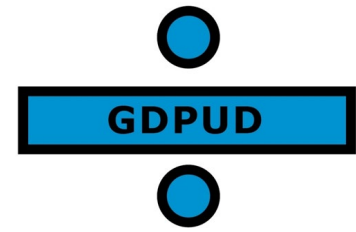


**Regular Finance Committee Meeting**

**February 24, 2022**

**AGENDA ITEM NO. 8**



**AGENDA SECTION: New Business**

**SUBJECT: Capital/Reserve Budget Review / ALT Wastewater Rate to Budget Review**

**PREPARED BY: Carol Arquette, Interim Clerk**

**APPROVED BY: Adam Coyan, General Manager**

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**BACKGROUND**

The Georgetown Divide Public Utility District (the District) maintains reserve funds from existing unrestricted funds as designated by the District's Reserve Policy. This policy establishes the procedure and level of reserve funding to achieve the following specific goals:

a) Operating Reserve:

The purpose of the Operating Reserve is to cover operating and administrative costs, as well as the difference in timing between the District's receipts and expenses. As such, the Operating Reserve accommodates rate stabilization in order to guard against water rate fluctuations.

b) Capital Replacement Reserve:

The purpose of the Capital Replacement Reserve is to meet future capital expenditure and surplus property needs.

c) Emergency Reserve:

The purpose of the Emergency Reserve is to cover the costs of potential replacement costs related to catastrophes, net of any insurance proceeds received.

d) Other reserves as legally mandated.

**DISCUSSION**

The General Manager, in collaboration with District Finance personnel, shall establish an internal accounting mechanism set forth by an administrative policy in order to track and report on reserve activity, including the source and use of funds transferred in and out of reserve funds. Also included in the administrative policy shall be additional procedures to follow when reserve balance thresholds are met. In addition, the General

Manager and finance personnel shall perform a reserve status analysis annually, to be provided to the Board of Directors' during annual deliberation for approval of budget and reserve funds.

**FISCAL IMPACT**

**CEQA ASSESSMENT**

Not a CEQA Project

**RECOMMENDED ACTION**

**ALTERNATIVES**

Detail alternative actions available to the Board; i.e. (a) Request substantive changes to the Resolution for staff to implement; (b) Reject the Resolution.

**ATTACHMENTS**

1. Reserve Policy and Procedures
2. Code of Accounts
3. Eide Bailly, Consultant October, 2020 Review
4. Christina Cross, Management Analyst, November 2020

# GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT

## Reserve Policy and Procedures



### ARTICLE I. PURPOSE

The Georgetown Divide Public Utility District (the District) shall maintain reserve funds from existing unrestricted funds as designated by the District's Reserve Policy. This policy establishes the procedure and level of reserve funding to achieve the following specific goals:

- a) Operating Reserve:  
The purpose of the Operating Reserve is to cover operating and administrative costs, as well as the difference in timing between the District's receipts and expenses. As such, the Operating Reserve accommodates rate stabilization in order to guard against water rate fluctuations.
- b) Capital Replacement Reserve:  
The purpose of the Capital Replacement Reserve is to meet future capital expenditure and surplus property needs.
- c) Emergency Reserve:  
The purpose of the Emergency Reserve is to cover the costs of potential replacement costs related to catastrophes, net of any insurance proceeds received.
- d) Other reserves as legally mandated.

The District shall account for reserves as required by Governmental Accounting Standards Board Statement No. 54, which distinguishes reserves as among these classes: non-spendable, restricted, committed, assigned and unassigned. The reserves stated by this policy, unless otherwise required by law, contract, or District policy shall be deemed "assigned" reserves.

### ARTICLE II. POLICY

Use of District Reserves is limited to available "Unrestricted" Funds (not obligated by law, contract or agreement), including donations, interest earned, fees for service or other non-grant earnings. All special use funds will be designated by formal action of the Board of Directors.

