

including financial reporting, cash reserves, operating and capital budgeting, debt management, investments, risk management, financial planning, and others.

On January 10, 2017, the City Council adopted the City's existing Debt Management Policy to satisfy the requirements of Senate Bill (SB) 1029.

On May 22, 2017 and July 11, 2017, the Board and City Council approved the Dark Fiber Leasing Program, which included establishing uniform lease rates for the use of the dark fiber infrastructure, physical and cyber security policies, a master fiber lease license agreement, and a new cost center within the Electric Fund for related expenses and revenue with an appropriation of \$1,800,000 for the dark fiber program construction and management activities. The Board and City Council also approved the transfer of \$1,800,000 to a new dark fiber designated reserve to fund leased fiber activities.

On May 22, 2018, the City Council approved rates that include the use of a Line of Credit (LOC) as part of the 5-Year Rate proposal to keep utility rates as low as possible. Utilizing a LOC reduced the electric and water rates by approximately 1% and 3%, respectively. A LOC is a low-cost financial tool available to entities with strong credit ratings that provides flexibility and operating liquidity similar to cash reserves if there is an emergency need. The LOC allows RPU to reduce the rate impact to customers by enabling RPU to spend cash reserves on capital projects while the LOC is used in lieu of cash to meet the overall liquidity and reserve levels necessary to maintain RPU's strong bond ratings.

On June 25, 2018 and July 24, 2018, the Board and City Council approved the updated RPU Fiscal Policies and Cash Reserve Policy which included providing a reference and link to the City's Debt Management Policy within the RPU Fiscal Policies, removing the separate appendix for a RPU Debt Management Policy, including the Dark Fiber Designated Reserve in the Cash Reserve Policy, and adding the use of the LOC to the Cash Reserve Policy.

On November 9, 2020, the Board received an update on the Riverside Public Utility's Cash Reserve Policy, funds and use of funds. At this meeting, the Board requested a comparative analysis of RPU's cash reserve policies and the credit ratings compared to other similarly sized utility organizations in the region as well as an analysis of potential impacts of the Covid-19 pandemic to RPU's cash reserve.

On July 26, 2021 and September 7, 2021, the Board and City Council approved the updated RPU Fiscal Policies and Cash Reserve Policy which included the addition of designated reserves for the Electric Fund only for Additional Decommissioning Liability to reflect the increase in annual funds to the SONGS Additional Decommissioning Liability Reserve from \$1.6M to \$2.0M annually; the removal of calculation of operating and maintenance expenses from the Undesignated Reserves for Working Capital; revised the calculation to include a three year average for Undesignated Reserves for System Improvement Capital; the removal of capital improvement expenditures funded with restricted or designated reserves from Undesignated Reserves for System Improvement Capital; and updated definitions to simplify reserve terminology.

On January 10, 2022, the Board received the introduction on how Riverside Public Utilities uses bond financing and the role of the fiscal policy.

At the August 8, 2022 Board meeting, Chair Crohn created an ad hoc committee consisting of Chair Peter Wohlgemuth and Members Nancy Melendez, Gary Montgomery, and Gil Ocegüera to:

1. Review and evaluate the Public Utilities Department and the City fiscal policies related to the use of bond financing to fund internal staff labor used to design, construct, and administer capital projects; and
2. Report back to the Board by November 30, 2022.

On September 26, 2022 at the Board of Public Utilities meeting, Ad Hoc Committee Chair Wohlgemuth provided the Board with an update on the committee progress and discussed the need to extend the November 30, 2022 reporting deadline to January 2023.

On November 28, 2022, and December 13, 2022, the Board of Public Utilities and City Council received an update on the SONGS 2020 Decommissioning Cost Estimate (DCE) and approved transferring \$9.7M to the Restricted Decommissioning Fund for SONGS.

On May 8, 2023, the Board of Public Utilities received a report from the Ad Hoc Committee regarding the Committee’s review, evaluation, and recommended changes to fiscal policies related to the use of bond financing to funding internal staff labor used to design, construct, and administer capital projects. After the discussion with Ad Hoc Committee, the Board did not make recommendations to the fiscal policies.

On June 26, 2023, the Board received an update on the Riverside Public Utility’s Cash Reserve Policy, as it related to the Water and Electric Five-Year Rate plans.

