



County of Los Alamos

Los Alamos, NM 87544
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Council Meeting Staff Report

June 19, 2019

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| Agenda No.: | 7.B |
| Indexes (Council Goals): | BCC - N/A |
| Presenters: | Bob Westervelt |
| Legislative File: | 11924-19 |

Title

Financial Plan Update

Recommended Action

N/A - Discussion item only

Staff Recommendation

N/A - Discussion item only

Body

The Board of Public Utilities adopted formal policies for financial targets in August of 2016. For review, that guidance is attached as Attachment A. With adoption of formal targets for desired cash balances for the Utilities funds, initial steps for implementation involved assessment of then current status, followed by consideration of methods and alternatives for resolving differences. It has been a little over two years since adoption. This report is intended to provide information to help assess progress toward financial goals, and to assist the Board in determining if revision of guidelines or targets is prudent at this time.

Status of the Utility Department's cash position as relates to the Board adopted financial policies is presented as Attachment B. The Exhibit shows reserve status by Utility, broken down by reserve category, and showing the total amount over or under policy targets by utility. Status upon adoption is shown, and current status is shown as well.

There are some anomalies with this presentation. Debt service payments are made twice a year, but amounts are "deposited" into the debt service reserve monthly to facilitate recognition of that expense monthly. In addition, the debt covenants require that the entire next year's payments be held in a restricted fund. Payments are due in either July and January, or June and December. Thus, as of March 30, there are several month's "extra" funds showing in the reserve account.

Also, the guidance calls for a significant rate stabilization fund in Electric, but due to the Power Pool it has never been funded. This reserve may be one where revisiting the guidance would be prudent.

It also shows that electric operations reserves are negative in total, but by looking at the Cash report (Attachment C), we can see that in the Electric Distribution sub fund, unrestricted cash reserves are significantly improved. The difference in in Electric Production and is related to the Cap Charge running balance and collections from LANL. Staff suggests that by revisiting this target we may be able to come up with goals that better reflect financial needs but are not as susceptible to the anomalies of the Power Pool. Staff was, however, unable to develop a proposed alternative to present this evening.

While Water Distribution is still struggling, progress is being made and staff recommendation is to stay the course that has been set in prior discussions, but to continue to monitor and make adjustments later, if necessary.

Sewer is still not fully funded but with recent and planned rate actions, combined with cost saving measures already implemented, is making progress as planned, and again, staff recommendation is to continue per previous discussion.

If one looks at total cash, we see a significant decrease in cash, but it is important to note that does not indicate a lack of progress toward achieving our reserve targets. One must compare the revised targets with the revised cash balances. These would change as some projects were budgeted to be paid from fund balance (cash reserves). The new water well, and most of the projects in ED are examples.

As shown on the exhibits, in total the department has sufficient cash reserves to meet minimum ("floor") policy requirements, and has improved significantly since 2016, but the electric is still showing a shortage for the reasons discussed above. The sewer sub fund is now meeting recommended "floor" levels. 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 shortages, but as noted, much progress has been made in the sewer fund, and, as noted, electric needs additional analysis to establish perhaps more meaningful targets. Gas and Water remain adequately funded compared to policy targets.

Correction or adjustment of cash position as relates to recommended 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 long-range plans previously presented and discussed for water and sewer are examples of this analysis and demonstrate 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 has been completed as part of the normal budget process since adoption of these financial policies. The ten-year forecast and financial analysis prepared with the FY20 budget submission included as Attachment D for reference

Alternatives

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 - Financial Guidelines approved by BPU 8-17-16

B - Reserve Status by Utility

C - Cash Balances by Fund - GL Report

D - FY2020 - 2029 Ten Year Forecast