



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: APRIL 8, 2024

SUBJECT: RIVERSIDE PUBLIC UTILITIES PROPOSED BUDGET FOR FISCAL YEAR 2024/25 - 2025/26

ISSUE:

Review and recommend that the City Council approve the Riverside Public Utilities Department proposed budget for Fiscal Year 2024/25 - 2025/26.

RECOMMENDATIONS:

That the Board of Public Utilities recommend that City Council:

1. Approve the Electric Funds (including Public Benefits Fund) proposed Fiscal Year 2024/25 budget totaling \$466.2 million in revenues, \$459.9 million in operating expenditures and \$61.3 million in capital improvements and proposed Fiscal Year 2025/26 budget totaling \$499.2 million in revenues, \$472.7 million in operating expenditures and \$68.7 million in capital improvements. The difference between revenues and expenditures including capital improvements will be funded by bond proceeds and reserves;
2. Authorize the use of the Designated Electric Fund Dark Fiber Reserve for dark fiber leasing operating expenses in the amount of \$0.6 million for Fiscal Year 2024/25 and \$0.7 million for Fiscal Year 2025/26; and
3. Approve the Water Funds (including Water Conservation Fund) proposed for Fiscal Year 2024/25 budget totaling \$100.4 million in revenues, \$97.2 million in operating expenditures and \$29.6 million in capital improvements and proposed Fiscal Year 2025/26 budget totaling \$108.1 million in revenues, \$95.2 million in operating expenditures and \$34.6 million in capital improvements. The difference between revenues and expenditures including capital improvements will be funded by bond proceeds and 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 2024/25 – 2025/26 is expected to go to a public hearing on May 21, 2024, with final approval by the City Council on June 25, 2024.

DISCUSSION:

BUDGET OVERVIEW

The proposed Fiscal Year 2024/25 - 2025/26 budget has been developed to continue to maintain the level of quality electric and water services to our customers and to support the following objectives:

1. Support Riverside 2025 Strategic Plan. On October 20, 2020, the City Council approved the Riverside 2025 Vision Statement, Cross-Cutting Threads, Strategic Priorities, Indicators and Goals for the Riverside 2025 Strategic Plan. The Riverside 2025 Strategic Plan is comprised of two parts:
 - a. City Council Strategic Policy – sets forth the priorities and policy direction of the City Council to advance Riverside’s potential and to frame the work efforts of City staff over the next five years. This section includes the Vision, Cross-Cutting Threads, Strategic Priorities, Indicators and Goals.
 - b. Operational Workplan – sets forth envisioned actions to be carried out by City staff to implement the City Council Strategic Policy, as well as related metrics to track the trendlines of progress toward achieving City Council priorities. This section includes the Actions and Performance Metrics.

The following are key highlights in developing this budget:

1. Planned use of electric and water reserves according to the approved five-year rate plan.
2. Regulatory constraints and mandates, including the latest renewable percentage, have caused increased supply costs.
3. Significant capital needs due to aging infrastructure and equipment.

The proposed Fiscal Year 2024/25 - 2025/26 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 restricted, designated and undesignated 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 reserves in the proposed budget is included within 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):

| Electric | FY 22/23 Actuals | FY 23/24 Budget | FY 24/25 Proposed | FY 25/26 Proposed |
|--|-----------------------------|----------------------------|------------------------------|------------------------------|
| Electric Fund - Revenues | \$431.2 | \$421.5 | \$453.6 | \$485.5 |
| Public Benefits - Revenues | 10.3 | 11.8 | 12.6 | 13.7 |
| Total Electric Revenues | \$441.5 | \$433.3 | \$466.2 | \$499.2 |
| Use of Bond Proceeds | 11.9 | 45.5 | 47.1 | 49.0 |
| Use / (Incr.) of PB Fund Reserve | (3.5) | 3.6 | 3.7 | 3.0 |
| Total Electric – Revenues and Other Financing Sources | \$449.9 | \$482.4 | \$517.0 | \$551.2 |
| | | | | |
| Electric Fund - Expenditures | \$448.7 | \$482.7 | \$504.8 | \$524.7 |
| Public Benefits - Expenditures | 6.7 | 15.4 | 16.4 | 16.7 |
| Total Electric Expenditures, Including Capital Improvements | \$455.4 | \$498.1 | \$521.2 | \$541.4 |
| Use / (Incr.) of Electric Fund Reserves | 5.5 | 15.7 | 4.2 | (\$9.8) |

