

# CASH RESERVE POLICY UPDATE

## Riverside Public Utilities

City Council  
September 7, 2021

RiversideCA.gov

## HISTORY

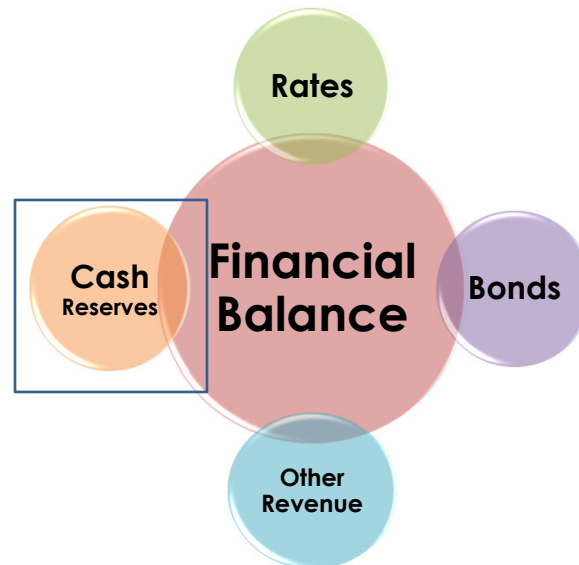
1. March 22, 2016 – Cash Reserve Policy approved by City Council
2. July 26, 2016- Policy incorporated as Appendix A of RPU Fiscal Policies
3. July 24, 2018- Policy updated to include a Dark Fiber Designated Reserve and a line of Credit
4. November 9, 2020- Update provided to Board



2

RiversideCA.gov

## PUTTING IT ALL TOGETHER



3

RiversideCA.gov

## 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



4

RiversideCA.gov

## 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.

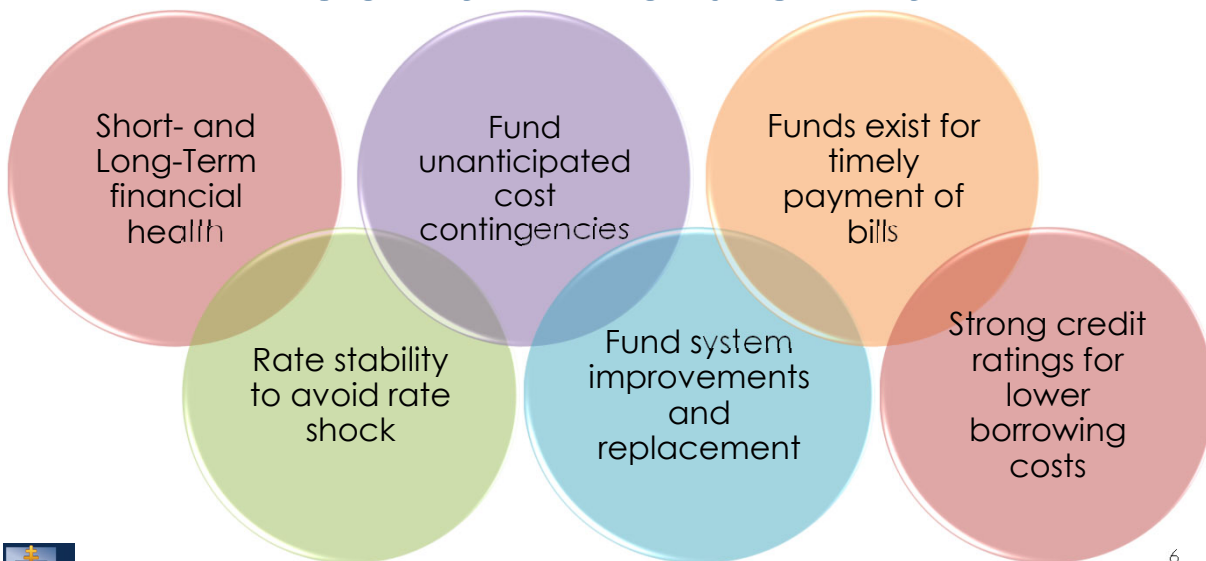


5

RiversideCA.gov

20

## GOALS AND OBJECTIVES



6

RiversideCA.gov

## 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**



7

RiversideCA.gov

## 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".

8



RiversideCA.gov

## 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 <sup>(1)</sup>	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 <sup>(1)</sup>	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

<sup>(1)</sup>RPU 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.

