

## Council Meeting Staff Report

October 19, 2016

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<b>Agenda No.:</b>	6.C.
<b>Indexes (Council Goals):</b>	BCC - N/A
<b>Presenters:</b>	Bob Westervelt
<b>Legislative File:</b>	8458-16

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### Title

Financial Policies Status and Implementation Plan

### Recommended Action

N/A - Discussion item only

### Staff Recommendation

N/A - Discussion item only

### Body

With adoption of a formal policy for desired cash balances for the Utilities funds, initial steps for implementation involve determination of current status, followed by consideration of methods and alternatives for resolving differences.

Status of the Utilities Department's cash position as relates to the Board adopted financial policies is presented in two different formats as Exhibits A and B attached herewith. Exhibit A shows reserve status by reserve category, which allows the reader to compare requirements in each category between the individual utilities. This presentation also shows the definition of the target and, if applicable, the floor amount for each reserve category, per the adopted policy. Exhibit B shows reserve status by Utility, which shows the total amount over or under policy targets by sub fund. This is important as each fund is required to "stand alone", meeting policy targets with cash designated as held within the specific sub-fund. The first action toward implementation will be to transfer available cash within each utility into the various reserve categories.

As shown on the exhibits, in total the department has sufficient cash reserves to meet minimum ("floor") policy requirements, but the sewer sub fund does have a rather significant cash shortage, as does electric to a much lesser extent. Gas and water are sufficiently funded compared to policy "floors"

Compared to target amounts, cash reserves in both the sewer and the electric sub-funds do have significant shortages. Gas and Water remain adequately funded compared to policy targets.

Correction or adjustment of cash position as relates to policy targets can be accomplished through various actions, most notably adjustment of rates, adjustment of operational plans and budgets, adjustment of capital plans and budgets, issuance of debt, or a combination of those things. The report on this evening's agenda on the status of the water system shows how this analysis would proceed and will be discussed at length during that agenda topic. The analysis presented demonstrates the importance of balancing rate actions with operational plans to maintain sufficient cash without constantly reacting to what are essentially short term variables. This approach is supported in the policies by the language that allows the department to develop corrective actions within reasonable time frames to correct variances from cash targets. A similar analysis will be completed as part of the normal budget process henceforth.

### Alternatives

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N/A - Discussion item only

**Fiscal and Staff Impact**

No immediate impact. We have sufficient reserves to meet minimum requirements overall. Fiscal impact to individual funds in terms of rate impacts and operational and capital plans will be determined during planning and normal budgetary cycles.

**Attachments**

A - Reserve Status by Reserve Category

B - Reserve Status by Utility