



TAHOE CITY PUBLIC UTILITY DISTRICT

MEMORANDUM

TO:	Board of Directors	DATE:	May 7, 2020
FROM:	Sean Barclay General Manager	SUBJ:	Long-Term Financial Planning Process Update and District Reserve Policy Discussion

RECOMMENDATION:

The Board receive a presentation on the status of the District's Long-Term Financial Planning Process and discuss and provide feedback to staff on the District's Reserve Policies.

BACKGROUND:

The District formally began a Long-Term Financial Planning process in May of 2018 with the establishment of an Ad-Hoc Committee designed to outline a process and select a consultant to lead the District through the process. HDR, Inc. was awarded a contract to lead and facilitate a process by the Board in November 2018.

In February of 2019, Shawn Koorn of HDR delivered a presentation to the Board which outlined the objectives of the process; discussed the phases of Long-Term Financial Planning as outlined by the Government Finance Officers Association (GFOA); and set the stage for the bulk of the work which would involve reviewing, amending and adopting a number of different financial policies.

Since that time, the District has made significant progress in amending and adopting District financial policies. Since June 2019, the Board has adopted the following new or amended policies:

- No. 2040 Debt Management Policy – *new policy - adopted 6/21/2019*
- No. 2045 Property Tax Revenue Policy – *new policy - adopted 6/21/2019*
- No. 2050 Establishing Water and Sewer Rates and Fees Policy – *new policy - adopted 6/21/2019*
- No. 2025 Water System Acquisition Policy – *amended policy - adopted 8/16/2019*
- No. 2005 Long-Term Financial Planning – *new policy - adopted 9/20/2019*
- No. 2060 Disposal of Surplus Property Policy – *amended policy - adopted 2/21/2020*
- No. 2070 Technical Consultant Selection Policy – *amended policy - adopted 3/20/2020*

Staff have spent several months working with the District's Finance Committee to update the District's Reserve Policies. Staff have incorporated feedback and direction from the Finance Committee members during discussions at the October 2018, December 2018, and February 2019 meetings and will present the highlights of the recommended changes to the Board at the May Board meeting for discussion.

STRATEGIC GOAL:

6.2A – Adopt updated Reserve Policy per LTFP

6.3A – Complete Long-Term Financial Planning Process and Adopt Strategic Document

FINANCIAL IMPACTS:

No financial impact.

REVIEW TRACKING:

Submitted By: _____

Sean Barclay
General Manager

ATTACHMENTS:

- Sewer Fund Reserve Chart
- Water Fund Reserve Chart
- General Fund Reserve Chart
- Long-Term Financial Planning Presentation

SEWER FUND RESERVES

Description	Target
<p style="text-align: center;"><u>Operating Reserve</u></p> <p>This reserve shall be used only in extraordinary circumstances, to mitigate unforeseen significant fluctuations in current operational expenses; for annual revenue shortfalls; changes in the economic environment; and/or a significant, one-time unanticipated expenditure.</p>	<p>Reserve target shall be defined as ninety (90) days of the annual operating budget. Reserve levels will be determined annually as part of the budget process and approved by the Board.</p> <ul style="list-style-type: none"> • 1/01/2020 Target - \$938,565 • Use requires Board approval
<p style="text-align: center;"><u>Fleet & Equipment Replacement Reserve</u></p> <p>This reserve shall be used for the planned replacement of current and future fleet and heavy equipment.</p>	<p>Reserve target shall be defined as the annualized value of the 15-year fleet and equipment replacement plan. The reserve will be increased annually by the 15-year annualized value and reduced annually by the current year fleet and equipment purchases as approved by the Board.</p> <ul style="list-style-type: none"> • 1/1/2020 Target - \$362,955 (current year purchases <u>not</u> reflected in balance) • Use requires Board approval
<p style="text-align: center;"><u>Sewer Infrastructure Capital Replacement Reserve</u></p> <p>This reserve account may be used to fund capital expenditures that exceed the anticipated annual rate revenues available for capital and may provide funding for future capital infrastructure.</p> <p>Note: Current capital expenditures comes from rate revenue available for capital.</p>	<p>Minimum reserve shall be set at \$1.5 million. Maximum reserve shall be set at 10 years of annual capital funding from rates per the 2019 Rate Study (\$1.5 million/year).</p> <ul style="list-style-type: none"> • Min. Balance - \$1,500,000 • Max. Balance - \$15,000,000 • Annual increase – As determined by Board • Use requires Board approval