9


[RiversideCA.gov](http://RiversideCA.gov)

## 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
<b>INVESTMENT GRADE</b>			
Highest Quality	AAA	Aaa	AAA
High Quality (Very Strong)	AA	Aa	AA
Upper Medium Grade (Strong)	A	A	A
Medium Grade	BBB	Baa	BBB
<b>NOT INVESTMENT GRADE</b>			
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-
<b>Electric Utility - 2020</b>	<b>AA-</b>	<b>NR</b>	<b>AA-</b>
Water Utility - 2001	AA-	Aa	NR
Water Utility - 2015	AAA	Aa2	AA+
<b>Water Utility - 2020</b>	<b>AAA</b>	<b>Aa2</b>	<b>AA+</b>

10


[RiversideCA.gov](http://RiversideCA.gov)

## 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.

111

RiversideCA.gov

## PANDEMIC IMPACT

1. Electric Retail Sales: \$7.0M (2.5%) lower than budget through April 2021
2. Water Retail Sales: \$1.8M (3.2%) higher than budget through April 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 61% or \$18.4 million from \$30.3 million in March 2020 to \$48.7 million on May 31, 2021
  - b. During the same period, delinquent accounts receivable has increased 419% or \$20.6 million from \$4.9 million in March 2020 to \$25.5 million on May 31, 2021



12

RiversideCA.gov

## POLICY DISCUSSION

### CATEGORIES OF RESERVES



13

RiversideCA.gov

## 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		√



14

RiversideCA.gov

## 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	√	

15



RiversideCA.gov

## 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	√	√

16



RiversideCA.gov



## 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



17

RiversideCA.gov

## UNDESIGNATED RESERVE CALCULATIONS

Electric Utility - June 30, 2020

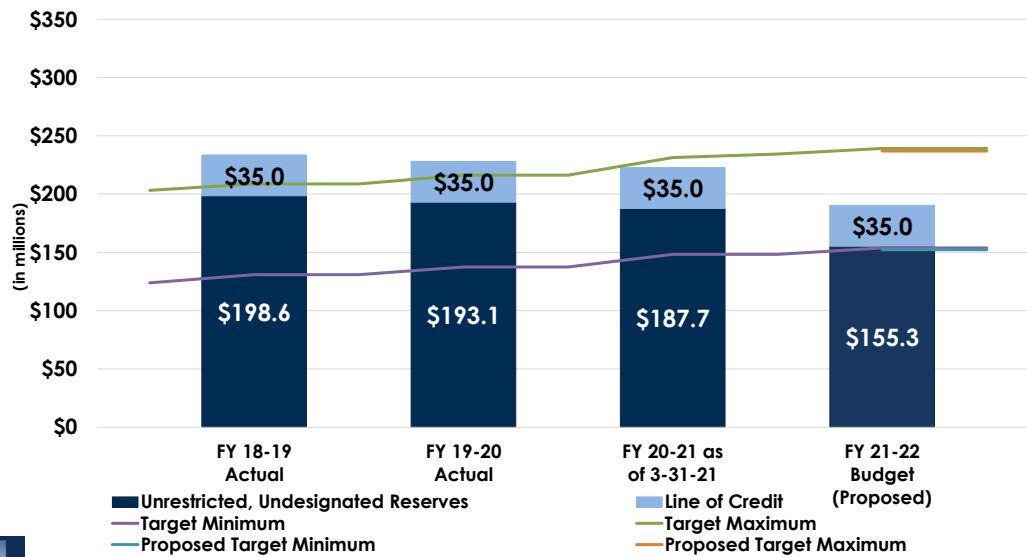
Undesignated	Target (Minimum)		Maximum	
Working Capital – O&M, including Power Supply and Labor	60 days	\$45,268,000	90 days	\$67,902,000
Rate Stabilization	10% of Op. Rev.	\$35,760,000	20% of Op. Rev.	\$71,520,000
Capital – Emergency	1% of cap assets	\$11,306,000	2% of cap assets	\$22,613,000
Capital – 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
<b>TOTAL</b>		<b>\$137,407,000</b>		<b>\$216,201,000</b>
<b>Days Cash on Hand Equivalent</b>		<b>182</b>		<b>287</b>