*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):

| Water | FY 22/23 Actuals | FY 23/24 Budget | FY 24/25 Proposed | FY 25/26 Proposed |
|---|-----------------------------|----------------------------|------------------------------|------------------------------|
| Water Fund - Revenues | \$88.7 | \$91.6 | \$98.9 | \$106.5 |
| Water Conservation - Revenues | 1.1 | 1.4 | 1.5 | 1.6 |
| Total Water Revenues | \$89.8 | \$93.0 | \$100.4 | \$108.1 |
| Use of Bond Proceeds | 8.1 | 21.5 | 20.9 | 30.1 |
| Use / (Incr.) of WC Fund Reserves | (0.1) | 0.3 | 0.1 | 0.0 |
| Total Water – Revenues and Other Financing Sources | \$97.8 | \$114.8 | \$121.4 | \$138.2 |
| | | | | |
| Water Fund - Expenditures | \$ 98.0 | \$ 115.7 | \$ 125.2 | \$128.1 |
| Water Conservation – Expenditures | 1.0 | 1.7 | 1.6 | 1.6 |
| Total Water Expenditures, Including Capital Improvements | \$ 99.0 | \$ 117.4 | \$ 126.8 | \$ 129.7 |
| Use / (Incr.) of Water Fund Reserves | 1.2 | 2.6 | 5.4 | (8.5) |

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

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 Fiscal Year 2024/25 - 2025/26 budget. The proposed CIP for the Electric and Water Funds is \$61.3 million and \$29.6 million, respectively for Fiscal Year 2024/25, and \$68.7 million and \$34.6 million respectively for Fiscal Year 2025/26. The CIP budget 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 CIP for Electric includes identified capital improvements to Riverside Energy Resource Center (RERC) Units 1 & 2 and technology projects necessary for system operations. 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.

OPERATING BUDGETS

The proposed Fiscal Year 2024/25 budget includes supplemental increases of \$7.1 million for Water. The proposed Fiscal Year 2025/26 budget includes supplemental increases of \$3.3 million for Water. 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 15% for the Electric Fund, as part of the affordability plan, which is approximately \$11 million in personnel savings annually for Fiscal Year 2024/25 - 2025/26. For the Water Fund, staff estimates a 5% vacancy factor which is approximately \$1.3 million in personnel savings annually for Fiscal Year 2024/25 - 2025/26.

Electric Fund

Revenue Budget

The primary source of revenue for the Electric Fund is retail sales, which will fund 74% 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 \$47.1 million and \$49.0 million will be utilized to fund a major portion of the capital improvement projects for Fiscal Year 2024/25 and Fiscal Year 2025/26 respectively. Reserves will be utilized to cover the balance of the expenditures in Fiscal Year 2024/25, as planned with the rate plan.

Expenditure Budget

The Electric Funds proposed two-year budget reflects a 4.6% (\$23.1 million) and a 3.9% (\$20.2 million) year-over-year increase for Fiscal Year 2024/25 and 2025/26, respectively. The increase is primarily due to:

1. Increase in power supply costs reflect a projected increase in the transmission costs and California Independent System Operator (CAISO) energy costs as well as an increase in gas purchases for the Utility's generating stations. Power supply costs represent 50% of the total Electric budget.
2. Increase in capital projects in support of approved rate plan.
3. Increase in Public Benefit programs to further promote energy efficiency and to increase support for low- and fixed-income customers through expanded eligibility and outreach.

As planned with the rate proposal, a portion of the Electric expenditure budget will be funded by reserves. The following restricted and designated reserves are proposed to be utilized for the Fiscal Year 2024/25 - 2025/26 budget, with the balance to be funded from undesignated reserves.

The Designated Dark Fiber reserve was established to capture the dark fiber leasing activities for both revenues and expenditures. Annual revenue is approximately \$0.6 million and \$0.7 million respectively for Fiscal Year 2024/25 and 2025/26; and \$0.6 million and \$0.7 million in expenditures have been budgeted for Fiscal Year 2024/25 and 2025/26 respectively for the two-year budget for the operation and maintenance of the dark fiber network to be paid from the designated reserve.

