



# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

**BOARD OF PUBLIC UTILITIES**

**DATE: APRIL 13, 2026**

**SUBJECT: RIVERSIDE PUBLIC UTILITIES PROPOSED BUDGET FOR FISCAL YEAR 2026/27 – 2027/28**

**ISSUE:**

Review and recommend that the City Council approve the Riverside Public Utilities Department proposed budget for Fiscal Year 2026/27 - 2027/28.

**RECOMMENDATIONS:**

That the Board of Public Utilities recommend that City Council:

1. Approve the Electric Funds (including Public Benefits Fund) proposed Fiscal Year 2026/27 budget totaling \$523.6 million in revenues, \$512.3 million in operating expenditures and \$79.7 million in capital improvements and proposed Fiscal Year 2027/28 budget totaling \$527.9 million in revenues, \$495.8 million in operating expenditures and \$75.6 million in capital improvements. The difference between revenues and expenditures including capital improvements, will be funded by bond proceeds and undesignated, designated, and restricted reserves; and
2. Approve the Water Funds (including Water Conservation Fund) proposed for Fiscal Year 2026/27 budget totaling \$121.8 million in revenues, \$112.0 million in operating expenditures and \$45.3 million in capital improvements and proposed Fiscal Year 2027/28 budget totaling \$123.7 million in revenues, \$116.0 million in operating expenditures and \$37.5 million in capital improvements. The difference between revenues and expenditures including capital improvements, will be funded by bond proceeds and undesignated, designated, and restricted reserves.

**BACKGROUND:**

On December 8, 2015, the City Council approved the move to a two-year budget with enhanced long-term planning. A two-year budget provides the City Council, departments and the public with greater certainty regarding ongoing funding and staffing for programs and services. The proposed budget for Fiscal Year 2026/27 - 2027/28 is expected to be presented at City Council on May 19, 2026, with final adoption by the City Council on June 23, 2026.

## **DISCUSSION:**

### **BUDGET OVERVIEW**

The proposed Fiscal Year 2026/27 - 2027/28 budget has been developed to continue to maintain the level of quality electric and water services to our customers.

The following are key highlights in developing this budget:

1. Planned use of electric and water reserves prior to contributing to reserves to meet target minimum reserve levels according to the approved five-year rate plan.
2. Regulatory constraints and mandates, including meeting the power supply renewable percentage and overall cost increases, have increased operating and maintenance and capital costs.
3. Significant unfunded capital needs due to aging infrastructure and equipment.

The proposed Fiscal Year 2026/27 - 2027/28 budget has been developed in alignment with the Five-Year Rate Plan previously approved by 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 and recent trends in customers' usage. This information is then used to statistically forecast retail sales. On September 19, 2023, the City Council approved rate increases as part of a five-year rate plan effective October 1, 2023 for Water and January 1, 2024 for Electric.

#### ***Other Revenues***

Consistent with the rate plan, Riverside Public Utilities (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 undesignated, designated, and restricted 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 and water reserves in the proposed budget is consistent with 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 (in millions):

| <b>Electric</b>  | <b>FY 24/25<br/>Actuals</b> | <b>FY 25/26<br/>Budget</b> | <b>FY 26/27<br/>Proposed</b> | <b>FY 27/28<br/>Proposed</b> |
|--|-----------------------------|----------------------------|------------------------------|------------------------------|
| Electric Fund - Revenues   | \$496.8                     | \$485.5                    | \$510.5                      | \$514.4                      |
| Public Benefits (PB) - Revenues  | 13.3                        | 13.7                       | 13.1                         | 13.5                         |
| <b>Total Electric Revenues</b>   | <b>\$510.1</b>              | <b>\$499.2</b>             | <b>\$523.6</b>               | <b>\$527.9</b>               |
| Use of Bond Proceeds   | 33.2                        | 49.0                       | 52.6                         | 48.8                         |
| Use (Incr.) of PB Fund Reserve   | (3.0)                       | 2.9                        | -                            | -                            |
| <b>Total Electric – Revenues and<br/>Other Financing Sources</b>       | <b>\$540.3</b>              | <b>\$551.1</b>             | <b>\$576.2</b>               | <b>\$576.7</b>               |
|  |                             |                            |                              |                              |
| Electric Fund - Expenditures   | \$470.7                     | \$542.0                    | \$578.9                      | \$557.9                      |
| Public Benefits - Expenditures   | 10.3                        | 16.6                       | 13.1                         | 13.5                         |
| <b>Total Electric Expenditures,<br/>Including Capital Improvements</b> | <b>\$481.0</b>              | <b>\$558.6</b>             | <b>\$592.0</b>               | <b>\$571.4</b>               |
| Use (Incr.) of Electric Fund<br>Reserves                               | (59.3)                      | 7.5                        | 15.8                         | (5.3)                        |