- a) Operating Reserve:  
Operating Reserve will accumulate from unrestricted funds in an amount equal to 120 days of operating expenses.
- b) Capital Replacement Reserve:  
Capital Replacement Reserve will accumulate from existing unrestricted funds in an amount determined by analysis of the annual amount needed for replacement and rehabilitation based on current value of assets and anticipated service life as described by the American Water Works Association, or as described in a Board adopted rate study.
- c) Emergency Reserve:  
Emergency Reserve will accumulate from unrestricted funds in an amount equal to replacement cost, less any amounts anticipated to receive from insurance, the Federal Emergency Management Agency (FEMA) and the State Office of Emergency Services (OES), less the Capital Replacement Reserve. The likelihood of a loss generating a net cost to the district which exceeds the Capital Replacement Reserve would be remote. The Emergency Reserve would be considered to be funded by the Capital Replacement Reserve.

## Reserve Policy and Procedures

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- d) Other reserves as legally mandated:  
Other reserves may be required as legally mandated by certain activities and contractual agreements. These reserves will accumulate from unrestricted funds in an amount as set forth in the applicable agreements.

### **ARTICLE III. USING RESERVE FUNDS**

Reserve Balances are designated by the Board of Directors from unrestricted funds. Designation by the Board is authoritative and any departure from the designation is a violation of this policy. As such, any changes or recommendations for changes must be presented to, and approved by, the Board of Directors. Therefore, the use of funds are to be used for their intended use, defined as follows:

- a) Operating Reserve:  
Operating Reserve funds will be used exclusively to ensure the ability to cover immediate operating cash flows.
- b) Capital Replacement Reserve:  
Capital Replacement Reserve funds shall be limited to costs related to improve capital assets, increase their useful life, or add to the value of these assets.
- c) Emergency Reserve:  
Emergency Reserve funds are to be used to cover the cost of capital replacement, net of any insurance proceeds or reimbursements from State, Federal or other grant agencies.
- d) Excess Revenue:  
In the event excess revenue exists at the end of the fiscal year, these funds may be used to meet reserve balance thresholds, and the Board of Directors has the authority to designate funds to reserve funds as deemed necessary.

### **ARTICLE IV. MONITORING RESERVE LEVELS**

The General Manager, in collaboration with District Finance personnel, shall establish an internal accounting mechanism set forth by an administrative policy in order to track and report on reserve activity, including the source and use of funds transferred in an out of reserve funds. Also included in the administrative policy shall be additional procedures to follow when reserve balance thresholds are met. In addition, the General Manager and finance personnel shall perform a reserve status analysis annually, to be provided to the Board of Directors' during annual deliberation for approval of budget and reserve funds.

Additional information may be provided to the Board of Directors upon the occurrence of the following events:

- a) When a major change in conditions threatens the reserve levels established by this policy or calls into question the effectiveness of this policy;
- b) Upon General Manager and/or Board request.