Water Fund

Revenue Budget

Similar to the Electric Fund, the primary source of revenues for the Water Fund is retail sales, which will fund 66% 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 \$21.0 million and \$30.1 million will be utilized to fund a major portion of the capital improvement projects for Fiscal Year 2024/25 and Fiscal Year 2025/26 respectively. Reserves will be utilized to cover the balance of the expenditures in Fiscal Year 2024/25, as planned with the rate plan.

Expenditure Budget

The Water Fund's proposed two-year budget reflects an 8.0% (\$9.4 million) and a 2.3% (\$2.9 million) year-over-year increase for Fiscal Year 2024/25 and 2025/26, respectively. The increase is primarily due to:

1. Increase in capital projects in support of approved rate plan.
2. Increase in operating and maintenance costs primarily due to an increase in production

costs; chemical supply costs due to additional testing regulations; and professional services costs for lab testing (additional testing sites and increased regulations) and underground location services.

The Water expenditure budget also includes supplemental requests of \$7.1 million for Fiscal Year 2024/25 and \$3.3 million for Fiscal Year 2025/26 due primarily to \$4.3 million for the purchase of new vehicles including four (4) dump trucks, two (2) large service trucks, one (1) Vac truck, one (1) Backhoe, as well as other miscellaneous trucks; \$2.0 million of increased annual professional services and maintenance costs due to increased work and overall increase in rates; and \$0.9 million in annual outsourced paving costs. For the purchase of approximately \$4.3 million in new vehicles, RPU will be utilizing capital lease financing. 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.

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 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 2024/25 and Fiscal Year 2025/26. However, in compliance with the RPU Cash Reserve Policy, Electric Fund reserves are projected to return above target minimum reserve levels in Fiscal Year 2026/27. Water Fund reserves are projected to maintain target minimum reserve levels for Fiscal Year 2024/25 and Fiscal Year 2025/26.

STRATEGIC PLAN ALIGNMENT:

The reporting and presentation of proposed budgets aligns with Strategic Priority 5: High Performing Government and Goal 5.3: Enhance communication and collaboration with community members to improve transparency, build public trust and encourage shared decision making.

Financial reporting aligns with each of the Cross-Cutting Threads as follows:

1. **Community Trust** – Presentation of proposed budgets provides a transparent view and communication of Utility finances in a forum that accommodates community engagement and the involvement of Board of Public Utilities.
2. **Equity** – The proposed budget is available to all members of the public via the City website, and the presentation of the proposed budget in a public forum accommodates community engagement from all members of the public.
3. **Fiscal Responsibility** – The proposed budget and recommendations demonstrate the Utility's commitment to responsible management of the Utility's financial resources.
4. **Innovation** – Adopting the proposed budget will help in meeting the community's changing needs as the Utility's infrastructure needs are projected to grow as the system continues to age.

5. **Sustainability & Resiliency** – The proposed budget demonstrates the Utility's commitment to the long-term fiscal health of the Utility and preservation of Utility services.

FISCAL IMPACT:

The Electric Funds (including Public Benefits Fund) proposed Fiscal Year 2024/25 budget totaling \$466.2 million in revenues, \$459.9 million in operating expenditures and \$61.3 million in capital improvements and proposed Fiscal Year 2025/26 budget totaling \$499.2 million in revenues, \$472.7 million in operating expenditures and \$68.7 million in capital improvements. The use of designated reserves in the next two fiscal years includes \$1.3 million from Designated Dark Fiber Reserve

The Water Funds (including Water Conservation Fund) proposed Fiscal Year 2024/25 budget totaling \$100.4 million in revenues, \$97.2 million in operating expenditures and \$29.6 million in capital improvements and proposed Fiscal Year 2025/26 budget totaling \$108.1 million in revenues, \$95.2 million in operating expenditures and \$34.6 million in capital improvements.

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Attachments:

1. Electric Preliminary Budget 2024 – 2026
2. Water Preliminary Budget 2024 – 2026
3. Five-Year CIP Summary
4. Presentation