



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: MARCH 22, 2021

SUBJECT: RIVERSIDE PUBLIC UTILITIES PROPOSED BUDGET FOR FISCAL YEAR 2021/22

ISSUE:

Review and recommend that the City Council approve the Riverside Public Utilities Department proposed budget for Fiscal Year 2021/22.

RECOMMENDATIONS:

That the Board of Public Utilities recommend that City Council:

1. Approve the Electric Funds (including the Public Benefits Fund) proposed Fiscal Year 2021/22 budget totaling \$404.1 million in revenues, \$411.2 million in operating expenditures and \$48.3 million in capital improvements, with the anticipated difference between revenues and expenditures including capital improvements to be covered by \$38.4 million in bond proceeds and \$17.0 million from 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 2021/22;
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 2021/22; and
4. Approve the Water Funds (including Water Conservation Fund) proposed Fiscal Year 2021/22 budget totaling \$86.1 million in revenues, \$78.9 million in operating expenditures and \$21.5 million in capital improvements, with the anticipated difference between revenues and expenditures including capital improvements expected to be covered by bond proceeds of \$18.1 million and returning \$3.8 million to reserves.

BACKGROUND:

Due to the unprecedented economic environment caused by COVID-19, a one-year emergency budget for Fiscal Year (FY) 2020/21 was adopted by City Council on June 16, 2020. Due to the impact of COVID-19 on public and community meetings, the City has streamlined the current budget process to adopt the FY 2021/22 budget. It is anticipated that the City will return to a two-year budget process next year with the FY 2022/23 – 2023/24 budget.

DISCUSSION:

BUDGET OVERVIEW

The proposed FY 2021/22 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 Riverside 2025 Strategic Plan. On October 20, 2020, the City Council approved the Riverside 2025 Vision Statement, Cross-Cutting Threads, Strategic Priorities, Indicators and Goals for the Riverside 2025 Strategic Plan. The Riverside 2025 Strategic Plan is comprised of two parts:
 - a. City Council Strategic Policy – sets forth the priorities and policy direction of the City Council to advance Riverside’s potential and to frame the work efforts of City staff over the next five years. This section includes the Vision, Cross-Cutting Threads, Strategic Priorities, Indicators and Goals.
 - b. Operational Workplan – sets forth envisioned actions to be carried out by City staff to implement the City Council Strategic Policy, as well as related metrics to track the trendlines of progress toward achieving City Council priorities. This section includes the Actions and Performance Metrics.
2. The Priority Based Budgeting process is ongoing. Priority Based Budgeting will help build an understanding of how much money the City spends on programs and determine how closely each of the programs align with the City Council’s Strategic Priorities, which will in turn produce insights on how best to allocate City resources. As the City completes Priority Based Budgeting and transitions into the budget development process for Fiscal Years 2022/23 and 2023/24, staff will have a better understanding of the resources available to allocate toward the Operational Workplan and implement the Riverside 2025 Strategic Plan.

The following are key highlights 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. Significant capital needs due to aging infrastructure and equipment.

The proposed FY 2021/22 budget has been developed in alignment with the Five-Year Rate Plan 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 current labor contracts for SEIU, unrepresented, IBEW, and IBEW Supervisory.

Non-Personnel Costs

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 services. Currently, the GFT is set at 11.5% for both the Electric and Water Funds.

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. The use of electric 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 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 Budget Summary

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

Electric	FY 19/20 Actuals	FY 20/21 Budget	FY 21/22 Proposed
Electric Fund - Revenues	\$384,945,206	\$395,239,794	\$394,458,800
Public Benefits (PB) - Revenues	9,478,000	9,471,199	9,657,000
Total Electric Revenues	\$394,423,206	\$404,710,993	\$404,115,800
Use of Bond Proceeds	23,826,734	30,654,623	38,425,133
Use (Incr.) of PB Fund Reserve	(3,026,758)	5,195,760	(210,282)
Total Electric – Revenues and Other Financing Sources	\$415,223,182	\$440,561,376	\$442,330,651
Electric Fund - Expenditures	\$410,519,599	\$453,236,507	\$450,034,845
Public Benefits - Expenditures	6,451,242	14,666,959	9,446,718
Total Electric Expenditures, Including Capital Improvements	\$416,970,841	\$467,903,466	\$459,481,563
Use (Incr.) of Electric Fund Reserves	1,747,659	27,342,090	17,150,912