Changes to Sewer Fund Reserves

	Balances 12/31/2019	Net Change in Reserves	Balances 1/1/2020
Sewer Fund - Reserves			
<u>Designated:</u>			
Operating Reserves	\$ 735,594	\$ 202,971	\$ 938,565
Fleet & Equipment Replacement Reserve	140,900	222,055	362,955
Infrastructure Capital Replacement Reserve*	1,901,141	-	1,901,141
Total Sewer Fund Reserves	\$ 2,777,635	\$ 425,026	\$ 3,202,661
<i>* No change - current balance exceeds minimum required balance</i>			

Sewer Fund 2020 Districted Funded Capital

	2020
Sewer Fund District Funded Capital	
2020 Approved Capital - Sewer	\$ 1,493,094
<u>Less Funding Sources Other than Rates from Capital</u>	
None identified	-
Total Sewer Fund District Funded Capital	\$ 1,493,094

WATER FUND RESERVES

Description	Target
<p style="text-align: center;"><u>Operating Reserve</u></p> <p>This reserve shall be used only in extraordinary circumstances, to mitigate unforeseen significant fluctuations in current operational expenses; for annual revenue shortfalls; changes in the economic environment; and/or a significant, one-time unanticipated expenditure.</p>	<p>Reserve target shall be defined as ninety (90) days of the annual operating budget. Reserve levels will be determined annually as part of the budget process and approved by the Board.</p> <ul style="list-style-type: none"> • 1/01/2020 Target - \$1,155,208 • Use requires Board approval
<p style="text-align: center;"><u>Fleet & Equipment Replacement Reserve</u></p> <p>This reserve shall be used for the planned replacement of current and future fleet and heavy equipment.</p>	<p>Reserve target shall be defined as the annualized value of the 15-year fleet and equipment replacement plan. The reserve will be increased annually by the 15-year annualized value and reduced annually by the current year fleet and equipment purchases as approved by the Board.</p> <ul style="list-style-type: none"> • 1/1/2020 Target - \$218,122 (current year purchases <u>not</u> reflected in balance) • Use requires Board approval
<p style="text-align: center;"><u>Water Infrastructure Capital Replacement Reserve</u></p> <p>This reserve account may be used to fund capital expenditures that exceed the anticipated annual rate revenues available for capital.</p> <p>Note: Current capital expenditures comes from rate revenue available for capital, bond proceeds and property tax.</p>	<p>Minimum reserve shall be set at \$1.5 million. Maximum reserve shall be set at the annual capital funding from rates per the current Rate Study.</p> <ul style="list-style-type: none"> • Min. Balance - \$1,500,000 • Max. Balance - \$2,500,000 • Annual increase - As determined by Board • Use requires Board approval
<p style="text-align: center;"><u>Water System Acquisition & Infrastructure Improvement Property Tax Reserve</u></p> <p>This reserve shall be used for future purchases of private water systems within District boundaries and for infrastructure improvements to those systems.</p>	<p>Reserve target shall be set at \$3.0 million with the goal of being fully funded by 2022. Funding of this reserve should come from property tax revenues.</p> <ul style="list-style-type: none"> • Max. Balance - \$3,000,000 • 1/1/2020 Balance - \$1,845,157 • Annual funding target - \$577,422 • Use requires Board approval

Changes to Water Fund Reserves

	Balances 12/31/2019	Net Change in Reserves	Balances 1/1/2020
Water Fund - Reserves			
<u>Designated for:</u>			
Operating Reserves	\$ 842,295	\$ 312,913	\$ 1,155,208
Fleet & Equipment Replacement Reserve	140,900	77,222	218,122
Infrastructure Capital Replacement Reserve*	1,689,903	-	1,689,903
Water System Acquisition & Infrastructure Improvement			
Property Tax Reserve	1,267,735	577,422	1,845,157
Total Water Fund Reserves	\$ 3,940,833	\$ 967,557	\$ 4,908,390
<i>* No change - current balance exceeds minimum required balance</i>			