DISCUSSION:

Reserve Policies Purpose

Properly designed reserve policies send a positive signal to ratepayers, investors, and regulatory and credit rating agencies that the Board and City Council are committed to maintaining the long-term fiscal strength of RPU. Strong and transparent financial policies, including maintaining prudent reserves for emergencies, rate stability, working capital, capital improvements and debt service, are consistent with best practices in the utility industry and are important to RPU as they help to:

- Maintain the short-term and long-term financial health of RPU.
- Maintain stable rates for customers and help ensure manageable rate increases.
- Fund unanticipated cost contingencies.
- Ensure funds exist for system improvements.
- Ensure cash exists for the timely payment of bills.
- Act as a significant positive credit factor in bond ratings.

The most recent audited and the current unaudited balances of all RPU reserves are included in the following tables.

Table 1

Schedules of Cash and Cash Equivalents – Electric Utility		
	Audited 30-Jun-23	Unaudited 31-Mar-24
Unrestricted cash and cash equivalents:		
Undesignated reserve	\$137,911,000	\$136,848,000

Customer deposits reserve	4,948,000	4,948,000
Capital repair and replacement reserve	2,287,000	2,287,000
Electric reliability fund reserve	87,127,000	91,919,000
Mission Square improvement fund reserve	2,113,000	2,113,000
Additional decommissioning liability reserve	8,644,000	10,294,000
Dark Fiber Reserve	4,801,000	4,801,000
<i>Total unrestricted cash and cash equivalents</i>	<i>\$247,831,000</i>	<i>\$253,210,000</i>
Legally restricted cash and cash equivalents:		
Reserved for debt service	\$19,292,000	\$21,560,000
Reserved for bond construction	0	132,418,000
Reserved for regulatory requirements	21,707,000	36,218,000
Reserved for low carbon fuel standard	3,795,000	4,670,000
Reserved for Public Benefit Programs	29,152,000	31,351,000
<i>Total legally restricted cash and cash equivalents</i>	<i>\$73,946,000</i>	<i>\$226,217,000</i>
Total cash and cash equivalents	\$321,777,000	\$479,427,000
Legally restricted cash and investments at fiscal agent:		
Reserved for decommissioning liability	\$47,110,000	\$44,006,000
Reserved for other cash at fiscal agent	224,000	13,000
Reserved for debt service	10,801,000	0
<i>Total legally restricted cash and investments at fiscal agent</i>	<i>\$58,135,000</i>	<i>\$44,019,000</i>
<i>Total unrestricted and restricted cash</i>	<i>\$379,912,000</i>	<i>\$523,446,000</i>

Table 2

Schedules of Cash and Cash Equivalents – Water Utility		
	Audited 30-Jun-23	Unaudited 31-Mar-24
Unrestricted cash and cash equivalents:		
Undesignated reserve	\$39,071,000	\$41,778,000
Recycled water cash reserve	1,013,000	663,000
Property reserve	5,926,000	5,986,000
Customer deposits reserve	803,000	802,000
Capital repair and replacement reserve	2,378,000	2,378,000
<i>Total unrestricted cash and cash equivalents</i>	<i>\$49,191,000</i>	<i>\$51,607,000</i>
Legally restricted cash and cash equivalents:		
Reserved for debt service	\$8,933,000	\$9,959,000
Reserved for bond construction	55,472,000	42,253,000
Water Conservation Programs	3,545,000	3,588,000
<i>Total legally restricted cash and cash equivalents</i>	<i>\$67,950,000</i>	<i>\$55,800,000</i>

Total cash and cash equivalents	\$117,141,000	\$107,407,000
Legally Restricted cash and investments at fiscal agent:		
Other cash at fiscal agent	16,000	676,000
<i>Total cash and investments at fiscal agent</i>	<i>\$16,000</i>	<i>\$676,000</i>
<i>Total unrestricted and restricted cash</i>	<i>\$117,157,000</i>	<i>\$108,083,000</i>

Definitions of Reserves

RPU’s reserves are either restricted or unrestricted and are classified into three categories:

1. *Restricted Reserves* are established and utilized for narrowly defined purposes as specified by legal restrictions, bond covenants, and other regulations or ordinances. The restricted reserves are as follows:

Table 3 – RPU Fiscal Policy, Restricted Reserve Definitions

Restricted Reserve	Definition	Electric	Water
San Onofre Nuclear Generating Station (SONGS) Decommissioning	Riverside owns 1.79% of SONGS Units 2 & 3, within Camp Pendleton, that was permanently retired on June 7, 2013. This reserve was established in June 2017, for Riverside’s share of the decommissioning cost obligations that are held with the trustee for the decommissioning costs.	X	
Regulatory Requirements Reserve (Cap and Trade auction proceeds)	Funds set aside for regulatory requirements for greenhouse gas allowances and low carbon fuel standard proceeded as legally restricted for specific purposes.	X	
Unspent Bond Proceeds to Fund Capital Projects	Funds restricted by bond covenant, allowable only for qualified approved capital projects.	X	X
Bond Redemption Reserve (Debt Service)	This reserve is set aside for future bond payments that are governed by bond covenants.	X	X
Electric Public Benefits Fund	Assembly Bill 1890, adopted in 1996, monthly surcharge of 2.85% of the total electric charge to be used for low-income customer assistance, energy efficiency and conservation programs, renewable resources and energy research and development.	X	
Water Conservation Fund	May 2004 City Council approved 10-year monthly surcharge of 1.5% of the total water charge to provide financing to create and encourage water conservation and efficiency programs, renewed March 2014.		X

2. *Designated Reserves* are that portion of unrestricted reserves that meet specific purposes set aside by the Board and City Council. Designated reserve funds ensure stable service delivery, meet future needs, and protect against financial instability. Designated reserves may be held for specific capital and operating purposes. Current designated reserves are

as follows:

Table 4– RPU Fiscal Policy, Designated Reserve Definitions

Designated Reserve	Definition	Electric	Water
Customer Deposits	Monies held on behalf of RPU’s customers as required to be utilized if a customer fails to pay their utility bill.	X	X
Additional Decommissioning Liability	Established in June 1998, and updated March 2016 to accumulate extra funds held at the City (not with the SONGS trustee) for the uncertainty of costs associated with the SONGS Decommissioning activities.	X	
Electric Reliability	Established in December 2007 to fund the debt service and capital expenditures for construction of internal electric generation and purchase of state transmission grid capacity, annual repair and improvements to internal generation facilities, and fund internal RPU sub-transmission system upgrades for RTRP improvements. The funds are received from retail customers through the Reliability Charge on each monthly bill.	X	
Mission Square Improvement	Established June 2015 to accumulate funds for major improvements to the Mission Square facility; funded by an annual contribution equal to 2% of the building value up to a maximum reserve equal to 25% of the building value.	X	
Capital Repair/Replacement	Established March 2016 to accumulate amounts for repairs and replacement of facilities, vehicles, and technology outside of the Capital Improvement Program.	X	X
Recycled Water	Established June 2014 to set aside funds for a recycled water program. Funding was from a legal settlement from the City.		X
Property	Established July 2005 to accumulate all proceeds from surplus property sales to be used in the future for the purchase of property needed for operations, or for other long-term capital assets/projects. Funding is from proceeds from the sale of surplus property.		X
Dark Fiber	Established July 2017 to accumulate proceeds from fiber leasing activity and account for expenditures of the dark fiber program.	X	

RPU will use designated reserves to mitigate the impacts of known and impending exposures. The withdrawal and replenishment of Council/Board approved designated reserves and their allowable uses will be tracked individually, but the specific use of designated reserves falls outside the scope of this policy and is subject to Board and Council approval.

3. *Undesignated Reserves* are the remaining unrestricted reserves that may be used for any lawful purpose and have not been designated for specific capital and operating purposes; however, maintaining a proper level of undesignated reserves is critical to ensure the utility can meet its fluctuating cashflow demands and mitigate financial volatility. The following Undesignated Reserve Policy addresses the levels, use and replenishment of this type of unrestricted reserves.

Undesignated Reserve Policy

RPU will have sufficient undesignated reserves to maintain or improve its credit ratings, ensure that operating and maintenance costs will be paid in a timely manner, to pay debt service obligations, and to invest in needed capital improvements and equipment replacement on a timely basis. In addition, RPU will maintain sufficient reserves to minimize rate increases due to market volatility, weather impacts on demands, emergencies (such as natural disasters), and regulatory changes.