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

Water	FY 19/20 Actuals	FY 20/21 Budget	FY 21/22 Proposed
Water Fund - Revenues	\$77,430,082	\$83,693,756	\$85,043,500
Water Conservation (WC) - Revenues	995,783	1,033,000	1,086,000
Total Water Revenues	\$78,425,865	\$84,726,756	\$86,129,500
Use of Bond Proceeds	11,759,713	22,369,040	18,068,174
Use (Incr.) of WC Fund Reserves	(362,684)	554,876	(25,643)
Total Water – Revenues and Other Financing Sources	\$89,822,895	\$107,650,672	104,172,031
Water Fund - Expenditures	\$90,508,692	\$107,188,152	\$99,305,484
Water Conservation - Expenditures	620,099	1,587,876	1,060,357
Total Water Expenditures, Including Capital Improvements	\$91,128,791	\$108,776,028	100,365,841
Use (Incr.) of Water Fund Reserves	1,305,896	1,125,356	(3,806,190)

CAPITAL IMPROVEMENT PROGRAM

As part of the budget process, RPU has prepared a One-Year Capital Improvement Program (CIP) for FY 2021/22. The proposed CIP for the Electric and Water Funds is \$48.3 million and \$21.5 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 1 & 2 and technology projects necessary for system operations. Funding for CIP is a combination of bond proceeds, developer contributions, rates, and reserves. Funding for Riverside Transmission Reliability Project (RTRP) has been approved by Board and City Council and will be spent as the project is constructed.

OPERATING BUDGETS

The proposed FY 2021/22 budget includes supplemental increases of \$2.5 million for Electric and \$2.8 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.

Staff estimates a vacancy factor of 8% for the Electric Fund, as part of the affordability plan, which is approximately \$5.5 million in personnel savings for FY 2021/22.

Electric Fund

Revenue Budget

The primary source of revenues for the Electric Fund is retail sales, which will fund 74% 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 \$38.4 million will be utilized to fund a major portion of the capital improvement projects for FY 2021/22. 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 2021/22 budget reflects a 0.7% (\$3.2 million) decrease from FY 2020/21 amended budget. The overall decrease is primarily due to:

- Decrease in power supply costs reflect a projected decrease in the transmission costs and California Independent System Operator (CAISO) energy costs which more than offset an increase in natural gas purchases for the Utility's generating stations. Power supply costs represent 50% of the total Electric budget.
- Decrease in personnel costs from the issuance of 2020A Pension Obligation Bonds which reduced PERS UAL costs. This decrease was offset by an increase in Debt Service.
- Decrease in Operating and Maintenance costs primarily due to a decrease in anticipated maintenance and repair costs.
- Increase in capital projects in support of approved rate plan and additional capital project funding of \$6.8 million for the Biogas project.

The Electric expenditure budget also includes supplemental requests of \$2.5 million in Operating and Maintenance costs due primarily to increases in professional services contracts; software purchases and licensing; and \$677,000 in Debt Service for capital lease of new equipment.

As planned with the rate proposal, a portion of the Electric expenditure budget will be funded by reserves. The following restricted and designated reserves are proposed to be utilized for the FY 2021/22 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 FY 2021/22 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 2021/22 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 71% of the Water expenditure budget. Current revenue sources including other non-retail revenues and bond proceeds are expected to cover the Water Fund's expenditure budget, which is anticipated with the rate proposal. Bond proceeds of approximately \$18.1 million will be utilized to fund a major portion of the capital improvement projects for FY 2021/22.

Expenditure Budget

The Water Fund's proposed FY 2021/22 budget reflects a 7.4% (\$7.9 million) decrease from FY 2020/21 amended budget. The decrease is primarily due to:

- Decrease in personnel costs from the issuance of 2020A Pension Obligation Bonds which reduced PERS UAL costs. This decrease was offset by an increase in Debt Service.
- Decrease in capital projects as aligned with the approved rate plan.

The Water expenditure budget also includes supplemental requests of \$2.8 million in System

Operations costs due primarily to increases in production costs and increases in professional services contracts; and \$520,000 in Debt Service for capital lease of new equipment.

ELECTRIC AND WATER RESERVES

The reserves of the Electric Fund, in conjunction with a line of credit, will be used to balance the FY 2021/22 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 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 2021/22 budget while maintaining cash reserves above the target minimum reserve level.

POTENTIAL COVID-19 IMPACTS

FY 2019/20 was an unprecedented year as the City of Riverside and RPU continued Local Emergency due to COVID 19 which began in March 2020. The Local Emergency resulted in the approval of an Emergency Budget for FY 2020/21 and has also delayed the annual audit and finalizing the FY 2019/20 financial information. Final FY 2019/20 financial information will be presented to the Board in February 2021.

While the extent of the revenue impacts to the Electric and Water Funds due to the pandemic are unknown at this time, staff will continue to monitor and provide updates as impacts become clear.

FISCAL IMPACT:

The Electric Funds (including Public Benefits Fund) proposed FY 2021/22 budget totals \$404.1 million in revenues, \$411.2 million in operating expenditures and \$48.3 million in capital improvements.

The Water Funds (including Water Conservation Fund) proposed FY 2021/22 budget totals \$86.1 million in revenues, \$78.9 million in operating expenditures and \$21.5 million in capital improvements.

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Attachment: Presentation