



INTRODUCTION TO BOND FINANCING AND THE ROLE OF THE FISCAL POLICY STRATEGIES

RPU Finance Division

Customer Relations/Finance Committee
September 20, 2021

RiversidePublicUtilities.com



1

SAMPLE BOND FINANCING LIFE CYCLE



RiversidePublicUtilities.com



2

CAPITAL PLAN

1. Multi-year at least 5 years*
2. Capital project: the asset or improvement should have monetary value of at least \$20,000; and useful life of at least 10 years**
3. Fund no less than 10% of the current budget year CIP through the use of rates or current revenues or other reimbursements ***
4. Purpose of capitalizing costs is to line up the cost of using an asset with the length of time which the asset generates revenue – Generational Equity

* Admin Manual 06.001.00 Annual Budget and Capital Improvement Program Calendar

** Multi-Year Capital Planning Fiscal Policy <https://www.riversideca.gov/finance/PDF/2018/Multi-Year%20Capital%20Planning.pdf>

*** RPU Fiscal Policy <https://www.riversideca.gov/utilities/about-rpu/pdf/RPU%20Fiscal%20Policies%20UPDATED%207-24-18%20FINAL.pdf>

RiversidePublicUtilities.com



3

ASSET CAPITALIZATION

1. Assets value of \$5,000 or more * and a useful life greater than 1 year **
2. Acquisition value: cost of equipment and any associated costs incurred to make the equipment ready for service**
3. Intangible assets, such as software, that cost more than \$100,000 with useful lives of at least three years are capitalized at cost **
4. Capitalized Labor: All direct costs of labor associated with the construction, modification, or installation of specific items of capital assets **
5. The costs of improvements and replacements are capitalized if they meet certain criteria **

* Admin Manual 06.005.00 Equipment and Asset Inventory

** RPU Fiscal Policy <https://www.riversideca.gov/utilities/about-rpu/pdf/RPU%20Fiscal%20Policies%20UPDATED%207-24-18%20FINAL.pdf>

RiversidePublicUtilities.com



4

FUNDING CONSIDERATIONS

Type of Funding	Advantages	Disadvantages
PayGo	<ol style="list-style-type: none"> 1. No debt service payments 2. Interest savings 	<ol style="list-style-type: none"> 1. Subject to limitations of available revenue 2. Rate considerations 3. Long wait time for new infrastructure
Grants	<ol style="list-style-type: none"> 1. Does not take away from any funding source 	<ol style="list-style-type: none"> 1. Unpredictable availability of grant programs to meet the capital needs 2. Funding may not cover all project costs 3. Funds are often received on reimbursement basis
Borrowing	<ol style="list-style-type: none"> 1. Inter-generational equity 2. Funds are received when needed 3. Costs are spread over the useful life of the asset 	<ol style="list-style-type: none"> 1. Interest costs 2. Various forms of borrowing may have specific terms/conditions 3. Covenants and disclosure reporting for the life of issuance

RiversidePublicUtilities.com



5

STRUCTURE OF MUNICIPAL BONDS

1. Debt instrument where investors loan money to a borrower (i.e., RPU)
2. The Utility issues a bond that states the interest rate (coupon) that will be paid and when the loaned funds (bond principal) are to be returned (maturity date)
3. Bonds can be issued with a variety of interest rate structures
-Fixed rate; or Variable rate
4. Municipal entities are able to issue tax-exempt bonds for eligible projects

RiversidePublicUtilities.com



6

GENERAL MUNICIPAL BOND PURPOSES

1. New Money Bonds used to issue capital projects
2. Refunding bonds
 - A. Issued to refinance existing debt
 - B. Sold at lower interest rates to create debt service savings
 - C. Remove restrictive requirements of existing bonds
 - D. Restructure the principal payment schedules
 - E. Provide savings to ratepayers

RiversidePublicUtilities.com



7

DEBT MANAGEMENT POLICY

1. Governs the issuance and management of all debt and capital leases *
2. Maintain sound financial position *
3. Protect and enhance credit-worthiness *
4. Protect both current and future taxpayers, ratepayers and constituents *
5. Ensure flexibility to respond to changes in future service priorities *
6. Indicators show debt service coverage dropping below the minimum target, return to the minimum targeted levels within 3 years **
7. Minimum debt service coverage – Electric 110%, Water 125% & Target min of 175% **

* Debt Management Policy <https://www.riversideca.gov/finance/PDF/2018/Final%20Debt%20Mgmt%20Policy%201-2017.pdf>