Water Fund 2020 District Funded Capital

	2020
Water Fund District Funded Capital	
2020 Approved Capital - Water	\$ 9,593,423
<u>Less Funding Sources Other than Rates from Capital*</u>	
Capital Grant	(160,678)
SRF Borrowing - 2020 only	(5,400,000)
Total Water Fund District Funded Capital	\$ 4,032,745

GENERAL FUND RESERVES

Description	Target
<p style="text-align: center;"><u>Operating Reserve</u></p> <p>This reserve shall be used only in extraordinary circumstances, to mitigate unforeseen significant fluctuations in current operational expenses; for annual revenue shortfalls; changes in the economic environment; and/or a significant, one-time unanticipated expenditure.</p>	<p>Reserve target shall be defined as ninety (90) days of the annual operating budget excluding capital outlay. Reserve levels will be determined annually as part of the budget process and approved by the Board.</p> <ul style="list-style-type: none"> • 1/01/2020 Target - \$1,153,741 • Use requires Board approval
<p style="text-align: center;"><u>Fleet & Equipment Replacement Reserve</u></p> <p>This reserve shall be used for the planned replacement of current and future fleet and heavy equipment.</p>	<p>Reserve target shall be defined as the annualized value of the 15-year fleet and equipment replacement plan. The reserve will be increased annually by the 15-year annualized value and reduced annually by the current year fleet and equipment purchases as approved by the Board.</p> <ul style="list-style-type: none"> • 1/1/2020 Target - \$300,071 (current year purchases <u>not</u> reflected in balance) • Use requires Board approval
<p style="text-align: center;"><u>General Fund Infrastructure Capital Replacement Reserve</u></p> <p>This reserve is to be used for funding fluctuations in current capital infrastructure expenditures and fund for future capital infrastructure.</p> <p>Note: Current capital expenditures comes from property tax.</p>	<p>Minimum reserve shall be set at \$1.0 million. Maximum reserve shall be set at \$15.0 million.</p> <ul style="list-style-type: none"> • Min. Balance - \$1,000,000 • Max. Balance - \$15,000,000 • Annual increase - As determined by Board • Use requires Board approval

GENERAL FUND RESERVES - continued

Description	Target
<p style="text-align: center;"><u>Priority Project Capital Reserve</u></p> <p>This reserve is to be used for specific planned future capital infrastructure projects. The Board may establish sub-categories to designate funds for specific projects within this reserve account.</p>	<p>The funding targets for specific projects shall be set individually by the Board based on estimated project costs and project timing.</p> <ul style="list-style-type: none"> • Min. Balance – TBD per project • Max. Balance – TBD per project • Annual increase – As determined by Board • Use requires Board approval
Priority Project Reserves Sub-Categories	
<p style="text-align: center;"><u>Administrative Facilities Improvement Project Reserve</u></p> <p>This reserve shall be used for the future construction of improvements to the administrative facility and surrounding buildings.</p>	<p>Reserve target shall be set at \$6.0 million (the current estimated District funded capital project cost) with the goal of being fully funded by 2024. Funding of this reserve should come from General Fund, Water Fund and Sewer Fund.</p> <ul style="list-style-type: none"> • Max. Balance - \$6,000,000 • 1/1/2020 Balance - \$0 • Annual funding target* - \$1,200,000 • Use requires Board approval <p>(*Annually fund \$400,00 from each fund)</p>
<p style="text-align: center;"><u>Tahoe City Golf Course Shared-Use Clubhouse Project Reserve</u></p> <p>This reserve shall be used for the District’s future share of costs associated with the construction of the new Tahoe City Golf Course Shared-Use Clubhouse Project.</p>	<p>Reserve target shall be set at \$850,000. Funding of this reserve shall come from property tax revenues. Fund by 2022.</p> <ul style="list-style-type: none"> • Max. Balance - \$850,000 • 1/1/2020 Balance - \$0 • Annual funding target - \$283,334 • Use requires Board approval
<p style="text-align: center;"><u>Kilner Park Project Reserve</u></p> <p>This reserve shall be used for the future construction of the Kilner Park Project.</p>	<p>Reserve target shall be set at \$984,200 (the current estimated District funded capital project cost) with the goal of being fully funded by 2022. Funding of this reserve shall come from property tax revenues.</p> <ul style="list-style-type: none"> • Max. Balance – \$984,200 • 1/1/2020 Balance - \$0 • Annual funding target - \$328,067 • Use requires Board approval

