



CITY OF COLUMBIA, MISSOURI

MEMORANDUM

WATER AND LIGHT DEPARTMENT
COLUMBIA TERMINAL RAILROAD

TO: Water and Light Board

FROM: Tad A. Johnsen, Director of Water & Light 

DATE: August 16, 2013

SUBJECT: Cash Reserve Policy

Water & Light would like to establish a cash reserve policy that is approved by our governing body, the City Council, to use as a financial planning tool in budget process and with bond rating agencies. The focus of this policy is to provide the method for which our budgeted and actual cash reserves can be evaluated against annually updated target cash reserve levels. The purpose of the cash reserve is to insure the water and electric utilities have the ability to pay for normal expenses, including funding a portion of capital improvements from operating reserves, and have funds to respond to catastrophic system events.

At the September 5, 2012, Water & Light Advisory Board meeting the board approved a Cash Reserve Policy for Water & Light and recommended approval by Council. In preparation for Council action staff has been in discussions with the Finance. These discussions have centered on how to integrate this policy with other city policies and standards. This memo details changes the Finance Department and the Water & Light Department have agreed on for Water & Light's cash reserve methodology. This methodology utilizes the balance sheet line items "cash and marketable securities" (C&MS) and "Inventory" as the indicator of the department's cash position. Part of C&MS is the GASB 31 cash adjustment. This is the gain or loss that would be realized if all investments were sold. While accounting standards require that gains or losses be tracked, this figure will be excluded from the calculation of cash position. The value of inventory is included because materials on-hand can theoretically reduce future expenditures and should therefore be considered part of Water & Light's current cash position.

The following table shows the calculation of Water & Light's cash position for the end of fiscal year 2012. As stated the GASB 31 adjustment will be excluded from the calculation of cash position.

Cash Position

FY12 Year End – Actual	Without GASB 31
Cash and marketable securities	\$36,892,400
Inventory	\$6,947,949
FY12 Year-End Actual Cash Position	\$43,840,349

The benchmark for a target cash position will be twenty percent of total expenditures excluding the enterprise revenue for current fiscal year capital projects. Funding of capital projects is addressed by including the projected enterprise revenue for capital projects for the following fiscal year.

This methodology addresses the target cash position for the end of the fiscal year. The first day of the following fiscal year enterprise funds are transferred to capital projects, therefore sufficient funds must be available to address that requirement. This methodology can become a financial planning tool based on current expenses and future requirements, rather than historical expenditures. The following table illustrates the target cash position for year-end 2012. Calculations are presented that illustrate using twenty percent of historic expenditures versus adding future year capital expenditures for financial planning purposes.

Target Cash Position

Row		Historic	Financial Plan
1	FY12 Expenditures w/o CIP	\$131,455,192	\$131,455,192
2	FY12 Cash for CIP	\$8,135,000	
3	Total FY12 Expenditures (Row 1 + Row 2)	\$139,590,192	\$131,455,192
4	20% of FY12 Expenditures (Row 3 x .2)	\$27,918,038	\$26,291,038
5	FY13 Cash for CIP		\$11,184,400
6	FY12 Year-End Target Cash (Row 4 + Row 5)	\$27,918,038	\$37,475,438

Due to the nature of the water and electric utilities, there will be fluctuations in the actual cash position vs the target cash position. The goal for using this and other financial tools is to minimize the variations in rate increases. At the end of FY12, the actual cash position was \$6.3 million above the target cash position. Because both water and electric rate structures charge higher amounts for higher usage, hot-dry summers will push the actual cash position above the target cash position, while cool-wet summers can cause the actual cash position to drop. The amount of cash used for capital projects will also cause variations in the cash position.

Because 2013 has been a cool, wet summer and because the electric utility is allocating a large amount of cash for capital projects, the cash position of the utility is projected to drop to around \$25 million by the end of fiscal year 2014. That is about \$15 million below the FY14 ending target cash position of \$40 million.

The following table shows historic actual and projected levels through FY13.

	Cash Position	Target Cash Position
Actual FY08	\$39,656,781	\$24,813,044
Actual FY09	\$45,808,982	\$47,709,084
Actual FY10	\$32,234,070	\$28,769,062
Actual FY11	\$36,703,483	\$36,567,485
Actual FY12	\$43,840,349	\$37,475,438
Estimated FY13	\$40,337,191	\$46,508,300

Included is a graph showing the cash positions for targets with associated expenditure and CIP portions, budgeted and actual or estimated. Rate changes or reductions in capital outlays can be programmed into future budgets if continued decline in cash positions occur.

Staff requests for the Water & Light Advisory Board to approve replacement of the previously approved Cash Reserve Policy with the one outlined above and recommend approval to Council.

Columbia Water & Light Cash Position

Actual - Budget - Target Levels

