

CASH RESERVE POLICY

Finance Division

Board of Public Utilities
November 9, 2020

OVERVIEW

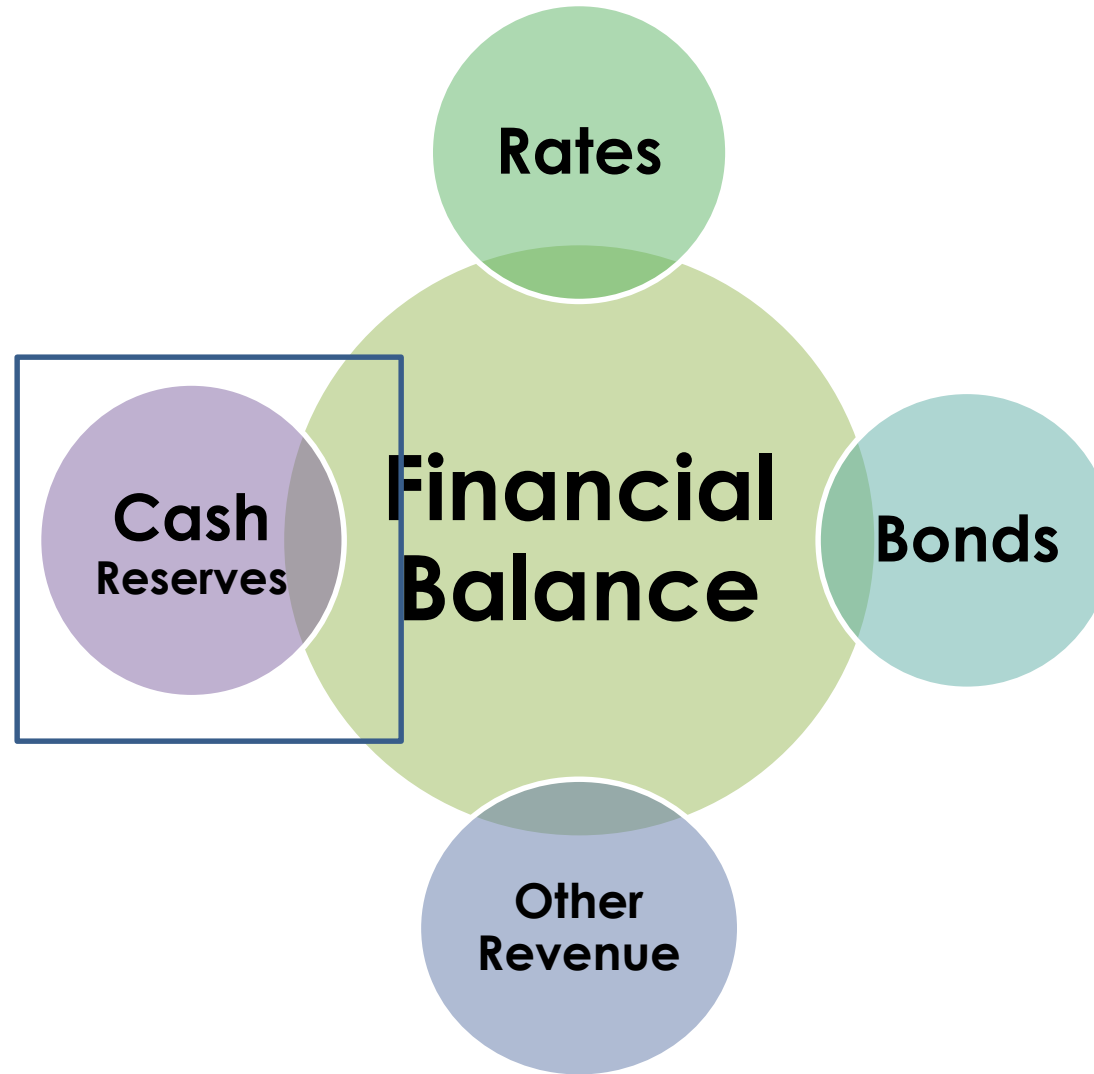
1. Cash Reserve Policy History
2. Purpose and Importance of Cash Reserve Policy
3. Types of Cash Reserves
4. Cash Reserve Level Calculations
5. Line of Credit
6. Withdrawal & Replenishment / Reporting & Oversight



HISTORY

1. March 22, 2016 – Approved by City Council
2. July 26, 2016- Incorporated as Appendix A of RPU Fiscal Policies
3. July 24, 2018- Updated to Include:
 - A. Dark Fiber Designated Reserve
 - B. Line of Credit