The Policy provides minimum and maximum levels of undesignated reserves. Each of the areas of undesignated reserves include considerations for evaluation to determine the appropriate reserve levels. RPU maintains such monies pooled in each utility’s undesignated reserve. These reserve allocations are consistent with industry standards for similarly rated electric and water utilities. Each component of the reserves is sized at less than the maximum possible exposure for each component because it is unlikely several of the risks each enterprise faces would materialize simultaneously.

Table 5– RPU Fiscal Policy, Undesignated Reserve Definitions

Undesignated Reserve	Definition	Electric	Water
Operating (Working Capital)	Ensures sufficient resources to pay budgeted operating and maintenance expenses, including power supply costs, recognizing the timing differences between payment of expenditures and receipt of revenues.	X	X
Rate Stabilization	Mitigates rate shock due to temporary and transitional regulatory changes, loss of a major resource, sharp demand reduction or market volatility.	X	X
Emergency Capital	Provides funds to ensure ability to repair system after an emergency or natural disaster such as a flood, earthquake or major windstorm.	X	X
System Improvements Capital	Provide funds to ensure continuity of construction over fiscal years to be reimbursed by bond proceeds or other resources.	X	X
Debt Service	Ensures ability to make debt service payments in an extreme event that may impact RPU’s ability to provide services, thus impacting revenues at a time critical infrastructure repairs are needed to restore systems. The Debt Service Reserve is intended to prevent an event where RPU would be unable to pay its debt service obligations during such emergencies, or extreme market disruptions.	X	X

Withdrawal and Replenishment of Reserves

RPU treats the targeted reserves as practical minimums and allow reserves to increase or decrease as necessary within the minimum and maximum prescribed levels.

To the extent that undesignated reserves are above the target and below the maximum, the Board and City Council have the flexibility to direct staff to utilize those available funds to pay for capital projects (reducing the need for future debt), pay down unfunded liabilities such as pension obligations, defease outstanding debt, or fund other strategic objectives. No other action by RPU would be required if reserves are between the minimum and maximum level unless directed by the Board and City Council.

If reserve funds exceed the maximum level, RPU would seek Board and City Council approval to use the excess to finance capital improvements on a pay-as-you-go basis, pay down existing debt, offset other long-term liabilities such as pension obligations, reduce rates or fund other strategic initiatives.

Reserve levels below the minimum targeted reserves will leave RPU exposed to significant operational risks. Should RPU draw down reserves below the minimum targeted level, RPU will implement plans to return reserves to their minimum targeted levels **within three years**. Such plans will be provided within 12 months.

Reporting and Oversight

Reserve levels are monitored throughout the fiscal year and reported in the monthly and quarterly financial reports. Reserve target (minimum) and maximum levels are analyzed annually and an over/under reserve determination is made in conjunction with year-end financial results. These results are reported to the Board and City Council as part of the year-end financial report presentation. Should designated or undesignated reserve levels need adjustment due to new risk factors due to changes in the industry, these will be brought to the Board and City Council as part of the year-end report.

The Policy is to be reviewed annually and updated (at a minimum of every three years) if there are material changes in the risk exposures or new conditions that require changes in reserve levels.

Minimum Reserve Target Calculations

RPU calculates the Minimum Reserve Targets in alignment with the approved fiscal policy using the below formulas:

Table 6– RPU Fiscal Policy Minimum Reserve Target formulas

Minimum Reserve Target - Electric		
Source	Target	Formula
Operating (Working Capital)	60 days	$\frac{\text{Annual Operating Exp}}{365 \text{ Days}} \times 60$
Rate Stabilization	10%	$\text{Operating Revenues} \times 10\%$
Emergency Capital	1%	$\text{Depreciable Assets} \times 1\%$

