



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: JANUARY 27, 2025

SUBJECT: RIVERSIDE PUBLIC UTILITIES 2024 ANNUAL AUDIT AND FINANCIAL REPORT

ISSUE:

Consider the Riverside Public Utilities 2024 Annual Audit and Financial Report for the fiscal year ended June 30, 2024.

RECOMMENDATION:

That the Board of Public Utilities recommend City Council approval of the Riverside Public Utilities 2024 Annual Audit and Financial Report.

BACKGROUND:

An independent audit is performed each year of the City of Riverside (City) and its related entities' financial statements. On April 16, 2024, the City Council approved a five-year term with CliftonLarsonAllen LLP to serve as independent external auditors for the annual financial statements.

The Riverside Public Utilities (RPU) fiscal policy was adopted by the Board of Public Utilities (Board) on May 23, 2016, and City Council on July 26, 2016. The cash reserves section of the fiscal policy was updated and approved by the Board on June 24, 2024, and City Council on August 6, 2024. Per the fiscal policy, RPU shall prepare annual full-accrual financial statements, including the Management's Discussion and Analysis and the accompanying Notes to the Financial Statements.

Per the City's Charter Section 1202(a), the Board of Public Utilities "shall have the duty" to consider the annual budget of the Department of Public Utilities and make recommendations to the City Council and the City Manager.

DISCUSSION:

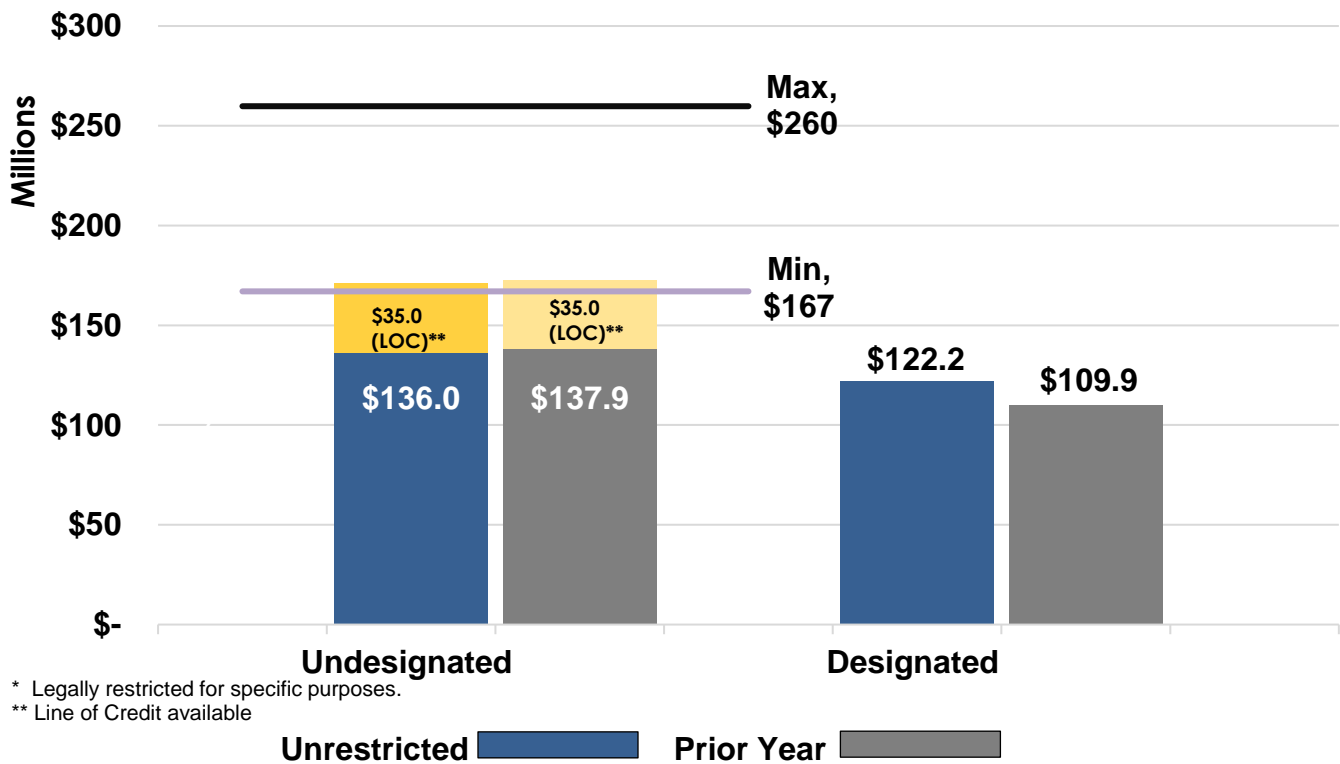
The City's independent auditor, CliftonLarsonAllen LLP, has completed the Fiscal Year 2023-24 annual audit of RPU's Electric and Water Utility financial statements. The auditors provided an unmodified, or clean, opinion that RPU's financial statements are presented fairly and in conformity with generally accepted accounting principles. This clean audit opinion reflects that RPU complied with generally accepted accounting principles and statutory requirements. During

