residential customers, the increases add up to 14-15% for Tier 1 and 14-16% for Tier 2. The water rate increases became effective July 1, 2018.

The City Council also approved a five-year rate increase for electric services effective January 1, 2019.

Engagement with Eadie and Payne LLP

In June 2019, the City Council retained Eadie and Payne LLP (E+P) as it seeks to understand whether (1) The Utilities Department is providing services in an economical, efficient and effective manner; (2) its goals and objectives are being achieved and (3) whether it is complying with applicable City and Utilities Department procedures in areas of operations, billings, cash, revenues and fees.

In light of these objectives, the City Council requested E+P to perform four sets of tasks aimed at addressing the concerns of its members. The tasks included such procedures as interviewing City Councilmembers, preparing benchmark data to compare RPU revenue against other cities, performing analytical review procedures for the utilities and performing limited detail testing. The scope of our study covered a five-and-a-half year period from July 1, 2013 through December 31, 2018.

The tasks performed by E+P and the related analyses are described below.

Tasks Performed

Task A: Interviews with City Council Members

Task B: Analysis and summary of electric and water revenues

Task C: Analysis of organic reuse of water

Task D: Analysis and summary of selected water utility financial elements

Task A: City Councilmember Interviews

In July 2019, E+P organized one-hour interviews with each of the seven City Councilmembers and the Mayor to identify and discuss their concerns regarding the financial data of RPU.

The concerns expressed by each interviewee were categorized into seven general classifications. These are discussed below:

#	Concern
1	Reliability of reported financial data
2	Public misunderstandings and communication on the rate increases
3	Use of benchmark data for analysis
4	Quantity and reliability of previous studies
5	Structural inefficiencies between RPU and the City
6	Management of expenditures by RPU
7	Sufficiency of cash reserves and overall financial position

Concern #1: Reliability of Reported Financial Data

Councilmembers expressed a concern regarding the reliability of financial reports presented by RPU, including revenue and expense in the pre- and post-drought periods. In response, E+P reviewed reports and studies on RPU from 2013 to 2018 and summarized report outcomes and findings.

The financial statements of RPU are subject to financial audits on an annual basis. The following table is a list of the last six financial audits for the water and electric utilities, the firm who performed the audit, and related opinions issued on the financial statements each utility:

<u>Fiscal Year</u>	<u>Auditor</u>	<u>Opinion</u>
2013	Moss Adams LLP	Fairly presented
2014	Macias Gini & O'Connell LLP	Fairly presented
2015	Macias Gini & O'Connell LLP	Fairly presented
2016	Macias Gini & O'Connell LLP	Fairly presented
2017	Macias Gini & O'Connell LLP	Fairly presented
2018	Macias Gini & O'Connell LLP	Fairly presented

The firms conducted their audits in accordance with auditing standards generally accepted in the United States of America. The standards require the auditors to plan and perform their audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. A material misstatement is defined as information in the financial statements that is sufficiently incorrect that it may impact the economic decisions of a user of the financial statements. ***Over the last six years, RPU has received an unmodified opinion on the financial statements.***

During the course of an audit, firms perform procedures to obtain audit evidence for the amounts in the financial statements; they also consider the appropriateness of accounting policies, and the reasonableness of any estimates used. This evidence is used to provide a reasonable basis to form an opinion on the financial statements.

Review of Internal Controls

While conducting their audits, the firms also consider internal controls relevant to the Electric and Water Utilities' preparation of the financial statements, though not for the purpose of expressing an opinion on the effectiveness of the Electric and Water Utility Enterprise Funds' internal control as a whole.

During their audits, if any weaknesses in internal controls are discovered, the matter is typically documented in the internal control letter. ***Over the last six years, the firms have had no internal control findings noted in the course of their audits.***

Concern #2: Public Misunderstandings and Communication on the Rate Increases

Councilmembers indicated there was a need to better communicate to the public the reason for the water and electric rate increases.

It should be noted that prior to the City Council's approval of the rate increases, RPU reported that it conducted a citywide community outreach initiative on the rate proposal. **We recommend RPU continue community outreach on a periodic basis. In addition, the City Council resolved to review the rate increases each fiscal year in order to allow for flexibility should the scheduled rate increase be determined unnecessary.** RPU and the City Council should take this opportunity to educate the public on the need for the rate increases.

Furthermore, City Councilmembers questioned the necessity of the increases and the basis for the rate calculations.

As noted previously, the rate increases were based on a cost of service analysis completed by Carollo Engineers in August 2017 and updated in March 2018. A description of the rate design study performed by Carollo Engineers is in **Exhibit B** of this report. Additionally, E+P performed procedures on the cost of water and projected operating and maintenance expenditures. A description of these procedures can be found in **Task D**.

Concern #3: Use of Benchmark Data for Analysis

City Councilmembers expressed their desire to see RPU's operating data compared to other public utilities' operating results. To determine performance effectiveness, organizations often make use of "key performance indicators" (KPIs), which are defined as "critical indicators of progress toward an intended result." These indicators can be used to measure how effectively an entity is achieving key objectives, and can be used to compare operating measurements of one organization against another. These indicators measure the health of an organization's financial position by measuring revenue trends, gross margins, expense ratios and other relevant factors regarding the delivery of goods and services.

Four significant KPIs are the current ratio, quick ratio, debt service coverage, and debt-to-assets ratio. We compared these four KPIs for RPU to Anaheim Public Utilities (APU) from fiscal year 2012 to fiscal year 2018.

The City of Anaheim, like the City of Riverside, operates its own electric and water utility. A comparison of RPU and APU, as of 2018, is provided below:

	RPU	APU
Population	325,000	358,000
Electric Meters	109,000	118,000
Water Meters	65,000	64,000
Total Electric Revenue	\$363.8 million	\$402.9 million
Total Water Revenue	\$66.7 million	\$77.9 million

The two entities are most similar in geographical area, operations, and total customers served, and therefore are well-suited for KPI comparison. Graphs of the KPI data can be found in **Exhibit A**.

KPIs can be a very useful tool for management as they seek to understand operating effectiveness and improve performance. The KPIs above are just a sampling of the many KPIs that can be measured for an organization. KPIs can also be industry specific as an organization seeks to measure its performance against the performance of its peers. Should City Council members wish to look at additional key performance indicators (KPIs), they are maintained by RPU.

Concern #4: Quantity and Reliability of Previously Issued Studies

A majority of those interviewed made reference to past studies completed on RPU. Councilmembers expressed concern regarding the quantity and reliability of reports done on RPU during the past six years. In response, E+P completed a review of prior reports, the resulting findings and recommendations, and the response from RPU.

During the six years from fiscal year 2013 to fiscal year 2018, RPU has been subjected to over twenty audits and examinations. These reports have been conducted by several different service providers, including external auditors, engineering companies, and internal audit and performance departments.

In addition to the financial audits, the following studies were provided to E+P for review:

#	Report	Date Issued	Service Provider
1	Organization Assessment	April 7, 2016	Hometown Connections International, LLC
2	Fiscal Year 2016 Performance Assessment and Financial Expenditure Audit	October 2017	Baker Tilly Virchow Krause, LLP
3	Financial Review of Expenditures	June 17, 2016	Baker Tilly Virchow Krause, LLP
4	Financial Transactions Review for Fiscal Years 2014 - 2016	June 2018	Southern California Public Power Authority
5	Water Cost of Service and Rate Design Study	August 2017	Carollo Engineers
6	Water Cost of Service and Rate Design Study: Development of Scaled Rates	March 30, 2018	Carollo Engineers
7	Report of Northside Property Transactions	January 12, 2016	Baker Tilly Virchow Krause, LLP
8	Report of Northside Property Transactions	February 10, 2016	Baker Tilly Virchow Krause, LLP
9	Report of Northside Property Transactions	March 16, 2016	Colantuono Highsmith Whatley, PC
10	Performance Audit of RPU Overtime for Dispatch and Troubleshooters	April 5, 2018	Macias Gini & O'Connell LLP

The reports completed on RPU had various findings and recommendations; RPU is addressing each of these recommendations and providing updates to the Board and City Council on a regular basis. A detailed description of each study and the response from RPU is available in **Exhibit B**.

Concern #5: Structural Inefficiencies Between RPU and the City

City Councilmembers indicated their concern that operational inefficiencies exist between the City and RPU. They questioned whether costs could be saved by consolidating certain tasks under the City. To fully address this concern, **the City should conduct an organizational assessment of its departments and their use of resources**; a full assessment is outside the scope of this engagement.

Concern #6: Management of Expenditures by RPU

Similar to the structural matter described above, Councilmembers indicated their concern over expense consumption including items such as employee headcount and related expense; duplication of vehicle costs; a “spend it or lose it” mentality throughout RPU; and efforts to win awards for various projects that ultimately do not benefit the rate payer. This concern has also been addressed in various prior reports, discussed in more detail in **Exhibit B**.

Concern #7: Sufficiency of Cash Reserves and Overall Financial Position

Members indicated a desire to understand whether the cash reserves held by RPU were sufficient for future resource needs and how these reserves compared to those amounts held in reserve by other cities. Cash reserves are viewed in part as an indicator of the entity’s overall financial position. E+P performed procedures on cash reserves, which can be found in **Task D**.

Task B: Revenues for Electric and Water Utility

The requested task was to audit total revenues for fiscal years 2014 through 2018, and the six months ended December 31, 2018.

To obtain reasonable assurance on total revenues reported by RPU, we selected a sample of 60 water customers and 60 electric customers over the fiscal years 2013 through 2018, and the six months ended December 31, 2018. Eight to nine samples were selected from each fiscal year. The billing periods for each customer were randomized. Samples were selected from client lists provided for each year. The total of 120 samples is considered representative of the population of billing data, as each sample was selected on a random basis.

E+P reviewed each bill for appropriate application of the tier structures, and the proper application of approved rates for the billing period; recalculated the total amounts to ensure clerical accuracy; and traced the amount to the general ledger account to verify proper accounting treatment and reporting categorization.

For the selected sample, all customer bills had the appropriate tiers and rates applied, were clerically accurate, and were posted correctly to the general ledger. ***No exceptions were noted, providing a 95% confidence level for the revenues and related controls tested.*** Due to the confidence level obtained, E+P can rely on revenue data provided by RPU for additional analysis.

Revenue components

E+P obtained schedules of water and electric revenue from RPU for the periods noted above. Trended water revenues below are for retail sales (comprised of residential retail, commercial/industrial retail, and other retail) and other revenues. Trended electric revenues below are for retail sales (comprised of residential retail, commercial retail, industrial retail, and other retail), wholesale sales, transmission revenue, and other revenues.