*\*The expenditures are not final and may be subject to minimal changes based on the General Fund budget adoption.*

The following is the budget summary for the Water Funds, including Water Conservation (in millions):

| <b>Water</b>  | <b>FY 24/25<br/>Actuals</b> | <b>FY 25/26<br/>Budget</b> | <b>FY 26/27<br/>Proposed</b> | <b>FY 27/28<br/>Proposed</b> |
|---|-----------------------------|----------------------------|------------------------------|------------------------------|
| Water Fund - Revenues   | \$110.9                     | \$106.5                    | \$121.8                      | \$123.7                      |
| Water Conservation (WC) -<br>Revenues                               | 0.2                         | 1.6                        | 0.0                          | 0.0                          |
| <b>Total Water Revenues</b>   | <b>\$111.1</b>              | <b>\$108.1</b>             | <b>\$121.8</b>               | <b>\$123.7</b>               |
| Use of Bond Proceeds  | 8.6                         | 30.1                       | 37.5                         | 30.8                         |
| Use (Incr.) of WC Fund Reserves                                     | 0.7                         | 0.0                        | 1.4                          | 1.5                          |
| <b>Total Water – Revenues and<br/>Other Financing Sources</b>       | <b>\$120.4</b>              | <b>\$138.2</b>             | <b>\$160.7</b>               | <b>\$156.0</b>               |
|   |                             |                            |                              |                              |
| Water Fund - Expenditures   | \$ 104.4                    | \$ 130.6                   | \$ 155.8                     | \$152.0                      |
| Water Conservation – Expenditures                                   | 0.9                         | 1.5                        | 1.5                          | 1.5                          |
| <b>Total Water Expenditures,<br/>Including Capital Improvements</b> | <b>\$ 105.3</b>             | <b>\$ 132.1</b>            | <b>\$ 157.3</b>              | <b>\$ 153.5</b>              |
| Use (Incr.) of Water Fund Reserves                                  | (15.1)                      | (6.1)                      | (3.4)                        | (2.5)                        |

*\*The expenditures are not final and may be subject to minimal changes based on the General Fund budget adoption.*

## **OPERATING BUDGETS**

The proposed operating budget for the Electric and Water Funds includes increases of \$5.1 million and \$10.3 million Fiscal Year 2026/27, respectively, and increases of \$2.8 million and \$4.9 million respectively for Fiscal Year 2027/28. Non-discretionary costs such as power supply and production costs are 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 10% for the Electric Fund, as part of the affordability plan, which is approximately \$8.3 million in personnel savings for Fiscal Year 2026/27 and \$8.9 million for Fiscal Year 2027/28. For the Water Fund, staff estimates a 5% vacancy factor which is approximately \$1.5 million in personnel savings for Fiscal Year 2026/27 and \$1.6 million for Fiscal Year 2027/28.

## **CAPITAL IMPROVEMENT PROGRAM**

As part of the budget process, RPU has prepared a five-year Capital Improvement Program (CIP) and included the first two years of the program for the Fiscal Years 2026/27 and 2027/28 budget. The proposed CIP for the Electric and Water Funds is \$79.7 million and \$45.3 million, respectively for Fiscal Year 2026/27, and \$75.6 million and \$37.5 million respectively for Fiscal Year 2027/28. The CIP is comprised of capital projects as presented to the Board and City Council in 2023 as part of the five-year rate plan and is outlined in the presentation with adjustments for project funding shifts between fiscal years. The proposed Electric CIP includes supplemental increases for critical capital improvements to the Riverside Energy Resource Center (RERC) Units 1 and 2 and Clearwater plants, as well as preliminary work for the Battery Energy Storage System (BESS) Project. Funding for the CIP is a combination of bond proceeds, developer contributions, rates, and reserves. Funding for Riverside Transmission Reliability Project (RTRP) has been approved by the Board and City Council and will be spent as the project is constructed.

