



CASH RESERVE POLICY UPDATE

Finance Division

Customer Relations/Finance Committee
June 21, 2021

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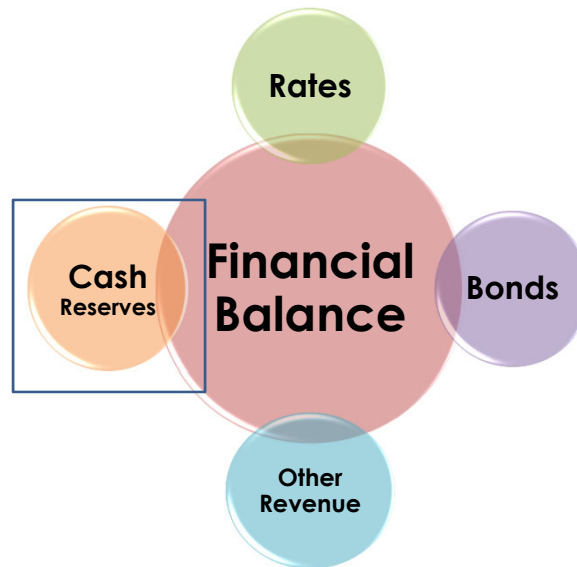
HISTORY

1. March 22, 2016 – Cash Reserve Policy approved by City Council
2. July 26, 2016- Policy incorporated as Appendix A of RPU Fiscal Policies
3. July 24, 2018- Policy updated to include a Dark Fiber Designated Reserve and a line of Credit
4. November 9, 2020- Update provided to Board

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PUTTING IT ALL TOGETHER



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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

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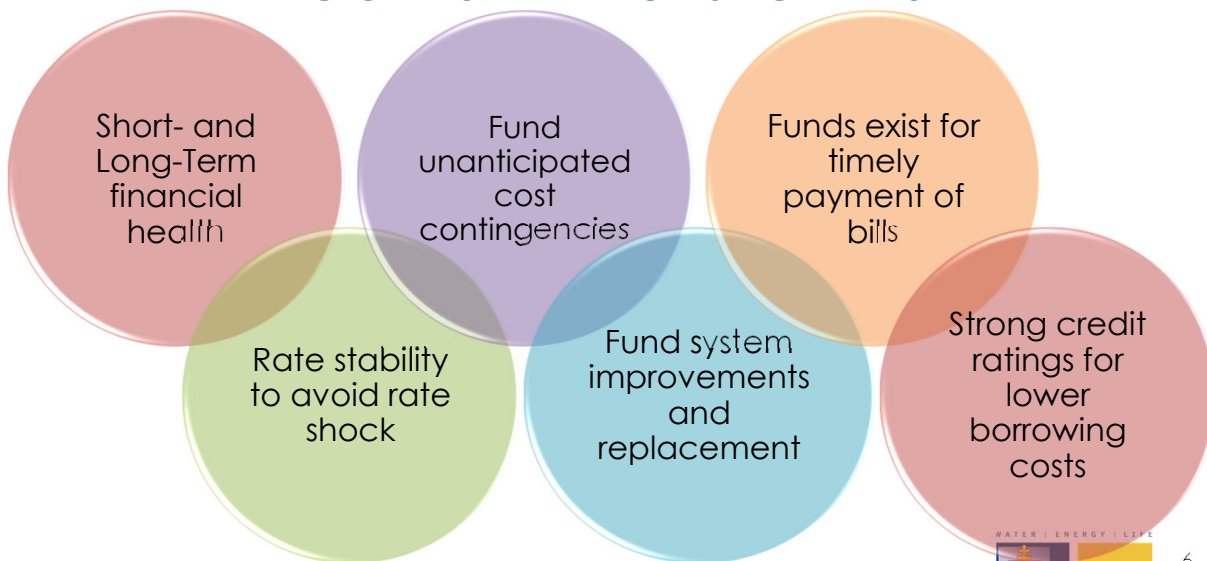