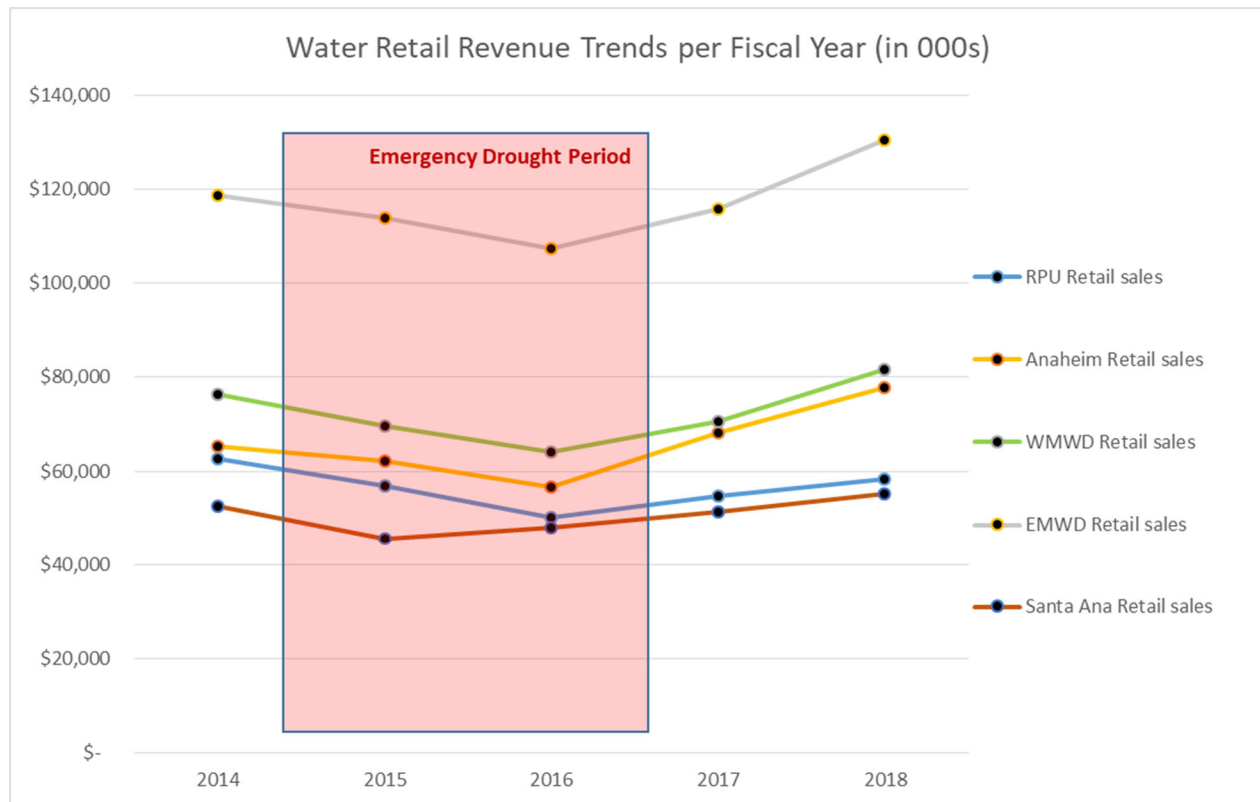
Revenues by Fiscal Year (in 000s)						
WATER	2014	2015	2016	2017	2018	2019 (Jun-Dec)
Residential	\$ 40,589	\$ 36,132	\$ 31,933	\$ 34,963	\$ 37,019	\$ 21,334
Commercial	20,227	18,932	16,572	17,869	19,317	10,092
Other	1,946	1,919	1,690	1,764	1,880	3,263
<i>Total retail sales</i>	<u>62,762</u>	<u>56,983</u>	<u>50,195</u>	<u>54,596</u>	<u>58,216</u>	<u>34,689</u>
Other revenues	5,831	8,934	6,927	8,031	8,483	2,754
Total revenues	\$ 68,593	\$ 65,917	\$ 57,122	\$ 62,627	\$ 66,699	\$ 37,443

Revenues by Fiscal Year (in 000s)						
ELECTRIC	2014	2015	2016	2017	2018	2019 (Jun-Dec)
Residential	\$ 111,880	\$ 114,112	\$ 116,997	\$ 117,662	\$ 115,630	\$ 69,617
Commercial	67,063	68,572	69,759	71,456	71,128	38,581
Industrial	111,260	112,283	113,756	115,432	115,106	61,209
Other	5,600	5,654	4,737	4,782	4,792	2,400
<i>Total retail sales</i>	<i>295,803</i>	<i>300,621</i>	<i>305,249</i>	<i>309,332</i>	<i>306,656</i>	<i>171,807</i>
Wholesale sales	115	60	3	9	2	-
Transmission revenue	32,630	30,587	32,924	35,497	37,484	17,078
Other revenues	29,275	27,140	54,986	50,866	50,531	18,739
Total revenues	\$ 357,823	\$ 358,408	\$ 393,162	\$ 395,704	\$ 394,673	\$ 207,624

E+P also obtained a comprehensive listing of water and electric billing data from July 1, 2013 to December 31, 2018. E+P verified that the summary revenue data presented in the tables above was consistent with the sum of individual customer billings for each year.

Comparison of Water Revenues

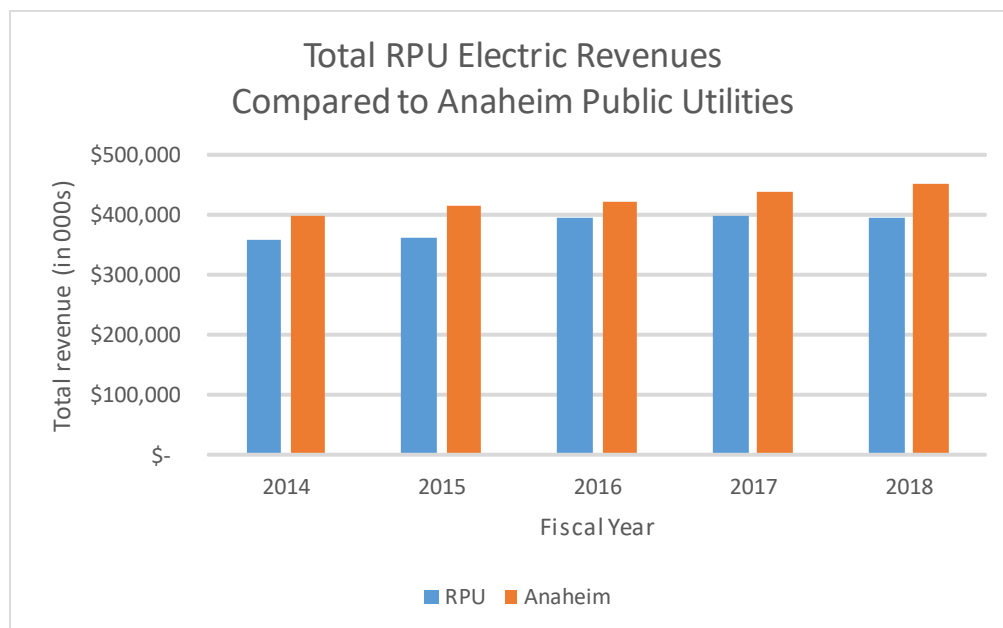
E+P also obtained water revenue trends from comparable agencies. RPU uses Western Municipal Water District and Eastern Municipal Water District as benchmarks when performing internal evaluations, therefore E+P included them in the comparison below. Anaheim Public Utilities (APU) and the City of Santa Ana were also selected for comparison due to structural and operational similarities with RPU.



In all five entities, water retail revenues decreased during the drought period, primarily due to a decrease in usage. The significant increases in Anaheim and EMWD retail sales were due to rate increases effective in 2016 and 2017, respectively. Other revenues were minimally affected or not affected at all by the drought, due to their nature. Other revenues includes a higher proportion of fixed fee revenues, including fire hydrants and fire protection, and special service fees.

Comparison of Electric Revenues

E+P compared the electric revenues of RPU and APU, as APU is structurally and operationally similar to RPU. Both Anaheim and Riverside are customer-owned municipal, utilities that do not have a profit motive, and are operationally independent from the City. APU is expected to have higher overall revenues due to a larger customer base than RPU. Revenue trends from year-to-year were similar between RPU and APU, which is consistent with E+P's expectation.



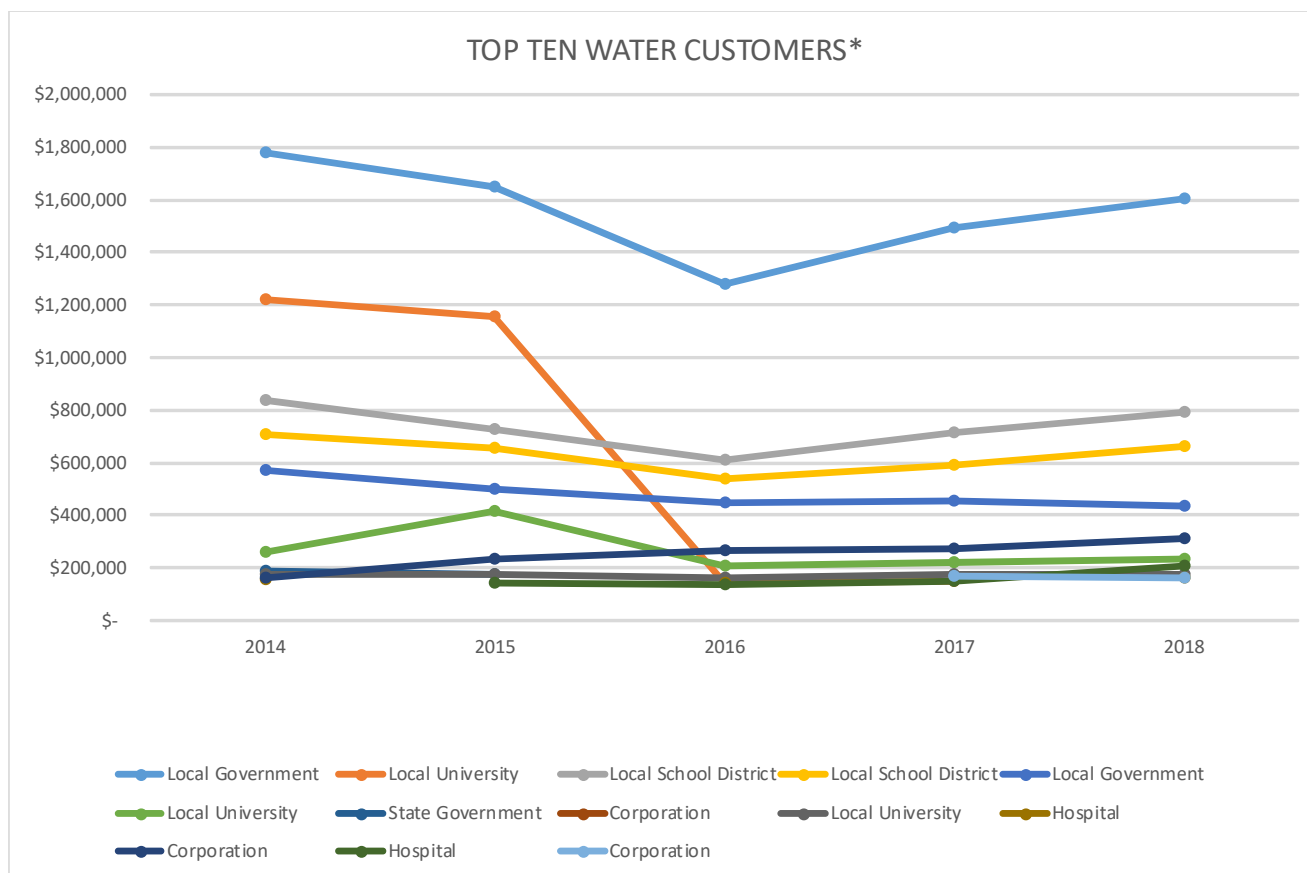
Accounting Treatment and Organization

E+P obtained revenue schedules for the periods noted above, and traced samples to the general ledger to ensure accuracy of accounting treatment and categorization. ***No exceptions or unusual items were noted. On a sample basis with 95% assurance, it appears revenues are properly reported.***