the audit of the Water Utility, a material weakness in internal controls which resulted in a material misstatement was identified and an adjustment was recorded to adjust balances of leases receivables and related accounts and beginning net position to correct an error in the calculation of lease receivable during the implementation of GASB 87 in fiscal year 2022. Given the scope of GASB 87 and the high volume of leases involved, the finance team engaged an external consultant to assist with the implementation. Implementation of GASB 87 involved reviewing approximately 440 leases and resulted in the implementation of over 270 leases. Additionally, these leases were audited by the City’s external auditing firm in fiscal year 2022 with no findings noted. Since then, the City took precautionary corrective actions and hired additional staff during fiscal year 2024 to address the increased workload related to new accounting standards and regulations. As a result, there were no audit findings related to any new leases or any leases which required a change (modification or termination) during the current audit year.

Reserve Policy Compliance:

The RPU Cash Reserve Policy provides a defined target for the level of undesignated reserves in both the Electric and Water Utility for strategic purposes to mitigate financial risks and maintain financial stability.

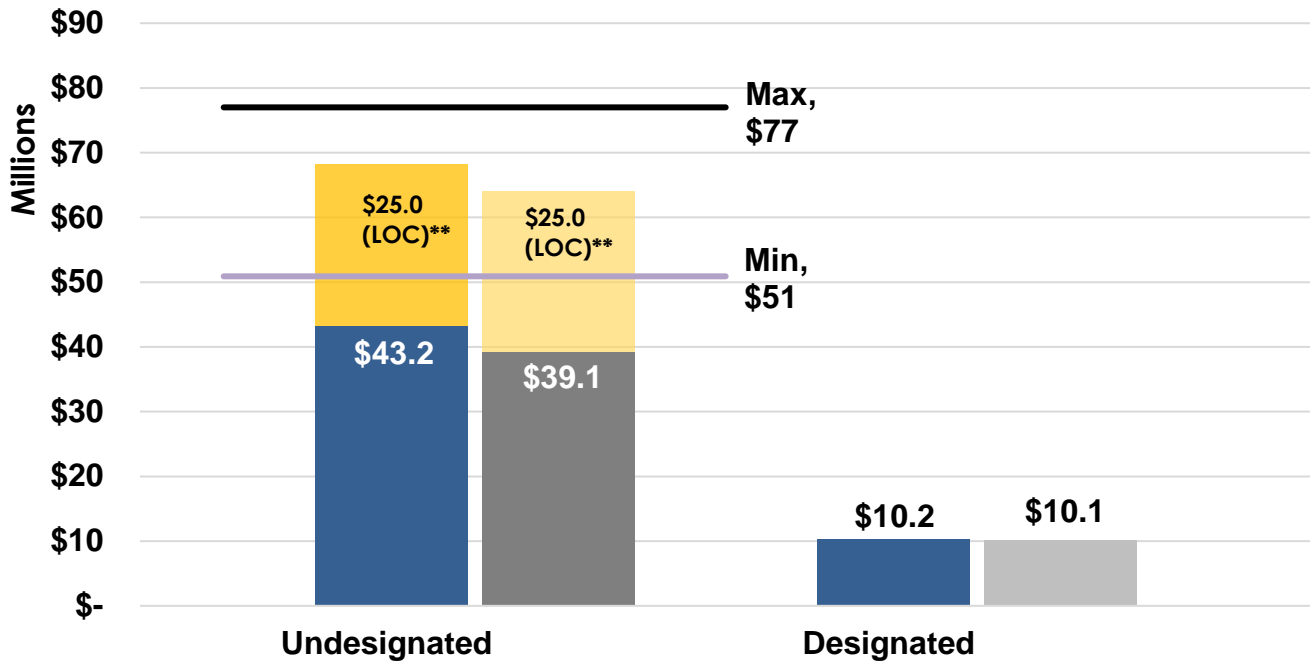
Electric Utility Unrestricted Reserves:



As of June 30, 2024, the Electric Utility balances were \$122.2 million for designated reserves, \$136 million for undesignated reserves, and \$35 million available on the line of credit (LOC). The LOC provides flexibility and operating liquidity similar to cash reserves but is not reflected as cash on the balance sheet. The undesignated reserve balance, combined with the LOC, is in compliance with the RPU Cash Reserve Policy as of June 30, 2024. The reserves are above target minimum, which is consistent with projections provided during the biennial budget and rate plan proposal processes. Designated reserves are considered unrestricted assets and represent a portion of unrestricted reserves that meet specific purposes set aside by the Board and City

Council. The designated reserve balance includes reserves for Customer Deposits, Additional Decommissioning Liability, Electric Reliability, Capital Repair and Replacement, the Mission Square Building Improvement, and Dark Fiber. The undesignated reserves have not been designated for a specific purpose and may be used for any lawful purpose, including operating and maintenance expenses, debt service, emergency capital, and system improvements capital, as directed in the reserve policy.

Water Utility Unrestricted Reserves:



* Legally restricted for specific purposes.

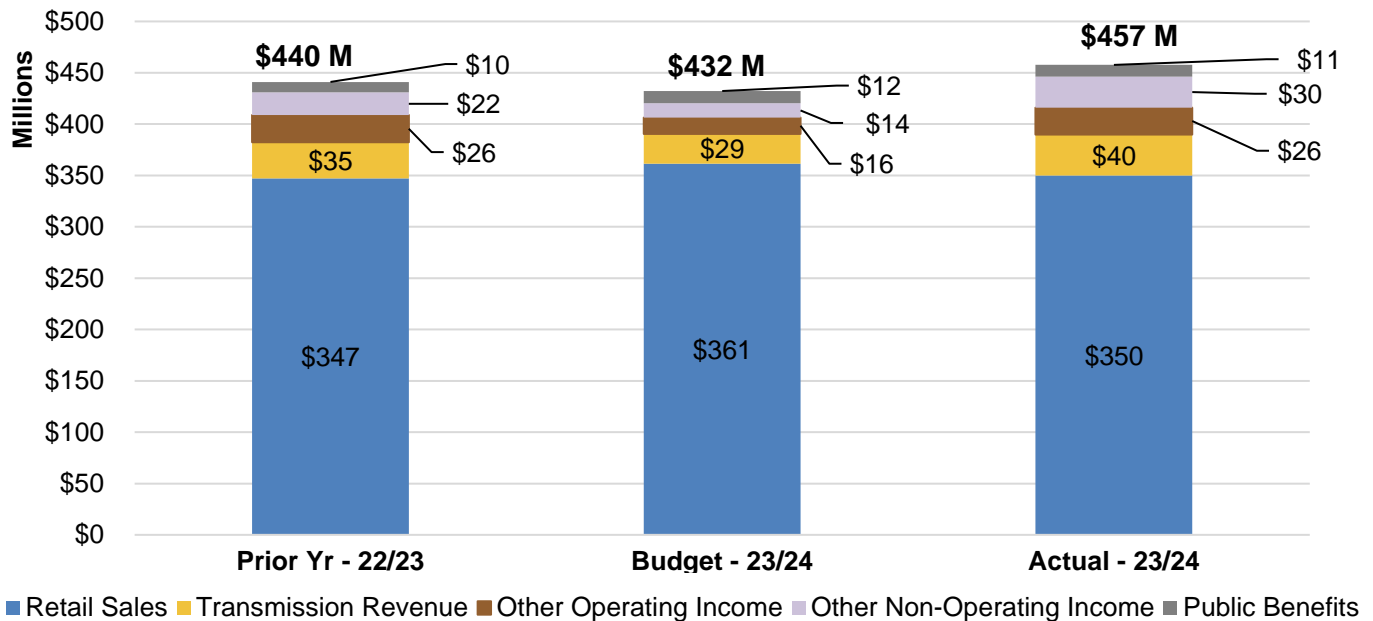
** Line of Credit available

Unrestricted **Prior Year**

As of June 30, 2024, the Water Utility balances were \$10.2 million for designated reserves, \$43.2 million for undesignated reserves, and \$25 million available on the LOC. The LOC provides flexibility and operating liquidity similar to cash reserves but is not reflected as cash on the balance sheet. The undesignated reserve balance, combined with the LOC, is in compliance with the RPU Cash Reserve Policy as of June 30, 2024. The reserves are above target minimum, which is consistent with projections provided during the biennial budget and rate plan proposal processes. Designated reserves are considered unrestricted assets and represent a portion of unrestricted reserves that meet specific purposes set aside by the Board and City Council. The designated reserve balance includes reserves for Recycled Water, Property, Customer Deposits, and Capital Repair and Replacement. The undesignated reserves have not been designated for a specific purpose and may be used for any lawful purpose, including operating and maintenance expenses, debt service, emergency capital, and system improvements capital, as directed in the reserve policy.

Revenues and Expenses:

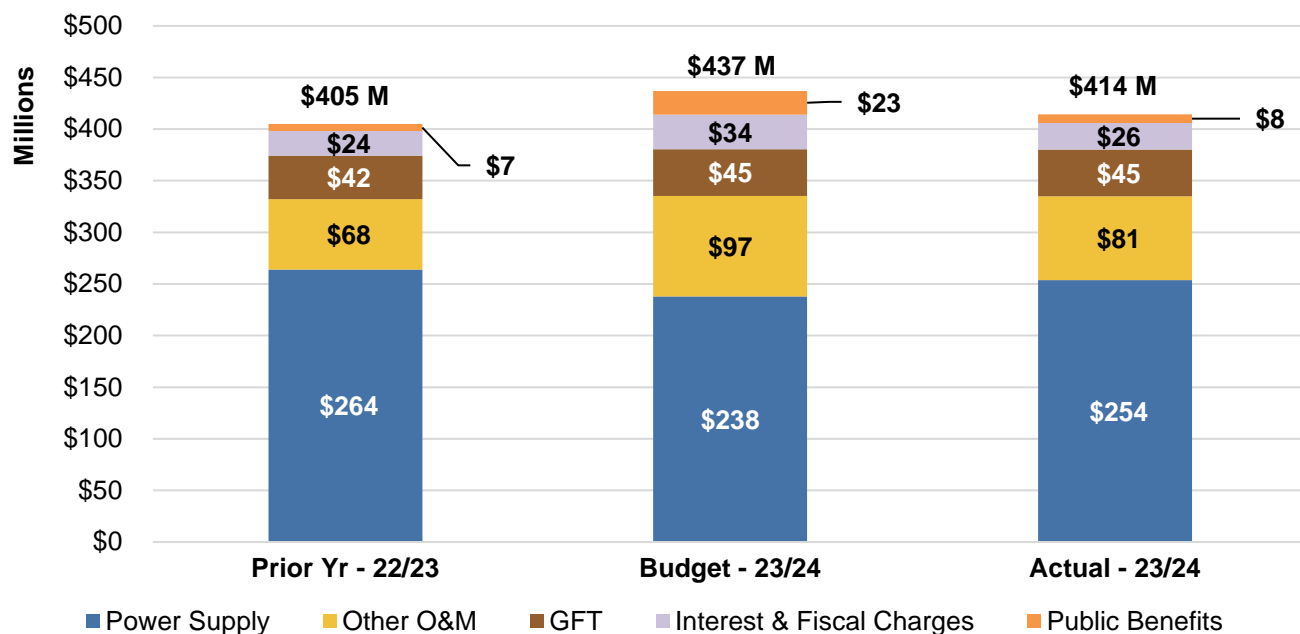
Electric Utility Revenue Results:



Total electric revenues, including non-operating revenue, totaling \$457 million, were higher than budget by \$25 million (5.8%) and higher than prior year by \$17 million (3.9%).

- 1) Retail sales, net of uncollectibles/recovery, of \$350 million, which represent 77% of revenues, were lower than budget by \$11 million (3.0%) primarily due to lower retail consumption compared to projections and higher than prior year by \$3 million (0.9%) primarily due to rate plan increases, offset by decreased consumption.
- 2) Transmission revenues of \$40 million were higher than budget by \$11 million (37.9%) and higher than prior year by \$5 million (14.3%) primarily due to Southern California Edison Existing Transmission Contract pass-through and true-up costs, resulting in a higher High Voltage Transmission Revenue Requirement rate for the Electric Utility.
- 3) Other operating revenues of \$26 million were higher than budget by \$10 million (62.5%) and consistent with prior year primarily due to increases in greenhouse gas cap-and-trade auction proceeds and resource adequacy revenue.

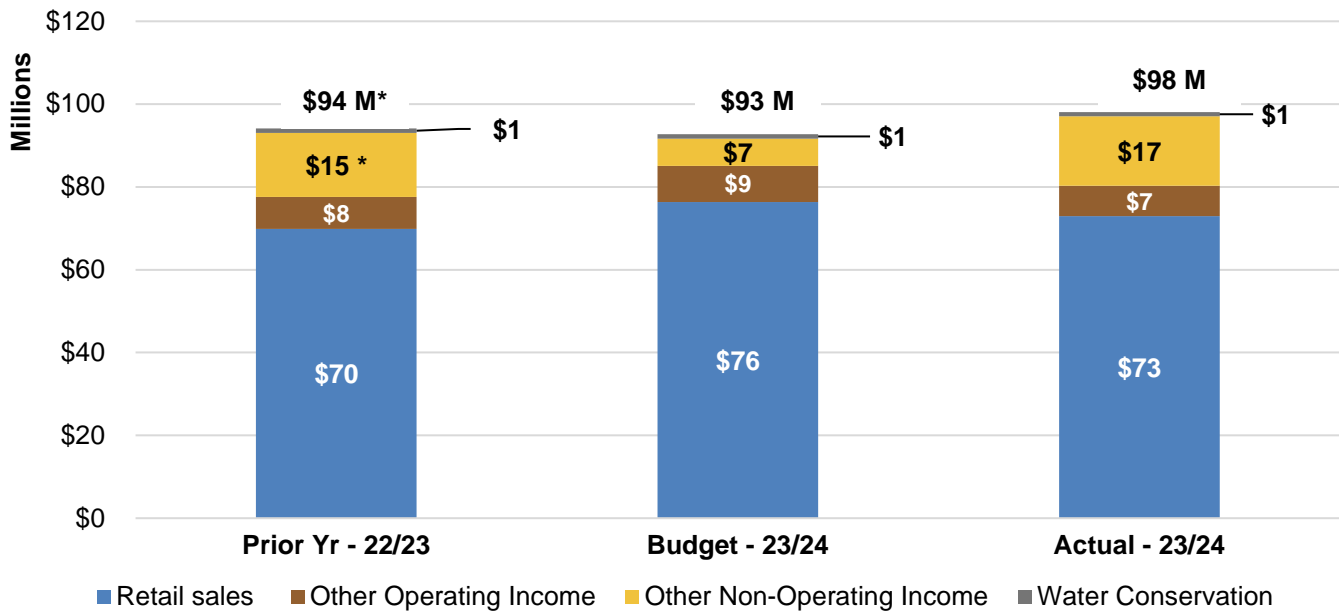
Electric Utility Expense Results:



Total electric expenses, excluding depreciation and amortization, totaling \$414 million, were lower than budget by \$23 million (5.3%) and higher than prior year by \$9 million (2.2%).

- 1) Power Supply costs of \$254 million were \$16 million (6.7%) higher than budget due to the higher-than-anticipated cost of energy. Power Supply costs were lower than prior year by \$10 million (3.8%) due to a decrease in Southern California Edison’s high voltage rate and a decrease in the load from the California Independent System Operator, offset by fuel restrictions on the Electric Utility’s Intermountain Power Project coal resource throughout fiscal year 2023-24 that forced it to forward hedge significantly more energy.
- 2) Other operating and maintenance expenses of \$81 million were \$16 million (16.5%) lower than budget primarily due to savings in both personnel and non-personnel general operating expenses. Other operating and maintenance expenses were \$13 million (19.1%) higher than prior year mainly due to a non-cash pension adjustment of \$7.7 million compared to prior year of \$(1.3) million as a result of pension accounting standards, along with increases in administrative and general operating expenses.

Water Utility Revenue Results:

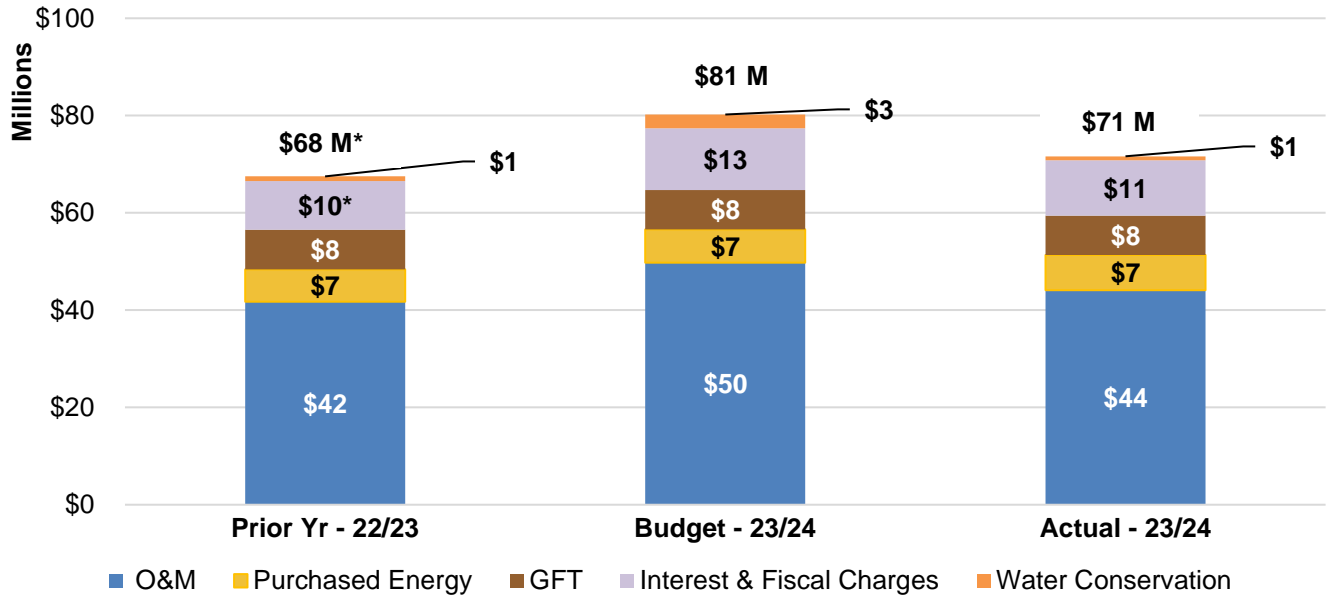


* As restated.

Total water revenues, including non-operating revenue, totaling \$98 million, were higher than budget by \$5 million (5.4%) and higher than prior year by \$4 million (4.3%).

- 1) Retail sales, net of uncollectibles/recovery, of \$73 million, which represent 74% of revenues, were lower than budget by \$3 million (3.9%) primarily due to lower actual consumption compared to projections and higher than prior year by \$3 million (4.3%) primarily due to a rate plan increase, offset by a 1.3% decrease in consumption.
- 2) Other operating revenues of \$7 million were lower than budget by \$2 million (22.2%) and lower than prior year by \$1 million (12.5%) due to a decrease in wholesale water sales compared to prior year.
- 3) Other non-operating revenues of \$17 million were \$10 million (142.9%) higher than budget and \$2 million (13.3%) higher than prior year primarily due to a fair value adjustment of investments, additional interest earned on the 2022 Water Revenue bonds, and a higher overall interest rate in the current fiscal year, offset by a decrease in contribution in aid.

Water Utility Expense Results:



* As restated.

Total water expenses, excluding depreciation and amortization, totaling \$71 million, were lower than budget by \$10 million (12.3%) and higher than prior year by \$3 million (4.4%).

