

Introduced by McDavid Council Bill No. PR 256-13

A POLICY RESOLUTION

establishing a Cash and Marketable Securities Reserve Policy
for the Water and Light Department.

WHEREAS, the Water and Light Department desires to establish a Cash and Marketable Securities Reserve Policy as a financial planning tool in the budget process and for evaluation of financial position with bond rating agencies; and

WHEREAS, the Government Finance Officers Association (GFOA) and the American Public Power Association (APPA) recommend that public utilities establish a formal policy on the level of unassigned cash reserves that should be maintained to mitigate current and future risks such as unfunded governmental mandates, revenue shortfalls, and unanticipated expenditures due to weather events or other disasters, and to ensure stable and acceptable rate changes.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF COLUMBIA, MISSOURI, AS FOLLOWS:

SECTION 1. The City Council of the City of Columbia, Missouri adopts the following Cash and Marketable Securities Reserve Policy for the Water and Light Department:

PURPOSE OF POLICY:

The purpose of the Cash and Marketable Securities Reserve Policy for the Water and Light Department is to provide guidelines to the City Council and staff for establishing, maintaining and performing an annual review of the cash and marketable securities balance for the Water and Light Department.

BACKGROUND:

The Government Finance Officers Association (GFOA) and the American Public Power Association (APPA) recommend that public utilities establish a formal policy on the level of unassigned cash reserves that should be maintained to mitigate current and future risks to the utility, and to ensure stable and acceptable rate changes. GFOA recommends an unassigned cash reserve level be maintained to cover two (2) months of expenditures.

A minimum unassigned cash reserve policy is generally considered a prudent and fiscally responsible policy to deal with unforeseen situations that include, but are not limited to:

- Unfunded federal, state or other mandates.
- Revenue shortfalls due to economic downturns or other unexpected conditions.

- Expenses incurred for restoration of service due to weather events or other disasters.

Credit rating agencies continually monitor the levels of unassigned cash reserves in a utility's fund when evaluating creditworthiness and assigning a credit rating for the utility's debt issuance.

Designation of a level for unassigned cash reserves is recommended for use as a financial planning tool in the budget process and with bond rating agencies.

Due to the capital intensive nature of both the water and electric utilities, a benchmark for minimum cash reserves is proposed to be twenty percent (20%) of total expenditures, excluding the enterprise revenue for a current fiscal year's capital projects plus projected enterprise revenue for capital projects the following fiscal year.

POLICY:

The City shall maintain unassigned cash reserves equal to twenty percent (20%) of the Water and Light Department's total annual expenses plus enterprise revenue funding requirements for capital projects. Funding of capital projects will be addressed by excluding the enterprise revenue for a current fiscal year's capital projects and adding the projected enterprise revenue for capital projects the following fiscal year. The unassigned cash reserves shall be used when approved by formal City Council action or under the following circumstances:

1. Large one-time cost where use of reserves would provide a long-term cost savings.
2. To mitigate service impacts from significant revenue shortfall due to economic downturn, weather variations or other unexpected loss of revenue.
3. Restoration of service due to weather events or other disasters.
4. The utility sustains unexpected liabilities created by federal, state or other mandates beyond its control.
5. To manage rate impacts resulting from expense changes.


For purposes of this policy, "unassigned cash reserve" refers to the financial statement line item titled: "Cash and Marketable Securities," excluding GASB 31 Cash Adjustment, plus Inventory.

The Water and Light Department shall annually establish and evaluate the unassigned cash reserve level. The results of this evaluation will be used in budget development and consideration.

Staff shall ensure that the provisions of this policy are effectively implemented. If it is determined that there is a conflict between this policy and other more specific governing policies involving the operating or capital improvement budgets, this shall be brought to the attention of the City Manager and the Water and Light Director who will determine the appropriate course of action.

ADOPTED this 16th day of December, 2013.

ATTEST:




City Clerk



Mayor and Presiding Officer

APPROVED AS TO FORM:



City Counselor