Top Ten Electric and Water Customers

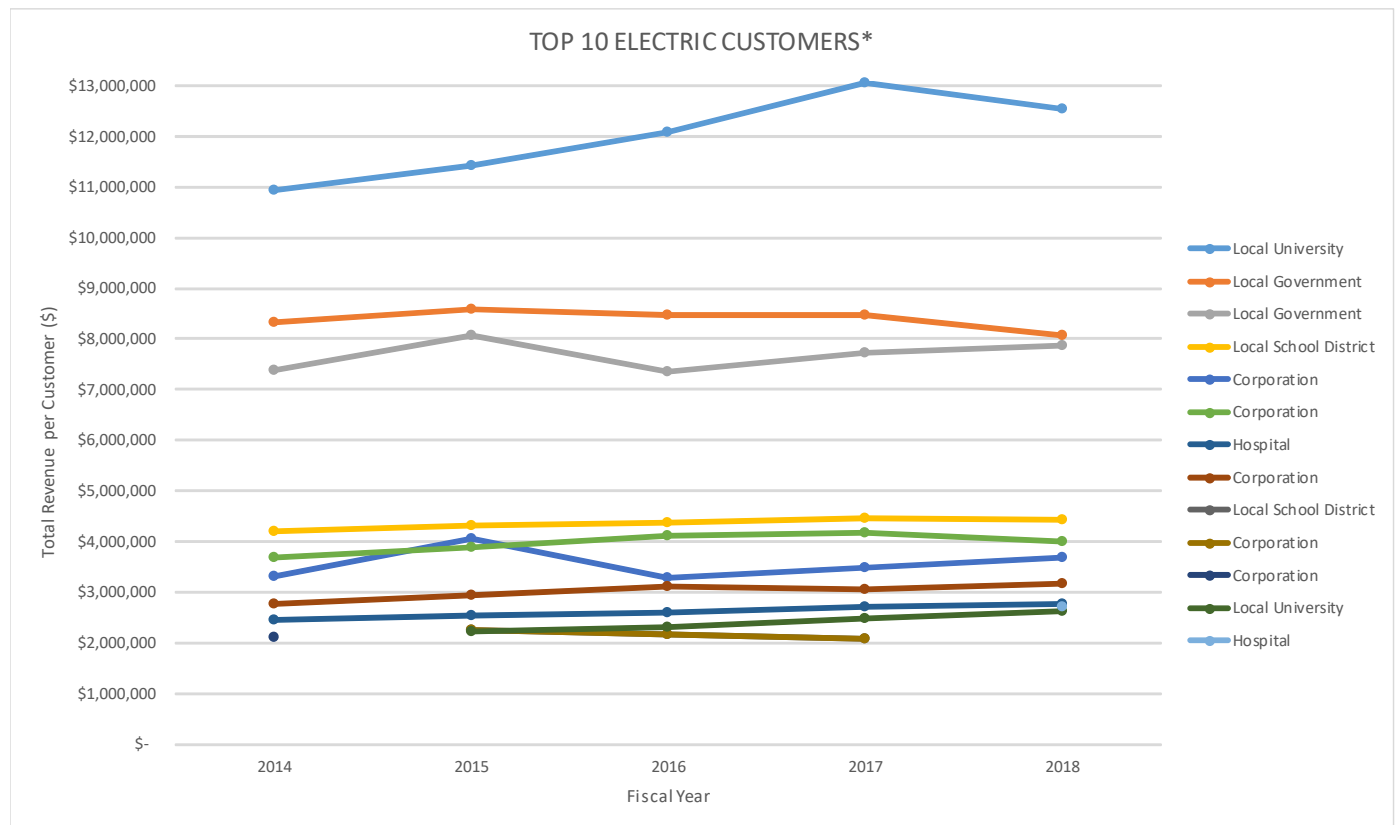
E+P obtained schedules showing the ten largest customers for both the water and electric utilities from RPU. We then obtained a complete register of individual billing data over the period to verify the customers with the highest sales, relying on the control testing we performed for the accuracy of the data.

Overall, the trend of water revenues from the top ten customers was consistent with the decrease in total revenue during this period. Revenue decreased dramatically during the emergency drought period from January 2014 to April 2017. It began increasing again during the post-drought period which is consistent with expectations. It should be noted that the emergency drought period was defined by the State of California or California State Water Resources Control Board.



*It should be noted that the customers in the top ten list vary on a year-to-year basis, meaning that more than ten customers are shown on the graph.

The trend of electric revenues also remained fairly consistent throughout the testing period. Eight of the ten largest electric customers experienced consistency on an annual basis, or at most a slow rate of growth.



*It should be noted that the customers in the top ten list vary on a year-to-year basis, meaning that more than ten customers are shown on the graph.

The top ten water customers consume 10-12% of total water usage, and they account for 8-10% of revenues. For the electric fund, the top ten customers consume 20-22% of electricity, and account for 15-17% of revenues. See **Exhibit C** for a graph of the top ten water and electric customers as percent of total revenue and usage.

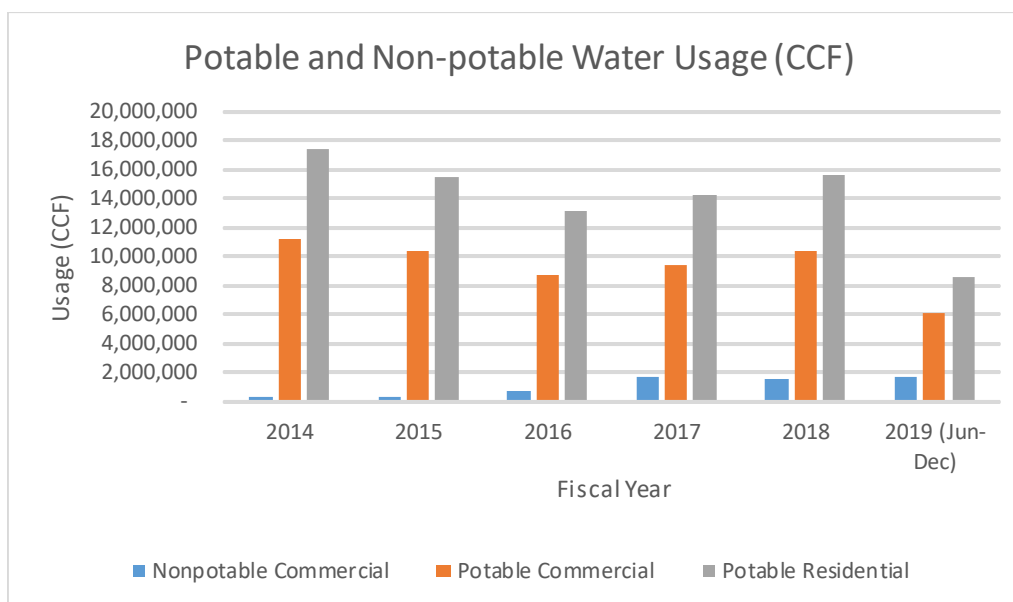
Task C: Organic Reuse of Water

We performed an analysis of the organic reuse of water by RPU.

Non-potable water sales include wholesale sales and recycled water sales. RPU sells substantially more potable water than non-potable, and the majority of non-potable sales are to two commercial customers (please refer to **Task D, Item 2** for additional information on these customers). The revenue for non-potable sales is typically recorded as wholesale or other revenue.

Below is a schedule of non-potable versus potable water:

	2014	2015	2016	2017	2018	2019 (Jun-Dec)
Nonpotable Commercial	263,783	233,824	688,292	1,673,206	1,562,111	1,705,580
Potable Commercial	11,191,136	10,332,241	8,715,695	9,448,025	10,388,120	6,015,243
Potable Residential	17,432,384	15,424,999	13,125,476	14,219,498	15,564,143	8,535,000
Total CCF Sales	28,887,303	25,991,064	22,529,463	25,340,729	27,514,374	16,255,823

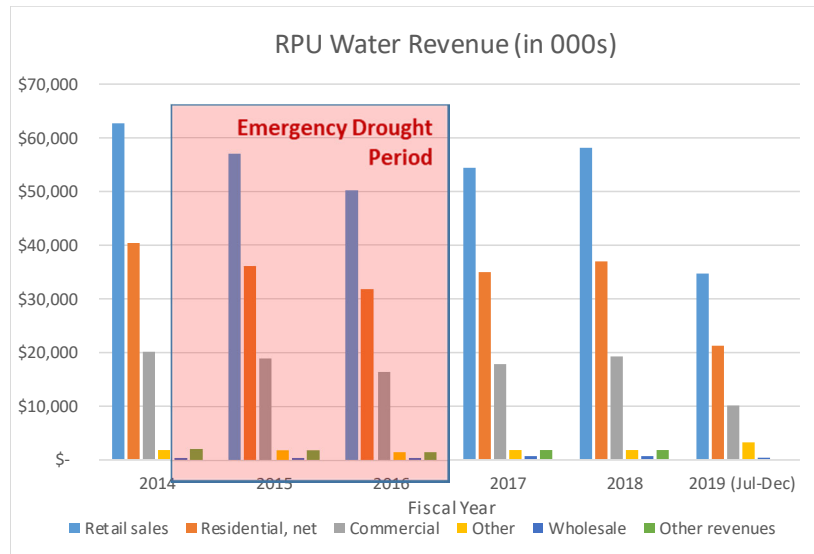


We noted an increase in non-potable water sales since 2016, from 1% of usage to 6% of usage. **We recommend that RPU consider the feasibility of increasing sales of non-potable water not only as an additional revenue stream but also to expand water supply for a growing community.**

Task D: Schedules for the Water Utility

1. Effect of Drought on Water Revenue

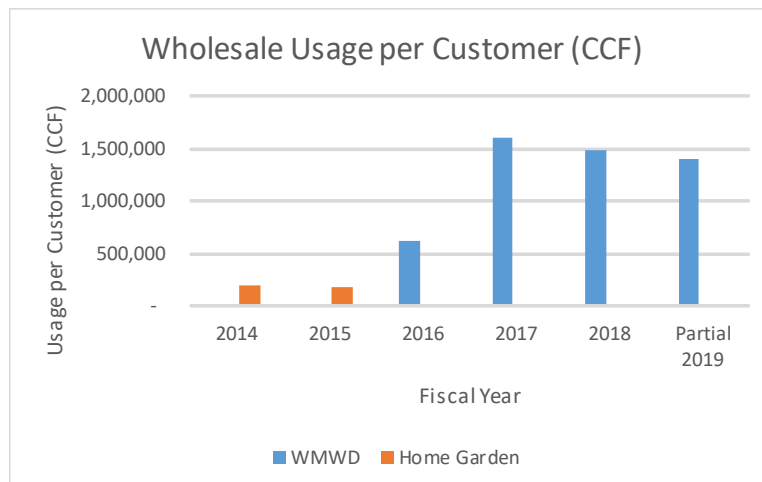
The City requested a schedule of water utility revenue comparing pre- and post-drought revenues. See below:



Retail sales (including residential, commercial and other) appear to have a direct relationship with drought measures. During the drought period, all retail sales decreased, and then increased subsequent to the drought. Other revenues do not appear to be affected by drought measures.

2. Wholesale Water Sales by Customer

Per City Council's request, below is a graph showing wholesale water usage by customer:



For the periods requested, RPU only had two wholesale customers: Home Gardens and WMWD. Home Gardens was from fiscal year 2014 to fiscal year 2015. Sales to WMWD started in fiscal year 2016 and are ongoing. The increase in fiscal year 2017 was due to an agreement between RPU and WMWD.