PUTTING IT ALL TOGETHER





LONG-TERM BENEFITS TO RATEPAYERS

1. Reserves protect against emergencies and other contingencies
2. Reserves are a strong credit positive, leading to lower borrowing costs
3. Reserves mitigate future rate increases due to market disruptions and weather events
4. Reserves help reduce the probability of rate shock

PURPOSE OF RESERVE POLICY

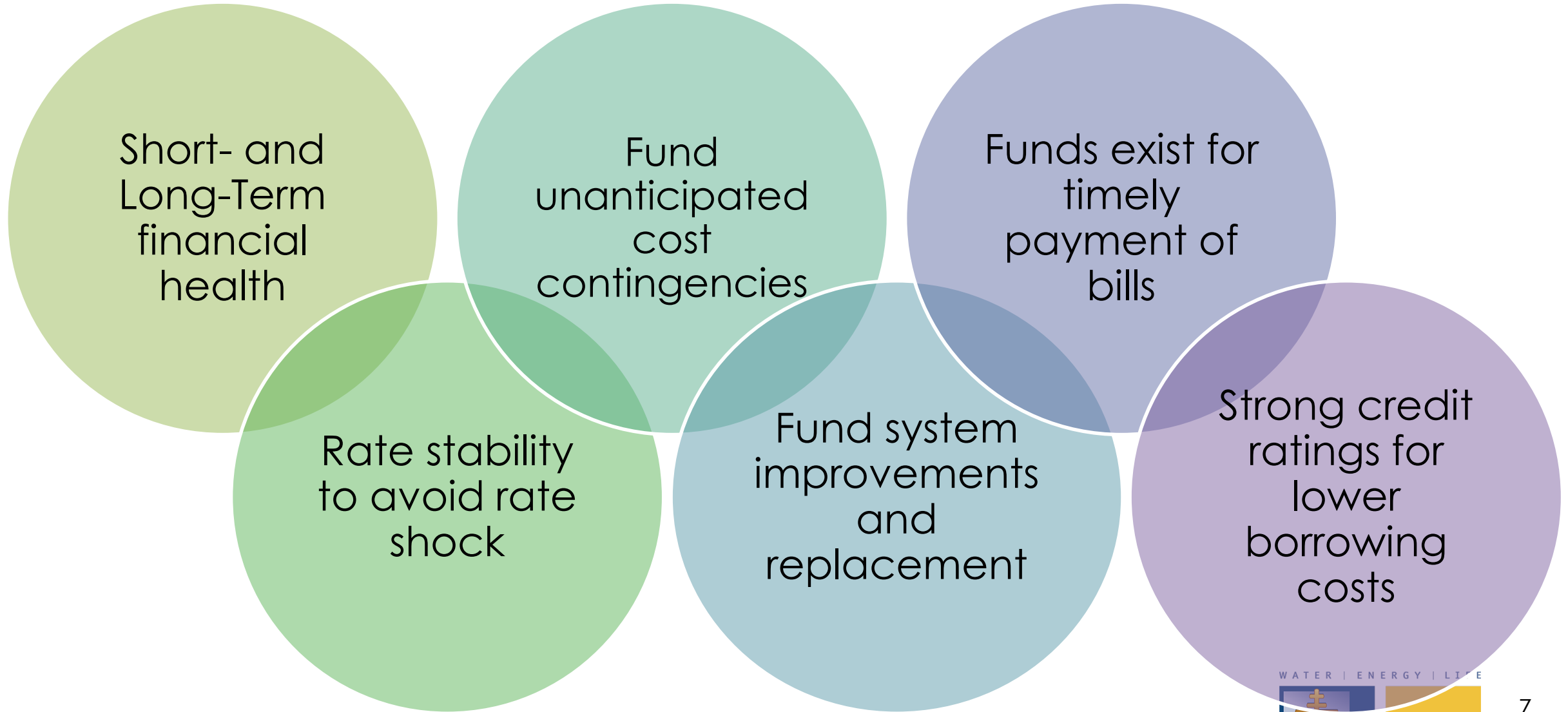
Define and set goals in a transparent manner.

Ensure adequate levels are maintained.

Provide guidelines for target levels, use, and replenishment.



