

**Tahoe City Public Utility District
Policy & Procedure**

**ENTERPRISE FUNDS UNRESTRICTED NET POSITION
AND RESERVES POLICY**

I. BACKGROUND

The focus of the Enterprise Funds Unrestricted Net Position and Reserves Policy is to ensure that there will be adequate liquid resources to meet the minimum reserve targets established by the Board of Directors (Board) to provide financial and rate stability as well as the ability to mitigate current and future risk.

The Enterprise Funds Net Position consists of total assets less total liabilities and serves as a useful indicator of the Enterprise Funds financial position. Net Position consists of three components as follows: Net Investment in Capital Assets, Restricted, and Unrestricted. The Unrestricted component of net position is further classified into two categories: Designated and Undesignated. The Designated category of the Unrestricted Net Position is established by Board policy and is intended for a specific purpose or use per the Board’s policy or the Board designee’s directions. Undesignated is what is available after designation.

The following table highlights the components of Net Position and its relevance to the Enterprise Funds Unrestricted Net Position and Reserves Policy.

Components of Net Position	Relevant to Enterprise Funds Unrestricted Net Assets and Reserves Policy
Net Investment in Capital assets	No
Restricted	No
Unrestricted	
Designated	Yes - Set minimum reserve targets
Undesignated	Yes - what is available after designation

Guiding Principles:

Adequate designation of Unrestricted Net Position and reserve funds set aside for various legitimate purposes are critical to the successful and stable short and long-term operation of the Tahoe City Public Utility District (District). Following sound financial practices and adhering to Government Finance Officers’ Association (GFOA) recommendations, the District’s designated reserves include reserves for known and unknown contingencies; which take into consideration adequate reserves for District operations in order to ensure that customers experience both stable rates for service and the District can respond to emergency situations, especially regarding water and wastewater quality issues. Adequate reserves ensure that the District will, at all times, have sufficient funding available to meet its operating, capital and debt service cost obligations, including future debt or capital obligations, as well as any unfunded mandates; including costly regulatory requirements as they arise. Prudent reserve levels are also critical in the District’s ability to issue future long-term debt. The financial markets view the establishment of reserve policies and adequate fund balances favorably which may result in higher ratings and lower overall borrowing costs.

Policy Purpose

The purpose of this policy is to establish minimum reserve targets in the Enterprise Funds to:

- Manage the cyclical nature of revenue and expenditures;
- Reduce the risk of financial impact resulting from natural disasters or other catastrophic events;
- Respond to the challenges of a changing economic environment, including prolonged downturns in the local, state or national economy; and
- Demonstrate continued prudent fiscal management and creditworthiness.

II. POLICY

The Unrestricted Net Position and Reserves Policy is therefore established to provide the basis for the annual review of fiscal viability; to comply with the Board’s policies on maintaining appropriate, working capital for current operations, reserves and planned future operation; and debt service coverage (if needed). The target minimum level of reserves will consist of the following designations set per Board direction.

Unrestricted Net Position	
Designated for:	Working Capital
Water Minimum Capital Reserve	The amount to fund is set at 50% of one year's average annualized capital replacement value set
Sewer Minimum Capital Reserve	
Non-Water Customer Property Tax Reserve	Property tax reserved for infrastructure uses for non-water customers
Water Budget Stabilization	90 days of current budget operating expenses (less depreciation and project recovery)
Sewer Budget Stabilization	

III. TERMS AND DEFINITIONS

- A. **Unrestricted Net Position Designated** is a subset of Unrestricted Net Position which requires action by the Board to set aside portions of working capital for a specific purpose.
- B. **Unrestricted Net Position Undesignated** represents a remainder balance of working capital that is available to be designated for other uses.
- C. **Working capital** is current assets less current liabilities and measures the relative liquid portion of the enterprise fund capital available to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenses) and to ensure stable services and fees.
- D. **Minimum Reserve Targets** are designated by the Board and are made up of:
 - 1. **Water and Sewer Minimum Capital Reserves** – amounts set through the annual budget process. The minimum target amount is fifty percent (50%) of one year’s annualized average capital replacement value.
 - 2. **Non-water Property Tax Reserve** – amounts designated under this category shall be reserved for non-water customer infrastructure uses as directed by the Board. The minimum target amount is based on the % of non-water customers and the amount of property tax dollars used for related water capital expenditures.

3. **Water and Sewer Budget Stabilization** – amounts designated under this category shall be used to mitigate annual budget revenue shortfalls (actual revenue less than projected revenue), should they occur, due to changes in the economic environment and/or one-time unanticipated expenditure. The minimum target reserve shall be determined annually during the budget process and will be 90 days of operating expenditures less depreciation and cost recovery.

IV. PROCESS

As part of the annual budget process the District will evaluate and reset the minimum target reserves.

A minimum target reserve analysis will be prepared for the enterprise funds and approved by the Board as part of the annual budget process. If resetting the minimum target reserves creates a negative Unrestricted Net Position, the District will develop a 1-5 year replenishment plan to meet the minimum reserve targets of this policy.

The following steps will take place to evaluate and reset the minimum target reserves:

- A. **Budget and Fiscal Viability** The District will prepare its annual budget and long-range cash plan which includes the planned change in Unrestricted Net Position and minimum target reserves. The reports will include annual operating and capital budgets by Fund and a five-year cash flow plan and projected minimum reserves by fund.
- B. **Setting amounts within the Unrestricted Net Position** At the close of the annual audit, the Unrestricted Net Position from each enterprise fund shall be reevaluated and reset as outlined in this policy. The setting of amounts within the Unrestricted Net Position shall be as follows:
 1. Minimum capital reserves.
 2. Non-water customers property tax reserves.
 3. Working capital for current operations equal to 90 days annual budgeted as originally adopted expenses less depreciation and project recovery.

A minimum target reserve analysis will be prepared which supports the evaluation and resetting of the amounts. The Board at any time can expand or retract the minimum target reserves categories and/or amounts that allow for funding of the District's operating, capital and debt service obligations; as well as funding for unforeseen events. Reserves will be established, replenished and used only in a manner which allows the District to fund costs consistent with the Capital Improvement Plan, Five-Year Financial Plan and Rate Study, and other Board adopted actions; and in a manner that requires minimal annual adjustment to water and wastewater rates. The District's reserve fund policy shall be periodically reviewed and adjusted to respond to the needs of the District.