3. Cost to Produce Water per Acre Foot

The City requested validation of RPU's calculation of the cost to produce water per acre foot. This calculation is approached two ways within RPU: 1) production costs associated with obtaining water, which is then allocated to each of the five sources (Gage, Riverside South/North, Flume, Waterman, and Rialto/Colton Basin), and 2) the cost of service, which is the full cost of providing water to the customers. Additionally, E+P analyzed operating costs per unit of water produced, which allowed for a direct comparison to comparable water utilities.

Production Costs

Production costs associated with obtaining water are charged to one of RPU's five cost centers (production and operations). These costs include personnel expenses, non-personnel expenses, and interfund charges. Costs are allocated to each of the five water sources RPU uses based on total labor hours at each of the five sources. Where relevant, costs are directly allocated to a specific source (such as professional fees and capital improvements for a given source location). RPU calculated the cost to obtain water to gain insight regarding which water source was the most expensive, and which was the most cost effective. This was used to develop the rate tier structures, as discussed in the Cost of Service Analysis (COSA) completed by Carollo Engineers on March 30, 2018.

E+P obtained the calculation of the cost to obtain water on an annual basis from RPU. Using the provided calculation, along with discussion with management, we gained an understanding of the method used to allocate costs and recalculated the cost per acre foot. The recalculation was reasonably in line with RPU's calculation. Additionally, the production cost of water for fiscal years 2014 and 2015 was utilized in the COSA by Carollo Engineers. The data provided to E+P for these years was compared to the COSA for consistency. **No exceptions were noted.**

Cost of Service

RPU's second approach to cost is the cost of service. Cost of service includes all the costs RPU incurs in providing water to customers, including fixed costs such as transfers to the general fund. Because RPU has a high proportion of fixed costs, it is valuable to understand the full scope of costs that must be covered by the rates charged to customers.

The cost categories included in the cost of service include the following: production costs, personnel costs, other operating and maintenance (O&M) costs, additional O&M for capital improvement program, debt service, general fund transfer, and capital outlay. This represents a fuller scope of the costs to be covered by the rates charged by RPU (see **Exhibit D** for a graph of cost of service from fiscal year 2014 to 2018). Projected cost of service for fiscal year 2019 through fiscal year 2023 was provided in the cost of service analysis performed by Carollo. In addition to the historical data covered by this report, **E+P obtained the calculated projection of costs from RPU and agreed it to the information presented in the COSA without exception.** From fiscal year 2014 to 2018, RPU's average cost of service per acre foot was \$984.

Operating Costs

The third approach to cost, as analyzed by E+P, is operating costs per unit water produced. There are five cost centers included in RPU's total operating costs: production and operations, field operations, engineering, water conservation, and depreciation. The total for these cost centers is equivalent to total operating expenditures per the audited financial statements.

The major categories of expense included in these cost centers are as follows: personnel, non-personnel, special programs, depreciation, charges from others, and an offset from charges to others. See **Exhibit D** for a graph of total operating cost by cost center and category.

E+P performed a comparison of RPU's operating cost per acre foot to Anaheim Public Utilities and San Bernardino Municipal Water Department (SBMWD). RPU's average operating cost from fiscal year 2016 to 2018 was \$841 per acre foot. APU data was unavailable for fiscal years 2014 to 2015, therefore E+P only included fiscal year 2016 to 2018 in the calculation of RPU's and SBMWD's average cost.

- RPU has a substantially lower operating cost per acre foot than APU. APU's average operating cost for fiscal year 2016 to fiscal year 2018 was \$1,065 per acre foot. The large variance between APU and RPU is due in part to APU's reliance on purchased water. For example, in fiscal year 2018, APU purchased 14,625 acre feet compared to total usage of 58,200 acre feet. RPU does not purchase water. When purchased water is factored out of APU's costs and usage, their average operating cost per acre foot was \$813.
- RPU has a substantially lower operating cost per acre foot than SBMWD. SBMWD, which is similar to RPU in that it does not purchase water, had an average operating cost of \$936 per acre foot.

See **Exhibit D** for a table of total usage, operating expense, and cost per acre foot for RPU, APU, and SBMWD.

4. Assumptions and Calculations in Projected Operating and Maintenance Expenditures

As requested by the City, E+P examined each line item in RPU's projected O&M expenditures and the assumptions used to develop each cost from fiscal year 2018 through fiscal year 2023. These assumptions and overall projections were then compared to best practices as discussed by the Government Finance Officers Authority (GFOA).

Several factors were incorporated in the calculation of projected operating and maintenance (O&M) expenditures. The essential assumptions in each category were based on historical trend data from fiscal year 2010 through fiscal year 2017. Inflationary indices were applied to data from each year, in line with inflation trends as demonstrated by the Bureau of Labor Statistics.

The two largest projected O&M expenditures are depreciation and capital improvement costs, and personnel costs. The depreciation and CIP projected cost incorporated the assumptions in Utility 2.0, assuming a modified Option 3. (This indicates that a more aggressive approach to replacing aging infrastructure was utilized in developing projected capital costs). GFOA guidelines recommend "that governments adopt a written policy addressing capital asset reserves for renewal and replacement. Though maintenance and/or renewal and replacement of capital projects should be funded each year through the budgeting process, the establishment of a capital asset reserve provides governments with additional flexibility in a strong capital asset

management program.” As RPU’s budgeted expenditures for capital costs are based on Utility 2.0, the utility’s ten-year strategic plan, their projection complies with recommendations from GFOA.

Incorporating Utility 2.0 into the calculation for projected operating and maintenance expenditures addresses in part the aging infrastructure that RPU is facing.

Personnel expenditures were calculated assuming full capacity employment, historical data, PERS cost projections developed by the City of Riverside, and inflation. The personnel projection was then reduced by a vacancy factor, to account for times when full employment capacity was not reached. This is consistent with GFOA guidelines, which recommend incorporating historical data, vacancy adjustments, and the impact of inflation.

The table below shows projected O&M expenditures for a period of five years:

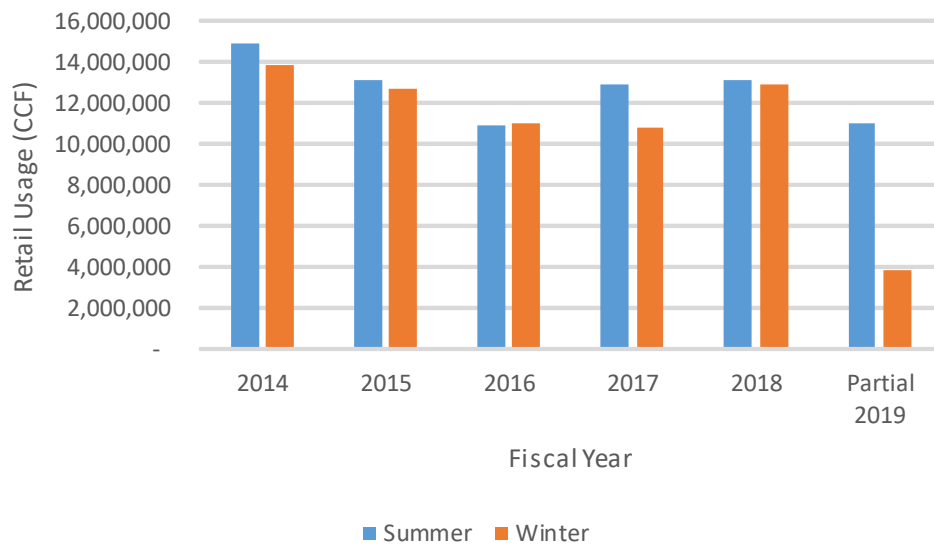
Fiscal Year	Projected 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2023
Operating expenses (in 000s)					
Production costs	5,669	5,782	5,897	6,014	6,118
Electrical savings	(823)	(861)	(900)	(942)	(985)
Personnel expense, excluding PERS	19,381	20,086	20,535	21,151	21,785
Personnel - PERS	5,098	5,817	6,578	7,196	7,731
Supplies & services	8,867	9,044	9,225	9,410	9,598
Special projects	144	144	144	144	144
Service from other funds	11,159	11,382	11,610	11,842	12,079
Less charges to other	(6,272)	(6,397)	(6,525)	(6,656)	(6,789)
Storm water financing	-	-	-	-	-
Additional Costs Not Budgeted	-	-	-	-	-
Additional O&M for CIP/Advanced Tech/Low Incom	988	1,470	1,949	2,342	2,984
Required Reduction in O&M	-	-	-	-	-
Water Conservation Programs	937	984	1,033	1,084	1,143
Depreciation	14,557	14,958	15,681	16,186	16,829
Total operating expenses (in 000s)	59,705	62,409	65,227	67,771	70,637

Upon review of the assumptions embedded in projected O&M expenditures, E+P has deemed projections to be reasonable and in line with industry best practices.

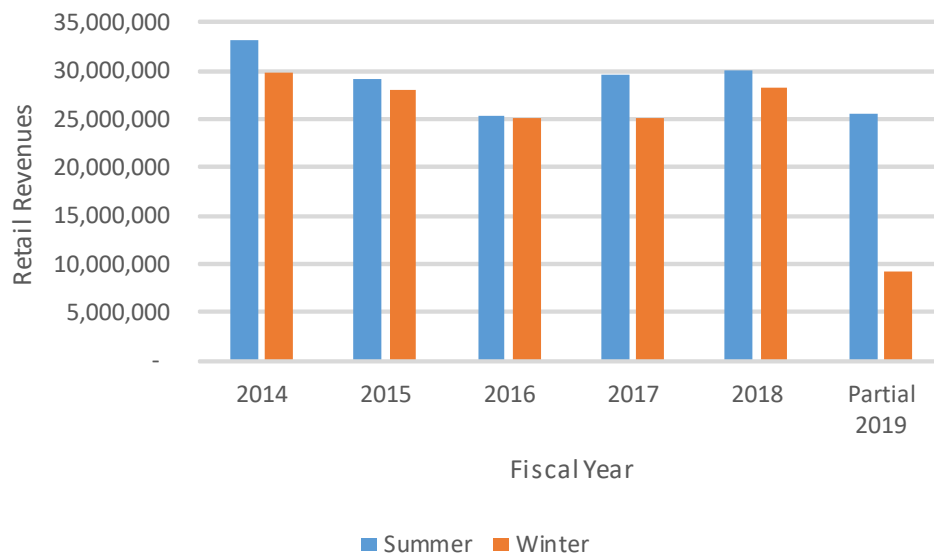
5. Consumption Changes Due to Summer Rates

As requested by the City, the graphs below show a comparison of consumption and sales between summer months and winter months. RPU's summer rates are effective for the months of June through October. Upon examination of the water sales statistics, these months are the highest usage months. Therefore, along with higher summer rates, overall retail revenues are higher during the summer months.

Water Consumption by Season



Water Retail Revenues by Season



Per discussion with management, summer rates are designed to recover higher costs of operating associated with increased usage during drier months. To fully determine the impact of summer rates on consumption, it would be necessary to compare summer revenues during a period prior to the implementation of summer rates. These rates have been in effect since 2004. As these rates have been implemented for over ten years, it is outside the scope of this engagement to obtain a thorough understanding of the impact summer rates had on consumption.

6. Cash Reserves

The City requested an analysis of RPU's cash reserves.

RPU first adopted a cash reserve policy effective July 26, 2016, and updated on July 24, 2018. The purposes of this cash reserve policy are as follows:

- Maintain the short-term and long-term health of RPU.
- Maintain stable rates for customers and manage rate increases.
- Fund unanticipated cost contingencies.
- Ensure funds exist for system improvements.
- Ensure cash exists for the timely payment of bills.
- Act as a significant positive credit factor in bond ratings.