<p style="text-align: center;"><u>Skylandia Camp Lodge</u></p> <p>This reserve shall be used for the future construction of the Skylandia Camp Lodge Infrastructure.</p>	<p>Reserve target shall be set at \$1,567,539 (the current estimated District funded capital project cost) with the goal of being fully funded by 2023. Funding of this reserve shall come from property tax revenues.</p> <ul style="list-style-type: none">• Max Balance - \$1,567,539• 1/1/2020 Balance - \$0• Annual funding target - \$391,885• Use requires Board approval
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Changes to General Fund Reserves

	Balances 12/31/2019	Net Change in Reserves	Balances 1/1/2020
General Fund - Reserves			
<u>Assigned:</u>			
Operating Reserves	\$ 747,637	\$ 406,104	\$ 1,153,741
Fleet & Equipment Replacement Reserve	140,900	159,171	300,071
Infrastructure Capital Replacement Reserve	747,637	252,363	1,000,000
<u>Priority Project Reserves</u>			
Administrative Facilities Improvement Reserve**	-	1,200,000	1,200,000
Tahoe City Golf Course Lodge Project Reserve	-	283,334	283,334
Kilner Park Reserve	-	328,067	328,067
Skylandia Beach/Park/House Reserve	-	391,885	391,885
Total General Fund - Reserves	\$ 1,636,174	\$ 3,020,924	\$ 4,657,098

**Water and Sewer Funds contribution is \$400,000 each.

2020 General Fund District Funded Capital

	2020
General Fund District Funded Capital	
2020 Approved Capital - Parks & Recreation	\$ 2,295,633
2020 Approved Capital - Governance & Administrative Services	25,200
<u>Less Funding Sources Other Than Property Tax</u>	
Secured	(44,000)
Unsecured	(87,500)
Total General Fund District Funded Capital	\$ 2,189,333

Long-Term Financial Planning Process Update

District Reserve Policy Discussion

Tahoe City Public Utility District – May 2020



Why Long-Term Financial Planning?

Establish an annual process to ensure the on-going financial sustainability of TCPUD while providing a consistent level of service.

- Acquisition of the Tahoe City Golf Course property.
- Acquisition of private water companies.
- Capital infrastructure needs.
- Annual operating cost increases.
- Pension Unfunded Accrued Liability (Pension UAL).
- Other Post Employment Benefits Unfunded Accrued Liability (OPEB UAL).
- Regulatory changes and compliance.
- California drought mandates.
- Declining access to capital grants.



Long-Term Financial Planning Goals

- Goal – Ensure the District is financially prepared to:
 - Achieve District Mission
 - Accomplish Strategic Initiatives
 - Ensure Financial Sustainability

- Long-Term Financial Plan
 - Combination of technical analysis and strategizing
 - Collaborative and visionary process
 - Anchor of financial sustainability



GFOA Phased Approach to LTFP

Mobilization Phase

- prepare the organization for long-term planning by creating consensus on what the purpose and results of the planning process should be.
 - Financial Policies
 - Identify existing District Policies
 - Update/Improve policies
 - Create new policies

Analysis Phase

- produce information that supports planning and strategizing. The analysis phase includes the projections and financial analysis commonly associated with long-term financial planning.

Decision Phase

- decide how to use the information provided.

Execution Phase

- after the plan is officially adopted, strategies must be put into action (e.g. funding required in achieving goals). The execution phase is where the strategies become operational through the budget, financial performance measures, and action plans.



Accomplishments to Date

- Hired HDR, Inc. to facilitate process
- Developed draft 10-year financial model/forecast
- Completed review of existing financial policies
- Developed recommendations for additional financial polices
- Created new District Policy template
- Adopted 7 new/amended financial policies



New/Updated Financial Policies

- ❖ Debt Management Policy – *(6/21/19)*
- ❖ Property Tax Revenue Policy – *(6/21/19)*
- ❖ Establishing Water and Sewer Rates and Fees Policy – *(6/21/19)*
- ❖ Water System Acquisition Policy – *(8/16/19)*
- ❖ Long-Term Financial Planning Policy – *(9/20/19)*
- ❖ Disposal of Surplus Property Policy – *(2/21/20)*
- ❖ Technical Consultant Selection Policy – *(3/20/20)*