GOALS AND OBJECTIVES



CASH RESERVES AND FINANCIAL STRENGTH

Strong Credit Ratings = Lower Borrowing Cost

Cash Reserves
Days Cash on Hand



Financial Flexibility
Resiliency

Debt Service Coverage
Ratio



Operating Margin
Investor Confidence

Financial Strength = More Stable Electric and Water Rates

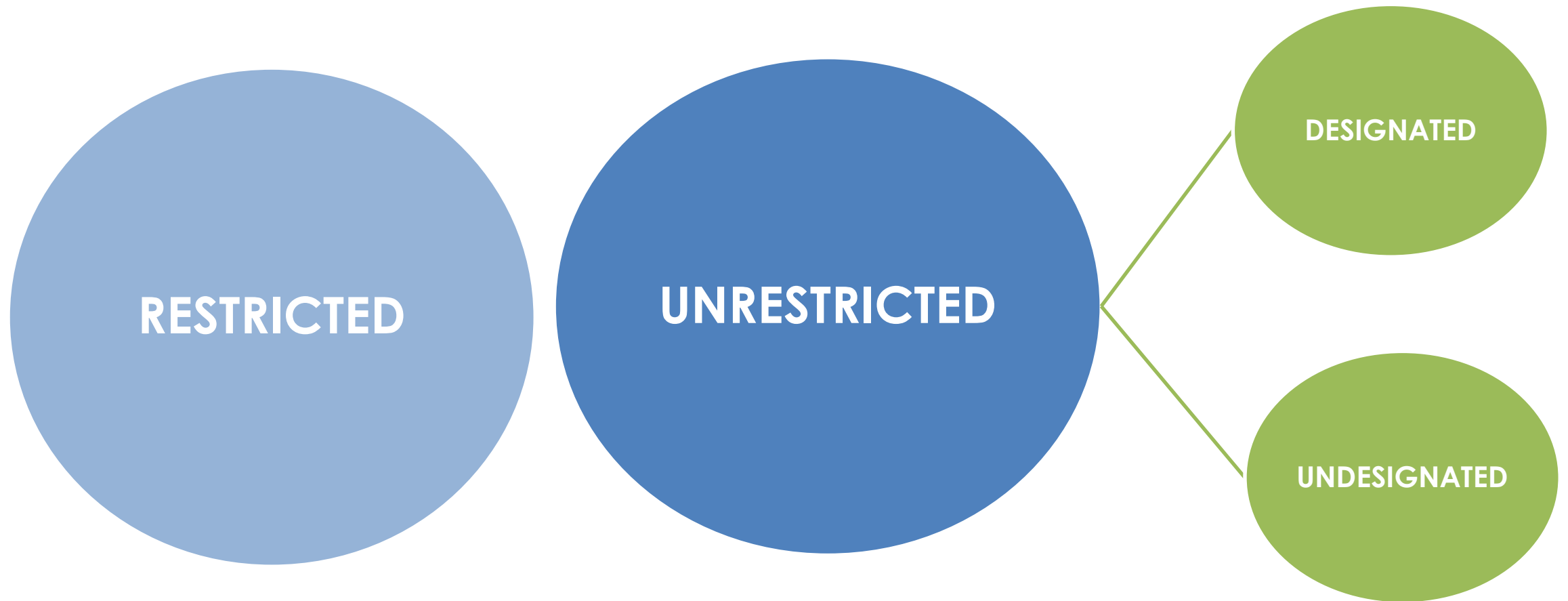
CREDIT AND RATING AGENCIES

June 30, 2019	Electric	Water
S&P	AA-	AAA
Fitch	AA-	AA+
Days Cash- Undesignated Reserves	385	339
Days Cash- Undesignated Reserves w/ LOC	431	545

S&P on RPU Electric: “Extremely strong liquidity and reserves, with \$257 million in total available liquidity or about 353 days' cash for fiscal 2018... We could lower the rating if liquidity weakens significantly below current levels since the utility faces rising debt service and power costs requirements”.

Fitch on RPU Water: “liquidity remains strong at a little over one years' worth of days cash on hand in fiscal 2019; The rating on Riverside's water system is sensitive to its ability to maintain DSC and liquidity near current levels...(a) marked draw down in liquidity could place downward pressure on the rating”.

