

Platte Canyon Water and Sanitation District

2019 Budget Policy Issues

1. In June 2018, the Board of Directors adopted a Cash Reserve Policy that included criteria to evaluate and establish an appropriate level of cash reserves. The criteria contain three elements; an operating reserve component, a capital reserve component and a debt service reserve component. The operating reserve component is equal to one year of operating expenses which, for 2019, is \$1,175,692. The capital reserve component is the greater of 10 percent of the replacement cost of each asset adjusted for depreciation (\$5,317,228) or total projected capital expenses for the first five years of the most recent Ten-Year Financial Plan (\$6,194,038). The debt service reserve component is zero since the District is debt free. Based on established criteria, the minimum level of cash reserves is calculated to be \$7,369,730. Cash reserves available at the end of 2019 are projected to be \$8,572,458, \$1,202,728 greater than the amount prescribed in the Cash Reserve Policy.

Earlier this year, the District's asset management plan and pipe evaluation criteria were substantially modified. This resulted in additional asset replacements scheduled for the next ten years. It also reduced the variability of capital project cash flow by reducing the emphasis on pipe failures for determining the asset replacement schedule. The replacement schedule and proposed capital expenditures are more reliable over the entire ten-year capital plan than in the past.

When the Cash Reserve Policy was adopted the capital reserve component was based on the greater of a percentage of asset replacement costs adjusted for inflation of five years of scheduled capital expenses. Given the improvements to pipe evaluation criteria and increased reliability of future planned capital expenditures it may be prudent to amend the capital reserve component of the District's cash reserves to include ten years of scheduled capital costs rather than five years of capital costs. This amendment would change the 2019 capital component from \$6,194,038 to \$11,604,972, and the total minimum reserve recommended by the policy from \$7,369,730 to \$12,761,201, \$3,290,088 more than current available funds of \$9,471,113.

Question: Should the District amend the capital reserve component of the cash reserve to be the greater of 10 percent of the replacement cost of each asset adjusted for depreciation or total projected capital expenses identified in the most recent Ten-Year Financial Plan.

2. The District's Ten-Year Financial Plan for 2019-2088 shows annual deficits in six out of the next ten years ranging from \$156,346 in 2021 to \$1,321,023 in 2028. Cash reserves are projected to decrease from \$9,471,113 at the end of 2018 to \$6,530,500 in 2028 and zero in 2035. To continue to meet District levels of service and system reliability

standards, it will be necessary to obtain additional revenue using debt financing or cash financing for planned capital improvements.

Question: Does the Board of Directors want to pursue one or more of the following alternatives:

1. Allow a reduction in cash reserves and delay a decision on future revenue increases until the reserves drop below the amount prescribed in the current Cash Reserve Policy.
2. Pursue an increase in tax revenue or establish a water and sewer service fee as early as 2019 or 2020 to build cash reserves to a level that will meet or exceed the amount prescribed in the Cash Reserve Policy through 2035. The additional revenue will be used to cash fund future capital projects when scheduled.
3. Establish a capital project debt financing plan to debt fund future asset replacement and rehabilitation projects rather than cash fund the projects.