RIVERSIDE PUBLIC UTILITIES
FISCAL POLICY

RIVERSIDE
PUBLIC UTILITIES

June, 2001

POLICY PURPOSE

Riverside Public Utilities (RPU), its governing board, the Board of Public Utilities (Board), and the City Council of the City of Riverside are responsible to manage the Utility's finances wisely and to ensure safe and reliable utility services are provided to the citizens of Riverside at the most economical cost. This fiscal policy of the Board is designed to establish guidelines for the fiscal stability of Riverside Public Utilities and guidance to staff. These policies will be reviewed at least annually and will be presented to the Board for approval of any significant changes.

POLICY GOALS

This fiscal policy is a statement of the guidelines and goals that will guide the financial management of Riverside Public Utilities. A strong fiscal policy is the cornerstone of sound financial management. The goals of this fiscal policy are to

- Enhance short and long-term financial credit ability by helping to achieve the highest credit and bond ratings possible
- Promote long term financial stability by establishing clear and consistent guidelines
- Direct attention to the overall financial picture of the Utility(s), as well as single issues
- Promote the linking of long term financial planning with day-to-day operations and
- Provide the Board and Council a framework for measuring fiscal performance of the Utility against established parameters and guidelines.

OPERATING BUDGET POLICIES

The Utility(s), to maximize planning efforts, shall prepare an annual operating budget prior to each fiscal year.

Where possible, performance measurements shall be included in the annual budget to monitor the productivity of employees and programs and identify areas for improvement.

The budget will be reviewed by the Board before submittal to the City Council for approval.

Operating budgets shall consider financial implications, service and reliability goals and the overall mission of the Utility and should be submitted within established financial targets. Any amounts exceeding targets will require adequate justification for approval.

RISK MANAGEMENT POLICIES

Utility assets will be protected by maintaining adequate insurance coverage through commercial insurance carriers or by maintaining adequate reserves in the City's self-insurance fund which is administered by the Risk Management Division of the City's Finance Department.

Investment risks shall be mitigated via the investment policy of the city.

A separate formal risk management policy for power supply has been prepared and approved by the Board and City Council to cover risks associated with power purchases of the Electric Utility.

A separate formal credit risk policy shall be prepared and approved by the Board and City Council to cover risks associated with the purchase and selling of resources.

Approved by Board of Public Utilities: June 15, 2001
Adopted by City Council: June 26, 2001

DEBT POLICIES

Current operations will not be funded with the proceeds of borrowed funds, except for capital leases for equipment.

Not less than 10% of the current budget year capital improvement plan will be funded from rates or current revenues such as contributions in aid of construction or other reimbursements.

Maximum debt maturities shall not exceed 30 years or the estimated useful life of the primary projects being financed.

Average life of a debt issue will be determined based on current market conditions at the time of the debt issuance and other financial factors.

Loans to other funds may be made if prudent reasons exist for such borrowings. Such loans will bear interest at not less than the average market yield of the Utility's current investment portfolio.

Riverside Public Utilities will maintain good communications about its financial condition with bond and credit rating agencies.

Prudent care and disclosure shall be made in the issuance of any long-term debt.

Bonds may be issued with fixed or variable rate provisions in accordance with approved City Council Resolutions and guidelines for bond issuance.

Short-term borrowing for cash flow purposes is allowed, but not encouraged under this policy.

Refunding bonds may be issued only if the present value of debt service savings exceeds five percent of the refunded bonds.

REVENUE POLICIES

Annual revenue estimates will be prepared using an objective and analytical process.

Annually a cost allocation plan will be updated to document overhead costs of the Utility to be charged to user divisions on a fair and equitable basis.

Fees and charges for services rendered shall be determined and charged to customers based on operational as well as overhead, capital and debt service costs. Rates for water and electric services shall be cost based using current utility ratemaking theory and practices. All fees and rates shall be reviewed periodically to ensure adequate recovery of the Utility's costs.

The Utility will establish procedures to insure that all revenues are collected in a timely manner, using proper internal controls.

Any revenues owed shall be collected in compliance with collection procedures outlined in the established Rules and Rates Schedules and in accordance with the State of California Public Utilities Code.

Revenues shall be allocated to various Utility costs in accordance with bond covenants and resolutions. Any surplus revenues shall be placed in a reserve fund as discussed in the Reserve Policies section of this document.

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Adopted by City Council: June 26, 2001

INVESTMENT POLICIES

Riverside Public Utilities will utilize the investment policy of the City of Riverside as its policy governing investment activities for the Utility.

The overall investment strategy for any Utility monies shall be to maximize the rate of return while maintaining a low level of investment risk.

ACCOUNTING, AUDITING AND FINANCIAL REPORTING POLICIES

On a monthly basis the Utility shall prepare financial reports for the Board of Public Utilities in accordance with requirements of the City Charter, section 1202.

The Utility shall be subject to an annual audit by independent auditors whose report thereon shall be distributed upon request.

CAPITAL BUDGET POLICIES

Riverside Public Utilities will prepare a six-year Capital Improvement Plan based on financial targets and established priorities. Such plan shall consider financial implications, service and reliability goals and the overall mission of the Utility.

The Capital Improvement Plan shall be reviewed and approved by the Board and Council on an annual basis, and the first year of said plan will be included in the annual operating budget for that fiscal year.

Source of funding for each project will be considered a crucial component of approval for each proposed project. Possible reimbursement from others, debt financing, or financing from annual revenues should be considered in conjunction with all pertinent fiscal policies outlined herein.

RESERVE POLICIES

In order to provide a mechanism that reduces rate impacts to customers for certain extraordinary (one-time) events or projects, as well as covering normal budget variances, Riverside Public Utilities will establish certain cash reserves. These reserves will be reviewed annually in conjunction with the annual budget process and financial/rate planning for the Utility. Such reserves will be in addition to reserves required by law for debt service on bonds and reserves held on behalf of the Utility by the City of Riverside for self insurance, worker's compensation or other types of catastrophic events. Reserve levels are expected to vary based on changing operating and financial circumstances of the Utility and are subject to change annually based on the following guidelines.

> Reserve levels will be established based on a five year forward cost projection of significant contingencies, including unexpected major capital projects, energy risk contingencies, water treatment projects, weather impact on revenue, and other budget variances.
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> Minimum reserves will be at least three months operating expenses and maximum reserves will be set at 100% of annual operating revenues. If excess reserve levels are met, the Board of Public Utilities and City Council will be notified as soon as possible and appropriate plans to dispose of the excess shall be made. Over/under reserve determinations shall be made in conjunction with year-end accounting processes.

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