System Improvement Capital	6 months	$\frac{\text{Prev FY actual CIP exp} + \text{Curent FY CIP} + \text{Next FY CIP}}{3 \text{ (years for average CIP exp)}} \times \frac{3 \text{ year Average CIP exp}}{12 \text{ Months}} \times 6$
Debt Service	1 payment	Annual Payment for principal and 6 months of interest
Total		Sum of above
Minimum Reserve Target - Water		
Source	Target	Formula
Operating (Working Capital)	60 days	$\frac{\text{Annual Operating Exp}}{365 \text{ Days}} \times 60$
Rate Stabilization	7%	$\text{Operating Revenues} \times 7\%$ (lower than Electric as Water has less market volitivity)
Emergency Capital	1%	$\text{Depreciable Assets} \times 1\%$
System Improvement Capital	6 months	$\frac{\text{Prev FY actual CIP exp} + \text{Curent FY CIP} + \text{Next FY CIP}}{3 \text{ (years for average CIP exp)}} \times \frac{3 \text{ year Average CIP exp}}{12 \text{ Months}} \times 6$
Debt Service	1 payment	Annual Payment for principal and 6 months of interest
Total		Sum of above

Electric Undesignated Reserve

The five-year electric utility rate plan funds future operating and capital costs, maintains reserve levels and financial metrics that comply with RPU’s fiscal and reserve policies, and maintains current bond ratings to keep borrowing costs for capital investments low. In order to keep the rate increases in the five-year electric rate plan as low as possible, the undesignated reserve balance combined with the line of credit does fall below minimum target reserve levels prior to returning to above minimum target reserve levels within three-year timeframe required by the reserve policy.

Table 7 – Electric Undesignated Target Minimum Reserves

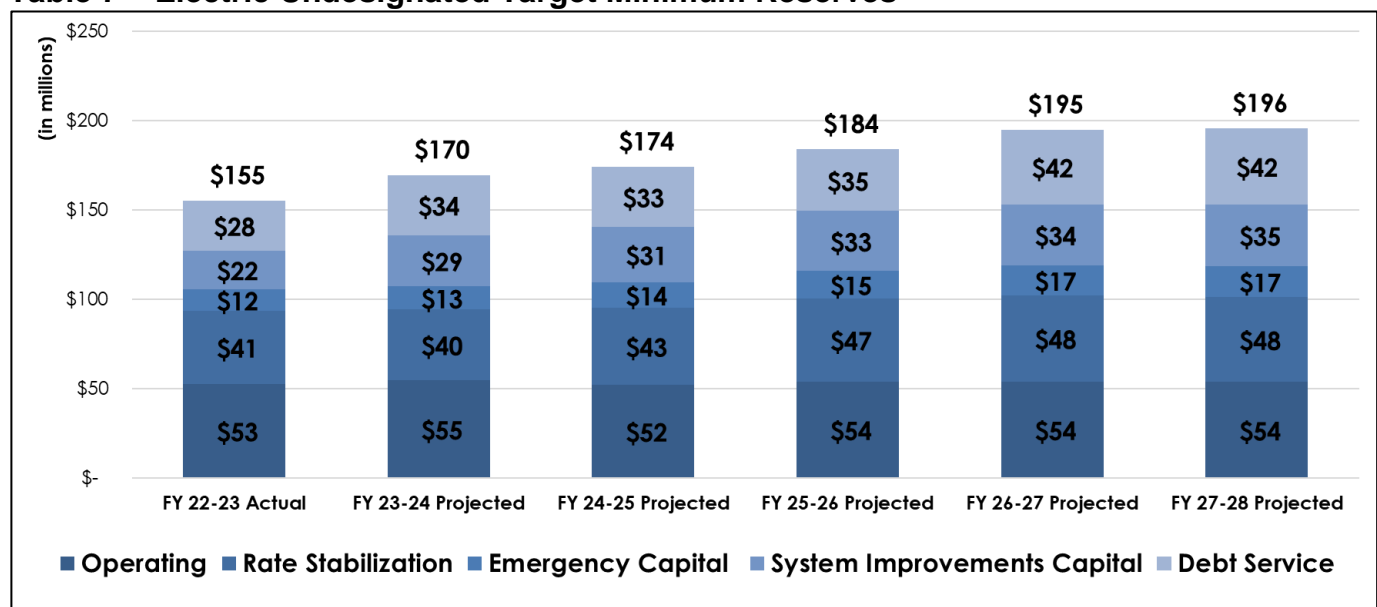
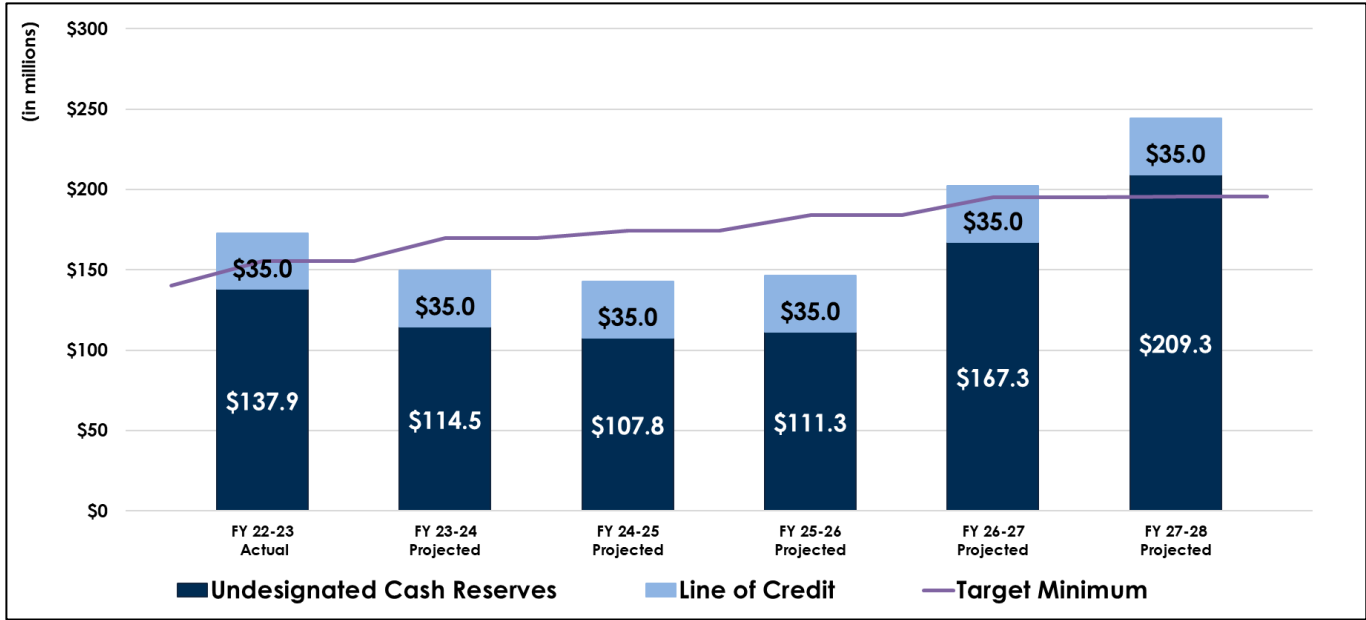


