

# Heber Public Utility District Report to the Board of Directors

**MEETING DATE:** September 21, 2017

**FROM:** Laura Fischer, General Manager

**SUBJECT:** Adopt Resolution Number 2017-09 to Establish Financial Reserve for FY 2017-18.

**ISSUE:**

Shall the Heber Public Utility Board of Directors adopt Resolution Number 2017-09 to establish financial reserve budget for FY 2017-18?

**GENERAL MANAGER RECOMMENDATION:**

Adopt Resolution Number 2017-09 to adopt financial reserve budget for FY17-18.

**FISCAL IMPACT: NONE**

Increase in Parks and Recreation operating reserve from 90 days to 180 days. This change is recommended as property taxes, which fund the Parks and Recreation Department, are received in January and May and not on a monthly basis. This is the only change to the Resolution from when it was last presented.

Adopting Resolution 2017-09 will establish reserve budget to allocate Fund Balance for FY 2017-18 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 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 considered the District’ core business and significant cost drivers for District operations. We have reviewed these core business cost drivers in the Budget document. The HPUD Board has determined they want to make ‘Community’ a priority, which has been established and is reflected in your Capital Improvement Project List.

The Reserves presented are consistent with the Reserve Policies and Guidelines and in the Policy Manual. 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.

The table below details the proposed Reserve Funds by category for FY 2017-18.

<b>Proposed Reserve Funds Established via Resolution Number 2017-09</b>					
<b>PROJECTED UNASSIGNED CASH RESERVES BROUGHT FORWARD AS OF JUNE 30, 2017</b>	<b>Parks &amp; Rec</b>	<b>Water</b>	<b>Sewer</b>	<b>Trash</b>	<b>Totals</b>
	<b>754,212</b>	<b>1,225,215</b>	<b>1,337,409</b>	<b>237,401</b>	<b>3,554,237</b>
<b>Non-Spendable Fund Balance</b>					
<b>Committed Fund Balance</b>					
Capacity Fees					
Water and Sewer Master Plan - Capacity Fees		25,000	25,000		
Capital Reserve Funds (Future Projects)		88,000			88,000
Manhole Replacement			97,710		97,710
Influent Pump Station Repairs 2017			115,393		115,393
Repair Lift Station at 6th Street			100,000		100,000
Correll Park (Future Project)	80,000				80,000
Tito Park Lights - Match Community Grant				100,000	100,000
Tito Park Lights - In Addition to County \$10K	129,000				129,000
Jiggs Johnson Restroom and Lights	125,000				125,000
Children's Park - New Playground Equip, Splash pad, other Parks improvements according to CIP					-
<b>Restricted Fund Balance</b>					-
Retention (5%) for SRF Construction Funds		85,000			85,000
Debt Service Reserve Funds - USDA		73,694			73,694
SWRCBA Water Loan - Debt Reserve		162,211			162,211
SWRCBA Wastewater Loan - Debt Reserve			211,000		211,000
SWRCBA Capital Replacement Reserve Funds (Short Lived Assets)		258,823	108,965		367,788
<b>Assigned or Designated Fund Balance</b>					-
Operating and Maintenance Reserve Funds 90 days Operating and Maintenance Costs for Water and Sewer. 180 days for Parks.	283,266	277,644	238,734	11,022	810,666
<b>TOTAL RESERVES FOR FY 2017-18</b>	<b>617,266</b>	<b>970,372</b>	<b>896,802</b>	<b>111,022</b>	<b>2,545,462</b>
<b>PROJECTED UN-ASSIGNED BALANCE:</b>	<b>136,946</b>	<b>254,843</b>	<b>440,607</b>	<b>126,379</b>	<b>1,008,775</b>

### CONCLUSION:

It is recommended that the Board review the Reserve Budget and finding no changes, adopt Resolution 2017-19 to establish a Financial Reserve Budget for FY 2017-18

### ALTERNATIVES:

- 1) Do not adopt the Reserve Budget, and provide direction to staff to modify. There is no requirement that HPUD adopt the Reserve 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 2017-09

**RESOLUTION NO. 2017-09**

**A RESOLUTION OF THE HEBER PUBLIC  
UTILITY DISTRICT ADOPTING RESERVE  
GUIDELINES AND BUDGET FOR FISCAL  
YEAR 2017-18**

**WHEREAS**, the General Manager has submitted the Reserve Guideline and Reserve 20167-18 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 2017-18 Reserve Guidelines are intended to provide guidelines for 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 –**

**Water, Sewer and Solid Waste Operating and Maintenance Reserve Funds:** The Heber Public Utility District will maintain a 90 day operation and maintenance Reserve for Water, Sewer and Solid Waste (Trash) Funds.