- 1) Operations and maintenance expenses of \$44 million were lower than budget by \$6 million (12.0%) due to savings in personnel costs and other general operating expenses, such as professional and outside legal services, building maintenance and repair, and software maintenance and support. Operations and maintenance expenses were higher than prior year by \$2 million (4.8%) mainly due to a non-cash pension adjustment as a result of pension accounting standards.

Summary

In conjunction with the Finance Department, the RPU staff and leadership team worked very closely to be prudent and thorough in our financial practices. The unmodified, or clean, audit opinion confirms that RPU operates with high ethical standards and has necessary internal controls to ensure an accurate and accountable use of public funds. Good finance is important to everything the government does, and ratepayers expect this kind of accountability.

The RPU annual financial report is distributed to the City Council, the Board of Public Utilities, federal and state government agencies per contract requirements, bond holders, credit rating agencies, and financial institutions, and is published on the City’s website. For further details, refer to the attached 2024 Financial Report.

STRATEGIC PLAN ALIGNMENT:

This item contributes to Strategic Priority No. 5 High Performing Government and Goal 5.4 – Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The financial reports attached enhance transparency regarding the financial situation of Riverside Public Utilities.
2. **Equity** – This report is neutral towards this cross-cutting thread.
3. **Fiscal Responsibility** – The financial reports display fiscal responsibility and accountability to show the current financial situation of Riverside Public Utilities.
4. **Innovation** – This report is neutral towards this cross-cutting thread.
5. **Sustainability & Resiliency** – These financial reports communicate and help ensure Riverside Public Utilities funds are used in a sustainable way without compromising future needs.

FISCAL IMPACT:

There is no fiscal impact related to this informational update.

Prepared by: Brian Seinturier, Utilities Assistant General Manager – Finance and Administration
Approved by: David A. Garcia, Utilities General Manager
Certified as to availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by: Rafael Guzman, Assistant City Manager
Approved as to form: Jack Liu, Interim City Attorney

Attachments:

1. Riverside Public Utilities 2024 Financial Report
2. Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
3. Independent Auditors' Governance Communication
4. Presentation