

This brief is being provided to inform the board, staff and public of the details of an agenda item that requires no action from the board. The President of the Board will provide board members, staff, and the public the opportunity to ask questions about this topic when this agenda item is announced.

Date: 11 December 2020

Originator: General Manager/Treasurer

Purpose of Brief: Update Board on Reserve Status

Supporting Documents Included: No

1. Agenda Topic Brief or Update:

The Finance/Investment committee continues to work our District Reserve accounts to bring them in line with auditor recommendations and CSD law for segregating Capital Restricted Reserves from Operational Reserves. However, reallocating dollars between accounts must be coordinated with investment vehicles maturity dates. As of 2 December, the total in Fidelity Reserves is as follow:

Fire Reserves	\$153,799
Capital Restricted Reserves	\$ 83,690
Operational Reserves	\$333,365
Total Water & Sewer Reserves	\$417,055

While we are working to manage the reserves between our Fidelity accounts, we continue to track reserve dollars based on our master reserve plan developed in August for splitting reserves between Restricted Capital Reserves (Big R) and Operational Reserves (Little R). As shown below in the Big R summary (Figure 1), our balance today equates to \$170,911, and our Little R balance (Figure 2) equates to \$245,102, for a total of \$416,013. The delta of \$1,043 between actual dollars in Fidelity and total tracked Reserves is due to the actual performance of our Fidelity investments which changes daily.

2. Capital Restricted Reserve Performance

Big R reserves are specifically identified by law as reserved for Capital Projects based on income type. Little R reserves are additional dollars generated by surplus annual operating funds and set aside into a reserve account. CSD law prohibits the comingling of these funds and requires Restricted Reserve dollars to be specifically designated by the Board of Directors for specific Capital Projects. Any use or movement of these funds must be approved by the Board. In August we designated Big R dollars for well development. As shown in Figure 1, we have transferred \$195,000 from Capital Restricted Reserves to our Capital Checking account in support of Well 36 and Well 37. Depending on final development costs, we will likely need to make one more transfer of \$10,000 to bring Well 37 into production. Based on previous years' performance, we can forecast in the range of \$10,000 in consumption fees towards the end of the year which will offset final well development costs. We anticipate that with the completion of Well 37 we will have in the range of \$160,000 remaining in Capital Restricted Reserves.

Capital Restricted Reserves		Capital Checking	
November Analysis			
Total Restricted Reserve Contributions	\$ 349,784.89	\$ 37,015.07	Balance 10 Nov
% of Interest applied to Restricted Reserves	\$ 16,126.12	\$ (30,987.73)	McGarr Invoice for Well 37 vault excavation
Total Available Restricted Reserves -6 August	\$ 365,911.01	\$ 6,027.34	
Wire Transfer 6 Aug - Well 36/37 Development	\$ (155,000.00)	\$ 40,000.00	Transfer from Restricted Reserves - 11 Nov
Balance 10 Nov	\$ 210,911.01	\$ 46,027.34	
Transfer to Capital Checking - 11 Nov	\$ (40,000.00)	\$ (19,286.73)	White Cap initial Invoice for Well 37 vault
Balance 11 Nov	\$ 170,911.01	\$ 26,740.61	
Projected final transfer for Well 37	(\$10,000.00)	\$ (18,000.00)	Expected White Cap Final Invoice for Well 37 vault
Projected balance upon completion of Well 37	\$ 160,911.01	\$ 8,740.61	
		\$ 10,000.00	Projected 2020 Consumption Charge Income
		\$ 10,000.00	Potential Wire transfer from Reserves
		\$ 28,740.61	
		\$ (20,000.00)	H2O Pro Final Well Development - Pump & controls
		\$ 8,740.61	
		\$ (5,000.00)	Grizzly Electric Final Well Hookup
		\$ 3,740.61	Projected balance upon completion of Well 37

Reserve Accounts	→	Linked Checking Accounts
Z40233575 Capital Restricted Reserves		0690 Capital Checking

Figure 1, Big R, Capital Restricted Reserve Status

3. Operational Reserve Performance

Figure 2 provides the status of Operational Reserves (Little R). After breaking out the Big R dollars in August, our Little R account showed a balance of \$315,102. In August, the Board approved a transfer of \$30,000 to Operational checking to balance the 20/21 budget and provide dollars for needed infrastructure maintenance, repair, and upgrades. In October, the Board approved a transfer of \$40,000 to purchase Lot 348 for the future High Elevation Water Tank (HELWT). Our current Little R balance is \$245,102

Operational Reserves	
30 November Analysis	
Operational Reserve Contributions	\$ 301,215.10
Percentage of total Reserve Interest	\$ 13,886.90
Total Operational Reserves	\$ 315,102.00
Wire Transfer 6 Aug to balance Operational Budget	\$ (30,000.00)
	\$ 285,102.00
Transfer to Operations to purchase Lot 348	\$ (40,000.00)
Balance 30 November	\$ 245,102.00

Figure 2, Little R, Operational Reserve Status

4. Reserve Designations

As previously stated, Capital Restricted Reserves must be designated against planned or proposed uses. Upon completion of Well 37 the GM will present recommendations for reserve designations going forward. Figure 3 provides proposed Reserve Designations for both Big R and Little R reserves based on projected reserve totals at the completion of Well 37.

RESTRICTED RESERVE DESIGNATIONS		
Projected Restricted Reserve Balance upon completion of Well 37	\$	160,911
Leachfield Upgrades	\$	10,000.00
Tree removal WSLF	\$	15,000.00
Booster 1 Cross Connect Project	\$	20,000.00
Well 29 Updgrade	\$	50,000
HELWT Engineering and Planning	\$	50,000
Capital Contingencies	\$	15,000
	\$	160,000

OPERATIONAL RESERVE DESIGNATIONS		
Projected Operation Reserve Balance 1 Jan 2021	\$	245,102
Business Operating Reserve (2 Qtrs)	\$	200,000
Rate Study	\$	25,000
Operational Contingency - Water	\$	10,000
Operational Contingency - Sewer	\$	10,000
	\$	245,000

Figure 3, Proposed Reserve Designations

5. Anticipated Impacts to the District - (Consider financial impact, change in procedures, customer, and staff communication):

2020 saw the first major draw down of reserves in District History. While previous Capital Projects such as Well 33 Development could have (should have?) been completed using Capital Reserves, the District was able to complete these projects using surplus operational funding. In the end it really does not matter how they were funded as surplus dollars would have eventually gone into the reserve account at the end of the year anyway.

Based on the heavy draw down of Capital Reserves in 2020, it would be wise to take a break from future drawdowns and begin rebuilding our Capital Reserve accounts. The District needs to make a concerted

effort to identify alternate funding mechanisms for the required upgrades to Well 29 and development of the High Elevation Water Tank project.

With Operational Reserves, it is critically important to maintain at least two quarters of Business Operating Reserves as a hedge against a downturn in operational income due to any contingency. At this time, the planned Rate Study is the only forecast expense that may require a draw from Operational Reserves.

6. **Anticipated Impacts to the Customer – Standby, Residential, Commercial:**

No specific impact.

7. **Next Steps for this Topic:**

With completion of Well 37, staff will finalize recommendations for reserve designations.