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PURPOSE OF RESERVE POLICY

1. Define and set goals in a transparent manner.
2. Ensure adequate levels are maintained.
3. 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


Debt Service Coverage
Ratio

Financial Flexibility
Resiliency

Operating Margin
Investor Confidence

Financial Strength = More Stable Electric and Water Rates

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RPU'S CREDIT AND RATING AGENCIES

June 30, 2020	Electric	Water
S&P	AA-	AAA
Fitch	AA-	AA+
Days Cash- Unrestricted Reserves	389	295
Days Cash- Unrestricted Reserves w/ LOC	434	488

S&P on RPU Electric: "Extremely strong liquidity and reserves, with \$300 million in total available liquidity or about 389 days' cash for fiscal 2020... 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 2020; 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".

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CASH RESERVE MEDIANS AND PEER UTILITIES

National Median (3yr Avg.)	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB
Electric	N/A	270	280	240	200	150	150	80	90
Water	638	569	551	463	403	377	253	142	175

Source: "S&P Review of US Retail Electric and Gas Utilities Under Revised Criteria and Updated Medians" (May 2020), "S&P US Municipal Water and Sewer Utility is Stable" (August 2019)

Peer Utility Days' Cash Levels						
Electric Utilities						
	RPU Unrestricted/ Incl. LOC	LADWP	Pasadena Water & Power	Anaheim Public Utilities ⁽¹⁾	Burbank Water & Power	Glendale Water & Power
Rating (Moody's/S&P/Fitch)	-/AA-/AA-	Aa2/AA-/AA-	-/AA/AA	-/AA-/AA-	-/AA/-	-/A+/-
Days' Cash	389/ 434	230	703	191	156	303
Water Utilities						
	RPU Unrestricted/ Incl. LOC	Irvine Ranch Water District	Pasadena Water & Power	Anaheim Public Utilities ⁽¹⁾	Eastern MWD	Western MWD
Rating (Moody's/S&P/Fitch)	Aa2/AAA/AA+	Aa1/-/AAA	-/AA+/AA+	-/AA+/AA+	Aa2/AA+/AA+	-/AA+/AA+
Days' Cash	295/ 488	952	726	440	528	438

⁽¹⁾IAPU has \$86 million of revolving credit for the Electric System and \$14 million revolving credit for the Water System.
Source: Peer utility ratings and days' cash based on most recent rating reports since 2019.

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CREDIT AND RATING AGENCIES

- RPU Electric Utility is one of 12 California utilities with AA-rating or higher.
- RPU Water Utility is one of 25 California utilities with AAA rating.

LONG-TERM RATINGS	Rating Agencies		
	S&P	Moody's	Fitch
INVESTMENT GRADE			
Highest Quality	AAA	Aaa	AAA
High Quality (Very Strong)	AA	Aa	AA
Upper Medium Grade (Strong)	A	A	A
Medium Grade	BBB	Baa	BBB
NOT INVESTMENT GRADE			
Lower Medium Grade (Somewhat Speculative)	BB	Ba	BB
Low Grade (Speculative)	BB	B	BB
Poor Quality (May Default)	CCC	Caa	CCC
Most Speculative	CC	Ca	CC
No Interest Being Paid or Bankruptcy Petition Filed	C	C	C
In Default	D	C	D
Electric Utility - 2001	A+	NR	A+
Electric Utility - 2015	AA-	NR	AA-
Electric Utility - 2020	AA-	NR	AA-
Water Utility - 2001	AA-	Aa	NR
Water Utility - 2015	AAA	Aa2	AA+
Water Utility - 2020	AAA	Aa2	AA+

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FUND RESERVES & CREDIT RATINGS

- 1. Reserves and liquidity are an important component of the overall credit analysis that rating agencies and investors perform.
- 2. Reserves and Debt Service Coverage are two factors of a rating that the City has control over.
- 3. The potential impact of a downgrade in credit rating is analyzed in the table below:

Potential Drop in Credit Rating Impact	
Issue New Debt (per \$195m)	\$115k per year
*Renewal of Line of Credit (LOC)	\$158.5k per year

*Renewal of LOCs in three years could increase that cost as less banks will be interested in issuing LOC.

