

# Heber Public Utility District Report to the Board of Directors

**MEETING DATE:** July 21, 2022

**FROM:** Laura Fischer, General Manager

**SUBJECT:** Adopt Resolution Number 2022-08 Adopting Reserve Guidelines and Budget for Fiscal Year 2022-23

**ISSUE:**

Shall the Heber Public Utility Board of Directors adopt Resolution Number 2022-08 to adopt financial reserve budget for FY 2022-23?

**GENERAL MANAGER RECOMMENDATION:**

Adopt Resolution Number 2022-08 to adopt financial reserve budget for FY 2022-23.

**FISCAL IMPACT: NONE**

Adopting Resolution 2022-08 will establish a reserve budget to allocate Fund Balance for FY 2022-23 to ensure adequate funding to meet the District's short-term and long-term plans. Following the guidelines will also minimize adverse annual and multi-year budgetary impacts from anticipated and unanticipated expenditures, thus minimizing the possibility of unplanned service fees or rate fluctuations. The guidelines help HPUD to strengthen our financial stability against present and future uncertainties in an ever changing environment.

**DISCUSSION:**

There are many factors that must be considered when establishing an appropriate fund balance and ensuring the prudent management of the District's finances. We must first define the District' fiscal objectives. According to the adopted Policy Manual Policy Number 3035.2.7, the HPUD Board should approve the appropriate levels and uses for reserve funds based upon the needs of the District during the budget adoption process. The HPUD reserve funds are categorized into the following: Capacity Fees, Capital Reserve Funds, Debt Service Reserve Funds, Capital Replacement Reserve Funds (Short Lived Assets), Operating and Maintenance Reserve Funds, and Unrestricted Reserves.

We must also identify where the funds are to be used. Operating revenues are the general purpose funds through which ongoing activities are funded. Special purpose revenues are legally restricted for a particular use; for example, revenues from Capacity Fees. Debt proceeds should be used to fund costs that provide a benefit across fiscal years. The issuance of debt allows the District to allocate these costs by spreading the debt service to these periods. Establishing a Debt Reserve helps to ensure that the District has sufficient funds necessary to meet the debt payment. Additionally, a Debt Reserve is often a requirement of the lending agency.

There are several components of Fund Balance that were recently redefined in GASB Statement No. 54 which changes the focus to the “extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent” and establishes five different components of fund balance.

- 1) Non-spendable Fund Balance: This category is inherently non-spendable, such as the long-term portion of loans receivable, the principle of an endowment and inventories.
- 2) Restricted Fund Balance: This classification has externally enforceable limitations on the use of fund balance, imposed by parties such as creditors, grantor or laws or regulations of other governments. This category includes the **Debt Service Reserve Fund** for Water and Wastewater Funds and **Capital Replacement Reserve Fund** (Short Lived Assets).
- 3) Committed Fund Balance: This encompasses limitations imposed by the District upon itself at its highest level of decision making, which is the Board through a Resolution. This category includes our **Capital Reserve Fund** and will be created in all District Funds.
- 4) Assigned or designated Fund Balance: This portion is earmarked for an intended use. The intent is established at the highest level of decision making. For example, a share of fund balance might be assigned to offset a gap in the budget stemming from a decline in revenues or an allotment could be assigned for an upcoming special project. This category includes our **Operating and Maintenance Reserve Fund**.
- 5) Unassigned Fund Balance: This comprises all fund balances that are left after considering the other four categories.

When establishing Reserve Guidelines, the District considered the District’ core business and significant cost drivers for District operations. We have reviewed these core business cost drivers in the Budget document.

The HPUD Board recently adopted a Strategic Plan, which established goals and priorities for the District. Goals A, B and C are represented in the Capital Improvement Project List and the proposed expenditures for FY 2022-23 capital projects are listed in the Reserve Resolution.

The Reserves presented are consistent with the Reserve Policies and Guidelines and in the Policy Manual. Establishing reserves lets the HPUD designate money toward savings in order to balance our budget, respond to emergencies, keep rates affordable, maintain current infrastructure and plan for future public projects.