There are three categories of cash reserves: restricted, unrestricted designated, and unrestricted undesignated. Restricted reserves are required by legal restrictions, bond covenants, and regulations. Unrestricted designated reserves are for specific purposes set aside by the Board and City Council. Unrestricted undesignated reserves may be used "for any lawful purpose", and provide stability to the organization.

E+P obtained schedules of all cash reserve balances for fiscal year 2016 to fiscal year 2018 from RPU, and agreed the restricted and designated reserve balances to the audited financial statements. Total cash balances agreed to restricted, designated, and undesignated balances. Additionally, we agreed the balances for the undesignated reserves to amounts presented to the Board and City Council in RPU's annual presentation. **No exceptions were noted.**

The restricted reserves and unrestricted designated reserves are specific amounts based on regulations and board measures. The unrestricted undesignated reserves are designed to fluctuate on an annual basis to maintain a cash reserve level between a set minimum and maximum level.

The following tables show the criteria for determining unrestricted undesignated reserves for RPU:

Water		
Min	Max	Criteria
15%	25%	Operating and maintenance expense
7%	15%	Operating revenues
1%	2%	Depreciable capital assets
50%	75%	Next year's capital improvement expenditures
100%	100%	Debt service payment for next year

Electric		
Min	Max	Criteria
15%	25%	Operating and maintenance expense
10%	20%	Operating revenues
1%	2%	Depreciable capital assets
50%	75%	Next year's capital improvement expenditures
100%	100%	Debt service payment for next year

E+P recalculated the minimum and maximum levels of unrestricted undesignated reserves based on data per the audited financial reports. The electric reserve fund was within the designated range for each year tested. The water reserve fund was within the designated range for fiscal years 2016 and 2017, **but was below the acceptable minimum amount in fiscal year 2018**. Management is aware of this deficiency; per RPU's reserve policy, management has three years to correct the deficit.

The unrestricted undesignated cash reserve policy of RPU is in compliance with recommended practices by GFOA. GFOA recommends a target reserve of "no less than forty-five days' worth of annual operating expenses." They recommend using ninety days of working capital as a baseline, then adjusting to the entity's needs. RPU policy is to maintain sixty to ninety days of operating and maintenance expense for both the electric and water funds. In addition, they maintain 7-15% of revenues for water, and 10-20% of revenues for electric; 1-2% of depreciable capital assets and 50-75% of the following year's capital improvement expenditures (repair and replacement of capital assets); and 100% of debt service payments for the next year. Each component addresses an aspect of RPU fiscal policy.

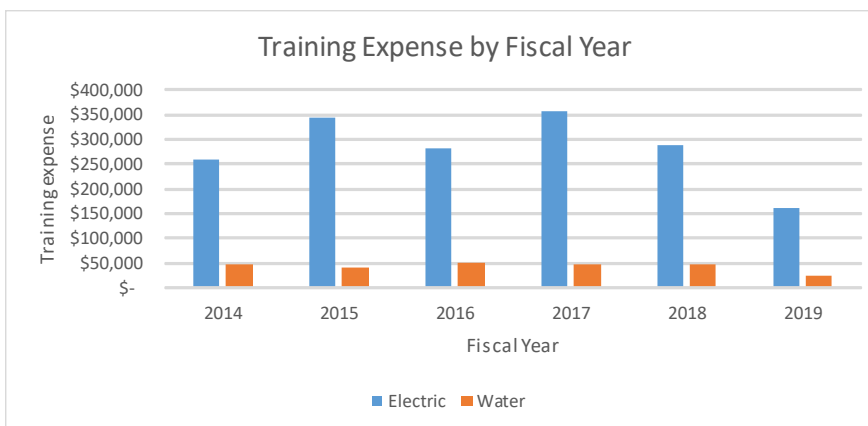
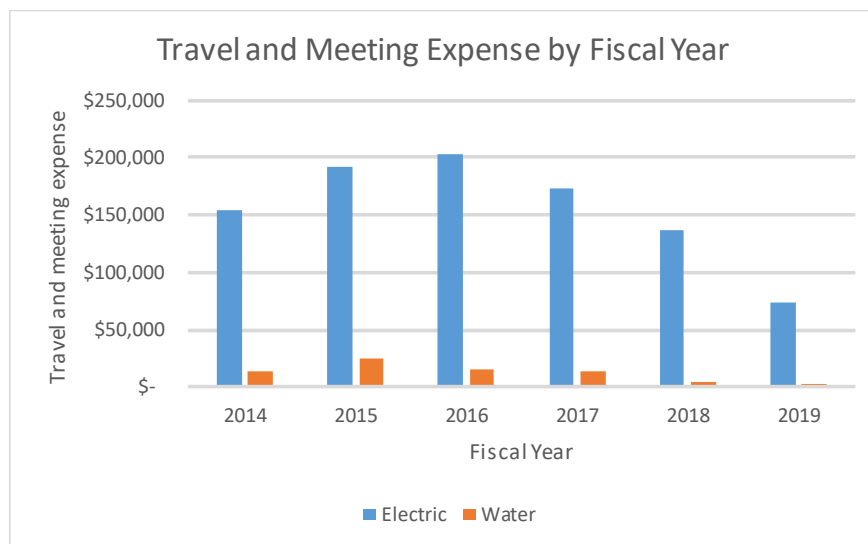
In addition, E+P compared RPU's cash reserve policy to Anaheim Public Utilities (APU) and San Bernardino Valley Municipal Water District (SBVMWD). We observed that each entity designed their policies using benchmarks determined from historical data with the purpose of mitigating risk, and to prepare them for the future. Although the policies vary to meet the unique challenges facing each entity, they also share common elements. Each entity has reserves to provide funds for unforeseen emergencies, to facilitate rate stability, and to repair and replace capital assets as needed.

7. Meetings, Training, and Travel Expense

The City also requested an analysis of RPU's travel and meetings account. To test the expenditures in the training and travel accounts, E+P selected all items greater than or equal to \$7,500 and obtained supporting documentation from the client. E+P then reviewed the supporting documentation for accurate recording and valid business purpose of expense. **No exceptions were noted.** All expenditures had a valid business purpose, receipts or equivalent supporting documentation, and department approval.

E+P also analyzed the composition of travel of meetings expenses to determine the biggest contributor, and compared expenditures to the budget.

We noted that travel and meetings are primarily related to management services for the electric fund, while engineering & resources, production & operations, and water conservation all had similar travel and meeting expenditures for the water fund. All travel and meetings expenses incurred were within the adopted budget, with **two exceptions noted for the electric utility.** In fiscal year 2015, the electric power supply operation department was over budget by \$10,452; and in fiscal year 2016, the management service department was over budget by \$8,627.



Please see **Exhibit E** for a schedule of meetings, travel, and training expenditures by department and year.

Recommendations

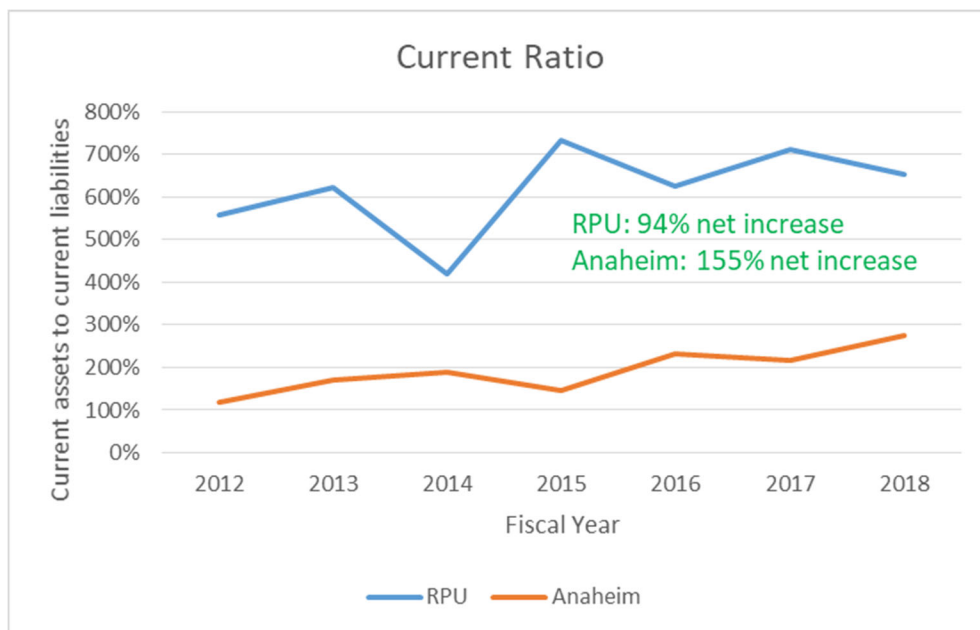
1. City Council should review the rate increase on an annual basis to determine its necessity, in keeping with City Council resolution.
2. RPU should increase community outreach and communication about its services, goals, compliance, and financial responsibilities.
3. RPU should consider conducting a study to determine the feasibility of increasing non-potable water sales.
4. The City Council should consider conducting an organizational assessment of its departments and their use of resources to determine whether structural inefficiencies exist between City departments and RPU.

Exhibit A

Key Performance Indicators

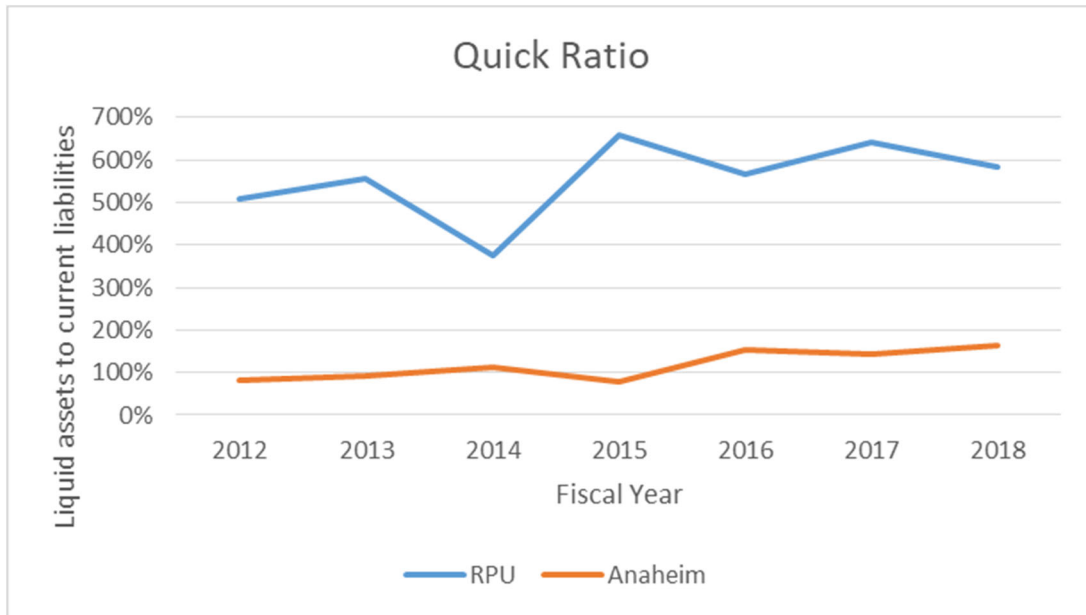
Current Ratio:

The current ratio is used to ascertain whether an entity's short-term assets (cash, cash equivalents, marketable securities, receivables and inventory) are readily available to pay off its short-term liabilities (notes payable, current portion of term debt, payables, and accrued expenses). Measured as current assets divided by current liabilities, this KPI shows RPU's current ratio growing from 558% in fiscal year 2012 to 652% in fiscal year 2018. APU's current ratio grew from 119% to 274% from fiscal year 2012 to fiscal year 2018. RPU's current ratio was substantially higher than APU's during this time period, indicating that RPU had more resources available to pay its short-term liabilities than APU did.



