

## Board Update Meeting Summary | Friday, December 18, 2015

*This summary may not include all agenda items and is not considered official minutes of the meeting.*

*For complete meeting agenda and video, click [here](#).*

### Employee Recognition:

General Manager Girish Balachandran recognized Utilities Dispatch Superintendent Ron Wigg for his continuing hard work and dedication throughout his nearly 30 years of service to the community.

### Citizens Participation:

Concerns were expressed and a warning was given that they will continue to scrutinize the Utility.

The PE Editorial was read related to advertising and sponsorships from 12/11/2015. The public expressed that they wished the board would have interceded into the sponsorship/advertising issue surrounding the I Own It campaign and sponsorships.

Accountability was requested in relation to reserves.

### Board approved the following items on the Consent Calendar:

- Underground electrical installation work order of \$105,000 located near Indiana Avenue and Grande Vista Parkway for Metro Gateway Apartment Development
- Replacement of pole and overhead switch replacement on the Freeman-Kaiser – Harvey Lynn 69kV line approval of \$300,000 work order and award the contract to procure two steel poles from Western Utility Telecom in the amount of \$79,019.
- Purchase Orders for line protection relay replacement equipment in the amount of \$295,065 to purchase equipment from both Keystone Manufacturing (\$147,796) and Crown Technical Systems (\$147,269).
- Professional Services Agreement for Consulting Services with Water Systems Consulting, Inc., for the preparation of the 2015 Urban Water Management Plan for RPU at a cost of \$82,818.

### Board received and filed Riverside Public Utilities 2015 Financial Report

Assistant General Manager Laura Chavez-Nomura provided an update explaining key points related to the 2015 Financial Report that documents the time from of July 1, 2014, through June 30, 2015. She noted that we were able to end the year with a positive net position. The point of note was 9.2% revenue loss in water sales due to drought conservation, and a 1.5% increase in electric sales and electric rates are 19% lower than SCE. In addition, a total of \$45.3 million was transferred to the General Fund from both electric and water funds. She also indicated that there are reporting changes that improve transparency related to pension liability and this will now be included in the financial statements for all public agencies. Laura continued to explain the historical context and comparisons for both electric and water key indicators of RPU's financial position. Overall, many of the indicators showed a very flat comparison from year to year. In addition, she indicated that the Cost of Service Study will conclude in the first quarter of 2016, followed by the 10 year pro-forma mid-year which will all be brought forward in 2016.

#### Public Comments:

Q: How under-funded are the pension liabilities, and how much cash would need to be added in future years?

A: The Miscellaneous PERS employees' pension plan is approximately 80% funded. PERS is taking dramatic steps to improve that status through a series of staggered rate increases over the next 5 years. These increases will range from less than one percentage point to as much as two percentage points in the later years. These represent significant increases to pension costs, which vary proportionately with total salary cost. After the increases are all in place, it is anticipated that rates will plateau and then begin to gradually slide back down over maybe 20 years as 1) the unfunded liability is paid down, and 2) the more expensive, longer termed employees retire from the City. There are savings being accrued each year as the workforce gradually moves to tiers 2 and 3, in which case the employee absorbs a significant portion of their pension cost.

#### Board Comments:

Q: Is reporting the GASB 68 items about pension liabilities new (Austin)?

A: Yes. The pension liability has always been disclosed in the footnotes to the financial statements, however now it is recorded in the accounting entries and the pension liability is included in the financial statements. All public agencies will be consistent with reporting pension liability in this manner.

Q: Are the pension liabilities covered? (Austin)

A: The pension costs are 'covered' through rates assessed each year. Those rates include a component that is gradually paying down the unfunded liability. PERS is responsible for setting rates that will manage this obligation, and is doing so. The increasing rates noted in #1 above put an upward strain on rates, but are factored into long term financial planning. PERS gives employers the rate for the upcoming fiscal period plus an estimate for the 5 subsequent years for planning purposes.

### Board approved the Third Amendment to Professional Services Agreement with Power Engineers for the Riverside Transmission Reliability Project

Assistant General Manager Pat Hohl provided a historical context and next steps moving forward to this long and complicated project. He provided status, and chronological information to explaining the role of Power Engineers in the project, and what services they provide. The current third amendment to assist us with effort to obtain the Certificate of Public Need to receive interconnection facilities agreement between SCE and RPU. The

this through the CPUC. He also underscored that we still have a radial connection which is a reliability issue and is still critical for our strategic plan moving forward.

#### **Board received and filed an update on the Temporary Economic Development (TED) Rate**

Assistant General Manager Michael Bacich provided current status of the TED rate. This rate encourages new business come to town and targets medium businesses that did not qualify for the existing Economic Rate. The rate answered the need to attract new medium-sized businesses to Riverside during the recession. New businesses created 1.5MW of new load and provided close to \$1 million of annual revenue, and created 508 jobs. The rate will close effective 12/31/2015 and will be analyzed by cost of service studies for future efficacy.

