



# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

**BOARD OF PUBLIC UTILITIES**

**DATE:** FEBRUARY 22, 2021

**SUBJECT: RIVERSIDE PUBLIC UTILITIES 2020 ANNUAL AUDIT REPORT AND FINANCIAL RESULTS**

**ISSUE:**

Receive the Riverside Public Utilities 2020 Annual Audit Report and Financial Results for the fiscal year ended June 30, 2020.

**RECOMMENDATION:**

That the Board of Public Utilities receive the Riverside Public Utilities 2020 Annual Audit Report and Financial Results.

**BACKGROUND:**

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

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

**DISCUSSION:**

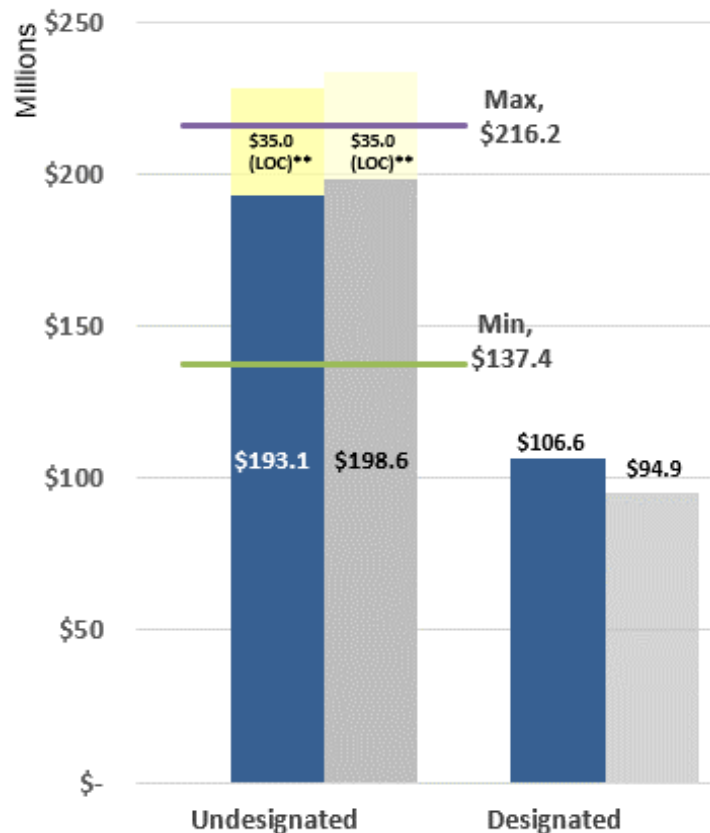
The City's independent auditor, Lance, Soll & Lunghard, LLP has completed the Fiscal Year 2019-20 annual audit of RPU's financial statements. The auditors provided an unmodified, or clean, opinion that RPU's financial statements are presented fairly and in conformity with generally accepted accounting principles. This clean audit opinion supports the fact that RPU observed compliance with generally accepted accounting principles and statutory requirements. Additionally, RPU had no audit findings or instances of material weaknesses or significant deficiencies identified during the audit process.

**Reserve Policy Compliance**

The Riverside Public Utilities Cash Reserve Policy provides a defined level of unrestricted,

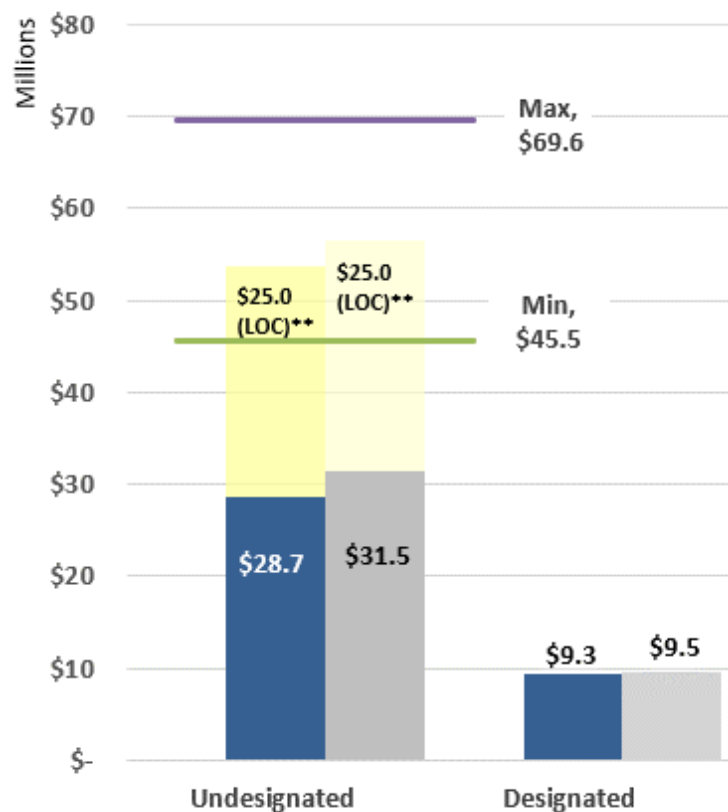
undesignated reserves in both the Electric and Water Utility for strategic purposes to mitigate risk and maintain financial stability.

