



TAHOE CITY PUBLIC UTILITY DISTRICT

MEMORANDUM

TO: Board of Directors **DATE:** February 8, 2019
C: Finance Committee
FROM: Ramona Cruz **SUBJ:** 2019 District Long-Term Financial Plan Process
 Chief Financial Officer Presentation

RECOMMENDATION:

No recommendation – for information and discussion only.

BACKGROUND:

At the February 15, 2019 meeting of the Board of Directors, Shawn Koorn, HDR will be presenting on the District's Long Term Financial Plan and reviewing the process and next steps and looking for input from the Board. Mr. Koorn's presentation will focus on the following topics:

- Look back at Board involvement and actions taken to date
- Identify the LTFP team
- Review staff's tasks accomplished to date
- Identify and review of current financial policies in place
- Suggest additional financial policies to complement current policies that promote financial stability and long-term planning
- Review next steps, review LTFP schedule and discuss Special Board meeting dates

STRATEGIC GOAL:

6.3A – Complete Long-Term Financial Planning Process and Adopt Strategic Document

FINANCIAL IMPACTS:

- None

ATTACHMENTS:

- None

REVIEW TRACKING:

Submitted By: Ramona Cruz
 Ramona Cruz, Chief Financial Officer

Approved By: Sean Barclay
 Sean Barclay
 General Manager



Tahoe City PUD Long-Term Financial Planning and Policies

February 15, 2019



Overview of the Presentation



Long-Term Financial
Planning Approach



Financial Policies



What's Been
Accomplished to Date



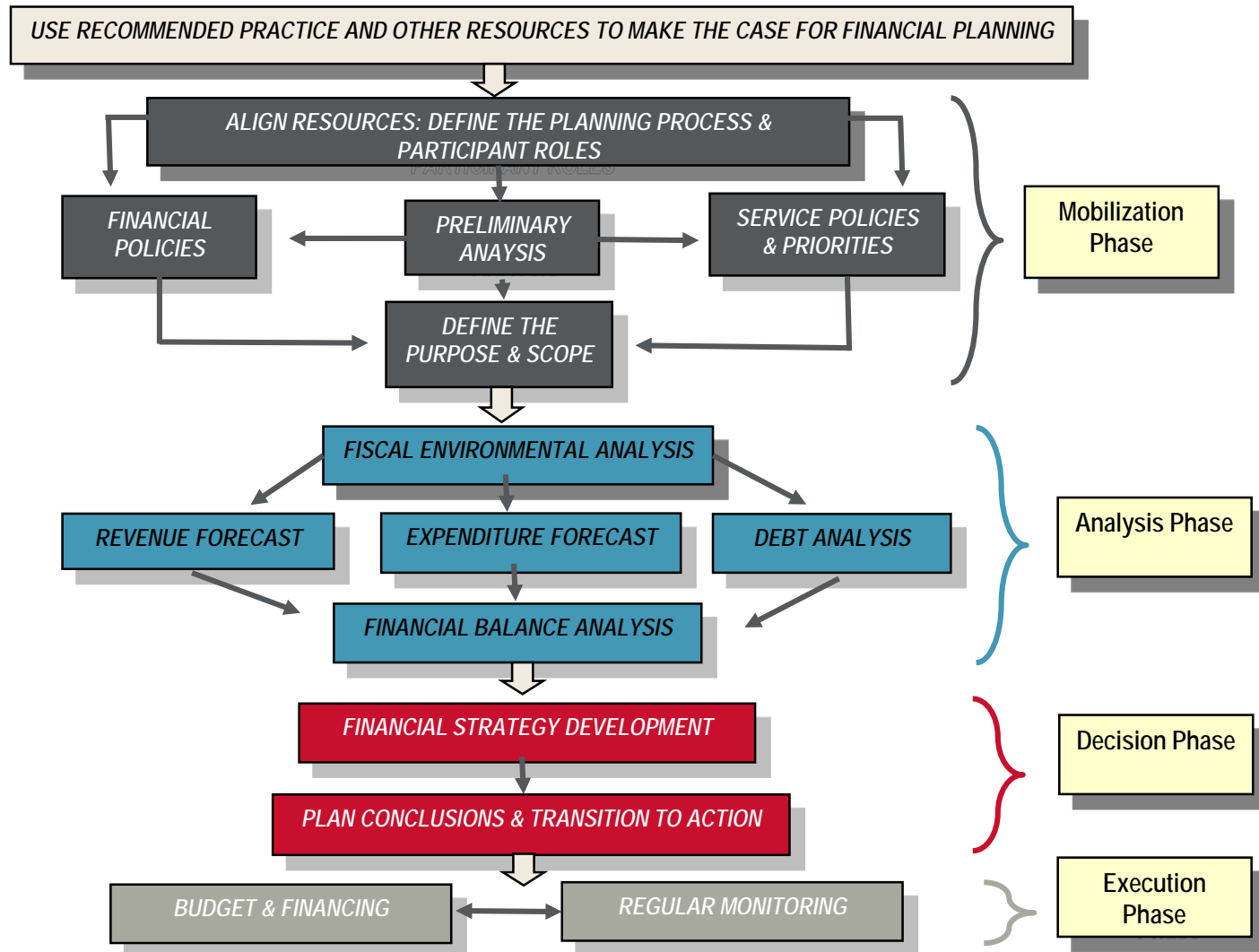
Board Discussion

Long-Term Financial Planning Approach



Long-Term Financial Planning Approach

Overview of GFOA LTFP



Long-Term Financial Planning Approach

Purpose of the LTFP Process

- Establish an annual process to ensure the on-going financial sustainability of TCPUD while providing a consistent level of service.

Long-Term Financial Planning Approach

Targeted Outcomes of the LTFP Process