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PANDEMIC IMPACT

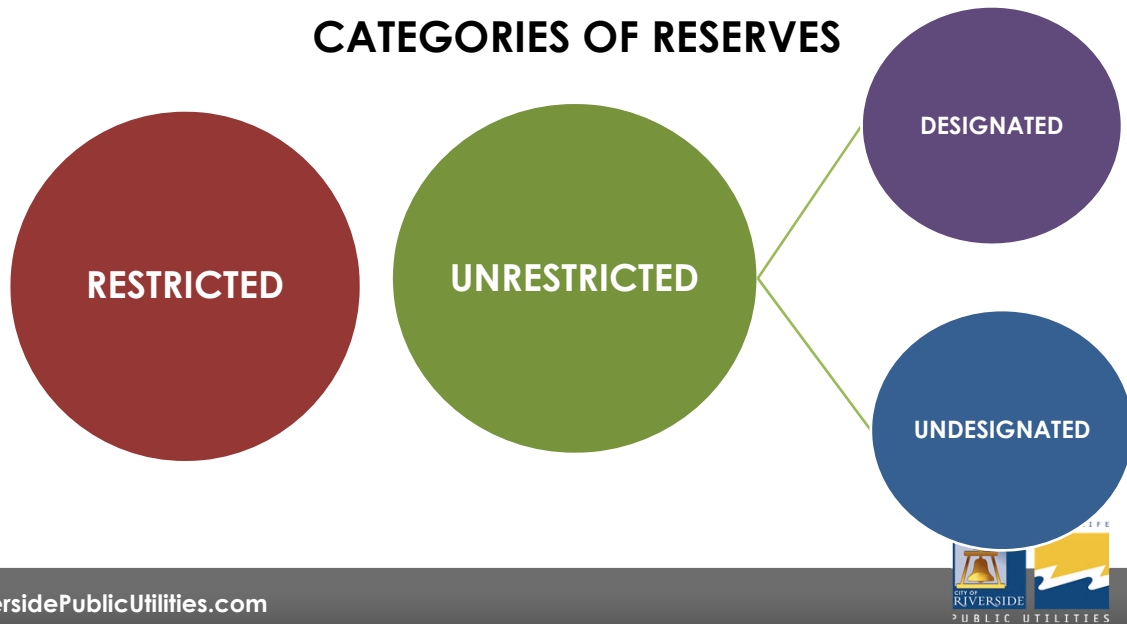
- 1. Electric Retail Sales: \$4.8M (1.9%) lower than budget through March 2021
- 2. Water Retail Sales: \$1.7M (3.4%) higher than budget through March 2021
- 3. City has experienced significant increases in customer accounts receivable
 - a. Accounts Receivable for all services including electric, water, sewer, and refuse increased by 51% or \$15.4 million from \$30.3 million in March 2020 to \$45.7 million on April 27, 2021
 - b. During the same period, delinquent accounts receivable has increased 391% or \$19.2 million from \$4.9 million in March 2020 to \$24.1 million on April 27, 2021

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POLICY DISCUSSION

CATEGORIES OF RESERVES



RESTRICTED RESERVES

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 RESERVES

Meet specific purposes that have been approved by Board and City Council

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

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UNRESTRICTED – UNDESIGNATED RESERVES

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

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

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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



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UNDESIGNATED RESERVE CALCULATIONS