Table 8 – Electric Undesignated Cash Reserves



Water Undesignated Reserve

The five-year water utility rate plan funds future operating and capital costs, maintains reserve levels and financial metrics that comply with approved fiscal and reserve policies, and maintains current bond ratings to keep borrowing costs for capital investments low. In order to keep the rate increases in the five-year water rate plan as low as possible, the undesignated reserve balance combined with the line of credit does falls to minimum target reserve levels prior to returning to above minimum target reserve levels within the timeframe required by the reserve policy.

Table 9 – Water Undesignated Target Minimum Reserves

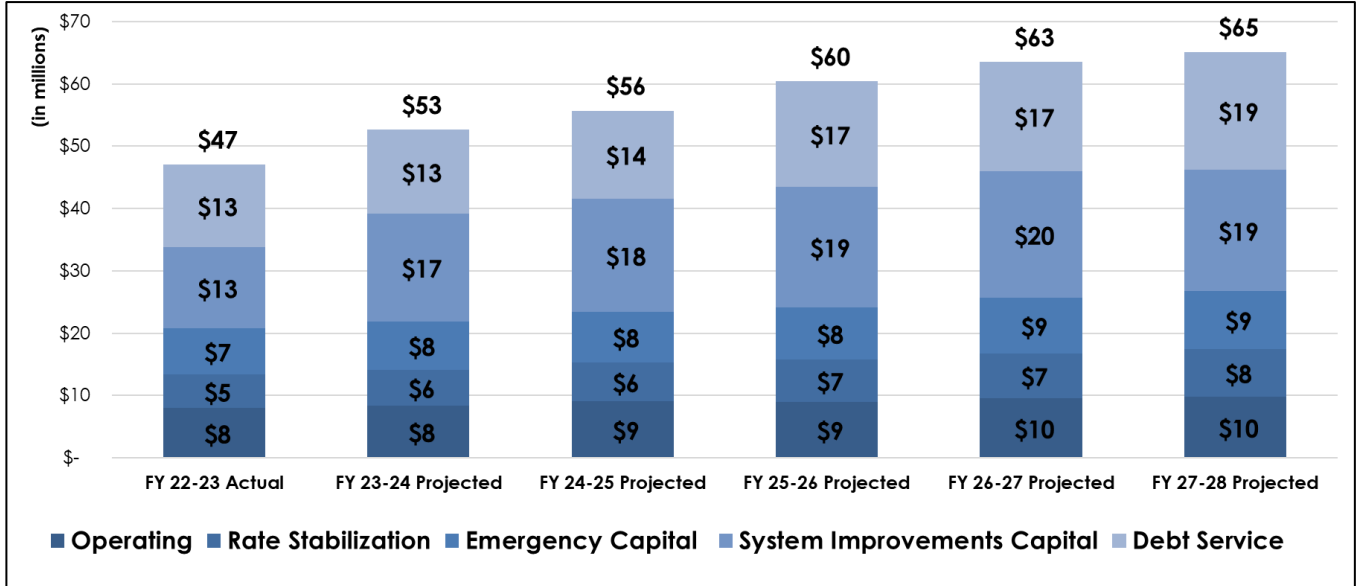
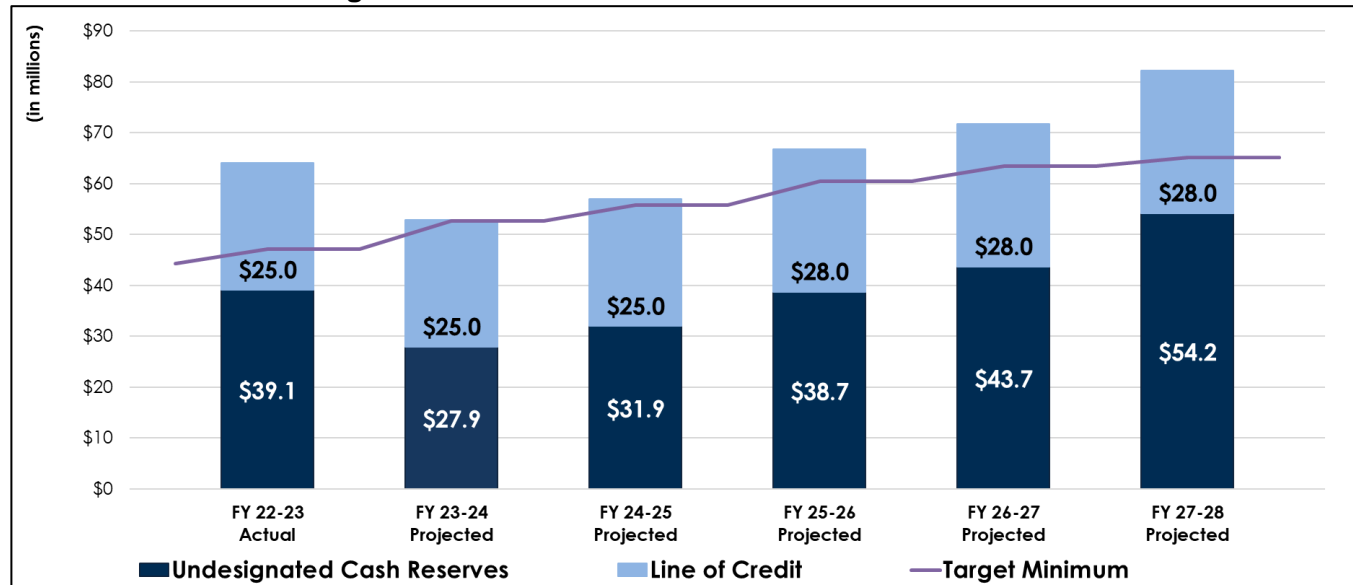


