



Department Source: City Utilities - Water and Light

To: City Council

From: City Manager & Staff

Council Meeting Date: July 17, 2023

Re: REPORT: Water and Electric Financial Information

Executive Summary

Staff has prepared a report to update City Council on the finances for the Water and Electric Utility funds.

Discussion

During the June 20, 2023 City Council meeting a report was requested by Mayor Buffalo on the cash balances for the Water and Electric Utilities, along with the restricted cash balances in all of the capital improvement projects. Staff has included the following information for both Water and Electric.

- Cash balances (actual FY 2021 & FY 2022, March and May 2023)
- Cash reserve target (actual FY 2021 & FY 2022, projected FY 2023 and FY 2024)
- Debt service coverage (actual FY 2021 & FY 2022, projected FY 2023 and FY 2024)
- Capital Improvement Project Restricted Cash Balances (actual FY 2021 & FY 2022)
- Capital Improvement Project Restricted Cash Balances by individual projects (March & May 2023)

Note: March 2023 is being provided as that is the last quarterly financial information available from the Finance department. May 2023 is being provided as there was a request for this information and we wanted the City Council to have the most current data.

Cash Balances:

Cash balances (unrestricted/unassigned) for both Water and Electric is the cash that is available to spend that has not been restricted for the operating or capital improvement budgets. The unrestricted/unassigned cash balance should be used when approved by formal City Council action or under the following circumstances.

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



CASH BALANCES (Unrestricted/Unassigned)

	FY 2023 (May 2023)	FY 2023 (March 2023)	Actual FY 2022	Actual FY 2021
Water	\$7,499,309	\$7,555,005	\$9,546,782	\$10,604,569
Electric	\$36,475,299	\$36,361,262	\$42,259,884	\$57,202,152
COMBINED	\$43,974,608	\$43,916,267	\$51,806,666	\$67,806,721

Cash Reserve Target:

Cash reserve target is set by policy resolution (PR256-13), which has been attached to this council report for reference. The purpose of the policy is to provide guidelines to the City Council and staff for establishing, maintaining and performing an annual review of the cash balance for the Water and Electric funds. This policy was brought forward to City Council in December 2013 by the Utility staff and specifically outlines why this policy is necessary and how it should be calculated. 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 the following.

- Unfunded federal, state and 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 agencies continuously 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.

The current policy states that the City shall maintain unassigned cash reserves equal to twenty percent (20%) of the Water and Electric's total annual expenses plus enterprise revenue funding requirements for capital projects. Funding for 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.

CASH RESERVE TARGET (Above/(Below))

	Projected FY 2024	Projected FY 2023	Actual FY 2022	Actual FY 2021
Water	\$192,678	\$772,873	\$2,765,003	\$2,189,502
Electric	\$5,949,083	\$8,874,501	\$10,726,860	\$31,040,682
COMBINED	\$6,141,761	\$9,647,374	\$13,491,863	\$33,230,184

Debt Service Coverage:

Debt service coverage is the cash generated by operations above the debt service payment. This is mandated by bond covenants and established in the bond ordinances. The City's debt service coverage is 1.10 and is calculated annually with the budget process and is part of the audited annual financial statements.



The City calculates the debt service coverage as follows:

$$\text{Operating Revenues} - \text{Operating Expenses} = \text{Net Revenue}$$

$$\frac{\text{Net Revenue}}{\text{Debt Service Payment (P\&I)}} = \text{Debt Service Coverage}$$

Not meeting debt coverage, means that we are technically in default even if making the debt payments. It could affect our bond ratings and the ability to issue bonds in the future along with causing the City to pay higher interest rates on any future bonds sold.

In addition, per Charter, the Water and Electric funds are combined, so when we sell bonds our bond ratings are reviewed as one fund. Below is the debt service coverage for the two funds combined both with Payment-in-lieu-of- Taxes (PILOT) and without PILOT.

DEBT SERVICE COVERAGE (1.10 minimum requirement)

	Projected FY 2024	Projected FY 2023	Actual FY 2022	Actual FY 2021
With PILOT	1.24	1.77	0.78	2.16
Without PILOT	2.49	2.89	1.78	3.44

Staff believes that PILOT should be included in the debt service coverage calculation as it is an expense to both funds through a transfer to the General Fund monthly. Therefore, we calculate it both ways.

Capital Improvement Project Restricted Cash Balances:

Below is a breakdown of the restricted cash balances between enterprise revenue and bonds for capital improvement projects for Water and Electric.

	FY 2023 (May 2023)	FY 2023 (March 2023)	Actual FY 2022	Actual FY 2021
WATER:				
Enterprise Rev	\$14,498,583	\$14,565,880	\$12,373,913	\$10,647,432
Bonds	\$12,272,031	\$12,272,031	\$12,607,493	\$13,373,971
TOTAL	\$26,770,614	\$26,837,911	\$24,981,406	\$24,021,403
ELECTRIC:				
Enterprise Rev	\$25,162,905	\$25,683,906	\$15,442,464	\$13,296,555
Bonds	\$11,511,921	\$11,724,231	\$11,853,806	\$12,509,985
TOTAL	\$36,674,826	\$37,408,137	\$27,296,270	\$25,806,540



City of Columbia

701 East Broadway, Columbia, Missouri 65201

A detailed list of the capital improvement projects and their cash balances as of March 2023 have been included as an attachment to this report. In addition, for May 2023 we have a detailed list of the capital improvement projects, their cash balances, the project description and project status included as an attachment to this report.

Fiscal Impact

Short-Term Impact: None

Long-Term Impact: None

Strategic & Comprehensive Plan Impact

[Strategic Plan Impacts:](#)

Primary Impact: Not Applicable, Secondary Impact: Not Applicable, Tertiary Impact: Not Applicable

[Comprehensive Plan Impacts:](#)

Primary Impact: Not Applicable, Secondary Impact: Not applicable, Tertiary Impact: Not Applicable

Legislative History

Date	Action
None	None

Suggested Council Action

Report is for informational purposes.