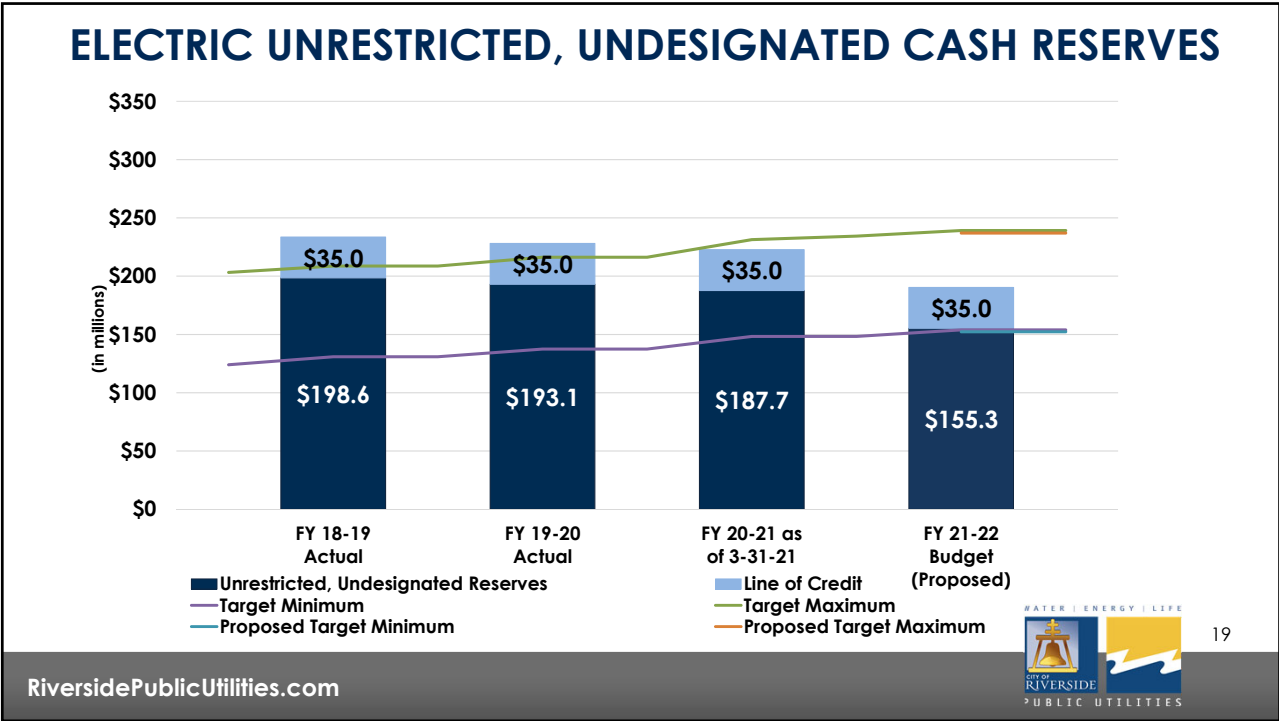
Electric Utility - June 30, 2020

Unrestricted- Undesignated	Target (Minimum)		Maximum	
Working Capital – O&M, including Power Supply and Labor	60 days	\$45,268,000	90 days	\$67,902,000
Rate Stabilization	10% of Op. Rev.	\$35,760,000	20% of Op. Rev.	\$71,520,000
Capital – Emergency	1% of cap assets	\$11,306,000	2% of cap assets	\$22,613,000
Capital – System Improvements	6 mos. of annual CIP	\$18,187,000	9 mos. of annual CIP	\$27,280,000
Debt Service	Highest Payment	\$26,886,000	Highest Payment	\$26,886,000
TOTAL		\$137,407,000		\$216,201,000
Days Cash on Hand Equivalent		182		287



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UNDESIGNATED RESERVE CALCULATIONS