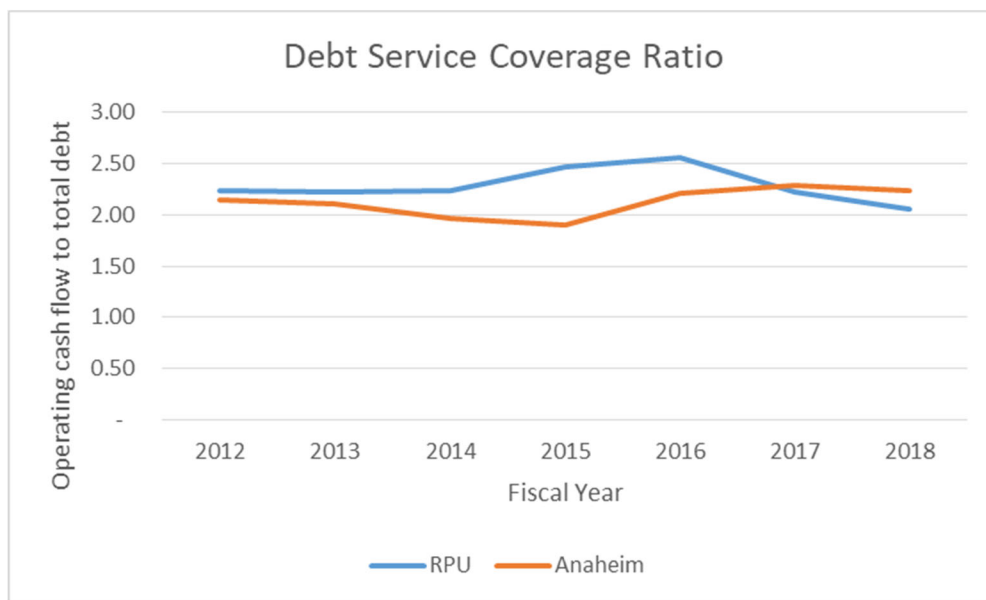
Quick Ratio:

The quick ratio further refines the current ratio by measuring the amount of the most liquid current assets available to cover current liabilities. The quick ratio is more conservative than the current ratio because it excludes other current assets which are more difficult to turn into cash. The quick ratio is measured by summing cash, short term investments, and accounts receivable, and dividing this figure by current liabilities. RPU's quick ratio grew from 507% to 584% between fiscal year 2012 and fiscal year 2018. APU's quick ratio grew from 83% to 164% from fiscal year 2012 to fiscal year 2018. This ratio indicates that both RPU and APU are capable of paying short-term obligations using highly liquid assets.



Debt Service Coverage:

Debt service coverage provides an indication of an entity's ability to cover current debt obligations with its yearly cash flow from operations. The debt service coverage KPI is measured by dividing operating cash flow by current debt service. A higher ratio indicates a greater ability to meet current debt obligations. This KPI ranged from 2.06 to 2.56 for fiscal years 2012 to 2018 for RPU. This KPI for APU ranged from 1.91 to 2.28 during the same period. The higher ratio for RPU indicates a better ability to pay upcoming obligations.



Debt-to-Assets Ratio:

The debt-to-assets ratio indicates an entity's financial leverage, or what percent of their assets are financed by creditors. It is measured as total debt divided by total assets. If a government becomes too reliant on debt financing to secure capital assets, it may compromise service flexibility as it commits more resource flow to annual debt-service obligations. An overreliance on debt may also have unfavorable implications for bond ratings. This KPI ranged from 41% to 50% for RPU, and from 53% to 62% for APU.

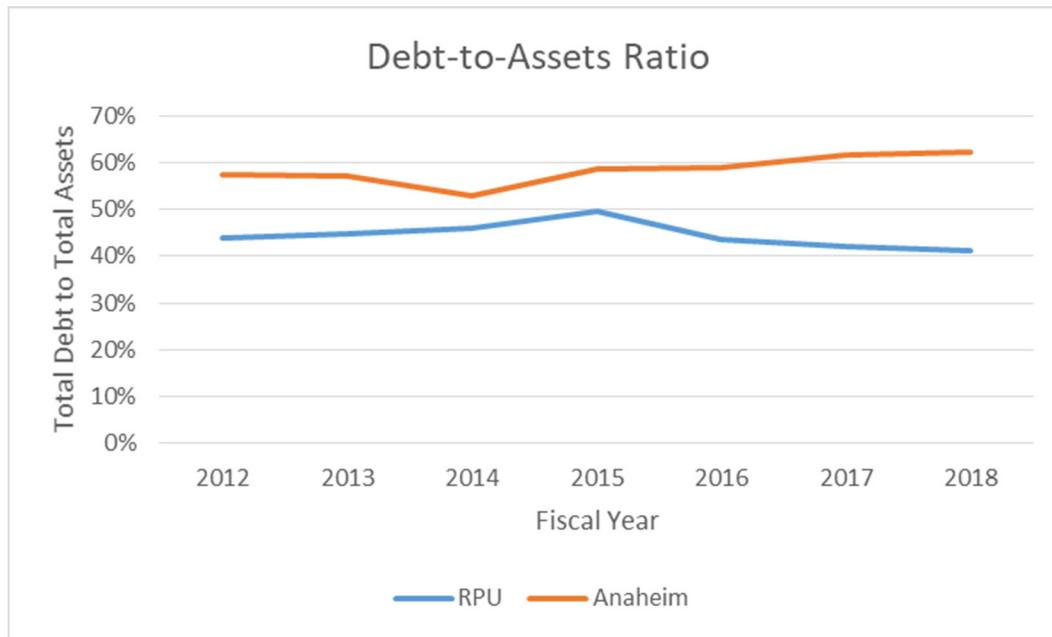


Exhibit B

Summary of Prior Reports

Organization Assessment

Hometown Connections International, LLC (HC) conducted a review, dated April 7, 2016, of Riverside Public Utilities electric utilities operations and identified areas that are performing well, along with areas where improvements are recommended.

The assessment looked at all aspects of the electric utility's operations, and identified strengths and weaknesses for operational areas. Each area of operations was assigned a rating, based on four stars, shown below:

Operational Areas	Rating
Customer service	★★★★☆
Customer Outreach and Communications	★★★★★
Utility Programs	★★★★☆
Power supply	★★★★★
Distribution operations	★★★★☆
Employee safety	★★★★☆
Governance	★★★★☆
Strategic Planning	★★★★☆
Rates	★★★★☆
Administration, Accounting and Finance	★★★★☆
Operational Technology	★★★☆☆
Workforce Development	★★★☆☆

Ultimately, HC reported that the electric utility is operating effectively, with opportunities for improvement. The report identified 64 findings or recommendations for improvement. HC sees the process and business practice improvements trending in a positive direction and expects the areas of weakness to improve quickly upon implementation of HC's recommendations.

For a description of RPU's response to the assessment, see below at the section titled, "RPU Response to Studies."

Performance Assessment and Financial Expenditure Audit

In 2017, the City engaged Baker Tilly Virchow Krause, LLP (Baker) to conduct a performance audit of certain RPU departments, programs, activities, and functions.

The scope of the assessment included an evaluation of appropriate decision-making authority, effectiveness in achieving desired results, efficiency and economy in the use of resources, conformity with standard practices for peer utilities, and compliance with relevant City and RPU policies. The areas of focus for performance assessment included:

- Management Reporting Systems
- Asset Management Practices
- Property Leases Monitoring and Control
- Economic Development and Contract Rate Programs
- Contracting and Procurement Policies and Practices
- Reserve Setting
- Debt Capacity
- Alignment with City of Riverside 2.0 Strategic Plan and RPU 2.0 Strategic Plan
- UOC Tool Room (Meter) Inventory
- Scrap/Salvage Inventory and Control
- Miscellaneous Accounts Receivable

As a result of the assessment, Baker reported 43 different findings categorized as low (6), medium (26), or high (11) priority.

Financial Review of Expenditures

The City engaged Baker again to perform a review of RPU expenditures incurred during fiscal years 2013, 2014, and 2015. The purpose of this project was to determine whether expenditures were properly processed in accordance with City procurement policies and procedures; whether key controls were properly designed and were operating effectively; and whether transactions were accurately paid, properly supported, and had an appropriate business purpose.

Baker's review included analyzing the processes and internal controls around procure-to-pay functions as well as detailed transaction testing of RPU expenditures. The objectives of this expenditure review were to ensure that RPU was in compliance with City procurement policies. The scope of the review consisted of the following:

- Reviewing existing policies and procedure documentation
- Performing interviews and process walkthroughs
- Identifying key risk areas in which to focus our testing efforts
- Designing tests of attributes aligned with key risk areas
- Selecting a statistically valid sample of transactions for testing
- Reviewing supporting documentation for sampled transactions
- Concluding on compliance with policies and appropriateness of payments
- Identifying gaps in internal controls and processes & providing corresponding recommendations
- Flowcharting processes and controls

At the conclusion of their financial review, Baker provided a list of ten general process and control observations each accompanied with a recommendation, a related cost estimate to implement, and whether the observation was ranked as a low, medium, or high priority. The majority of the recommendations could be addressed with existing resources.

RPU Response to Studies

RPU had two action plan updates as a result of the Organization Assessment by HC and the two Baker reports, addressing the 43 performance audit findings, 10 finance findings, and 64 organization assessment recommendations.

Per the first action plan update on October 27, 2017, RPU had completed the implementation of 50 findings. An additional update was provided on March 11, 2019, by which time they had addressed 63 of the total findings, with 54 findings and recommendations still outstanding.

A Council report was provided on April 9, 2019 where it was reported 65% of the findings and related recommendations had been addressed or implemented. An additional update will be given in April 2020.

Financial Transactions Review for Fiscal Years 2014, 2015, and 2016

The City of Riverside's Office of Organizational Performance and Audit (OoPA), performed an assessment of RPU financial transactions related to Southern California Public Power Authority (SCPPA). SCPPA is a joint powers agency comprised of eleven municipal utilities and one irrigation district. The organization provides forums and collaboration for its Members in various operating areas such as customer service, resource planning, distribution and other functions.

The objective of the study was to assess whether the financial transactions with SCPPA were in compliance with the City's procurement resolution and City policies. The transactions reviewed were incurred during fiscal years 2014, 2015, and 2016.

The report on financial transactions related to SCPPA noted the following:

- RPU was found to be in compliance with Riverside's Charter, Riverside's procurement resolution and City policies during fiscal years 2014, 2015 and 2016.
- SCPPA purchases by RPU were allowed under the SCPPA agreement and RPU purchases for energy efficiency, training, and other services were permissible.
- RPU's implementation of processes and procedures in February 2017 "have greatly enhanced the accountability and transparency of transactions between RPU and SCPPA."