The table below details the proposed Reserve Funds by category for FY 2022-23.

| <b>Proposed Reserve Funds Established via Resolution Number 2022-08</b>   |                        |                  |                  |                |                  |
|---|------------------------|------------------|------------------|----------------|------------------|
| <b>PROJECTED CASH BROUGHT FORWARD<br/>AS OF JUNE 30, 2022</b>   | <b>Parks &amp; Rec</b> | <b>Water</b>     | <b>Sewer</b>     | <b>Trash</b>   | <b>Totals</b>    |
|   | <b>757,292</b>         | <b>2,895,426</b> | <b>1,951,798</b> | <b>198,418</b> | <b>5,802,934</b> |
| <b>Other Sources of Revenues:</b>   |                        |                  |                  |                |                  |
| <b>Per-Capita State Park Grant Prop. 68</b>   | <b>187,000</b>         |                  |                  |                |                  |
| <b>Total Funds:</b>   | <b>944,292</b>         | <b>2,895,426</b> | <b>1,951,798</b> | <b>198,418</b> | <b>5,989,934</b> |
| <b>Committed Funds:</b>   |                        |                  |                  |                |                  |
| Capacity Fees   |                        |                  |                  |                |                  |
| <b>Capital Reserve Funds (Future Projects)</b>  |                        |                  |                  |                |                  |
| Clarifier#1 - BOD Approved FY 2021-22   |                        | <b>286,580</b>   |                  |                | <b>286,580</b>   |
| Water Plant Backwash Pump Station Repairs - BOD approved FY 2021-22   |                        | <b>87,720</b>    |                  |                |                  |
| Water Distribution Lines on Highway from Rockwood to Pitzer   |                        | <b>199,000</b>   |                  |                |                  |
| Water Distribution Lines Replacement at Courts Possibly 100% Grant USDA Colonia Funding - Have Expended in FY 2021-22   |                        | <b>335,700</b>   |                  |                | <b>335,700</b>   |
| Matching 25% Funds AB 617 Urban Greening Tree Project & Paving at WTP   | <b>19,017</b>          | <b>34,162</b>    | <b>13,000</b>    |                | <b>66,179</b>    |
| Manhole Replacement Project approved FY 2021-22   |                        |                  | <b>218,157</b>   |                | <b>218,157</b>   |
| Matching Funds 25% USDA Grants at Rec Center  | <b>24,731</b>          |                  |                  |                |                  |
| Truck for Parks   | <b>63,164</b>          |                  |                  |                |                  |
| Landscape Over Dogwood Canal East Side of Dowgood between Highway 86 and Correll  | <b>5,000</b>           |                  |                  |                |                  |
| Children's Park - New Playground Equip, sidewalk repairs, shade - USE CORRELL PARK FUNDS (remaining balance \$55K plus \$25K) - Project Short \$700,000 Funding after bid opening | <b>80,000</b>          |                  |                  |                | <b>80,000</b>    |
| <b>Restricted Funds:</b>  |                        |                  |                  |                |                  |
| Wastewater debt to Parks (Debt Authorized via Resolution 2018-06) (Reserve Amended via Resolution 2018-10)  | <b>(48,828)</b>        |                  | <b>48,828</b>    |                |                  |
| Debt Service Reserve Funds - USDA   |                        | <b>112,159</b>   |                  |                | <b>112,159</b>   |
| SWRCBA Water Loan - Debt Reserve  |                        | <b>161,802</b>   |                  |                | <b>161,802</b>   |
| SWRCBA Wastewater Loan - Debt Reserve   |                        |                  | <b>211,000</b>   |                | <b>211,000</b>   |
| 2019 Short Lived Assets Projected Balance   |                        | <b>75,299</b>    | <b>86,965</b>    |                | <b>162,264</b>   |
| FY 2022-23 Withdrawal for Equipment Replacement (-)   |                        | <b>(65,480)</b>  | <b>(64,000)</b>  |                | <b>(129,480)</b> |
| <b>Assigned or Designated Fund Balance:</b>   |                        |                  |                  |                |                  |
| Operating and Maintenance Reserve Funds<br>180 days Operating and Maintenance Costs.  | <b>286,633</b>         | <b>807,929</b>   | <b>658,392</b>   | <b>24,411</b>  | <b>1,777,364</b> |
| <b>TOTAL RESERVES FOR FY 2022-23</b>  | <b>429,716</b>         | <b>2,034,871</b> | <b>1,172,342</b> | <b>24,411</b>  | <b>3,281,725</b> |
| <b>PROJECTED UN-ASSIGNED BALANCE:</b>   | <b>514,575</b>         | <b>860,555</b>   | <b>779,456</b>   | <b>174,007</b> | <b>2,708,208</b> |

### CONCLUSION:

It is recommended that the Board review the Reserve Budget and finding no changes, adopt Resolution 2022-08 to establish a Financial Reserve Budget for FY 2022-23.

### ALTERNATIVES:

- 1) Do not adopt Resolution 2022-08 to adopt the Reserve Budget for FY 2022-23 and provide direction to staff to make changes and bring back in August or September.
- 2) Provide alternate direction to staff.