### ***Electric Fund***

#### ***Revenue Budget***

The primary source of revenue for the Electric Fund is retail sales, which will fund 75% 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 \$52.6 million and \$48.8 million will be utilized to fund a major portion of the capital improvement projects for Fiscal Year 2026/27 and Fiscal Year 2027/28 respectively. Reserves will be utilized to cover the balance of the expenditures in Fiscal Year 2026/27, as planned with the rate plan.

#### ***Expenditure Budget***

The proposed Electric Funds budget for FY 2026/27 reflects a 6.8% increase (\$37.9 million) over FY 2025/26, followed by a 3.4% decrease (\$20.4 million) in FY 2027/28 compared to FY 2026/27. These changes are primarily driven by the following factors:

1. Increase in power supply costs for FY 2026/27 primarily reflect the projected cost increase for the IPP-Repower project, in addition to some additive costs for new renewable energy purchases. For FY 2027/28, transmission costs are expected to decrease significantly after exiting the IPP-Repower project, while projected purchased power costs are not expected to change significantly. Power supply costs represent 50% of the total Electric budget.

2. Increase in personnel salaries, benefits and CalPERS expenses. Electric Personnel includes an overall reduction of 5.0 full-time positions from 475 to 470 full-time positions. The reduction is a result of removing 7.0 vacant Utility Meter Readers no longer necessary to support Field Services operations, and the addition of 1.0 Utility Analyst to support Customer Service, the 311 Call Center, and Credit and Collections, and 1.0 Utility SCADA System Supervisor to support the Generation Section's increasing complexity of technical operations and to ensure long-term organizational resilience.
3. Increase in operating and maintenance costs of \$5.1 million and \$2.8 million in Fiscal Year 2026/27 and 2027/28, respectively, primarily due to an increase in technology upgrades in FY 2026/27, facility repair and maintenance, and postage expenses.
4. The increase in capital projects for FY 2026/27 reflects a supplemental increase of \$12.6 million, primarily \$9.4 million for the RERC and Clearwater Plants funded by the Reliability Reserve, \$3.0 million preliminary work for the Battery Energy Storage System (BESS) Project funded by undesignated reserves, and \$0.2 million of additional electric vehicle charging infrastructure funded by Cap and Trade Auction Reserves. Although capital project funding decreases in FY 2027/28, a supplemental increase of \$5.9 million is reflected for the RERC and Clearwater Plants funded by the Reliability Reserve.
5. The Dark Fiber Program was established along with the Designated Dark Fiber Reserve to capture the dark fiber leasing activities for both revenues and expenditures. Annual revenue is approximately \$0.7 million for Fiscal Year 2026/27 and 2027/28, and \$0.7M in expenditures have been budgeted for Fiscal Year 2026/27 and 2027/28 for the two-year budget for the operation and maintenance of the dark fiber network with authorized use of the Designated Dark Fiber Reserve included with the Electric Fund Budget approval.

## **Water Fund**

### *Revenue Budget*

Similar to the Electric Fund, the primary source of revenues for the Water Fund is retail sales, which will fund 63% of the Water expenditure budget. Current revenue sources including other non-retail revenues and bond proceeds will not be adequate to cover the Water Fund's expenditure budget, which is included in the rate plan. Bond proceeds of approximately \$37.5 million and \$30.8 million will be utilized to fund a major portion of the capital improvement projects for Fiscal Year 2026/27 and Fiscal Year 2027/28 respectively. Undesignated reserves will be utilized to cover the balance of the expenditures in Fiscal Year 2026/27 and 2027/28, as planned with the rate plan. The proposed revenue budget includes PFAS settlement proceeds expected to be received by RPU from responsible polluters of \$8.1 million and \$2.8 million in Fiscal Years 2026/27 and 2027/28, respectively. These PFAS settlement proceeds will be deposited into the Designated Water Treatment Reserve. The increases in the Designated Water Treatment Reserve, combined with decreases in the undesignated reserve in Fiscal Years 2026/27 and 2027/28, result in overall increases to the Water Fund's reserves.

