

Heber Public Utility District

Report to the Board of Directors

MEETING DATE: August 18, 2016

FROM: Laura Fischer, General Manager

SUBJECT: Adopt Resolution Number 2016-08 to Establish Financial Reserve Guidelines for FY 2016-17.

ISSUE:

Shall the Heber Public Utility Board of Directors adopt Resolution Number 2016-08 to establish financial reserve guidelines for FY 2016-17?

GENERAL MANAGER RECOMMENDATION:

Adopt Resolution Number 2016-08 to establish financial reserve guidelines for FY16-17.

FISCAL IMPACT: NONE.

Adopting Resolution 2016-08 will establish reserve guidelines and goals to allocate Fund Balance for FY 2016-17 to ensure adequate funding to meet the District's short-term and long-term plans. Following the guidelines will also minimize adverse annual and multi-year budgetary impacts from anticipated and unanticipated expenditures, thus minimizing the possibility of unplanned service fees or rate fluctuations. The guidelines will also help HPUD to strengthen our financial stability against present and future uncertainties in an ever changing environment.

DISCUSSION:

There are many factors that must be considered when establishing an appropriate fund balance and ensuring the prudent management of the District's finances. We must first define the District' fiscal objectives. According to the newly adopted Policy Manual Policy Number 3035.2.7, the HPUD Board should approve the appropriate levels and uses for reserve funds based upon the needs of the District during the budget adoption process. The HPUD reserve funds are categorized into the following: Capacity Fees, Capital Reserve Funds, Debt Service Reserve Funds, Capital Replacement Reserve Funds (Short Lived Assets), Operating and Maintenance Reserve Funds, and Unrestricted Reserves.

We must also identify where the funds are to be used. Operating revenues are the general purpose funds through which ongoing activities are funded. Special purpose revenues are legally restricted for a particular use. For example, revenues from Capacity Fees. Debt proceeds should be used to fund costs that provide a benefit across fiscal years. The issuance of debt allows the District to allocate these costs by spreading the debt service to these periods. Establishing a Debt Reserve helps to ensure that the District has sufficient funds necessary to meet the debt payment. Additionally, a Debt Reserve is often a requirement of the lending agency.

There are several components of Fund Balance and were recently redefined in GASB Statement No. 54 which changes the focus to the "extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can

be spent” and establishes five different components of fund balance.

- 1) Non-spendable Fund Balance: This category is inherently non-spendable, such as the long-term portion of loans receivable, the principle of an endowment and inventories.
- 2) Restricted Fund Balance: This classification has externally enforceable limitations on the use of fund balance, imposed by parties such as creditors, grantor or laws or regulations of other governments. This category includes the **Debt Service Reserve Fund** for Water and Wastewater Funds and **Capital Replacement Reserve Fund** (Short Lived Assets).
- 3) Committed Fund Balance: This encompasses limitations imposed by the District upon itself at its highest level of decision making, which is the Board through a Resolution. This category includes our **Capital Reserve Fund** and will be created in all District Funds.
- 4) Assigned or designated Fund Balance: This portion is earmarked for an intended use. The intent is established at the highest level of decision making. For example, a share of fund balance might be assigned to offset a gap in the budget stemming from a decline in revenues or an allotment could be assigned for an upcoming special project. This category includes our **Operating and Maintenance Reserve Fund**.
- 5) Unassigned Fund Balance: This comprises all fund balances that are left after considering the other four categories.

When establishing Reserve Guidelines, the District should consider the District’ core business and significant cost drivers for District operations. We have reviewed these core business cost drivers in the Budget document. They should determine if they want to make ‘Community’ a priority, which has been established and is reflected in your Capital Improvement Project List. Staff should ensure that the Reserve Guidelines are consistent with other financial policies. The Reserve Guidelines are consistent with the Reserve Policies in the Policy Manual. The Reserve Guidelines should be built upon a well-developed capital improvement plan, and a clear grasp of the ebb and flow or “seasonality” of cash-flow during the fiscal year. The Reserve Guidelines should clearly identify reserves – both categories and purposes.

Establishing reserves lets the HPUD designate money toward savings in order to balance our budget, respond to emergencies, keep rates affordable, maintain current infrastructure and plan for future public projects.

RESERVE GUIDELINES

Committed Funds –

Capacity Fees: These reserves are monies received from new service connections that increase our need for capacity. In the years prior to FY 2015-16 all reserved capacity fees were expended toward the engineering and design of the Water Treatment Plant Expansion Project that is currently under construction. On June 10, 2016 the HPUD received Capacity Fees for new commercial development for five new water connections needed for construction and for two temporary sewer connections. These funds are included in the Proposed Reserve Funds Budget below. These funds were not included in the information presented to the BOD at your special meeting as we had not received them at that time.