Respectfully Submitted,

Laura Fischer, General Manager  
Attachment: Resolution Number 2022-08

**RESOLUTION NO. 2022-08**

**A RESOLUTION OF THE HEBER PUBLIC UTILITY DISTRICT ADOPTING RESERVE GUIDELINES AND BUDGET FOR FISCAL YEAR 2022-2023**

**WHEREAS**, the General Manager has submitted the Reserve Guideline and Reserve 2022-23 Budget to the Board of Directors for its review and consideration in accordance with reserve policies and objectives established by the Board of Directors, and

**WHEREAS**, the 2022-23 Reserve Guidelines are intended to provide guidelines for the Heber Public Utility District to designate money in order to balance the budget, respond to emergencies, keep rates affordable, maintain current infrastructure and plan for future public projects; and

**WHEREAS**, the Reserve Guidelines are as follows:

**Committed Funds –**

**Capacity Fees:** These reserves are monies received from new service connections that increase our need for increased capacity in our Water and Wastewater Enterprise Funds.

**Capital Reserve Funds:** These funds are reserved to ensure monies are available to implement the current FY year projects included in the Board adopted Five Year Capital Improvement Project List.

**Restricted Fund Balance –**

**Debt Service Funds:** These are funds that are mandated by law to be held in reserve.

**Capital Replacement Reserve Funds:** The Capital Replacement Reserve Fund (Short Lived Asset Reserve) are mandated by law to be funded each year.

**Assigned or Designated Fund Balance –**

**Water, Sewer and Solid Waste Operating and Maintenance Reserve Funds:** The Heber Public Utility District will maintain a 180 day operation and maintenance Reserve for Water, Sewer and Solid Waste (Trash) Funds.

**Parks and Recreation Operating and Maintenance Reserve Funds:** The Heber Public Utility District will maintain a 180 day operation and maintenance Reserve for Parks and Recreation Funds.

**Unrestricted Reserves –**

**Unrestricted Reserves:** These funds can be programed and expended for any purpose as directed by the Board of Directors.

WHEREAS, in said fiscal year beginning July 1, 2022, there is hereby Reserved within the Treasury of the Heber Public Utility District for District purposes by the various departments of said District for the fiscal year 2022-23, the projected amount of \$3,281,725; and

WHEREAS, the Proposed Reserve Funds Established for FY 2022-23 are described below; and

| <b>Proposed Reserve Funds Established via Resolution Number 2022-08</b>   |                        |                  |                  |                |                  |
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| <b>PROJECTED CASH BROUGHT FORWARD<br/>AS OF JUNE 30, 2022</b>   | <b>Parks &amp; Rec</b> | <b>Water</b>     | <b>Sewer</b>     | <b>Trash</b>   | <b>Totals</b>    |
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| <b>Committed Funds:</b>   |                        |                  |                  |                |                  |
| Capacity Fees   |                        |                  |                  |                |                  |
| <b>Capital Reserve Funds (Future Projects)</b>  |                        |                  |                  |                | -                |
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**WHEREAS**, All modifications to the Fiscal Year 2022-23 Budget of Reserved Funds, departments and/or activities shall be made by the Board of Directors except that the General Manager may, on her own initiative and without prior approval of the Board of Directors, transfer between budget accounts within a fund, activity, or capital improvement fund, or from a budget account or appropriation, to the said fund reserve, amounts determined to be in excess of actual requirements; as long as such changes are reported regularly to the Board of Directors; and

**NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE HEBER PUBLIC UTILITY DISTRICT, DOES HEREBY RESOLVE AS FOLLOWS:**

1. That the foregoing is true, correct and adopted.
2. That the Board of Directors Adopts the Reserve Guidelines and the Reserve Fund Budget for Fiscal Year 2022-23.
3. That the Board of Directors of the Heber Public Utility District does hereby adopt this Resolution approving the Fiscal Year 2022-2023 Reserve Guidelines and Reserve Funds Budget as set forth.
4. That the President of the Board of Directors of the Heber Public Utility District is hereby authorized to sign said Resolution, a copy of which is on file at the District office.

**PASSED AND ADOPTED** at a regular meeting of the Board of Directors of the Heber Public Utility District held on the 21<sup>st</sup> day of July 2022.

\_\_\_\_\_  
Kaine Garcia, Board President

ATTEST:

\_\_\_\_\_  
Moises Cardenas, Clerk of the Board

APPROVE AS TO FORM:

\_\_\_\_\_  
Steven M. Walker, General Counsel

STATE OF CALIFORNIA )  
COUNTY OF IMPERIAL )  
HEBER PUBLIC UTILITY )  
DISTRICT )

I, Moises Cardenas, Board Secretary of the Heber Public Utility District, County of Imperial, State of California, DO HEREBY CERTIFY that the foregoing resolution was dully passed, approved and adopted by the Board of Directors of the Heber Public Utility District at its regularly scheduled meeting held on the 21<sup>st</sup> day of July, 2022.

By \_\_\_\_\_  
Moises Cardenas, Clerk of the Board