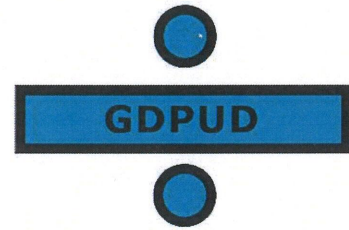
## CODE OF ACCOUNTS

### FUND CODES

New Code	Fund	Description	Old Code
<b>WATER OPERATING FUNDS</b>			
Fund 100	Water Operating	General Fund for all water related and administrative activities.	Fund 10
Fund 101	Retiree Health	<b>Restricted.</b> Funds accumulated to fund retiree obligations calculations based on GASB 45 calculation.	Fund 12
Fund 102	SMUD	<b>Unrestricted Reserve Funds.</b> Revenue under an agreement between Sacramento Municipal Utility District and El Dorado parties (El Dorado County, El Dora County Water Agency, GDPUD, El Dorado Irrigation District, and El Dorado Water and Power Authority) executed on November 22, 2005, relating to FERC Relicensing. ATTACHMENT 08 - El Dorado SMUD Cooperative Agreement.	Fund 08
Fund 103	Hydroelectric	<b>Unrestricted Reserve Funds.</b> Funds related to hydroelectric activity	Fund 30
<b>WATER CAPITAL FUNDS</b>			
Fund 110	Capital Replacement	<b>Unrestricted Reserve Funds.</b> USDA-required sub-fund for the Auburn Lake Trails Retrofit. It was originally set up with an estimate of the funds needed to be on hand to replace the existing asset with replacement lives of less than 15 years.	Fund 24
Fund 111	Capital Reserve	<b>Unrestricted Reserve Funds.</b>	Fund 43
Fund 112	ALT	<b>Restricted.</b> Includes supplemental charge revenue, a portion of ALTWTP construction expenses, and SRF loan draws.	Fund 20
Fund 113	CABY Grant	<b>Restricted.</b> Funding for Water Conservation, Supply Reliability, Enviromental Protection (ditch-lining) project.	Fund 09
Fund 114	Restricted P/L	<b>Restricted.</b> Grant funding for improvements to the Auburn Lake Trails Water Treatment Plant. Grant Awarded: 4/23/2015 Amount: 1,433,600 ID #: XP-96966501	Fund 35
<b>WATER DEBT SERVICE</b>			
Fund 120	State Revolving Fund	<b>Restricted.</b> SRF Loan for Walton Lake treatment plant.	Fund 29
Fund 121	SMER Fund	<b>Unrestricted Reserve Funds.</b> Stumpy Meadows Emergency Reserve Fund as a requirement of the contract entered into with the Dept of Reclamation related to the dam at Stumpy Meadows. The Otter Creek interest free loan is paid from the interest earned in this fund.	Fund 19
<b>WASTEWATER OPERATING</b>			
Fund 200	Zone Fund	<b>Restricted.</b> Funds related to all activities in the Auburn Lake Trails Waste Water System.	Fund 40
<b>WASTEWATER CAPITAL</b>			

Fund 210	CDS Capital Reserve	<b>Restricted.</b> CDS Reserve for expansion. Activities of the CDS connection fees (Acct # 4185) and the annual transfer of funds for the Wastewater General Fund representing depreciation portion of CDS customer's fees paid.	Fund 42
Fund 211	CDS M&O Fund	<b>Restricted.</b> Self-balancing fund used to track the activity of tank replacements and repairs to individually owned ALT septic systems.	Fund 41
<b>WASTEWATER DEBT SERVICE</b>			
<b>COMMUNITY FACILITY CHARGES</b>			
Fund 400	Capital Facility Charge	<b>Restricted.</b> Sub-fund for water activities to account for the non-water development portion of the Capital Facility Charges enacted 7/1/07 by Ordinance 2007-01.	Fund 39
Fund 401	Water Development Fund	<b>Restricted.</b> Sub-fund for receipt and development portion of the Capital Facility Charges	Fund 17
<b>ASSESSMENT DISTRICTS</b>			
Fund 500	Stewart Mine	<b>Restricted.</b> Sub-fund for Stewart Mine debt service	Fund 14
Fund 501	Garden Valley	<b>Restricted.</b> Revenues and expenditures of the Garden Valley Fund from County tax rolls.	Fund 37
Fund 502	Kelsey North	<b>Restricted.</b> Sub-fund for the activity of the debt.	Fund 51
Fund 503	Bayne Road	<b>Restricted Indirect Debt.</b> Sub-fund for various 1915 Act Assessment Districts: 21-Greenwood; 22-Cool Cherry Acres; 23-Spanish Dry Diggins; 24-Line Extension 77-5; 25 - Bayne Road ?????	Fund 25
Fund 504	Kelsey South	<b>Restricted.</b> Sub-fund for the activity of the debt.	Fund 52
Fund 505	Pilot Hill North	<b>Restricted.</b> Sub-fund for the activity of the debt. Paid off in April 2012. Closed during FY 2012-2013.	Fund 53
Fund 506	Pilot Hill South	<b>Restricted.</b> Sub-fund for the activity of the debt.	Fund 54

**REPORT TO THE BOARD OF DIRECTORS  
BOARD MEETING OF OCTOBER 13, 2020  
AGENDA ITEM NO. 8.D.**



**AGENDA SECTION: NEW BUSINESS**

**SUBJECT: RESERVE POLICY**

**PREPARED BY:** Kristen West, Eide Bailly Consultant

**APPROVED BY:** Jeff Nelson, Interim General Manager

**BACKGROUND**

On November 13, 2018 the Board of Directors approved Resolution 2018-53 to establish a reserve policy and accepted recommendations on the basis for calculating those reserves. Below is a summary of the reserves and their respective calculation methodologies:

<b>RESERVE POLICY</b>	
	Basis for Reserve
Operating Reserve	120 days of expenses (4 months, or two billing cycles)
Rate Stabilization Reserve	Account for in Operating Reserve, no exposure to volatility of costs associated with providing service since the District does not participate in the buying and selling of utilities in the open market
Capital Reserve	Annual replacement and rehabilitation needs based on current value of assets and anticipated service life, as supported by rate studies
Emergency Reserve	Included in Capital Reserve

*Operating Reserve*

In the event of unforeseen circumstances such as drought or unfavorable economic conditions revenues may decline. To ensure operating costs are covered during such circumstances, the policy established the Operating Reserve at 120 days of operating expenses; as it equates to 4 months, or 2 billing cycles.

*Rate Stabilization Reserve*

Since the District does not participate in purchasing utilities in the open market the cost of providing service is not subject to the inherent volatility in the costs of such activities. Therefore, the Operating Reserve is probably sufficient in accounting for rate stabilization.

*Capital Reserve*

The industry standard for applying a percentage of accumulated depreciation is subject to applicability to each individual organization. Accounting for 100% of accumulated depreciation is extremely conservative, but unrealistic as the likelihood of needing to replace 100% of the District's assets at the same time is very slim, and as such would unnecessarily raise rates. Thorough analysis of the present value of the cost of maintaining assets into the future is more realistic, and ultimately cost effective to rate payers. For this reason, the results of water rate study and waste-water rate study are to serve as basis for capital reserves.

*Emergency Reserve*

Since a majority of the assets are deemed critical and otherwise non-replaceable, Emergency Reserves are recommended to be considered included in the Capital Reserve accounts.

*Debt Service Reserves*

These reserves are required as legally mandated by certain activities and contractual agreements and will accumulate from unrestricted funds in an amount as set forth in the applicable agreements and be restricted for future use.

**DISCUSSION**

Analysis of reserves was performed on current unaudited ending balances as of June 30, 2020. Based on guidance in the policy, reserve balances were calculated and compared to available cash to determine excess or deficit cash to cover reserves.

The Water Operating Reserve is calculated as \$1,733,914 and derived based on 120 days of budgeted expenses of \$5,201,743. Current cash in the Water Fund is \$2,783,827 and is in excess of the operating reserve by \$1,049,913.

The recommended Water Capital Reserve provided in the most rate study performed by RCAC in 2017 is \$5,284,478. Cash available in the Capital Reserve fund is currently \$703,624, which is in deficit by \$4,580,854 when compared to reserve requirements.

Debt Service reserves for Stumpy Meadows and ALT are \$1,087,861 and \$587,357, respectively. Stumpy Meadows Emergency Reserves were established through debt covenants provided in the original debt agreement and are restricted for expenses related to Stumpy Meadows. ALT SRF Loan Reserves are required by the current debt agreement to be equal to the principal payment due in the next year and are restricted for the purpose of ensuring payment in the event the District is in hardship.

The following tables summarizes the Water Fund reserve analysis, balances and excess or deficit amounts.



**Reserve Policy**

Board Meeting of October 13, 2020  
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		Water Fund		
		Amount	Current Cash Balance	Excess (Deficit)
<b>Operating Reserve</b>				
120 days of budgeted expenses,	\$5,201,743	\$ 1,733,914	\$ 2,783,827	\$ 1,049,913
<b>Capital Reserve</b>				
annual replacemet value of assets <i>per 2017 rate study</i>		5,284,478	703,624	\$ (4,580,854)
<b>Debt Service</b>				
Stumpy Meadows Emergency Reserve <i>restricted for future expenses relatd to Stumpy Meadows</i>			1,087,861	\$ 1,087,861
ALT SRF Loan Reserve <i>restricted for future expenses relatd to ALT Water Treatment Plant</i>		587,357	587,357	\$ -
		<u>\$ 7,605,749</u>	<u>\$ 5,162,669</u>	<u>\$ (2,443,081)</u>

The Wastewater Operating Reserve is \$112,940 and calculated based on 120 days of expenses of \$338,819. When compared to the current cash balances in the ALT Zone Fund there are excess reserves of \$893,305.