TYPES OF RESERVES





RESTRICTED

Restricted legally, by bond covenants, or by other regulations

Restricted Reserves	Electric	Water
San Onofre Nuclear Generating Station ("SONGS") Decommissioning	√	
Regulatory Requirements Reserve	√	
Bond Proceeds to Fund Capital Projects	√	√
Bond Redemption Reserve (Debt Service)	√	√
Electric Public Benefits Fund	√	
Water Conservation Fund		√

UNRESTRICTED– DESIGNATED

Meet specific purposes set aside by Board and City Council

Unrestricted- Designated Reserves	Electric	Water
Customer Deposits	√	√
Additional Decommissioning Liability	√	
Electric Reliability	√	
Mission Square Improvements	√	
Capital Repair/Replacement	√	√
Recycled Water		√
Property		√
Dark Fiber	√	

UNRESTRICTED – UNDESIGNATED

May be used for any lawful purpose and have not been designated for specific capital or operating purposes

Unrestricted- Undesignated Reserves	Electric	Water
Operating (Working Capital)	√	√
Rate Stabilization	√	√
Emergency Capital	√	√
System Capital Improvements	√	√
Debt Service	√	√

OPERATING RESERVES

Type	Purpose	Target (Minimum) Calculation	Rationale	Electric	Water
Working Capital – Operations & Maintenance, including Power Supply Costs	To ensure sufficient resources to pay operating including labor, maintenance, power supply, and water production expenses, recognizing the timing difference between payment of expenses and receipt of revenues.	Equal to 60 days of operating expenditures	Billing and collection cycle of 60 days – difference between delivery of service and receipt of payment	√	√

RATE STABILIZATION

Type	Purpose	Target (Minimum) Calculation	Rationale	Electric	Water
Rate Stabilization	Mitigate rate shock due to temporary and transitional regulatory changes, loss of major resource, sharp demand reduction or market volatility	10% of Operating Revenues	Based on risk quantification which evaluated power cost uncertainty due load reduction, market energy price fluctuations, unit contingencies, transmission costs, and regulatory mandates.	√	
		7% of Operating Revenues	Based on historic fluctuation of retail sales from year to year due to unforeseen events (ie recession, drought)		√

WATER | ENERGY | LIFE

CAPITAL EXPENDITURES

Type	Purpose	Target (Minimum) Calculation	Rationale	Electric	Water
Capital - Emergency	Provide funds to ensure ability to repair system after a natural disaster such as a flood, earthquake or major windstorm	1% of depreciable capital assets	Consistent with APPA guidelines for emergency reserves. Provides funds to pay for needed expenditures to be reimbursed by FEMA or other sources.	√	√
Capital – System Improvements	Provide funds to ensure continuity of construction over fiscal years to be reimbursed by bond proceeds or other resources	6 months of the following year's approved Capital Improvement expenditures (CIP)	Provides sufficient funding to meet planned capital expenditures – recognizing that there is a significant time lag in raising rates or issuing bonds to fund capital infrastructure.	√	√

DEBT SERVICE

Type	Purpose	Target (Minimum)	Rationale	Electric	Water
Debt Service	Ensure ability to make debt service payments in an extreme event that may impact RPU's ability to deliver power and water, thus impacting revenues at a time critical infrastructure repairs are needed to restore systems.	Maximum debt service payment (semi-annual) in the upcoming fiscal year.	Prevent an event where RPU would be unable to pay its debt service.	√	√

TARGET (MINIMUM) RESERVES VS. MAXIMUM

Type	Target (Minimum)	Maximum
Working Capital – O&M and Power Supply	60 days of operating expenses	90 days of operating expenses
Rate Stabilization	Electric: 10% of Operating Revenues	Electric: 20% of Operating Revenues
	Water: 7% of Operating Revenues	Water: 15% of Operating Revenues
Capital – Emergency	1% of depreciable capital assets	2% of depreciable capital assets
Capital – System Improvements	6 months of annual CIP	9 months of annual CIP
Debt Service	Maximum debt service payment (semi-annual) in the upcoming fiscal year.	Same as minimum



LINE OF CREDIT

1. Alternative to holding cash reserves to meet target minimum reserve levels
2. Low cost financing
3. Drawn upon if needed in case of emergency
4. Provides flexibility and liquidity
5. Supports strong credit rating
6. \$65 M; \$35 M Electric, \$25 M Water

CASH BALANCES

Electric Utility

In Millions	June 30, 2019
Restricted Reserves	\$ 173.2
Unrestricted- Designated Reserves	94.9
Unrestricted- Undesignated Reserves	198.6
Total Cash Reserves	\$ 466.7
Unrestricted- Undesignated Reserves plus \$35M LOC	\$ 233.6
Unrestricted- Undesignated Reserves Target (Minimum)	130.9
Unrestricted- Undesignated Reserves Maximum	208.7