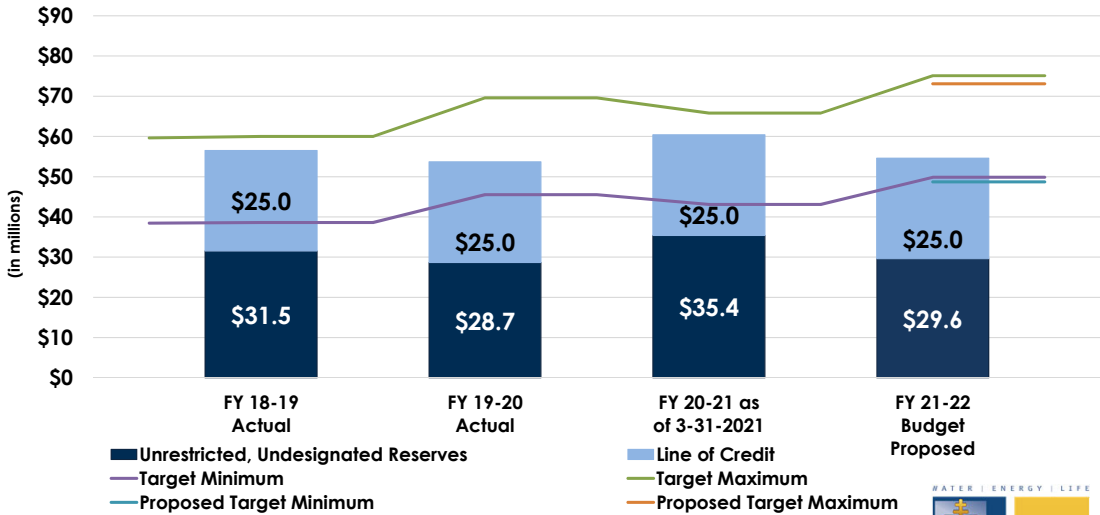
Water Utility - June 30, 2020

Unrestricted- Undesignated	Target (Minimum)		Maximum	
Working Capital – O&M, including Production and Labor	60 days	\$7,737,000	90 days	\$11,606,000
Rate Stabilization	7% of Op. Rev.	\$4,809,000	15% of Op. Rev.	\$10,305,000
Capital – Emergency	1% of cap assets	\$7,050,000	2% of cap assets	\$14,100,000
Capital – System Improvements	6 mos. of annual CIP	\$15,308,000	9 mos. of annual CIP	\$22,962,000
Debt Service	Highest Payment	\$10,631,000	Highest Payment	\$10,631,000
TOTAL		\$45,535,000		\$69,604,000
Days Cash on Hand Equivalent		353		540