The Wastewater Capital Reserve is \$45,000 and based on the annual system rehabilitation costs provided in the most recent rate study performed by HEC in 2019. Cash balances in the CDS M&O and CDS Reserve Funds amount to \$216,341, which is in excess of the reserve by \$171,341.

The following table summarize the Wastewater reserve analysis, balances and excess or deficit amounts.

		Wastewater ALT Zone & CDS		
		Amount	Current Cash Balance	Excess Deficit
<b>Operating Reserve</b>				
120 days of budgeted expenses,	\$338,819	\$ 112,940	\$ 1,006,245	\$ 893,305
<b>Capital Reserve</b>				
annual system rehabilitation costs <i>per 2019 rate study</i>		45,000	216,341	171,341
		<u>\$ 157,940</u>	<u>\$ 1,222,586</u>	<u>\$ 1,064,646</u>

**Recommendation**

The results of the analysis of reserves provided above were further analyzed for recommendations. Considering the excess operating reserves, it is recommended the District amend the Water and Wastewater operating reserves to 180 days (or six months) of budgeted expenses. Applying this amendment, the Water and Wastewater operating reserves are increased to \$2,600,872 and \$169,410, conserving the excess reserves to \$182,956 and \$836,835, respectively. Presently there is a material deficit in the Water Capital Reserve, as

**Reserve Policy**

Board Meeting of October 13, 2020  
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such it is recommended to target fifty-percent, or \$2,642,239 of the annual replacement value of assets until the next rate study is performed and reported, reducing the capital reserve deficit to \$1,938,615. The Stumpy Meadows reserve balance requires more analysis to determine the potential for reclassifying funds available for the deficit in capital reserves since the debt is no longer an obligation to the District. No recommendation is made to amend Wastewater capital reserves, as there is currently an excess in reserves. Additionally, during the analysis of reserves we noticed opportunity to provide greater transparency and improved financial reporting and recommend Water and Wastewater capital funds be established with related reserve fund balance accounts. Furthermore, capital project expenditures would be consolidated and the cumulative effect on capital reserves be more appropriately presented.

		<u>Water Fund</u>		
		<u>Amount</u>	<u>Current Cash Balance</u>	<u>Excess (Deficit)</u>
<b>Operating Reserve</b>				
180 days of budgeted expenses,	\$5,201,743	2,600,872	2,783,827	182,956
<i>suggested</i>				
<b>Capital Reserve</b>				
50% annual replacement value of assets	2,642,239	703,624	\$ (1,938,615)	
<i>suggested</i>				
<b>Debt Service</b>				
Stumpy Meadows Emergency Reserve			1,087,861	\$ 1,087,861
<i>restricted for future expenses relatd to Stumpy Meadows</i>				
ALT SRF Loan Reserve	587,357	587,357	\$	-
<i>restricted for future expenses relatd to ALT Water Treatment Plant</i>				
	<u>\$ 5,830,468</u>	<u>\$ 5,162,669</u>	<u>\$</u>	<u>(667,799)</u>

		<u>Wastewater ALT Zone &amp; CDS</u>		
		<u>Amount</u>	<u>Current Cash Balance</u>	<u>Excess Deficit</u>
<b>Operating Reserve</b>				
180 days of budgeted expenses,	\$338,819	\$ 169,410	\$ 1,006,245	\$ 836,835
<i>suggested</i>				
<b>Capital Reserve</b>				
annual system rehabilitation costs	45,000		216,341	171,341
<i>per 2019 rate study</i>				
	<u>\$ 214,410</u>	<u>\$</u>	<u>1,222,586</u>	<u>\$ 1,008,176</u>

**FISCAL IMPACT**

Periodic review of the cash reserves and periodic Board approval for setting the reserve levels allows for the proper planning and funding of capital projects and rehabilitation work needed for the water and sewer systems. Policy changes to the cash reserves does not initiate any cash transactions. Implementation of any policy changes may require additional Board action.

**CEQA ASSESSMENT**

Not a CEQA project.

