

2005-05
**RESOLUTION OF THE
GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT
ESTABLISHING A FINANCIAL RESERVE POLICY**

WHEREAS, the District engaged the firm of Fieldman Rolapp and Associates to review and advise the District as to the appropriate level of reserve funding for the District; and

WHEREAS, Fieldman Rolapp prepared a report and presented their recommendations to the Board of Directors at a public meeting of the District; and

WHEREAS, the District discussed a draft reserve policy for the District prepared by the business/finance manager at the public meeting on April 12, 2005 and considered public comments thereon; and

WHEREAS, it is in the best interests of the District to establish a policy on maintaining adequate financial reserves to maintain the financial integrity of the District.

NOW THEREFORE, BY IT HEREBY RESOLVED as follows:

1. The Board hereby adopts the financial reserve policy attached hereto as Exhibit A.
2. The dollar amounts to be held in reserve for the District shall fluctuate according to the calculations set forth in the attached policy. The Board acknowledges that the estimated reserve amount set forth in the attached reserve policy are based upon calculations that will change as the District grows and regulations change. Accordingly, the actual amounts to be held in reserve shall vary according to the revised calculations.
3. The financial reserve policy and the actual amounts to be held in reserve shall be reviewed on an annual basis in conjunction with the adoption of the District budget.
4. The amounts set forth in the financial reserve policy shall be considered as goals of the District and do not establish minimum or maximum amounts that can be held in reserve. The actual amounts to be held in reserve may be revised by the District by Board action as is necessary to meet the financial needs of the District.

PASSED AND ADOPTED this 10th day of May 2005.

AYES: Bob Diekon, Norman Krizl, Doug Pickell, JoAnn Shepherd
and Hy Vitcov

NOES: None

ABSENT: None



Bob Diekon
President, Board of Directors
Georgetown Divide Public Utility District


Attest:



HENRY N. WHITE, Clerk and ex officio
Secretary, Board of Directors
Georgetown Divide Public Utility District

CERTIFICATION

I hereby certify that the foregoing is a full, true and correct copy of Resolution No. 2005-05 duly and regularly adopted by the Board of Directors of the Georgetown Divide Public Utility District, County of El Dorado, State of California, on the tenth day of May, 2005.



Henry N. White, Clerk and ex officio
Secretary, Board of Directors
Georgetown Divide Public Utility District

fiscal year 2005 and another \$350,000 for fiscal year 2006. After the tax grab is over, it is recommended that the targeted rate stabilization reserve be set to 10% of the budgeted residential, commercial and irrigation water sales. At this time, the total would be **\$585,000**. It is recommended that this target be viewed as a minimum.

Water Capital. A maximum level for the water capital reserve could be equivalent to the total amount of accumulated depreciation as brought forward for consideration by the Consultant and the Independent Auditors. Oftentimes, it is unrealistic for districts to fund the capital facilities reserve at this maximum level. In many cases, districts choose to fund the reserve at a level relative to a stated percentage of the total amount of accumulated depreciation of the District's assets. Two additional factors to consider when setting the target for this reserve are:

- Providing a mechanism to fund capital investments from existing resources is often less costly than financing the capital investments. For example, in most cases, if the District pays \$100,000 for asset A from internal resources, it costs less than if the District borrows to pay for asset A as the District has to pay the \$100,000 plus the interest cost.
- Several of the funds recommended to be included in the water capital reserve calculation are restricted ordinance charges paid in an effort to provide for expansion of the water system. Utilizing accumulated depreciation as a basis to set the reserve target may not correlate to the reserves required for system expansion.

Discussions to date have stated that reserves could be simplified by incorporating emergency/catastrophic reserves with the capital reserves since capital reserves would be the most likely to be impacted in an emergency or catastrophe.

Discussions have also revolved around a myriad of means to calculate a reasonable water capital reserve. The following are some of the calculation methods considered:

1. Scheduling every asset owned by the District and determining a replacement value and timeframe to develop an in depth schedule of the amounts needed annually over the future to replace each asset.

Scheduling every water asset owned by the District and determining a replacement value and timeframe was discussed. This is theoretically the ideal way to determine the replacement requirements of water assets and is considered to be too administratively burdensome and costly to yield a valid result when the unknowns of regulation and acts of God can change the calculations in an instant. Other entities have

found a more macro approach to calculating this reserve to be more efficient.

2. Using the Summary of First Priority Water System Reliability Study Projects & Other Key Improvements (Capital Improvement Plan) to determine how much funding will realistically be needed over the next five years.