Water Cost of Service and Rate Design Study and Development of Scaled Rates Calculation

In August 2017, Carollo Engineers (Carollo) completed a water cost of service and rate design study for RPU. The goals of this study were to determine revenue requirements to operate the water utility, update the cost of providing water service to various customer classes, and develop water rates that are adequate to fund RPU's water operations in compliance with the requirements of Proposition 218. In March 2018, Carollo also assisted RPU with an analysis to adjust the rates proposed in the 2017 Cost of Service Analysis.

The five-year cost of service study consisted of revenue requirement analysis, cost of service analysis, and rate design. Some of the highlights (found in Table 4 in the March 2018 COSA, which is provided below) included:

- Revenue requirements included \$4-\$11 million needed every year for five years to fund the capital improvement plan, developed in conjunction with Utility 2.0 (Table 4). They assumed less than one percent growth in the number of accounts per year.
- Projected O&M expenditures ranged from \$51-\$61 million annually for five years (Table 4), and \$15-\$21 million annually for debt service payments (Table 4). Offsetting revenues are estimated to generate \$13-\$15 million annually (Table 4).
- Other cost categories include water field operations, water engineering, debt service, general fund transfer, charges from other funds (such as utility billing), CIP and advanced technology, rate funded capital and new debt service.

Recommendations for the rate design included:

- Implementing an increase in the percentage of costs recovered by the fixed charge to better reflect how actual costs are incurred, thus helping RPU meet its objective of increased revenue stability and predictability.
- Implementing a uniform fixed monthly service charge for each meter size.
- Separate Single Family Residential (SFR) and Multi Family Residential (MFR) customers into unique rate classes.
- Using a three-tier rate structure for SFR customers with seasonally adjusted rates, and a two-tier rate structure for MFR customers with two, three, or four dwelling units;
- Assessing MFR accounts with more than four dwelling units the commercial and industrial rate.

Report of Northside Property Transactions

Historically, there have been a number of transfers of properties between City funds that have collectively become known as the “Northside property transfers.” The properties include Pellisier Ranch, Ab Brown, Reid Park, and the Golf Course. These properties were sold between the General, Electric, and Water funds between 2005 and 2011.

A concern was raised whether these transfers were in violation of the City Charter and state law. There was also a concern when the properties were transferred between funds; if a property was transferred at a time when the real estate market was depressed, the fund receiving the property may have been under-compensated due to a property’s depreciation in value.

These concerns led City Council to request to an examination of these property transactions by an independent audit firm.

Baker was engaged to perform an audit of the property transactions. In their report dated January 12, 2016, Baker concluded the Northside property transactions were “recorded in accordance with Generally Accepted Accounting Principles, the property transfers were properly approved by the City Council, the purchase price paid for the property was appropriately supported, title remained with the City, and the transfers were completed within the City’s approved policies.”

In Baker’s second report dated February 10, 2016, Baker concluded the transactions were “completed within the City’s approved policies, applicable state laws and the City Charter.”

Colantuono Highsmith Whatley, PC was also engaged to express an opinion on the application of various Propositions and the Riverside Charter to the Northside property transfers and in their March 16, 2016 letter, “found the transfers to comply with law.”

In Baker’s report dated January 12, 2016, they identified two findings as follows:

- During discussions with management and review of Council minutes, it appeared the Ab Brown and Reid Park / Golf Course properties included water wells and other land associated with water property. It was unclear based on review of the detailed fixed asset listings if the land specific to the water fund was retained in that fund. Baker recommended the City review its detailed fixed asset listings to ensure the specific property is recorded in the correct fund. City management responded, indicating the property values were immaterial but would agree to the recommendation for material property transactions.
- During a review of the transactions, it was noted an independent appraisal was not performed for the golf course property; rather, the City prepared a comparable property listing based on the best information on hand to determine a reasonable estimate of the fair market value of the property. Baker recommended the City obtain an appraisal from an independent source for any property transfers, whenever possible. Management agreed, when there was sufficient time, appraisals should be obtained for properties likely to exceed \$1 million in value. If obtaining an appraisal was not possible, City staff would conduct analyses to determine a reasonable value based on comparable sales.

Performance Audit of the RPU Overtime for Dispatch and Troubleshooters

The City engaged Macias Gini & O'Connell LLP (MGO) to conduct a performance audit of the RPU Overtime for dispatch and troubleshooters to identify any potential fraud or abuse related to overtime earnings by ten specific employees in RPU during the period from January 1, 2012 through December 31, 2016. MGO was also engaged to review whether there was any lack of internal controls related to overtime authorization.

In their report dated April 5, 2018, MGO noted no evidence of abuse of overtime. However, MGO did note a deficiency in controls on overtime monitoring, as well as a reliance on overtime rather than hiring additional employees. It was further noted, though, that from the period under examination to the date of MGO's report, RPU had hired additional staff and made significant improvements to strengthen internal controls by implementing new policies and procedures, and overtime monitoring procedures.

Exhibit C
TOP TEN WATER AND ELECTRIC CUSTOMERS

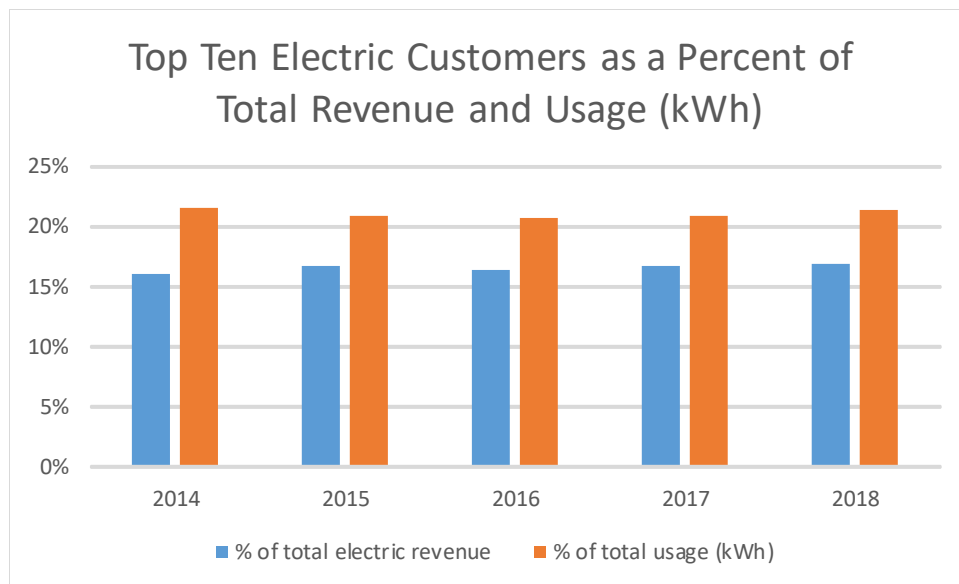
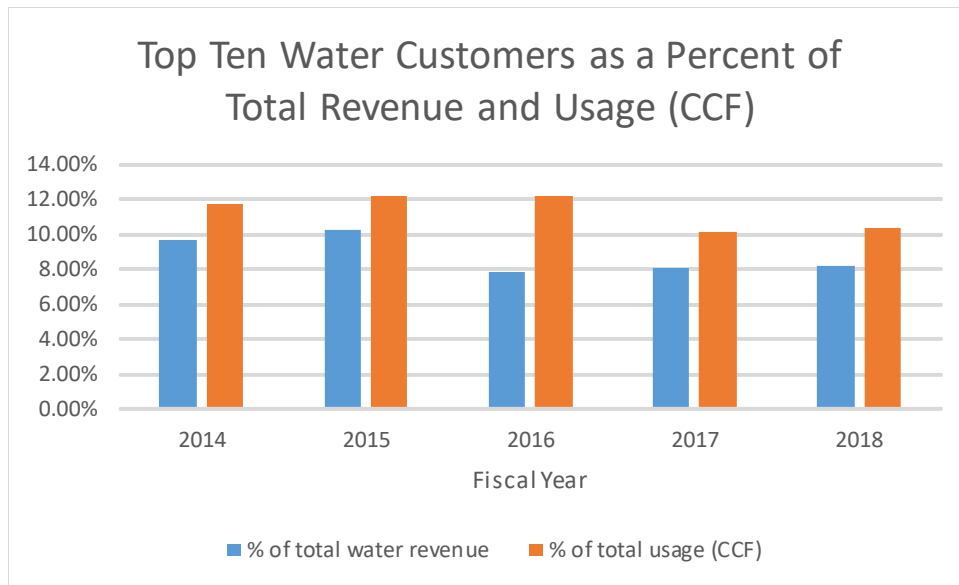


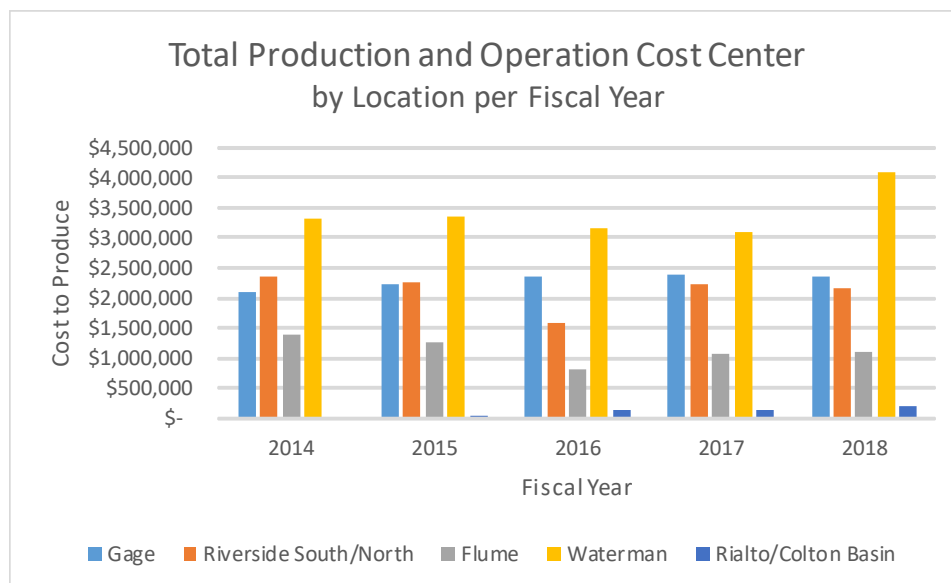
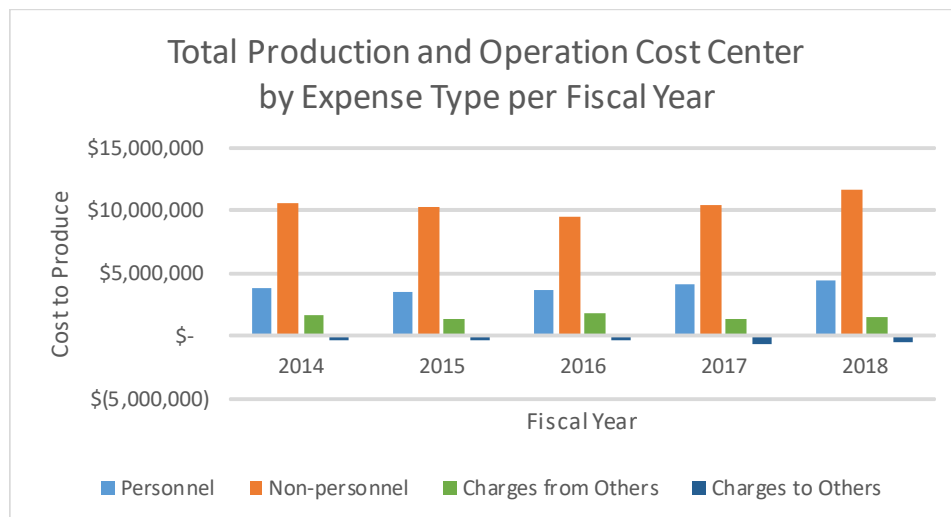
Exhibit D COST TO PRODUCE WATER PER ACRE FOOT

The following information was provided by RPU management.