18

RiversideCA.gov

## ELECTRIC UNRESTRICTED, UNDESIGNATED CASH RESERVES



19

RiversideCA.gov

## UNDESIGNATED RESERVE CALCULATIONS

Water Utility - June 30, 2020

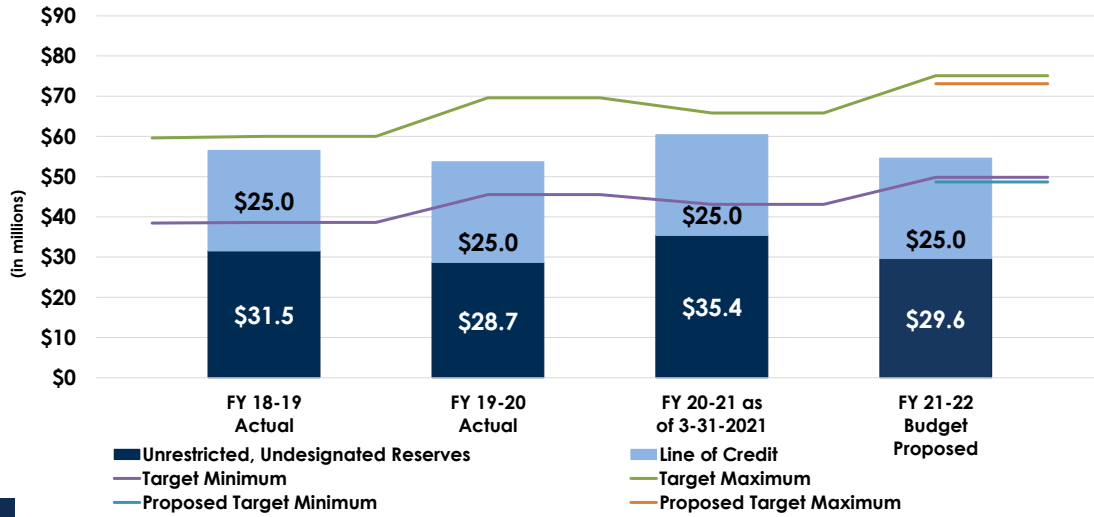
Undesignated	Target (Minimum)		Maximum	
Working Capital – O&M, including Production and Labor	60 days	\$7,737,000	90 days	\$11,606,000
Rate Stabilization	7% of Op. Rev.	\$4,809,000	15% of Op. Rev.	\$10,305,000
Capital – Emergency	1% of cap assets	\$7,050,000	2% of cap assets	\$14,100,000
Capital – System 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
<b>TOTAL</b>		<b>\$45,535,000</b>		<b>\$69,604,000</b>
<b>Days Cash on Hand Equivalent</b>		<b>353</b>		<b>540</b>



20

RiversideCA.gov

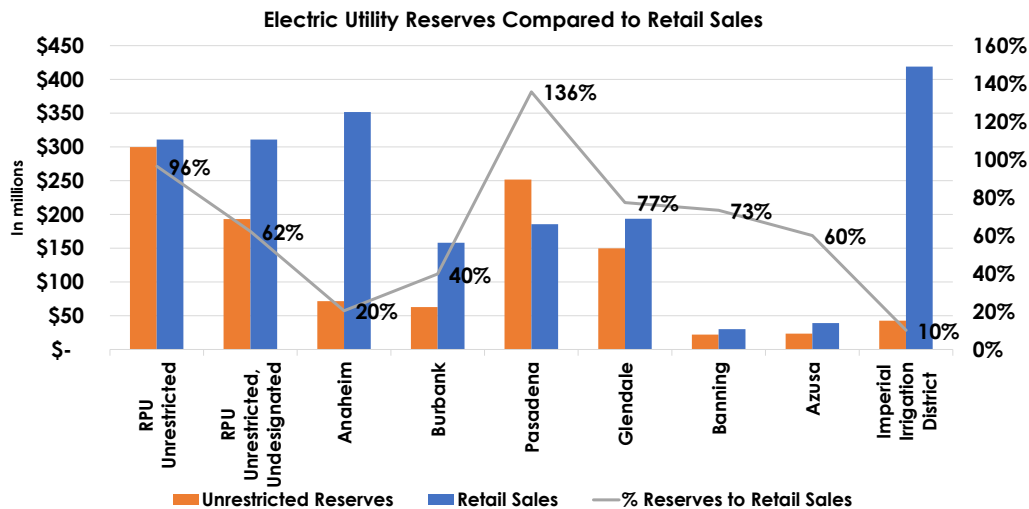
## WATER UNRESTRICTED, UNDESIGNATED CASH RESERVES