The last Capital Improvement Plan encompassed a wide range of activities, some of which relate to maintenance and are operating activities rather than investments in capital. The plan forecasted the need to spend between \$2 and \$3 million for each of the next few years. Once again some of these outlays can be reduced for the portion that is actually operating cost for maintenance as well as savings incurred by District staff actually undertaking the capital investment activities.

3. Consideration of the insured value of District property in determining the replacement value and impacts of a catastrophe.

The District's insured property values approximate \$4,870,000 and excludes much of the source of supply, transmission & distribution system, wastewater assets and land and land rights. This is probably not the best value to base the reserve on since it excludes major portions of the District's water assets.

4. Consideration of the ability of the District to actually carry out capital investment each year.

In theory, the District should invest at least the annual water depreciation amount in capital each year to endeavor to keep District assets up to date. Depreciation has approximated \$500,000 for each of the last five years compared to the average capital investment of \$260,000 for each of the last five years. This means that the District is spending about half of the annual depreciation amount for capital improvements. Some of the improvements are not considered necessary due to the quality of maintenance conducted by the District staff and other improvements are being deferred for a major improvement to hopefully be funded, at least partially, by a grant or loan. Consequently, if the annual accumulated depreciation balance is a maximum target for this reserve, then 50% of the annual accumulated depreciation is an administratively efficient and justifiable target for this reserve as it compares to the average actual capital investment made each year.

5. Consideration of a per customer amount to establish the reserve.

Once the reserve target is determined, it can be converted to a per customer amount, if desired.

This means that the recommended reserve is **\$5,300,000**.

Debt Service. The debt service reserves are legally required based on the debt instruments signed at the time the debt was issued. For all of the District's debt except the General Obligation Refunding Bond (GORB) for Stumpy Meadows and the Otter Creek loan, two years of debt service payments are required to be maintained within a certain amount of time after the issuance of the debt. All of the debt administered by the District has achieved this requirement except for the Stewart Mine debt which is still in the process of increasing the debt service reserve to the two years of debt payments amount. Some of the debt has excess balances which will be used to retire the debt as payoff time draws closer. In other words, the excess balances must be used to retire the debt. Any small residuals at the time of payoff can be requested by the District for General Fund purposes. The only other debt that requires further explanation is the Stumpy Meadows related debt. Currently all the debt payments are being funded by assessments and taxes collected by the County on behalf of the District. When the GORB is retired in 2008, three pieces of debt will need to be provided for as the County will no longer be collecting taxes to retire the debt:

- Sand Trap Department of Water Resources Contract due 10/1/13 with an interest rate of 3.88% and estimated balance at 6/30/08 less two years of debt service payments of \$116,000.
- Buffalo Hill Pipeline Department of Water Resources Contract due 4/1/13 with a rate of 3.0286% and estimated balance at 6/30/08 less two years of debt service payments of \$93,000.
- Otter Creek Department of the Interior interest free loan due 1/1/18 and estimated balance at 6/30/08 of \$45,000.

To minimize the impact on water rates for the retirement of these three loans, it is recommended that approximately \$254,000 be retained as a debt service requirement to retire the debt as of 6/30/08. This recommendation assumes that interest rates will not have a negative impact on the retirement of the debt at 6/30/08.

In addition, the GORB is only technically required to have an emergency reserve of \$85,000 as determined in the 1960s. The District has increased the emergency reserve amount over the last several years in an effort to achieve a balance of \$1,000,000. If the District formalizes a reserve policy with an adequate water capital reserve, including emergency reserves, then the separate \$1,000,000 balance will no longer be required.

At this time, the total debt service reserve, including a provision of \$254,000 for the GORB related loan payoffs would be **\$607,000**. This balance is somewhat higher than usual as the assessments to make the April 1, 2005 loan payments have been deposited in the reserves.

Retiree Health. This fund currently receives an annual transfer from the water operating fund as budgeted and an annual transfer of savings from the employee dental and optical allotments. During the year the qualifying retirees' health premiums are paid from the fund. The objective of this reserve is to provide for the qualified retiree health premiums in the future. The General Manager has developed an analysis of the fund requirements over the next 30 years. Based on certain assumptions this analysis shows the fund to be adequately funded at the current level of **\$359,000**.

NOTE: Governmental Account Standards Board (GASB) No. 45 Post Retirement Benefits may provide an additional means to calculate the necessary reserve once the District implements the new GASB. The required calculation for small employers uses a simplified actuarial approach.