**Electric Utility Unrestricted Reserves:**



As of June 30, 2020, the Electric Utility balances were \$106.6 million for unrestricted, designated reserves, \$193.1 million for unrestricted, undesignated reserves, and \$35 million line of credit (LOC). The LOC provides flexibility and operating liquidity similar to cash reserves. The Electric Fund's unrestricted, undesignated reserve balance at fiscal year-end met the minimum and maximum guidelines as set forth in the policy. Designated reserves are considered unrestricted assets and represent a portion of unrestricted reserves that meet specific purposes set aside by the Board and City Council.

The unrestricted, designated reserve balance includes reserves for Customer Deposits, Additional Decommissioning Liability, Electric Reliability, Capital Repair and Replacement, the Mission Square Improvement, and Dark Fiber. The unrestricted, undesignated reserves have not been designated for a specific purpose and may be used for any lawful purpose including operating and maintenance expenses, debt service, emergency capital and system improvements capital as directed in the reserve policy.

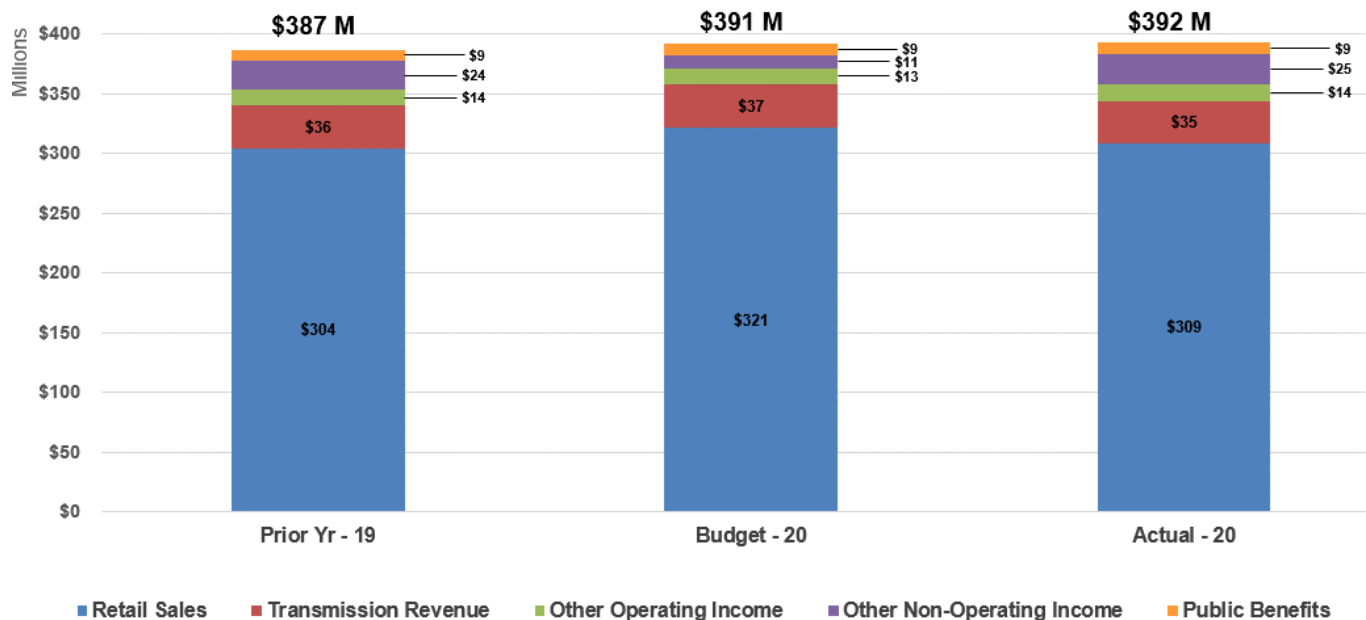
Water Utility Unrestricted Reserves:

As of June 30, 2020, the Water Utility balances were \$9.3 million for unrestricted, designated reserves, \$28.7 million for unrestricted, undesignated reserves, and \$25 million line of credit (LOC). Water Fund's unrestricted, undesignated reserve balance combined with the line of credit in compliance with RPU Cash Reserve Policy, at 6/30/2020 is above target minimum, which is consistent with projections provided during the biennial budget and rate plan proposal processes. The LOC provides flexibility and operating liquidity similar to cash reserves allowing the Water Fund to maintain compliance with RPU Cash Reserve Policy.

Designated reserves are considered unrestricted assets and represent a portion of unrestricted reserves that meet specific purposes set aside by the Board and City Council. The unrestricted, designated reserve balance includes reserves for Recycled Water, Property, Customer Deposits and Capital Repair/Replacement. The unrestricted, undesignated reserves have not been designated for a specific purpose and may be used for any lawful purpose including operating and maintenance expenses, debt service, emergency capital and system improvements capital as directed in the reserve policy.

## Revenues

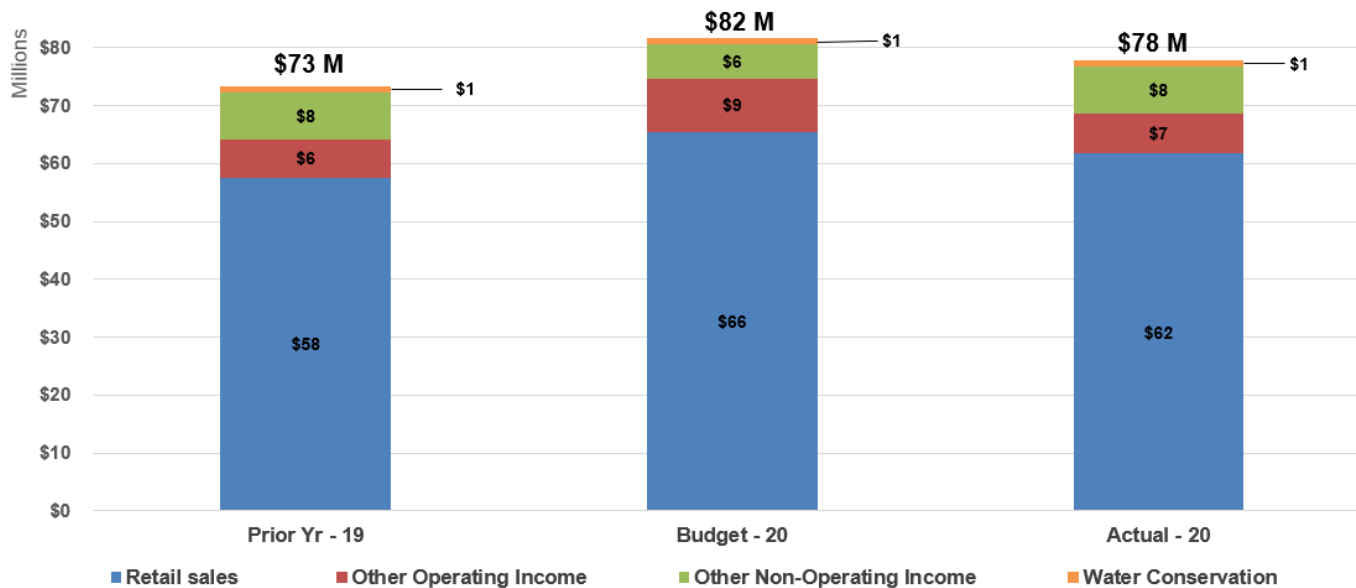
### Electric Utility Revenue Results:



Total electric revenues of \$392 million, including non-operating, were slightly higher than budget of \$391 million and higher than prior year actuals of \$387 by \$5 million (1.3%).

