

A POLICY RESOLUTION

establishing a Cash and Marketable Securities Reserve Policy
for the Water and Light Department.

WHEREAS, the Water and Light Department desires to establish a Cash and Marketable Securities Reserve Policy as a financial planning tool in the budget process and for evaluation of financial position with bond rating agencies; and

WHEREAS, the Government Finance Officers Association (GFOA) and the American Public Power Association (APPA) recommend that public utilities establish a formal policy on the level of unassigned cash reserves that should be maintained to mitigate current and future risks such as unfunded governmental mandates, revenue shortfalls, and unanticipated expenditures due to weather events or other disasters, and to ensure stable and acceptable rate changes.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF COLUMBIA, MISSOURI, AS FOLLOWS:

SECTION 1. The City Council of the City of Columbia, Missouri adopts the following Cash and Marketable Securities Reserve Policy for the Water and Light Department:

PURPOSE OF POLICY:

The purpose of the Cash and Marketable Securities Reserve Policy for the Water and Light Department is to provide guidelines to the City Council and staff for establishing, maintaining and performing an annual review of the cash and marketable securities balance for the Water and Light Department.

BACKGROUND:

The Government Finance Officers Association (GFOA) and the American Public Power Association (APPA) recommend that public utilities establish a formal policy on the level of unassigned cash reserves that should be maintained to mitigate current and future risks to the utility, and to ensure stable and acceptable rate changes. GFOA recommends an unassigned cash reserve level be maintained to cover two (2) months of expenditures.

A minimum unassigned cash reserve policy is generally considered a prudent and fiscally responsible policy to deal with unforeseen situations that include, but are not limited to:

- Unfunded federal, state or other mandates.
- Revenue shortfalls due to economic downturns or other unexpected conditions.

- Expenses incurred for restoration of service due to weather events or other disasters.

Credit rating agencies continually monitor the levels of unassigned cash reserves in a utility's fund when evaluating creditworthiness and assigning a credit rating for the utility's debt issuance.

Designation of a level for unassigned cash reserves is recommended for use as a financial planning tool in the budget process and with bond rating agencies.

Due to the capital intensive nature of both the water and electric utilities, a benchmark for minimum cash reserves is proposed to be twenty percent (20%) of total expenditures, excluding the enterprise revenue for a current fiscal year's capital projects plus projected enterprise revenue for capital projects the following fiscal year.

POLICY:

The City shall maintain unassigned cash reserves equal to twenty percent (20%) of the Water and Light Department's total annual expenses plus enterprise revenue funding requirements for capital projects. Funding of capital projects will be addressed by excluding the enterprise revenue for a current fiscal year's capital projects and adding the projected enterprise revenue for capital projects the following fiscal year. The unassigned cash reserves shall be used when approved by formal City Council action or under the following circumstances:

1. Large one-time cost where use of reserves would provide a long-term cost savings.
2. To mitigate service impacts from significant revenue shortfall due to economic downturn, weather variations or other unexpected loss of revenue.
3. Restoration of service due to weather events or other disasters.
4. The utility sustains unexpected liabilities created by federal, state or other mandates beyond its control.
5. To manage rate impacts resulting from expense changes.

For purposes of this policy, "unassigned cash reserve" refers to the financial statement line item titled: "Cash and Marketable Securities," excluding GASB 31 Cash Adjustment, plus Inventory.

The Water and Light Department shall annually establish and evaluate the unassigned cash reserve level. The results of this evaluation will be used in budget development and consideration.

Staff shall ensure that the provisions of this policy are effectively implemented. If it is determined that there is a conflict between this policy and other more specific governing policies involving the operating or capital improvement budgets, this shall be brought to the attention of the City Manager and the Water and Light Director who will determine the appropriate course of action.

ADOPTED this _____ day of _____, 2013.

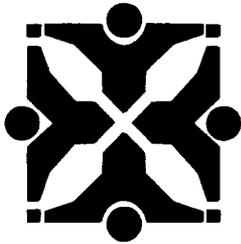
ATTEST:

City Clerk

Mayor and Presiding Officer

APPROVED AS TO FORM:

City Counselor



Source: Water & Light *rad*

Agenda Item No:

To: City Council
From: City Manager and Staff *MM*

Council Meeting Date: Dec 2, 2013

Re: Policy Resolution for Water & Light Cash Reserve

EXECUTIVE SUMMARY:

Staff has prepared for council consideration a Policy Resolution authorizing the City Manager to establish a Water & Light Cash Reserve Policy that is approved for use as a financial planning tool in the budget process and with bond rating agencies. The focus of this policy is to provide the method for which Water & Light cash reserves can be evaluated. 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.