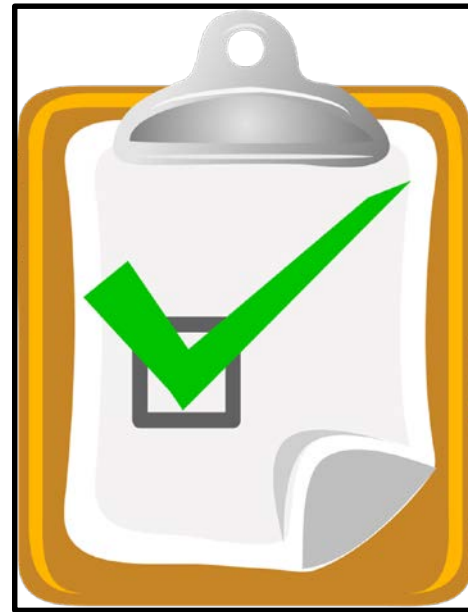
- Development and/or refinement of financial policies
- Update of the long-term financial model
- Review of financial/benchmarking ratios and key indicators
- Complete prior to the budgeting process
- Other – Board Input

Long-Term Financial Planning Approach

Project Team and Roles

- Board of Directors
 - Financial Stewardship
 - Role of “public” for initial establishment
- Public input
 - Year 2 or 3
- Ad Hoc Committee
- District Management
 - General Manager
 - Management Team
- HDR
 - Year 1 assistance

**What's Been
Accomplished to
Date**



What's Been Accomplished to Date

- April 2018
 - Board memo and presentation
 - Phase I – Financial Foundations
- May 2018
 - Board memo and presentation
 - Overview of the Mobilization stage (prepare the organization for long-term planning by creating consensus on what the purpose and results of the planning process should be)
 - Establishment of the Ad Hoc Committee (Pang and Zumwalt)
- October 2018
 - Qualifications submitted to District
- November 2018
 - Award project to HDR

What's Been Accomplished to Date (continued)

- Kick-off Meeting with HDR and District staff
- Preliminary Environmental Analysis
(external/internal)
- Draft 10-year financial model/forecast
- Review of existing financial policies
- Initial recommendations of additional financial policies

Internal

Strengths

- Engaged Board
- Talented and dedicated staff
- Experienced management team
- Solid foundation for rates
- Technical expertise
- Stable revenue stream

Weaknesses

- Retirements/loss of institutional knowledge
- Lack of formal talent development program
- Lack of formal financial policies document
- Aging infrastructure
- Failing/inadequate infrastructure

Preliminary SWOT Analysis

External

Opportunities

- Partnerships Agencies
- Partnerships Private
- New generation workforce
- New technology
- Low interest/no interest financing
- Potential grants