21

RiversideCA.gov

## ELECTRIC UTILITY RESERVES TO RETAIL SALES



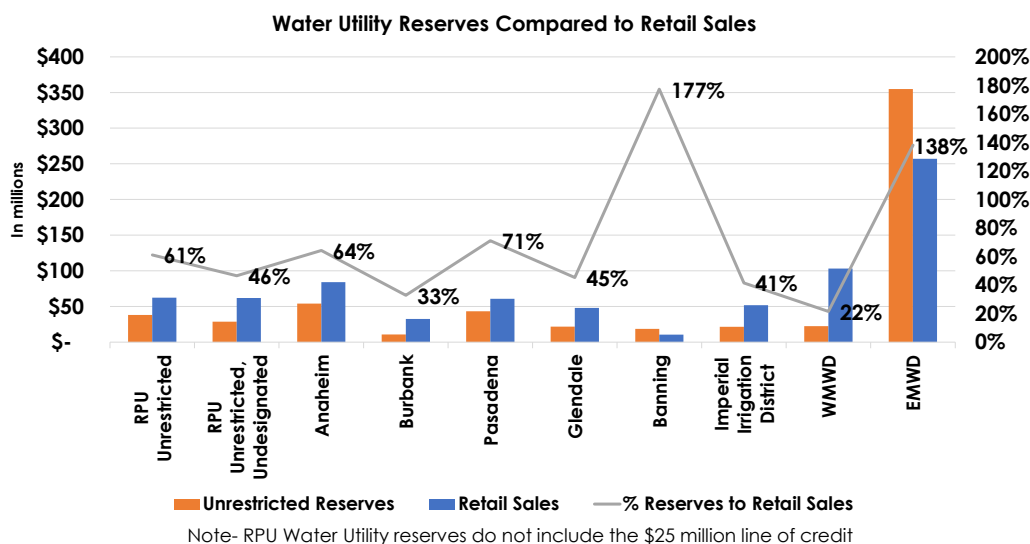
Note- RPU Electric Utility reserves do not include the \$35 million line of credit

22



RiversideCA.gov

## WATER UTILITY RESERVES TO RETAIL SALES



23

RiversideCA.gov

## 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. \$60 M; \$35 M Electric, \$25 M Water
7. Included as note disclosure in 2020 Financial Report and received clean audit opinion



24

RiversideCA.gov

## 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.



25

RiversideCA.gov

## 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.



26

RiversideCA.gov

## PROPOSED UPDATES TO THE CASH POLICY

Designated Reserves	Update
Additional Decommissioning Liability	Reflect increase in annual funding from \$1.6M to \$2.0M as approved with FY 20/21 Budget
Undesignated Reserves	Update
Operating (Working Capital)	Excludes operating and maintenance expenses funded with restricted or designated reserves (Clarification of current practice).
Capital Repair/Replacement	1) Excludes capital improvement expenditures funded with restricted or 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
Reserve Terminology	Update
Unrestricted Reserves	Simplify terminology from unrestricted, designated and unrestricted, undesignated to designated and undesignated


[RiversideCA.gov](http://RiversideCA.gov)

## STRATEGIC PLAN ALIGNMENT

1. Aligns with High Performing Government and Infrastructure, Mobility & Connectivity
2. Cross-Cutting Threads:
  - a) Community Trust- Transparent policy
  - b) Equity- Contributing to equitable electric and water services
  - c) Fiscal Responsibility- Short and long-term financial health
  - d) Innovation- Stable rates and funding for unanticipated cost contingencies
  - e) Sustainability & Resiliency- Financial health and mitigating risk



288

[RiversideCA.gov](http://RiversideCA.gov)

## RECOMMENDATION

That the City Council approve the updated Riverside Public Utilities Cash Reserve Policy.