Capital Reserve Funds: These funds are reserved to fund your Five Year Capital Improvement Project List as adopted by the Board. The amounts represent the FY 2016-17 capital improvement project list and there are some allocation for future projects.

Restricted Fund Balance –

Debt Service Funds: These are funds that are mandated by our lenders to be held in reserve. Although the SWRCBA Water Loan does not require a full one year debt service reserve (only one-tenth of one year payment) staff has included a full year of reserves. The reason is that the HPUD previously expended Capacity Fees to pay for the engineering and design of the new Water Treatment Plant Improvement Project, and we expect to receive a reimbursement in FY 2015-16 in the amount of \$238,000. These funds would then be reserved for Future Capital Project Funds (\$88,000) and to fully fund one year of debt service for the SWRCBA Water Loan.

Capital Replacement Reserve Funds: As with the Debt Service Funds, the Capital Replacement Reserve Fund (Short Lived Asset Reserve) is mandated to be funded each year. HPUD has expended money from this reserve in FY 2015-16 with Board approval.

Assigned or Designated Fund Balance –

Operating and Maintenance Reserve Funds: These short-term reserves help balance the ebb and flow of revenues verse expenditures and ensure a balanced budget. Additionally they provide emergency funds in the event of a disaster. The HPUD must have savings readily available to quickly repair critical infrastructure and bring core services back online. Staff recommends a 90 day operation and maintenance Reserve be established.

Unrestricted Reserves –

These funds can be used for any purpose as determined by the Board of Directors.

The table below details the proposed Reserve Funds by category for FY 2016-17.

Proposed Reserve Funds Established via Resolution Number 2016-08					
PROJECTED UNASSIGNED CASH RESERVES BROUGHT FORWARD AS OF JUNE 30, 2016	Parks & Rec	Water	Sewer	Trash	Totals
	642,000	923,582	904,062	203,000	2,672,643
Non-Spendable Fund Balance					-
Committed Fund Balance					-
Capacity Fees		41,280	18,600		59,880
Capital Reserve Funds (Future Projects)		88,000	92,710		180,710
Manhole Replacement			102,710		102,710
Correll Park	80,000				80,000
Tito Park Lights - Match Community Grant				100,000	100,000
Tito Park Lights - In Addition to Grant	99,000				99,000
Jiggs Johnson Restroom and Lights	225,000				225,000
Restricted Fund Balance					-
Debt Service Reserve Funds - USDA		62,432			62,432
SWRCBA Water Loan - 1/10 of Annual Pymt (\$15K)		150,000			150,000
SWRCBA Wastewater Loan - Annual Pymt			211,000		211,000
SWRCBA Capital Replacement Reserve Funds (Short Lived Assets)		166,204	108,965		275,169
Assigned or Designated Fund Balance					-
Operating and Maintenance Reserve Funds (90 days Operating and Maintenance Costs)	112,932	268,151	203,745	11,441	596,268
Unrestricted Reserves	125,068	147,515	166,331	91,559	530,473
TOTAL RESERVES FOR FY 2016-17	642,000	923,582	904,061	203,000	2,672,643

CONCLUSION:

On June 16, 2016 the Board will review the Proposed Reserve Guidelines and Resolution Number 2016-08. It is recommended that the Board review the Reserve Guideline and Proposed Budget and finding no changes, adopt Resolution 2016-08 to establish a Financial Reserve Guideline and Reserve Budget for FY 2016-17.

ALTERNATIVES:

- 1) Do not adopt the Reserve Guideline and Budget, and provide direction to staff to modify. There is no requirement that HPUD adopt the Reserve Guideline and Budget by a specific time, but it is advisable so that projects may move forward.
- 2) Direct staff to present the Resolution, Guideline and Reserve Budget at the next scheduled meeting to allow the Board time to review prior to adopting.
- 3) Provide alternate direction to staff.

Respectfully Submitted,

Laura Fischer
General Manager

Attachment: Resolution Number 2016-08

RESOLUTION NO. 2016-08

**A RESOLUTION OF THE HEBER PUBLIC
UTILITY DISTRICT ADOPTING RESERVE
GUIDELINES AND BUDGET FOR FISCAL
YEAR 2016-17**

WHEREAS, the General Manager has submitted the Reserve Guideline and Reserve 2016-17 Budget to the Board of Directors for its review and consideration in accordance with reserve policies and objectives established by the Board of Directors, and

WHEREAS, the 2016-17 Reserve Guidelines are intended to provide guidelines for the the Heber Public Utility District to designate money in order to balance the budget, respond to emergencies, keep rates affordable, maintain current infrastructure and plan for future public projects; and

WHEREAS, the Reserve Guidelines are as follows:

Committed Funds –

Capacity Fees: These reserves are monies received from new service connections that increase our need for increased capacity in our Water and Wastewater Enterprise Funds.