Threats

- Rising pension and healthcare costs
- Housing affordability
- Decreasing grant availability
- Changing environmental/climate conditions
- Wildfire
- Regulatory changes
- Economic downturn
- Cyber attack

What's Been Accomplished to Date

Financial planning model

- Incorporates funding assumptions for each "fund"
- Developed for a 10-year period
 - Allows for Board to understand impacts of current and future actions
- Develops a projection of revenues
 - Expected customer base growth
 - Expected property tax growth
- Develops a projection of expenses
 - Based on known changes in costs
 - Based on inflationary increases in costs
- HDR has conducted a preliminary review
 - Future more detailed review with staff

Financial Policies



Financial Policies

Why Establishing Financial Policies Are An Important Tool

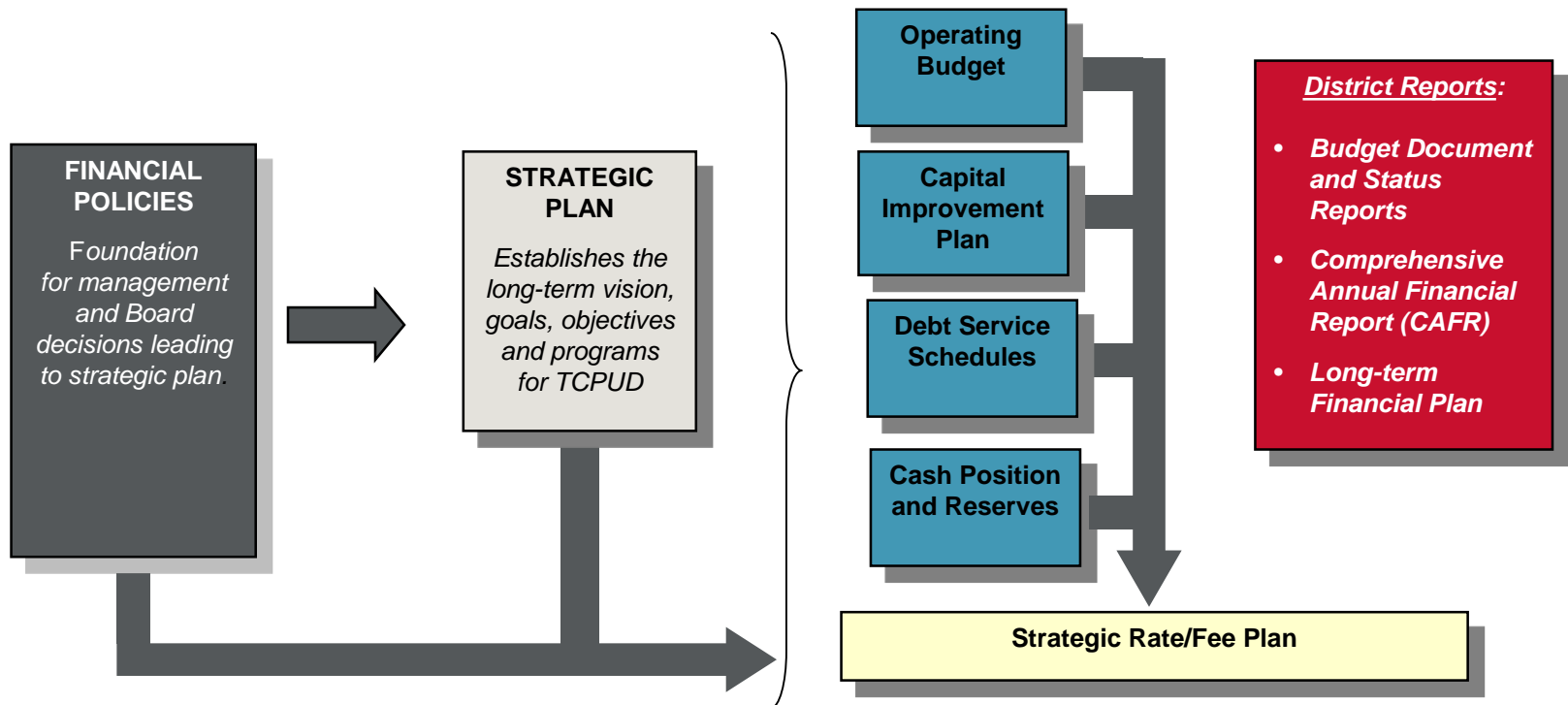
- Provides management with clear direction
- Provides consistent and logical financial (business) decisions
- Provide future Boards with the basis or reasoning behind past decisions (documentation)
- Helps the District's customers to better understand the Board's philosophy
- Provides a strong message to the outside financial community (bond ratings)