**Parks and Recreation Operating and Maintenance Reserve Funds:** The Heber Public Utility District will maintain a 180 day operation and maintenance Reserve for Parks and Recreation Funds.

**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, 2017, 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 2017-18, the projected amount of \$2,545,462; and

**WHEREAS**, the Proposed Reserve Funds Established for FY 2017-18 are described below; and

<b>Proposed Reserve Funds Established via Resolution Number 2017-09</b>					
<b>PROJECTED UNASSIGNED CASH RESERVES BROUGHT FORWARD AS OF JUNE 30, 2017</b>	<b>Parks &amp; Rec</b>	<b>Water</b>	<b>Sewer</b>	<b>Trash</b>	<b>Totals</b>
	<b>754,212</b>	<b>1,225,215</b>	<b>1,337,409</b>	<b>237,401</b>	<b>3,554,237</b>
<b>Non-Spendable Fund Balance</b>					
<b>Committed Fund Balance</b>					
Capacity Fees					
Water and Sewer Master Plan - Capacity Fees		<b>25,000</b>	<b>25,000</b>		
Capital Reserve Funds (Future Projects)		<b>88,000</b>			<b>88,000</b>
Manhole Replacement			<b>97,710</b>		<b>97,710</b>
Influent Pump Station Repairs 2017			<b>115,393</b>		<b>115,393</b>
Repair Lift Station at 6th Street			<b>100,000</b>		<b>100,000</b>
Correll Park (Future Project)	<b>80,000</b>				<b>80,000</b>
Tito Park Lights - Match Community Grant				<b>100,000</b>	<b>100,000</b>
Tito Park Lights - In Addition to County \$10K	<b>129,000</b>				<b>129,000</b>
Jiggs Johnson Restroom and Lights	<b>125,000</b>				<b>125,000</b>
Children's Park - New Playground Equip, Splash pad, other Parks improvements according to CIP					-
<b>Restricted Fund Balance</b>					-
Retention (5%) for SRF Construction Funds		<b>85,000</b>			<b>85,000</b>
Debt Service Reserve Funds - USDA		<b>73,694</b>			<b>73,694</b>
SWRCBA Water Loan - Debt Reserve		<b>162,211</b>			<b>162,211</b>
SWRCBA Wastewater Loan - Debt Reserve			<b>211,000</b>		<b>211,000</b>
SWRCBA Capital Replacement Reserve Funds (Short Lived Assets)		<b>258,823</b>	<b>108,965</b>		<b>367,788</b>
<b>Assigned or Designated Fund Balance</b>					-
Operating and Maintenance Reserve Funds 90 days Operating and Maintenance Costs for Water and Sewer. 180 days for Parks.	<b>283,266</b>	<b>277,644</b>	<b>238,734</b>	<b>11,022</b>	<b>810,666</b>
<b>TOTAL RESERVES FOR FY 2017-18</b>	<b>617,266</b>	<b>970,372</b>	<b>896,802</b>	<b>111,022</b>	<b>2,545,462</b>
<b>PROJECTED UN-ASSIGNED BALANCE:</b>	<b>136,946</b>	<b>254,843</b>	<b>440,607</b>	<b>126,379</b>	<b>1,008,775</b>

**WHEREAS**, All modifications to the Fiscal Year 2017-18 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 2017-2018.
3. That the Board of Directors of the Heber Public Utility District does hereby adopt this Resolution approving the Fiscal Year 2017-2018 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 21<sup>st</sup> day of September, 2017.

\_\_\_\_\_  
Diahna Garcia-Ruiz, 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 21<sup>st</sup> day of September, 2017.

By \_\_\_\_\_  
Raquel R. Carrillo, Clerk of the Board