Table 10 – Water Undesignated Cash Reserves



Update to the Cash Reserve Policy

The updates to the Cash Reserve Policy are included in Attachment 1 and are summarized below:

Appendix A – Cash Reserve Policy

Designated Reserves

Additional Decommissioning Liability Reserve (electric fund only) – Reflects the decrease in annual funding to the SONGS Additional Decommissioning Liability Reserve from \$2.0M to \$1.0M annually beginning in fiscal year 2024/25. The following background information was discussed at the June 24, 2024, Board meeting. On November 28, 2022 and December 13, 2022, the Board of Public Utilities and City Council, respectively, received an update on the SONGS 2020 Decommissioning Cost Estimate and approved transferring \$9.7M to the Restricted Decommissioning Fund for SONGS to arrive at \$55M and 100% funded at December 31, 2021. The Designated Additional Decommissioning Liability Reserve held at the City has a balance of \$10.3M as of March 31, 2024. As a result of the funding levels, the reduction is to manage affordability and keep rates as low as possible, and will be reviewed when the SONGS Decommissioning Cost Estimates are updated.

- Additional Decommissioning Liability Reserve** (electric fund only) – Established to accumulate funds for the uncertainty of costs associated with the SONGS Decommissioning activities. These funds are in addition to RPU’s funded trust held by the trustee (restricted reserve). The decommissioning funds held in the restricted reserve represent RPU’s proportionate share of the independent Decommissioning Cost Estimate (“DCE”). If the DCE is increased, RPU will need to fund additional monies to the trust for decommissioning. On June 8, 2020 and June 16, 2020, the Board of Public Utilities and City Council, respectively, approved the increase in annual funding to the SONGS Additional Decommissioning Liability Reserve from \$1.6M to \$2.0M annually beginning in fiscal year 2020/21, due to an anticipated increase in the SONGS DCE. On November 28, 2022 and December 13, 2022, the Board of Public Utilities and City Council, respectively, received an update on the SONGS 2020 DCE and approved transferring \$9.7M to the Restricted Decommissioning Fund for SONGS. Beginning in fiscal year 2024/25, the annual funding to the SONGS Additional Decommissioning Liability Reserve reduced from \$2.0M to \$1.0M. This amount can be evaluated and adjusted as needed.

STRATEGIC PLAN ALIGNMENT:

The Riverside Public Utilities Cash Reserve Policy supports the City Council Strategic Plan 2025 Priorities and Goals for:

High Performing Government:

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.

Infrastructure, Mobility & Connectivity:

Goal 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.

The Cash Reserve Policy aligns with *the City Council's Strategic Plan 2025 Cross-Cutting Thread themes:*

- 1. Community Trust** – The Riverside Public Utilities Cash Reserve Policy is a transparent financial Board of Public Utilities and City Council approved policy that includes maintaining prudent reserves for emergencies, rate stability, working capital, capital improvements and debt service, which are consistent with best practices in the utility industry.
- 2. Equity** – The Riverside Public Utilities Cash Reserve Policy assists RPU with providing equitable services to electric and water customers within the community.
- 3. Fiscal Responsibility** – The Riverside Public Utilities Cash Reserve Policy assists in maintaining the short-term and long-term financial health of RPU.
- 4. Innovation** – The Riverside Public Utilities Cash Reserve Policy assists RPU in adapting to the changing needs of the community by maintaining stable rates for customers, ensure manageable rate increases, and fund unanticipated cost contingencies.
- 5. Sustainability & Resiliency** – The Riverside Public Utilities Cash Reserve Policy assists in maintaining the short-term and long-term financial health of RPU by ensuring RPU has sufficient reserves to mitigate risk and provide resiliency to protect against emergencies and other contingencies, maintain stable rates for customers and help ensure manageable rate increases, and to invest in needed capital improvements and equipment replacement on a timely basis.

FISCAL IMPACT:

The approval of the Cash Reserve policy updates does not have an immediate direct fiscal impact on the current financial health of RPU, the adoption of the policies sets guidelines and parameters for ongoing activities that will direct the financial management of RPU for the future.

Prepared by:	David A. Garcia, Utilities Interim 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: Phaedra A. Norton, City Attorney

Attachments:

1. RPU's Fiscal Policies, including Cash Reserve Policy (redline)
2. Presentation