Capital Reserve Funds: These funds are reserved to ensure monies are available to implement the current FY year projects included in the Board adopted Five Year Capital Improvement Project List.

Restricted Fund Balance –

Debt Service Funds: These are funds that are mandated by law to be held in reserve.

Capital Replacement Reserve Funds: The Capital Replacement Reserve Fund (Short Lived Asset Reserve) are mandated by law to be funded each year.

Assigned or Designated Fund Balance –

Operating and Maintenance Reserve Funds: The Heber Public Utility District will maintain a 90 day operation and maintenance Reserve.

Unrestricted Reserves –

Unrestricted Reserves: These funds can be programed and expended for any purpose as directed by the Board of Directors.

WHEREAS, in said fiscal year beginning July 1, 2016, there is hereby Reserved within the Treasury of the Heber Public Utility District for District purposes by the various departments of said District for the fiscal year 2016-17, the projected amount of \$2,672,643; and

WHEREAS, the Proposed Reserve Funds Established for FY 2016-17 are described below; and

Proposed Reserve Funds Established via Resolution Number 2016-08					
PROJECTED UNASSIGNED CASH RESERVES BROUGHT FORWARD AS OF JUNE 30, 2016	Parks & Rec	Water	Sewer	Trash	Totals
	642,000	923,582	904,062	203,000	2,672,643
Non-Spendable Fund Balance					-
Committed Fund Balance					-
Capacity Fees		41,280	18,600		59,880
Capital Reserve Funds (Future Projects)		88,000	92,710		180,710
Manhole Replacement			102,710		102,710
Correll Park	80,000				80,000
Tito Park Lights - Match Community Grant				100,000	100,000
Tito Park Lights - In Addition to Grant	99,000				99,000
Jiggs Johnson Restroom and Lights	225,000				225,000
Restricted Fund Balance					-
Debt Service Reserve Funds - USDA		62,432			62,432
SWRCBA Water Loan - 1/10 of Annual Pymt (\$15K)		150,000			150,000
SWRCBA Wastewater Loan - Annual Pymt			211,000		211,000
SWRCBA Capital Replacement Reserve Funds (Short Lived Assets)		166,204	108,965		275,169
Assigned or Designated Fund Balance					-
Operating and Maintenance Reserve Funds (90 days Operating and Maintenance Costs)	112,932	268,151	203,745	11,441	596,268
Unrestricted Reserves	125,068	147,515	166,331	91,559	530,473
TOTAL RESERVES FOR FY 2016-17	642,000	923,582	904,061	203,000	2,672,643

WHEREAS, All modifications to the Fiscal Year 2016-2017 Budget of Reserved Funds, departments and/or activities shall be made by the Board of Directors except that the General Manager may, on her own initiative and without prior approval of the Board of Directors, transfer between budget accounts within a fund, activity, or capital improvement fund, or from a budget account or appropriation, to the said fund reserve, amounts determined to be in excess of actual requirements; as long as such changes are reported regularly to the Board of Directors; and

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE HEBER PUBLIC UTILITY DISTRICT, DOES HEREBY RESOLVE AS FOLLOWS:

1. That the foregoing is true, correct and adopted.
2. That the Board of Directors Adopts the Reserve Guidelines and the Reserve Fund Budget for Fiscal Year 2016-2017.
3. That the Board of Directors of the Heber Public Utility District does hereby adopt this Resolution approving the Fiscal Year 2017 Reserve Guidelines and Reserve Funds Budget as set forth.
4. That the President of the Board of Directors of the Heber Public Utility District is hereby authorized to sign said Resolution, a copy of which is on file at the District office.

PASSED AND ADOPTED at a regular meeting of the Board of Directors of the Heber Public Utility District held on the 18th day of August 2016.

Tony Sandoval, Board President

ATTEST:

Raquel R. Carrillo, Clerk of the Board

APPROVE AS TO FORM:

Steven M. Walker, General Counsel

STATE OF CALIFORNIA)
COUNTY OF IMPERIAL)
HEBER PUBLIC UTILITY)
DISTRICT)

I, RAQUEL R. CARRILLO, Clerk of the Board of the Heber Public Utility District, County of Imperial, State of California, DO HEREBY CERTIFY that the foregoing resolution was dully passed, approved and adopted by the Board of Directors of the Heber Public Utility District at its regularly scheduled meeting held on the 18th day of August 2016.

By _____
Raquel R. Carrillo, Clerk of the Board