Wastewater Operating. The wastewater operating reserve is to provide a cash flow cushion for the ZONE and CDS operations. The reserve target would be equal to two months of budgeted wastewater expenditures, excluding depreciation and amortization. For fiscal year 2005, this represents an amount approximating \$46,000; which coincidentally approximates the largest month of wastewater disbursements this year during the month of August approximating \$45,000.

At this time, the reserve would be **\$46,000**. It is recommended that this target be viewed as a minimum.

ZONE Capital. This reserve is used for capital acquisitions and improvements to ZONE facilities and equipment. Historically, the annual transfer of \$5,000 has not been adequate to fund the actual ZONE capital expenditures. The reserve is currently at a \$31,000 deficit. The deficit was created by the need to install the monitoring wells. Now that the wells are installed correcting the deficit and providing \$5,000 each year should be adequate for ZONE facilities and equipment in the future.

At this time the reserve needs to be **\$5,000** instead of a deficit.

CDS Capital. This reserve is used for acquisitions and improvements to CDS facilities and equipment as well as CDS costs not expected in the budget. The reserve is currently \$84,000. The bulk of the wastewater assets are related to the CDS. Using the accumulated depreciation method to determine the amount of the capital reserve the balance would be \$295,000. The projected need over the next

five years approximates \$20,000 per year. Based on this information, if the targeted reserve is set at 50% of accumulated depreciation, the reserve needs to increase to approximately **\$148,000** and be increased by about **\$10,000** per year.

Small Hydroelectric. This reserve is a discretionary fund used to fund hydroelectric activities. The balance of **\$221,000** is from previous hydroelectric activities and has been used for the recent activities related to starting up hydroelectric plants again. It is anticipated that this fund will account for future hydroelectric income and expenses.

EXAMPLE CALCULATIONS

GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT

STATEMENT OF CASH AND INVESTMENT BALANCES -- February 28, 2005

Recap for Reserve Analysis Discussion

FUNDS:	BEGINNING		CASH		CASH DIS-		ENDING	
	BALANCE	RECEIPTS	BURSEMENTS	BALANCE	RECEIPTS	BURSEMENTS	BALANCE	RECEIPTS
General Fund	\$2,617,976.55	888.42	(113,287.97)	2,505,577.00			2,505,577.00	
Retiree	364,848.20	1,226.58	(6,734.34)	359,340.44			359,340.44	
Stewart Mine	15,287.05	17.26		15,304.31			15,304.31	
Bayne Road	18,315.86	38.00		18,353.86			18,353.86	
Georgetown-Buckeye Water Improvement District	4,939.55			4,939.55			4,939.55	
Water Development	277,712.74	4,000.00		281,712.74			281,712.74	
Bond & Interest for Debt Service	93,497.74	117.45	(61,110.88)	32,504.31			32,504.31	
Buffalo Pipeline	25,902.52			25,902.52			25,902.52	
Sand Trap Siphon	29,897.00			29,897.00			29,897.00	
Stumpy Meadows Emergency Reserve Fund (SMERF)	1,006,256.97			1,006,256.97			1,006,256.97	
Pilot Hill North	29,001.47			29,001.47			29,001.47	
Pilot Hill South	55,255.84			55,255.84			55,255.84	
Kelsey North	60,069.83			60,069.83			60,069.83	
Kelsey South	87,000.77	4.16		87,004.93			87,004.93	
Capital Replacement Fund	417,163.63		(434.25)	416,729.38			416,729.38	
Pipeline Fund	301,588.03	4,548.15		306,136.18			306,136.18	
DWR Feasibility Study	(5,569.71)			(5,569.71)			(5,569.71)	
Small Hydro Fund	221,121.84		(48.02)	221,073.82			221,073.82	
Treatment Plant Fund	852,354.15		(15,744.49)	836,609.66			836,609.66	
Capital Expenditure Fund	268,156.51			268,156.51			268,156.51	
Storage Fund	631,880.41	1,900.00		633,780.41			633,780.41	
Garden Valley	93,463.60			93,463.60			93,463.60	
Surplus Property	71,817.77			71,817.77			71,817.77	
Zone Fund	91,987.32	2,469.30	(10,028.22)	84,428.40			84,428.40	
Community Disposal System (CDS) Fund	16,830.43		(255.58)	16,574.85			16,574.85	
Zone Capital Expenditure Fund	(31,262.57)			(31,262.57)			(31,262.57)	
CDS Capital Expenditure Fund	3,105.41			3,105.41			3,105.41	
CDS Reserve Connection Fund	62,392.81	1,500.00		63,892.81			63,892.81	
	\$7,680,991.72	16,709.32	(207,643.75)	7,490,057.29			7,490,057.29	