### *Expenditure Budget*

The Water Fund's proposed two-year budget reflects a 19.0% (\$25.1 million) over FY 2025/26, followed by a 2.4% decrease (\$3.8 million) in FY 2027/28 compared to FY 2026/27. The increase is primarily due to:

1. Increase in personnel salaries, benefits and CalPERS expenses. There are no proposed reductions or additions to the Water Fund's 165 full-time positions.

2. Increase in operating and maintenance costs primarily due to increased maintenance and repair work including additional paving expenses previously approved by the Board and City Council, a shift in costs from capital to operating and maintenance as the capitalization threshold was increased, increased energy costs, purchase of diesel generators, and increased Gage Canal and other tax assessments.
3. Additional increases in operating and maintenance costs include \$5.2 million for the purchase of 21 heavy duty vehicles including four (4) dump trucks, two (2) large service trucks, one (1) Vac truck, four (4) Backhoes, as well as other miscellaneous trucks. RPU will utilize capital lease financing for the purchase of approximately \$4.4 million of the \$5.2 million budgeted for new vehicles. Capital lease financing is a type of loan in which a bank amortizes the cost of the asset over a specific period of time. This finance option allows RPU to spread the cost of the vehicles over a set term, freeing operating costs for other purposes. RPU retains the vehicles, but until the debt is paid off the vehicles serve as collateral for the debt. Once the capital lease is paid off, RPU retains ownership of the vehicles.
4. Increase in capital projects \$1.6 million for paving costs previously approved by Board and City Council.

### **ELECTRIC AND WATER RESERVES**

The reserves of the Electric and Water Funds, in conjunction with lines of credit, will be used to balance the two-year budget and maintain the target minimum reserve levels established by the RPU Cash Reserve Policy. The financial strategy within the adopted Electric and Water Rate Plans is to maintain target minimum required reserve levels to keep the rate increases as low as possible. The Electric Fund projected reserves fall below target minimum reserve levels for Fiscal Year 2026/27. However, in compliance with the RPU Cash Reserve Policy, Electric Fund reserves are projected to return above target minimum reserve levels in Fiscal Year 2027/28. Water Fund reserves are projected to maintain target minimum reserve levels for Fiscal Year 2026/27 and Fiscal Year 2027/28.

### **FISCAL IMPACT:**

The Electric Funds (including Public Benefits Fund) proposed Fiscal Year 2026/27 budget totaling \$523.6 million in revenues, \$512.3 million in operating expenditures and \$79.7 million in capital improvements and proposed Fiscal Year 2027/28 budget totaling \$527.9 million in revenues, \$495.8 million in operating expenditures and \$75.6 million in capital improvements. The difference between revenues and expenditures including capital improvements, will be funded by bond proceeds and undesignated, designated, and restricted reserves. The use of designated reserves in the next two fiscal years includes \$1.3 million from the Designated Dark Fiber Reserve.

The Water Funds (including Water Conservation Fund) proposed Fiscal Year 2026/27 budget totaling \$121.8 million in revenues, \$112.0 million in operating expenditures and \$45.3 million in capital improvements and proposed Fiscal Year 2027/28 budget totaling \$123.7 million in revenues, \$116.0 million in operating expenditures and \$37.5 million in capital improvements. The difference between revenues and expenditures including capital improvements, will be funded by bond proceeds and undesignated, designated, and restricted reserves. The difference between revenues and expenditures including capital improvements, will be funded by bond proceeds and undesignated, designated, and restricted reserves.

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**Attachment:**

1. Electric Preliminary Budget 2026-2028 and 5-Year Plan
2. Water Preliminary Budget 2026-2028 and 5-Year Plan
3. Five-Year CIP Summary
4. Service Department Direct and Allocated Costs
5. Presentation