PRODUCTION AND OPERATION COST CENTER

The total production cost (production and operation cost center) consists of the following:

	2014	2015	2016	2017	2018
Personnel	\$ 3,788,118	\$ 3,568,959	\$ 3,711,790	\$ 4,215,671	\$ 4,487,466
Non-personnel	10,543,234	10,281,553	9,436,392	10,373,174	11,594,615
Charges from Others	1,702,229	1,373,998	1,837,480	1,422,943	1,524,914
Charges to Others	(252,578)	(241,215)	(337,600)	(573,170)	(530,809)
Total	15,781,003	14,983,295	14,648,062	15,438,618	17,076,185



COST OF SERVICE

Total cost of service by fiscal year is shown below:

Expense Category	Fiscal Year				
	2014	2015	2016	2017	2018 Projected
Production costs	\$ 5,740,000	\$ 5,495,000	\$ 4,876,000	\$ 5,419,000	\$ 4,753,000
Personnel costs	12,674,000	11,751,000	10,163,000	12,995,000	15,073,000
Other O&M costs	19,284,000	18,540,000	18,765,000	19,457,000	19,777,000
Additional O&M for CIP and Tech	-	-	-	-	2,534,000
Debt service requirements	13,425,000	13,945,000	13,943,000	14,008,000	14,363,000
General fund transfer	6,991,000	7,098,000	6,430,000	5,673,000	6,114,000
Capital outlay financed by rates	6,198,000	5,574,000	4,185,000	7,607,000	4,449,000
TOTAL	\$ 64,312,000	\$ 62,403,000	\$ 58,362,000	\$ 65,159,000	\$ 67,063,000
Total potable production (AF)	70,195	59,974	58,903	64,407	69,778
Total Cost of Service per AF	\$ 916	\$ 1,041	\$ 991	\$ 1,012	\$ 961
Average COS/AF for 2014-2018	\$ 984				

OPERATING EXPENSE

Total operating expense by cost center and category for FY 2018 is shown below:

Expense Category	Production and		Field		Water		TOTAL
	Operations		Operations	Engineering	Conservation	Depreciation	
Personnel	\$ 4,487,466	\$	10,909,072	\$ 8,154,751	\$ 239,133	\$ -	\$ 23,790,422
Non-personnel	11,594,615		3,427,465	1,494,483	57,912	-	16,574,475
Capital purchases	-		44,381	-	-	-	44,381
Charges from Others	1,524,914		5,084,734	4,067,878	147,184	-	10,824,710
Charges to Others	(530,809)		(4,022,705)	(2,194,283)	(13,133)	-	(6,760,930)
Special Programs	-		-	20,008	483,697	-	503,705
Depreciation	-		-	-	-	14,913,938	14,913,938
Less: capital and bad debt expense	-		(44,381)	(129,287)	-	-	(173,668)
TOTAL	\$ 17,076,186	\$	15,398,566	\$ 11,413,550	\$ 914,793	\$ 14,913,938	\$ 59,717,033
Total potable production (AF)	69,778		69,778	69,778	69,778	69,778	69,778
Total Production Cost per AF	\$ 245	\$	221	\$ 164	\$ 13	\$ 214	\$ 856

The following tables show the total usage for RPU and APU, including purchased water, and total operating expense. The final row calculates operating expense per acre foot. (Note: Data was only available for APU from fiscal year 2016 to 2018). Information on APU was obtained from their annual financial statements at <http://anaheim.net/2641/Annual-Reports>. Additionally, information on units produced is available in the Commodity Adjustment Clause at <http://anaheim.net/DocumentCenter/View/2074/Commodity-Adjustment-Clause-PDF?bidId=>. Information on SBMWD was obtained from the comprehensive annual financial report at <https://sbmwd.org/174/Financial-Information>.

RPU	Fiscal Year				
	2014	2015	2016	2017	2018
Purchased water (AF)	-	-	-	-	-
Potable well water (AF)	70,195	59,974	58,903	64,407	69,778
Total usage (AF)	70,195	59,974	58,903	64,407	69,778
Cost of purchased water	\$ -	\$ -	\$ -	\$ -	\$ -
Operating expenses	\$ 51,333,000	\$ 54,308,000	\$ 49,289,000	\$ 53,526,000	\$ 59,717,000
Operating expense/AF	\$ 731	\$ 906	\$ 837	\$ 831	\$ 856
Operating expense/AF well wat	\$ 731	\$ 906	\$ 837	\$ 831	\$ 856
Average operating expense/AF from 2016-2018*	\$ 841				

APU	Fiscal Year				
	2014	2015	2016	2017	2018
Purchased water (AF)	n/a	n/a	21,120	14,725	14,625
Well water (AF)	n/a	n/a	44,580	43,875	43,575
Total production (AF)	n/a	n/a	65,700	58,600	58,200
Cost of purchased water	n/a	n/a	\$ 22,891,000	\$ 27,581,000	\$ 35,028,000
Operating expenses	n/a	n/a	\$ 56,517,000	\$ 66,227,000	\$ 70,088,000
Operating expense/AF	n/a	n/a	\$ 860	\$ 1,130	\$ 1,204
Operating expense/AF well wat	n/a	n/a	\$ 754	\$ 881	\$ 805
Average operating expense/AF from 2016-2018	\$ 813				

SBMWD	Fiscal Year				
	2014	2015	2016	2017	2018
Purchased water (AF)	-	-	-	-	-
Well water (AF)	46,323	36,039	36,337	38,652	38,721
Total production (AF)	46,323	36,039	36,337	38,652	38,721
Cost of purchased water	\$ -	\$ -	\$ -	\$ -	\$ -
Operating expenses	\$ 36,041,616	\$ 35,504,582	\$ 34,834,362	\$ 37,074,670	\$ 34,446,105
Operating expense/AF	\$ 778	\$ 985	\$ 959	\$ 959	\$ 890
Operating expense/AF well wat	\$ 778	\$ 985	\$ 959	\$ 959	\$ 890
Average operating expense/AF from 2016-2018*	\$ 936				

*Averages are calculated from 2016-2018 for RPU and SBMWD in order to perform a comparable analysis to APU.

Exhibit E

TRAVEL, TRAINING AND MEETINGS EXPENDITURES

The tables below show the travel and meetings expenditures by department and year for the water and electric utilities:

Water Travel and Meetings Expenditures							
Department	2014	2015	2016	2017	2018	Partial 2019	TOTAL
PU Water Field Operations	-	42	-	559	550	-	1,151
PU Wtr Engineering & Resources	6,021	12,610	7,592	8,569	1,958	17	36,766
Water - Water Resources	893	105	-	-	-	-	998
Water Conservation	1,694	2,362	5,294	2,719	1,122	2,960	16,152
Water-Production & Operations	5,166	8,928	2,086	1,507	700	-	18,386
TOTAL	13,774	24,047	14,972	13,354	4,329	2,977	73,453

Electric Travel and Meetings Expenditures							
Department	2014	2015	2016	2017	2018	Partial 2019	TOTAL
Customer Engineering-GIS	877	2,724	3,359	4,197	-	-	11,157
Electric-Operations	5,209	2,801	36	297	3,042	388	11,773
Electric-Prod & Oper-Field Ops	362	823	815	4,578	132	-	6,710
Energy Deliv Engineering	1,459	1,986	2,711	3,677	2,867	70	12,770
Legislative & Regulatory Risk	5,890	15,423	10,877	14,218	11,861	5,721	63,989
PU Adm-Pub Benefit Prog	6,001	18,952	10,871	5,278	11,784	4,162	57,048
PU Elec Power Supply Operation	13,021	-	-	-	12,714	7,589	33,324
Pub Util Admin-Cust Engagement	10,924	15,875	17,700	10,262	1,593	1,527	57,881
Pub Util Admin-Mgmt Service	109,627	130,229	150,927	117,605	75,815	49,533	633,736
Pub Util Admin-Safety	-	-	-	-	-	256	256
Pub Util Admn-Customer Service	280	743	5,115	4,573	3,327	360	14,399
Pub Util Business Support	-	1,231	-	5,549	189	-	6,969
Pub Util Office Ops Technology	-	-	-	777	11,065	3,920	15,762
Pub Util Work Force Developmnt	-	-	-	2,434	1,716	153	4,304
RERC/Acorn Generating Plant	-	871	507	32	-	-	1,410
SPRINGS Power & Energy Purch	-	-	76	-	-	-	76
TOTAL	153,652	191,658	202,994	173,477	136,105	73,679	931,565

The tables below show the training expenditures by department and year for the water and electric utilities:

Water Training Expenditures

Department	2014	2015	2016	2017	2018	Partial 2019	TOTAL
PU Water Field Operations	26,224	12,104	30,286	14,414	17,308	14,162	114,498
PU Wtr Engineering & Resources	13,085	22,387	12,407	20,530	19,110	3,645	91,165
Water - Water Resources	944	-	260	-	-	-	1,204
Water Conservation	1,135	-	-	-	-	-	1,135
Water-Production & Operations	5,980	5,573	8,382	12,196	12,546	7,124	51,803
TOTAL	47,368	40,064	51,336	47,140	48,965	24,932	259,804

Electric Training Expenditures

Department	2014	2015	2016	2017	2018	Partial 2019	TOTAL
Clearwater Generating Plant	10,382	15,561	7,033	5,309	5,734	1,445	45,463
Customer Engineering-GIS	8,907	34,592	-	-	-	-	43,498
Electric-Operations	42,058	25,592	38,220	30,422	21,866	34,156	192,314
Electric-Prod & Oper-Field Ops	40,289	66,570	50,729	25,952	46,992	32,750	263,281
Energy Deliv Engineering	35,805	57,172	94,461	79,140	85,810	33,770	386,159
Legislative & Regulatory Risk	4,437	8,605	1,625	1,855	760	190	17,472
PU Adm-Pub Benefit Prog	8,234	6,984	889	2,293	13,219	71	31,690
PU Elec Power & Energy Purch	140	-	-	1,260	-	-	1,400
PU Elec Power Supply Operation	35,572	48,459	17,645	56,830	34,692	20,015	213,212
Pub Util Admin-CIS Util. Bill	398	-	-	-	50	200	648
Pub Util Admin-Cust Engagement	7,270	859	507	8,255	-	815	17,707
Pub Util Admin-Field Services	6,344	8,670	7,608	15,176	4,268	1,907	43,974
Pub Util Admin-Mgmt Service	34,212	33,192	33,576	45,978	21,184	17,107	185,248
Pub Util Admin-Safety	-	-	-	-	-	1,000	1,000
Pub Util Admn-Customer Service	4,667	6,133	3,220	42,164	2,092	179	58,455
Pub Util Business Support	376	25	-	2,579	-	5,179	8,159
Pub Util Office Ops Technology	-	-	-	320	8,028	3,639	11,987
Pub Util Work Force Developmnt	-	-	-	11,674	15,755	5,578	33,008
RERC/Acorn Generating Plant	16,278	26,601	21,685	27,555	19,461	3,896	115,476
SPRINGS Power & Energy Purch	3,651	5,080	4,331	-	7,458	-	20,520
TOTAL	259,022	344,094	281,528	356,763	287,368	161,897	1,690,671