1. Retail sales, net of uncollectibles/recovery, which represent 79% of revenues, totaled \$309 million which was lower than budget by \$12 million (3.7%) mainly due to lower actual consumption than projections and higher than prior year by \$5 million (1.6%), primarily due to rate plan increases, offset by a slight decrease in consumption.
2. Transmission revenues of \$35 million were lower than budget by \$2 million (5.4%) and lower than prior year by \$1 million (2.8%), primarily due to a slight decrease in load and a decrease in the utility's high voltage rate per the annual filing with the Federal Energy Regulatory Commission (FERC).
3. Other non-operating revenues of \$25 million were higher than budget by \$14 million and were higher than prior year by \$1 million (4.2%), due to an increase in cash balances as a result of the 2019 Electric Revenue Series A Bonds and a higher overall interest rate in the current fiscal year and higher than anticipated capital contributions.

Water Utility Revenue Results:

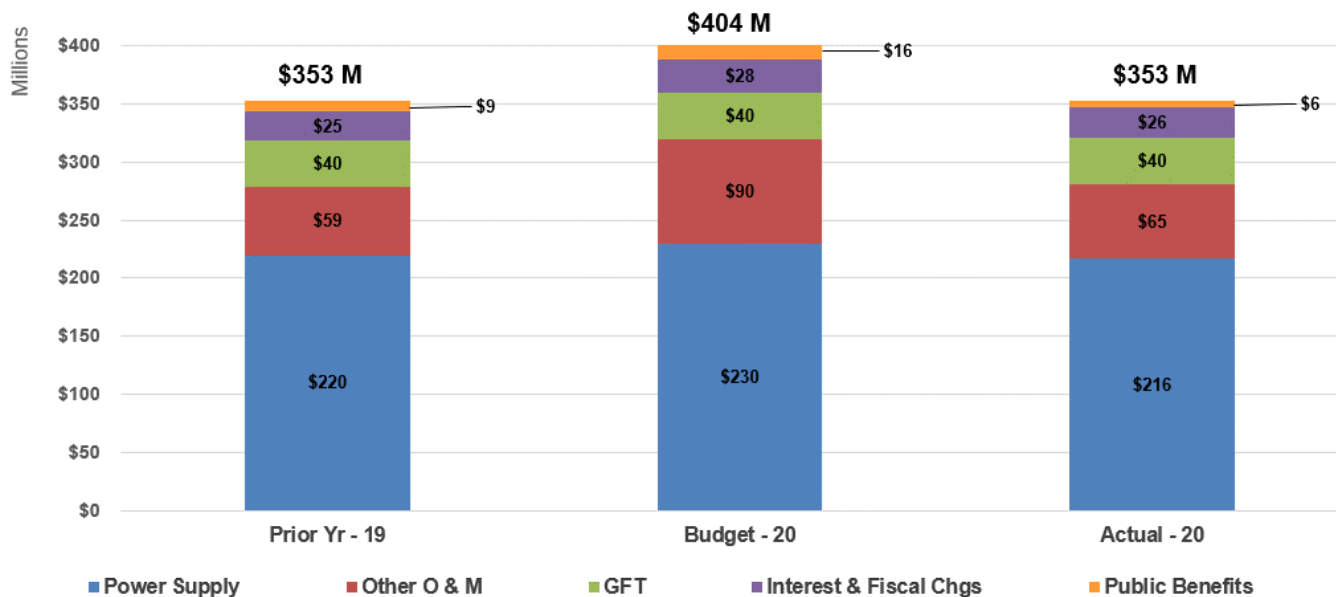


Total water revenues, including non-operating, totaling \$78 million were lower than budget by \$4 million (4.9%) but were higher than prior year actuals by \$5 million (6.8%).

1. Retail sales, net of uncollectibles/recovery, which represent 79% of revenues, totaled \$62 million, which were \$3 million (4.6%) lower than budget mainly due to lower actual consumption than projections, but \$4 million (6.9%) higher than prior year primarily due to rate plan increases and a 1.5% increase in consumption.
2. Other operating revenues of \$7 million were \$2 million (22.2%) lower than budget due to lower than anticipated wholesale water sales. Other operating revenues were \$1 million (16.7%) higher than prior year actuals due to an increase in water conveyance revenue from Western Municipal Water District (WMWD).