DISCUSSION:

The methodology detailed in this Policy Resolution uses 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 reduce future expenditures and should therefore be considered part of Water & Light's current cash position.

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 is intended for use as a financial planning tool based on current expenses and future requirements. Included Table A shows the calculation of Water & Light's minimum and actual cash positions. As stated the GASB 31 adjustment will be excluded from the calculation of cash position. Using this methodology the attached Table B shows actual levels through FY13 with FY14 estimated.

A graph is also attached 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. This Policy Resolution was approved by the Water & Light Advisory Board.

FISCAL IMPACT:

None

VISION IMPACT:

<http://www.gocolumbiamo.com/Council/Meetings/visionimpact.php>

None

SUGGESTED COUNCIL ACTIONS:

Approval of a Policy Resolution establishing a Water & Light Cash Reserve Policy for use as a financial planning tool in the budget process and with bond rating agencies

FISCAL and VISION NOTES:					
City Fiscal Impact Enter all that apply		Program Impact		Mandates	
City's current net FY cost	\$0.00	New Program/ Agency?	No	Federal or State mandated?	No
Amount of funds already appropriated	\$0.00	Duplicates/Expands an existing program?	No	Vision Implementation impact	
Amount of budget amendment needed	\$0.00	Fiscal Impact on any local political subdivision?	No	Enter all that apply: Refer to Web site	
Estimated 2 year net costs:		Resources Required		Vision Impact?	No
One Time	\$0.00	Requires add'l FTE Personnel?	No	Primary Vision, Strategy and/or Goal Item #	
Operating/ Ongoing	\$0.00	Requires add'l facilities?	No	Secondary Vision, Strategy and/or Goal Item #	
		Requires add'l capital equipment?	No	Fiscal year implementation Task #	

Table A

FY12 Minimum Cash Position			
Operating Expenses	\$100,060,249		
PILOT	\$14,168,045		
Interest Expense	\$8,925,313		
Miscellaneous Expense	\$209,496		
Operating Transfers	\$2,262,324		
Principal On Debt	\$5,360,000		
FY12 Expenditures w/o CIP	\$130,852,372	FY12 Actual Cash Position	
20% of Expenditures	\$26,170,474	Cash and Marketable Securities	\$36,839,079
FY13 CIP Transfer	\$10,625,000	Inventory	\$7,004,560
Minimum Cash Position	\$36,795,474	Year End Cash Position	\$43,843,639

FY 13 Minimum Cash Position			
Operating Expenses	\$112,597,109		
PILOT	\$14,470,651		
Interest Expense	\$8,338,802		
Miscellaneous Expense	\$670,727		
Operating Transfers	\$821,774		
Principal On Debt	\$6,545,000		
FY13 Expenditures w/o CIP	\$143,376,849	FY13 Actual Cash Position	
20% of Expenditures	\$28,675,370	Cash and Marketable Securities	\$30,330,446
FY14 CIP Transfer	\$16,946,000	Inventory	\$7,075,260
Minimum Cash Position	\$45,621,370	Year End Cash Position	\$37,405,706

FY14 Minimum Cash Position			
Operating Expenses	\$122,975,857		
PILOT	\$14,919,000	FY14 Projected Cash Position	
Interest Expense	\$7,798,291	Actual Cash FY13 Year-End	\$30,330,446
Miscellaneous Expense	\$0	Total Revenue-FY14 Budget	\$154,192,582
Operating Transfers	\$375,000	Total Expense-FY14 Budget	(\$146,068,148)
Principal On Debt	\$6,665,000	FY14 CIP for Enterprise Funds	(\$16,946,000)
FY14 Expenditures w/o CIP	\$152,733,148	FY14 Principal On Debt	(\$6,665,000)
20% of Expenditures	\$30,546,630	Projected Cash FY14 Year-End	\$14,843,880
FY15 CIP Transfer	\$6,630,000	Inventory FY14 Year-End	\$7,075,260
Minimum Cash Position	\$37,176,630	Cash Position-FY14 Year-End	\$21,919,140

Table B

	Cash Position	% of Cash Position in Inventory	Minimum Cash Position
Actual FY08	\$39,656,781	18.6%	\$24,813,044
Actual FY09	\$45,808,982	15.9%	\$47,709,084
Actual FY10	\$32,234,070	22.7%	\$28,769,062
Actual FY11	\$36,703,483	19.0%	\$36,567,485
Actual FY12	\$43,843,639	16.0%	\$36,795,474
Actual FY13	\$37,405,706	18.9%	\$45,621,370
Estimated FY14	\$21,919,140	32.3%	\$37,176,630

Graph

