

HEBER PUBLIC UTILITY DISTRICT

REPORT TO BOARD OF DIRECTORS

MEETING DATE: August 17, 2023

FROM: Madeline Dessert, General Manager

SUBJECT: Adopt Resolution Number 2023-08 Adopting Reserve Guidelines and Budget for Fiscal Year 2023-24

ISSUE

Shall the Heber Public Utility Board of Directors adopt Resolution Number 2023-08 to adopt the financial reserve budget for FY 2023-24?

GENERAL MANAGER'S RECOMMENDATION:

Adopt Resolution Number 2023-08 to adopt the financial reserve budget for FY 2023-24.

FISCAL IMPACT: NONE

Adopting Resolution 2023-08 will establish a reserve budget to allocate Fund Balance for FY 2023-24 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 adopted Policy Manual Policy Number 3035.2.7, the HPUD Board should approve the appropriate levels and uses for reserve funds based on 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 that 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, grantors, 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 recently adopted a Strategic Plan, which established goals and priorities for the District. Goals A, B and C are represented in the Capital Improvement Project List and the proposed expenditures for FY 2023-24 capital projects are listed in the Reserve Resolution.

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 2023-24

Proposed Reserve Funds Established via Resolution Number 2023-08					
PROJECTED CASH BROUGHT FORWARD AS OF JUNE 30, 2023	Parks & Rec	Water	Sewer	Trash	Totals
	790,014	2,771,392	1,586,943	250,546	5,398,895
Other Sources of Revenues: Heber Community Foundation	200,000				
Other Sources of Revenues: Trash Fund transfer	223,746			(223,746)	
State Park Grant	700,000				
Per-Capita State Park Grant Prop. 68	187,000				
Total Funds:	2,100,760	2,771,392	1,586,943	26,800	6,485,895
Committed Funds:					
Capacity Fees					
Capital Reserve Funds (Future Projects)					-
Wastewater Plant Brackets wheels flangers BOD approved FY 2022-2023			67,883		67,883
Wastewater Drive Chain and materials BOD approved FY 2022-2023			22,626		22,626
Construct NEW water line down alley south of highway from WTP to Heffernan - DWR Funded 100%		472,960			472,960
Water Distribution Lines on Highway from Rockwood to Pitzer		199,000			199,000
Water Distribution Lines Replacement at Courts Possibly 100% Grant USDA Colonia Funding - Have Expended in FY 2022-23		310,000			310,000
Matching Funds 25% USDA Community Facilities Grant			67,966		67,966
Manhole Replacement Project approved FY 2022-23			22,390		22,390
Matching Funds 25% USDA Grants at Rec Center	41,597				41,597
Landscape Over Dogwood Canal East Side of Dowgood between Highway 86 and Correll	5,000				5,000
Children's Park - New Playground Equip, sidewalk repairs, shade - Project Short \$844,400 Funding after contract approval	1,528,694				1,528,694
Restricted Funds:					-
Wastewater debt to Parks (Debt Authorized via Resolution 2018-06) (Reserve Amended via Resolution 2018-10)	(48,828)		48,828		-
Debt Service Reserve Funds - USDA		156,600			156,600
SWRCBA Water Loan - Debt Reserve		161,802			161,802
SWRCBA Wastewater Loan - Debt Reserve			211,000		211,000
2019 Short Lived Assets Projected Balance		75,299	86,965		162,264
FY 2022-23 Withdrawal for Equipment Replacement (-)		(161,450)	(86,000)		(247,450)
Assigned or Designated Fund Balance:					
Operating and Maintenance Reserve Funds 180 days Operating and Maintenance Costs.	286,633	807,929	658,392	24,411	1,777,364
TOTAL RESERVES FOR FY 2023-24	1,813,096	2,022,140	1,100,050	24,411	4,959,696
PROJECTED UN-ASSIGNED BALANCE:	287,664	749,252	486,893	2,389	1,526,199

CONCLUSION:

It is recommended that the Board review the Reserve Budget and finding no changes, adopt Resolution 2023-08 to establish a Financial Reserve Budget for FY 2023-24.

ALTERNATIVES:

- 1) Do not adopt Resolution 2023-08 to adopt the Reserve Budget for FY 2023-24 and provide direction to staff to make changes and bring it back in August or September.
- 2) Provide alternate directions to staff.

Respectfully Submitted,
Madeline Dessert, General Manager

RESOLUTION NO. 2023-08

**A RESOLUTION OF THE HEBER PUBLIC
UTILITY DISTRICT ADOPTING RESERVE
GUIDELINES AND BUDGET FOR FISCAL
YEAR 2023-2024**

WHEREAS, the General Manager has submitted the Reserve Guideline and Reserve 2022-23 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 2023-2024 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 180 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, 2023, 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 2023-2024, the projected amount of \$4,959,696; and

WHEREAS, the Proposed Reserve Funds Established for FY 2023-2024 are described below; and

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WHEREAS, All modifications to the Fiscal Year 2023-2024 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 2023-2024.
3. That the Board of Directors of the Heber Public Utility District does hereby adopt this Resolution approving the Fiscal Year 2023-2024 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 17th day of August 2023.

Tony Sandoval, Board President

ATTEST:

Moises Cardenas, Clerk of the Board

APPROVE AS TO FORM:

Steven M. Walker, General Counsel

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

I, Moises Cardenas, Board Secretary 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 17th day of August, 2023.

By _____
Moises Cardenas, Clerk of the Board