** RPU Fiscal Policy <https://www.riversideca.gov/utilities/about-rpu/pdf/RPU%20Fiscal%20Policies%20UPDATED%207-24-18%20FINAL.pdf>

RiversidePublicUtilities.com



8

DEBT MANAGEMENT LONG-TERM DEBT

Long-term debt financings are appropriate when the following conditions exist *:

1. When the project to be financed is necessary to provide basic services
2. When the project to be financed will provide benefit to constituents over multiple years
3. When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring

* Debt Management Policy <https://www.riversideca.gov/finance/PDF/2018/Final%20Debt%20Mgmt%20Policy%201-2017.pdf>

RiversidePublicUtilities.com



9

EXISTING BOND ISSUANCES

Issuance	Fixed/Variable	Bond Yield / Swap Rate	FY of Maturity
2008A Electric Revenue Bonds	Variable	3.11%	2030
2008C Electric Revenue Bonds	Variable	3.20%	2036
2010A Electric Revenue Bonds	BABs Fixed	4.89%	2041
2011A Electric Revenue Bonds	Variable	3.20%	2036
2013A Electric Revenue Bonds	Fixed	4.28%	2044
2019A Refunding Electric Revenue Bonds	Fixed	3.18%	2049
2009B Water Revenue Bonds	BABs Fixed	4.09%	2040
2011A Water Revenue Bonds	Variable	3.20%	2036
2019A Refunding Water Revenue Bonds	Fixed	3.08%	2049

Preliminary Projected CIP Needs: Electric \$191 Million & Water \$63M

RiversidePublicUtilities.com



10

ESTIMATED FISCAL IMPACT OF FINANCING RPU LABOR FOR CAPITAL PROJECTS

Riverside Public Utilities						
Capitalized Labor Estimates						
	Adopted	Proposed	Proposed	Proposed	Proposed	
	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	Total
Total CIP Budget	\$ 41,663,797	\$ 42,265,364	\$ 41,761,648	\$ 56,657,003	\$ 57,338,490	\$ 239,686,302
Est. % of Bond Financing	64%	64%	64%	64%	64%	
Est. Total CIP Funded by Bonds	26,660,846	27,045,792	26,723,462	36,255,065	36,691,151	153,376,315
Est. % of Labor	30%	30%	30%	30%	30%	
Est. Total Labor Funded by Bonds	\$ 7,894,087	\$ 8,008,066	\$ 7,912,627	\$ 10,734,866	\$ 10,863,988	\$ 45,413,634

- 1) The impact of not using bond funding for labor expenses will decrease our operating cash by approximately \$45.4M in 5 years based on the original CIP budget.
- 2) The use of multi-year bond financing distributes the cost of the asset over its useful life providing generational equity.

This information is an example only. The estimated percentages are based on typical CIP projects but is not an analysis of the actual financial transactions

RiversidePublicUtilities.com



11

STRATEGIC PLAN ALIGNMENT

This item contributes to Strategic Priority No. 6 Infrastructure, Mobility & Connectivity and Goal No. 6.2. - Maintain, protect and improve assets and infrastructure within the City's built environment to ensure and enhance reliability, resiliency, sustainability, and facilitate connectivity.

RiversidePublicUtilities.com



12

STRATEGIC PLAN ALIGNMENT

Cross-Cutting Threads:

1. Community Trust - The use of bond proceeds to finance capital expenditures supports the City of Riverside's Multi-year Capital Planning Fiscal Policy, which establishes transparent fiscal guidelines for project planning to ensure the trust and interest of RPU ratepayers is upheld.
2. Equity - Using bonded indebtedness to fund long-term capital projects ensures generational equity. The repayment of the cost of the facility (20 to 30 years) is made by the generation of ratepayers that receive the actual benefits of the project.
3. Fiscal Responsibility - Proactive planning and flexibility allows the Utility to enter the bond market at the most advantageous time in terms of cost of capital and availability of resources.
4. Innovation – Ensuring accessibility to the tax-exempt capital securities market allows Riverside to expand and upgrade to meet the future needs of its ratepayers.
5. Sustainability & Resiliency - Sound analysis and consideration of all funding options are the key to Riverside's resilient and sustainable debt portfolio.



13

RiversidePublicUtilities.com

RECOMMENDATIONS

That the Customer Relations/Finance Committee:

1. Receive an introduction on how Riverside Public Utilities uses bond financing; and
2. Provide feedback to staff regarding the fiscal policies that direct the use of bond financing for Riverside Public Utilities.



14

RiversidePublicUtilities.com