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WATER UNRESTRICTED, UNDESIGNATED CASH RESERVES

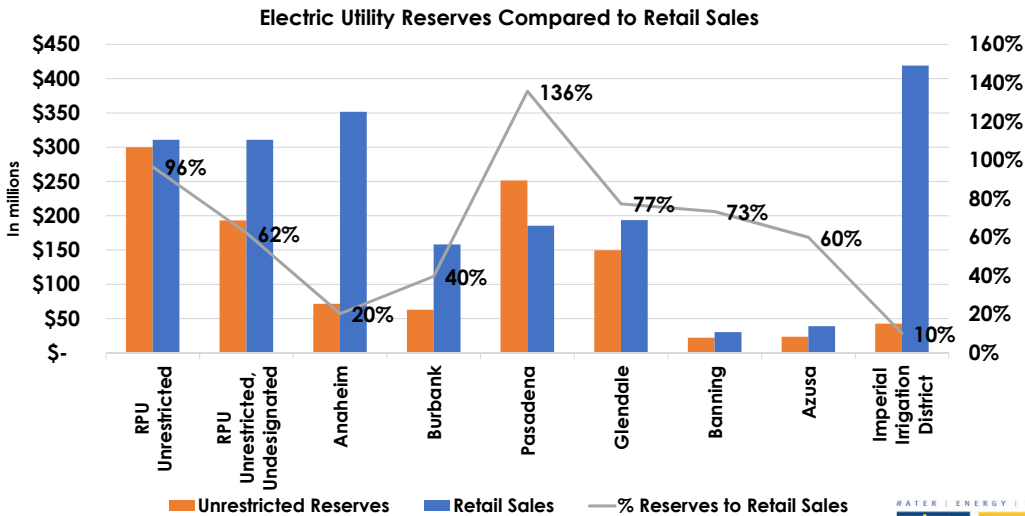


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ELECTRIC UTILITY RESERVES TO RETAIL SALES

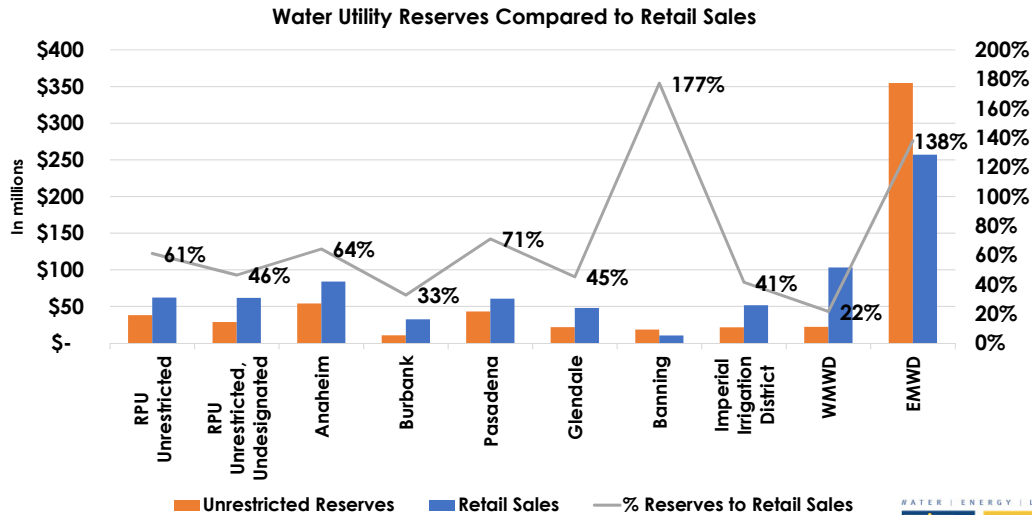


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WATER UTILITY RESERVES TO RETAIL SALES



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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
7. Included as note disclosure in 2020 Financial Report and received clean audit opinion

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WITHDRAWAL & REPLENISHMENT

1. Target reserve levels should be treated as practical minimums.
2. Allow to increase or decrease as necessary between minimum and maximum.
3. Above target and below max., Board/Council have flexibility to use CIP paygo, pay down unfunded liabilities, defease debt, or fund other strategic objectives.
4. Above max., RPU will seek Board/Council approval to use CIP paygo, pay down debt, offset other long-term liabilities, reduce rates, or other strategic purposes.
5. Below target, report to Board/Council and implement plans to return reserves to target levels within 3 years.

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REPORTING & OVERSIGHT

1. Reserve levels analyzed annually with year end financial results and reported to Board and City Council.
2. Recommendations made to Board and City Council when adjustments are necessary due to changes in risk factors
3. Policy will be reviewed annually and updated at minimum every 3 years, depending on risk exposure or other conditions RPU faces.

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PROPOSED UPDATES TO THE CASH POLICY

Unrestricted, Designated Reserves	Update
Additional Decommissioning Liability	Reflect increase in annual funding from \$1.6M to \$2.0M as approved with FY 20/21 Budget
Capital Repair/Replacement	Set targets at \$6.0M for Electric and \$2.25M for Water
Unrestricted, Undesignated Reserves	Update
Operating (Working Capital)	Excludes operating and maintenance expenses funded with restricted or unrestricted, designated reserves (Clarification of current practice).
Capital Repair/Replacement	<ol style="list-style-type: none"> 1) Excludes capital improvement expenditures funded with restricted or unrestricted, designated reserves other than bond proceeds (Clarification of current practice). 2) Calculation changed from following years capital improvement plan to the 3 year average previous year expenditures, current year budget, and following year budget

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RECOMMENDATION

That the Customer Relations/Finance Committee forward a recommendation to the Board of Public Utilities to recommend the City Council approve the updated Riverside Public Utilities Cash Reserve Policy.

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