#### **Board approved the Utility 2.0 – Thriving Financially Cash Reserve Policy**

General Manager Girish Balachandran, Financial Advisor Brian Thomas and Assistant General Manager Laura Chavez-Nomura provided an extensive presentation explaining the new policy which includes approval of several designated reserve funds, the unrestricted, undesignated reserve and dissolution of certain electric and water internally restricted reserve funds under the old reserve policy. Girish gave context for the policy update by providing strategic consideration related to Utility 2.0 and explained the high level comparison between the 2001 policy and the revised policy. He indicated that rate payers have saved millions of dollars by having a healthy reserves. We have about \$70 million above the revised minimum target at June 30, 2015 and currently we have not had to issue bonds in the current year to fund drought and capital improvement projects. We have avoided about \$600,000 per year of debt service costs by having this liquidity. Brian explained the rating industry perspective and how reserves related to financial strength. Strong credit ratings are needed to borrow money at low rates to support a large capital intensive industry like a utility. Financial strength translates to rate stability. Laura provided an overview of the new policy and goals for the policy, which included assuring funds for emergencies and maintaining acceptable levels to assure good credit ratings. She explained that we investigated other organization's policies to identify best practices and developed our own risk assessment and factors tailored to RPU. She explained the types of reserves, restricted and unrestricted reserves under the authority of the Board and City Council and within the unrestricted reserves there are two subcategories of designated and undesignated reserve funds. She outlined the new unrestricted, designated reserves that have been created, and they are Electric Reliability Fund, Mission Square Sinking Fund and Capital repair/replacement reserves. She gave a detailed explanation of the unrestricted, undesignated reserve risk categories and parameters for use. Guidelines were listed for methods of utilization and analysis. She showed specific targets and minimum/maximums through June 30, 2015. Brian shared how peer utilities fair compared to RPU and how those targets could change the credit rating and potential borrowing power. Girish summarized the next steps for other financial policies that will be coming to the Board in the first quarter of 2016 in addition to the departmental audit. The Board had much discussion and made minor modifications to the policy document regarding naming of a fund and replenishment guidelines.

*Public Comments: Several speakers came forward in support of the Reserve Policy and there were two support letters.*

*Q: Has the Utility been over charging for 10 years, is that why we have big reserves?*

*A: No overcharging has happened reserves are present to keep our rates stable.*

*Q: Is buying a building with reserves violating current policy on reserves?*

*A: No, there is nothing in the current reserve policy that prohibits use of reserve for purchase of the property. A supplemental appropriation to fund the building with reserves was approved by the Board and City Council. In addition, a reimbursement resolution was also approved to provide the option to reimburse reserves with a future bond issuance.*

*Q: What is the interest rate impact when you have a lower credit rating?*

*A: Reserves matter in relations to bonds, if we had junk bond status we would not be able to operate with stability or reliably.*

*Q: Were raising the rates worth the better credit rating?*

*A: High credit ratings ensure the lowest possible borrowing costs which leads to lower long-term water and electric rates for our customers. Triple A rated utilities like Riverside Public Utilities can borrow at interest rates that are 75 to 100 basis points less than A rated and lower utilities.*

*Q: How do industry standards compare with ours?*

*A: Utilities in California have a different comparable reserve level than the rest of the country. If you separate California from the rest of the country, our reserve level is comparable.*

*Board Comments:*

*Q: How does the reserve policy dovetail with all of the competing items (fiber, rate plans, Utility 2.0 and other items)*

*A: The process of refuting untrue statements has taken time but it is a necessary task as a public agency. Our finite plan and timeline in place for all of these items. This policy is part of the building blocks for the future plans.*

#### **Board revised the Board of Public Utilities meeting schedule**

Deputy General Manager Kevin Milligan stated that the Board is amenable and the facilities are available to change the current meeting schedule to 2<sup>nd</sup> and 4<sup>th</sup> Monday nights at 6:30pm effective March 2016 and there will be further joint meetings with City Council and Board related to Utility 2.0 planning. These meetings will start in March to facilitate alignment with 3 new board members and to facilitate timing related to Sunshine Ordinances.



**General Manager's Report:**

Solar tax credit which was expected to expire has been extended for the next 3 years. Credits will stay at 30% first next year and 26% and 22% in subsequent years. This will represent revenue loss as this extension further incentivizes rooftop solar.

Climate Accord signed in Paris, will impact our business as well.

Thanking the board for their service and time put in over the year. Wishing you a happy holidays.

**Items requested by the Board at Future Meetings:**

Presentation on Pension Liability

Special Notification for January Meetings for our meetings and Council meeting in January when there will be water sale discussion.