**RECOMMENDED ACTION**

Staff recommends the Board of Directors accept this report by Eide Bailly, and direct staff to formalize a proposal to modify the District's reserve policy to reflect the recommendations above, for further consideration and approval by the Board of Directors at a subsequent Board Meeting.

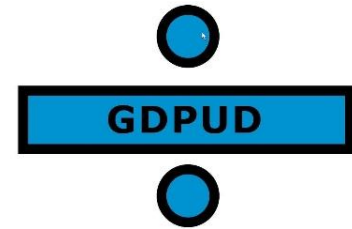
**ALTERNATIVES**

Alternative options include instruct staff and Eide Bailly to conduct further analysis of the District reserves and develop alternative recommendations or take no action and make no changes to the District's current reserve policy.

**ATTACHMENTS**

No attachments

**REPORT TO THE BOARD OF DIRECTORS  
BOARD MEETING OF NOVEMBER 10, 2020  
AGENDA ITEM NO. 8.A.**



**AGENDA SECTION: NEW BUSINESS**

**SUBJECT: FISCAL YEAR 2019/2020 CAPITAL RESERVE TRANSFER**

**PREPARED BY:** Christina Cross, Management Analyst

**APPROVED BY:** Jeff Nelson, Interim General Manager

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**BACKGROUND**

During the June 4, 2019 Board of Directors Regular Meeting, the General Manager proposed an FY 19/20 budget that included a proposed transfer of \$1,492,825 from Fund 10 to Reserve fund 43. This proposal was based on an estimated budget surplus of this amount at the time the 2019/2020 Budget was prepared. This estimated budget surplus also assumed the Board of Directors would be maintaining a minimum operating reserve (or balance) equivalent to 120 days of District operating costs.

**DISCUSSION**

After FY 2019-20 year-end close in October 2020, an analysis of reserves was performed by Eide Bailly consultant Kristen West on current unaudited ending balances as of June 30, 2020. Based on guidance in District policies, reserve balances were calculated and compared to available cash to determine excess or deficit cash to cover reserves.

Based on an annual estimated operating budget of \$5,201,743, the 120 day Water Fund 10 Operating Reserve balance is calculated to be \$1,733,914. Current cash in Water Fund 10 was \$2,783,827. Subtracting the 120 day operating budget amount of \$1,733,914 from the current fund cash balance of \$2,783,827 resulting in a \$1,049,913 surplus, compared with the originally estimated surplus of \$1,492,285.

During the October, 2020 Regular Board meeting, the District's financial consultant presented an analysis of the District's reserve funds, and made a recommendation that the District maintain a water operating fund (Fund 10) balance equivalent to 180 days of operating expenses rather than 120 days. The minimum fund balance for maintaining a minimum 180 days balance is \$2,600,872. The Fund 10 surplus associated with maintaining a 180 day balance is \$182,956.

This fund transfer must be completed as soon as possible by District staff in order to complete the close-out of our 2019/2020 Fiscal Year so auditors can complete our year-end financial statements. The Auditors would like to have draft financial statements completed by November 16<sup>th</sup>.

### **FISCAL IMPACT**

Transferring funds in surplus to a 120 day operating budget balance would result in a transfer of \$1,049,913 from Fund 10 to Fund 43, replenishing an underfunded Capital Improvement reserve fund. The RCAC rate study recommended a CIP fund balance of \$5,284,478. However, this would deplete the operating fund balance to 120 days of operating costs, below the 180 day operating fund balance recommended by Eide Bailly.

Transferring funds in surplus to a 180-day budget balance would result in a transfer of \$182,956 from Fund 10 to Fund 43, and would maintain a reasonable fund balance in Fund 10, however, this would result in Fund 43 to be continually underfunded and continue the deferring of the District's CIP projects.

### **CEQA ASSESSMENT**

Not a CEQA project.

### **RECOMMENDED ACTION**

Staff recommends the Board of Directors direct staff on the dollar amount they want transferred from Fund 10 to Fund 43, and bring forth a modified reserve fund policy for board approval at a later meeting, if appropriate.

### **ALTERNATIVES**

Take no action

### **ATTACHMENTS**

1. 10.13.2020 Staff report Cash Reserve Analysis Eide Bailly
2. FY2019-20 Adopted Budget
3. Resolution 2020-XX