RESTRICTED RESERVES

Electric Utility

In Millions	June 30, 2019
San Onofre Nuclear Generating Station ("SONGS") Decommissioning	\$ 55.5
Regulatory Requirements Reserve	18.0
Bond Proceeds to Fund Capital Projects	59.1
Bond Redemption Reserve (Debt Service)	24.2
Electric Public Benefits Fund	16.4
Total	\$ 173.2

UNRESTRICTED- DESIGNATED RESERVES

Electric Utility

In Millions	June 30, 2019
Customer Deposits	\$ 4.6
Capital Repair and Replacement	3.2
Electric Reliability	72.7
Mission Square Improvement	1.5
Additional Decommissioning Liability	9.9
Dark Fiber	3.0
Total	\$ 94.9

UNDESIGNATED RESERVE CALCULATIONS

Electric Utility - June 30, 2019

Unrestricted- Undesignated	Target (Minimum)		Maximum	
Working Capital – O&M, including Power Supply and Labor	60 days	\$45,770,000	90 days	\$68,655,000
Rate Stabilization	10% of Op. Rev.	\$35,337,000	20% of Op. Rev.	\$70,673,000
Capital – Emergency	1% of cap assets	\$11,041,000	2% of cap assets	\$22,083,000
Capital – System Improvements	6 mos. of annual CIP	\$17,054,000	9 mos. of annual CIP	\$25,581,000
Debt Service	Highest Payment	\$21,675,000	Highest Payment	\$21,675,000
TOTAL		\$130,877,000		\$208,667,000
Days Cash on Hand Equivalent		172		273

CASH BALANCES

Water Utility

In Millions	June 30, 2019
Restricted Reserves	\$ 50.2
Unrestricted- Designated Reserves	9.5
Unrestricted- Undesignated Reserves	31.5
Total Cash Reserves	\$ 91.2
Unrestricted- Undesignated Reserves plus \$25M LOC	\$ 56.5
Unrestricted- Undesignated Reserves Target (Minimum)	38.6
Unrestricted- Undesignated Reserves Maximum	59.0



RESTRICTED RESERVES

Water Utility

In Millions	June 30, 2019
Bond Proceeds to Fund Capital Projects	\$ 40.5
Bond Redemption Reserve (Debt Service)	6.7
Equipment Lease Reserve	0.5
Water Conservation Fund	2.5
Total	\$ 50.2

UNRESTRICTED- DESIGNATED RESERVES

Water Utility

In Millions	June 30, 2019
Customer Deposits	\$ 0.6
Capital Repair and Replacement	2.3
Recycled Water	1.5
Property	5.1
Total	\$ 9.5

UNDESIGNATED RESERVE CALCULATIONS

Water Utility - June 30, 2019

Unrestricted- Undesignated	Target (Minimum)		Maximum	
Working Capital – O&M, including Production and Labor	60 days	\$7,268,000	90 days	\$10,902,000
Rate Stabilization	7% of Op. Rev.	\$4,490,000	15% of Op. Rev.	\$9,622,000
Capital – Emergency	1% of cap assets	\$6,896,000	2% of cap assets	\$13,792,000
Capital – System Improvements	6 mos. of annual CIP	\$9,452,000	9 mos. of annual CIP	\$14,178,000
Debt Service	Highest Payment	\$10,500,000	Highest Payment	\$10,500,000
TOTAL		\$38,606,000		\$58,994,000
Days Cash on Hand Equivalent		319		488

WITHDRAWAL & REPELNISHMENT

Target reserve levels should be treated as practical minimums.

Allow to increase or decrease as necessary between minimum and maximum.

Above target and below maximum, Board/Council have flexibility to use CIP paygo, pay down unfunded liabilities, defease debt, or fund other strategic objectives.

Above maximum, RPU will seek Board/Council approval to use CIP paygo, pay down debt, offset other long-term liabilities, reduce rates, or other strategic purposes.

Below target, report to Board/Council and implement plans to return reserves to target levels within 3 years



REPORTING & OVERSIGHT

Reserve levels analyzed annually with year end financial results and reported to Board and City Council.

Recommendations made to Board and City Council when adjustments are necessary due to changes in risk factors

Policy will be reviewed annually and updated at minimum every 3 years, depending on risk exposure or other conditions RPU faces – **anticipated for late Spring 2021**

RECOMMENDATION

That the Board of Public Utilities receive this update on the Riverside Public Utility's Cash Reserve Policy, funds and use of funds.