District Reserve Policies

- ❖ “Enterprise Fund Reserve Policy”
 - Sewer
 - Water

- ❖ “General Fund Reserve Policy”



Reserve Categories

- Operating Reserves
- Fleet & Equipment Reserves
- Water System Acquisition Reserve
- Capital Infrastructure Replacement Reserves
- Priority Project Reserves



Operating Reserves

Emergency Reserve

This reserve shall be used only in extraordinary circumstances, to mitigate unforeseen significant fluctuations in current operational expenses; for annual revenue shortfalls; changes in the economic environment; and/or a significant, one-time unanticipated expenditure.

- **Target** - 90 days of the annual operating budget (per fund)
- Use requires Board approval
- Level determined annually during budget process/approved by Board



Fleet & Equipment Reserves

Budget Stabilization Reserve

This reserve shall be used for the planned replacement of current and future fleet and heavy equipment.

- **Target** - Annualized value of the 15-year fleet and equipment replacement plan (per fund)
- Increased annually by the 15-year annualized value and reduced annually by the current year fleet and equipment purchases as approved by the Board
- Use requires Board approval (through budget/individual purchase approval)
- Level determined annually during budget process/approved by Board



Water System Acquisition & Infrastructure Improvement Property Tax Reserve

Specific Purpose Reserve

This reserve shall be used for future purchases of private water systems within District boundaries and for infrastructure improvements to those systems.

- **Target/Maximum** - \$3.0 million
- Achieve target funding by 2022
- Annual funding target – \$577, 422 (from property tax revenues)
- Use requires Board approval



Sewer Infrastructure Capital Replacement Reserve

Current Capital Budget Stabilization/Future Savings Reserve

This reserve account may be used to fund capital expenditures that exceed the anticipated annual sewer rate revenues available for capital and may provide funding for future capital infrastructure.

- **Minimum** - \$1.5 million (1 year planned capital \$ available from rates)
- **Maximum** - \$15 million (10 years planned capital \$ available from rates)
- Annual increase – As determined annually during budget process/approved by Board
- Use requires Board approval

Note: Current capital expenditures comes from rate revenue available for capital.



Water Infrastructure Capital Replacement Reserve

Current Capital Budget Stabilization Reserve

This reserve account may be used to fund capital expenditures that exceed the anticipated annual water rate revenues available for capital.

- **Minimum** - \$1.5 million
- **Maximum** - \$2.5 million
- Annual increase – As determined annually during budget process/approved by Board
- Use requires Board approval

Note: Current capital expenditures comes from rate revenue available for capital, bond proceeds and property tax.



General Fund Infrastructure Capital Replacement Reserve

Current Capital Budget Stabilization/Future Savings Reserve

This reserve is to be used for funding fluctuations in current capital infrastructure expenditures and fund for future capital infrastructure.

- **Minimum** - \$1.0 million
- **Maximum** - \$15 million
- Annual increase – As determined annually during budget process/approved by Board
- Use requires Board approval

Note: Current capital expenditures comes from property tax.



Priority Project Capital Reserve

Future Savings Reserve

This reserve is to be used for specific planned future capital infrastructure projects. The Board may establish sub-categories to designate funds for specific projects within this reserve account.

- **Minimum** – TBD per project
- **Maximum** – TBD per project
- Annual increase – As determined annually during budget process/approved by Board
- Use requires Board approval



Priority Project Reserve Sub-Categories

- Administrative Facilities Improvement Project (2024)
 - Max. \$6 mil / Annual - \$1.2 mil
- TCGC Shared-Use Clubhouse Project (2022)
 - Max. \$850,000 / Annual - \$283,334
- Kilner Park Project (2022)
 - Max. \$984,200 / Annual - \$328,067
- Skylandia Camp Lodge (2023)
 - Max. \$1,567,539 / Annual - \$391,885



Next Steps

- Incorporate Board feedback/direction
- Prepare draft Reserve Policy Documents
- Bring Reserve Policies to Committees/Board for adoption
- Staff to continue work with HDR on financial model/forecast
- Staff to continue work with HDR on development on the LTFP Strategic Document