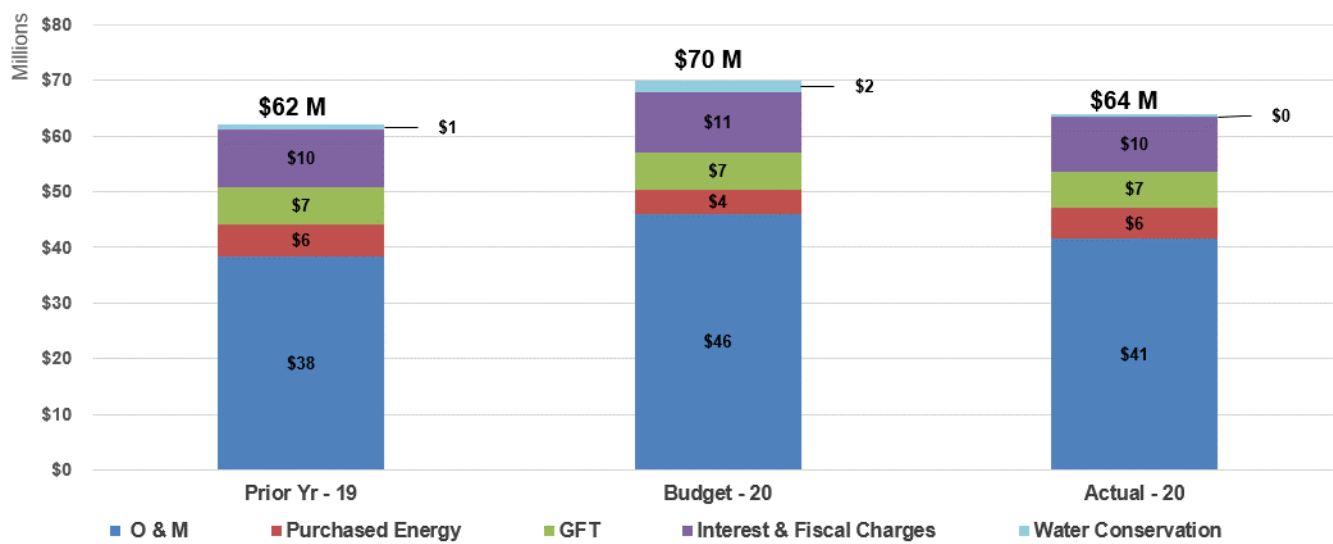
## Expenses

### Electric Utility Expense Results:



Total electric expenses, excluding depreciation, totaling \$353 million, were lower than budget by \$51 million or 12.6% and consistent with prior year actuals of \$353 million.

1. Power Supply costs of \$216 million were \$14 million (6.1%) lower than budget due to lower than anticipated consumption and lower than anticipated transmission costs. Power Supply costs were lower than prior year by \$4 million (1.8%) due to a decrease in consumption and a decrease in transmission costs, offset by an increase in costs for Resource Adequacy.
2. Other operating and maintenance expenses of \$65 million were \$25 million (27.8%) lower than budget, primarily due to savings in both personnel and non-personnel general operating expenses. Other operating and maintenance expenses were \$6 million (10.2%) higher than prior year mainly due to a non-cash pension credit adjustment of \$3.3 million compared to prior year non-cash pension adjustment of (\$1.3 million) as a result of pension accounting standards.

Water Utility Expense Results:

Total water expenses, excluding depreciation, totaling \$64 million, were lower than budget by \$6 million (8.6%) and higher than prior year actuals by \$2 million (3.2%).

Operations and maintenance expenses of \$41 million were lower than budget by \$5 million (10.9%) due to actual progress of current projects to be completed in fiscal year 2020 and savings in personnel costs and other general operating expenses. Operations and maintenance expenses were higher than prior year by \$3 million (7.9%) mainly due to a non-cash pension adjustment of \$1 million compared to prior year non-cash pension adjustment of (\$0.5) million as a result of pension accounting standards.

## Summary

In conjunction with the City Finance Department, RPU works very closely as one team with them to ensure best financial practices are followed. The “clean” audit opinion confirms that RPU operates with strong internal controls to ensure accurate accounting and transparent reporting of financial results to the public.

The RPU annual financial report is distributed to the City Council, the Board of Public Utilities, federal and state government agencies per contract requirements, bondholders, rating agencies and financial institutions, and is published on the City’s website. For further details refer to the 2020 Financial Report.

**FISCAL IMPACT:**

There is no fiscal impact associated with this report.

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Certifies as to funds

Availability: Edward Enriquez, Chief Financial Officer/City Treasurer

Attachments:

1. Riverside Public Utilities 2020 Annual Report
2. Presentation