Overview of the Role of Financial Policies

Establish Policies

Establish Strategic and Financial Plans

Reporting and Feedback



Key Recommendation: The budgeting and rate/fee setting process should be segregated from each other. In doing so, it will allow for the level of review and discussion that is needed for each of these important decisions by the governing body.

Financial Policies

Review of GFOA Financial Policy Categories

- Accounting & Financial Reporting
- Budgeting & Financial Reporting
- Capital Planning/Infrastructure
- Debt Management
- Financial Management
- Pension & Benefit Administration
- Technology
- Treasury and Investment Management

District Strategic Measure 6.3B: Adopt updated/new financial policies per LTFP

Financial Policies

TCPUD Current Financial Policies

- General Fund Reserve Policy adopted August 22, 2014 - The focus of the General Fund Reserve policy is to ensure that there will be adequate liquid resources to serve as a financial cushion. The policy governing the amount of resources to be held in reserve and conditions under which reserves can be used.
- Enterprise Fund Unrestricted Net Position and Reserve Policy adopted August 12, 2014 -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.
- Investment Policy adopted July 19, 2013 - This policy governs the overall management and investment of funds not immediately needed for District operations.

Financial Policies

TCPUD Current Financial Policies (continued)

- Water System Acquisition Policy, amended December 15, 2017 – to provide the background, intent, and assumptions that will be followed in a variety of acquisition situations.
- Capital Assets Policies and Procedures adopted July 2007 – to provide guidelines and establish a standard procedure for the budgeting, scheduling and ordering of purchases that are considered fixed assets of the District and which thus necessitate capitalization of the purchase cost by the District.
- Delegation Guidelines adopted November 5, 2004 – Sets spending thresholds for professional services contracts, technical consultant contracts, construction contracts, and purchasing.

Financial Policies

TCPUD Financial Policies To Be Developed

- Debt Management Policy – develop policies that govern the when, how and the uses of debt, including types and permissible debt instruments, conditions under which debt may be used, allowable levels of debt, and compliance with continuing disclosure requirements.
- Property Tax Revenue Policy – develop policy to set criteria on the uses of property tax for parks and recreation operations, debt service, capital spending and reserves.
- Establish Rates and Fees – develop policy to identify the factors to be taken into account with establishing rates and fees that ensures applicable laws and statutes are followed.

Financial Policies

TCPUD Financial Policies To Be Developed (*continued*)

- Capital Planning – develop a description of how TCPUD will approach capital planning, including how stakeholder departments will collaborate to prepare a plan that best meets the operational and financial needs of the organization.
- Balanced Budget – develop a policy statement that defines balanced budget.
- Long-Term Financial Policy – develop a policy statement and outline the on-going nature of long-term financial planning.

Typical Financial Benchmarking / Performance Indicators

- Debt Ratio – A debt ratio quantifies the level of indebtedness.
- Return on Assets (%) - A measure of a financial effectiveness in the use of its assets.
- Cash Reserves - The number of days of available cash reserve is an indicator of financial liquidity.
- Debt Service Coverage – A debt service coverage ratio is an indicator of the utility ability to repay long-term debt.
- Operating Ratio – An operating ratio shows the efficiency of operations by comparing total O&M expenses to total operating revenue.
- Bond Rating – The bond ratings are related to risk and risk then translates into interest rates when new debt is issued.

Board Discussion

Next Steps – 60 Day Schedule

- Ad-Hoc/Special Board Meetings to review financial policies and focus on most critical policies
 - Consider changes in current financial polices
 - Adopt additional financial polices
- Special Board Meeting to roll out the 10 year forecast
 - Service Levels
 - Capital Planning
 - Debt Service Current and Future
 - Property Tax Uses
 - Cash Balances
 - Develop Alternative Looks at Data

Board Discussion

