

Financial Strategy and Sustainability Study

Workshop 2: Establishing Appropriate Reserves

May 23, 2019

June 27, 2019

Southeastern Colorado Water Conservancy District

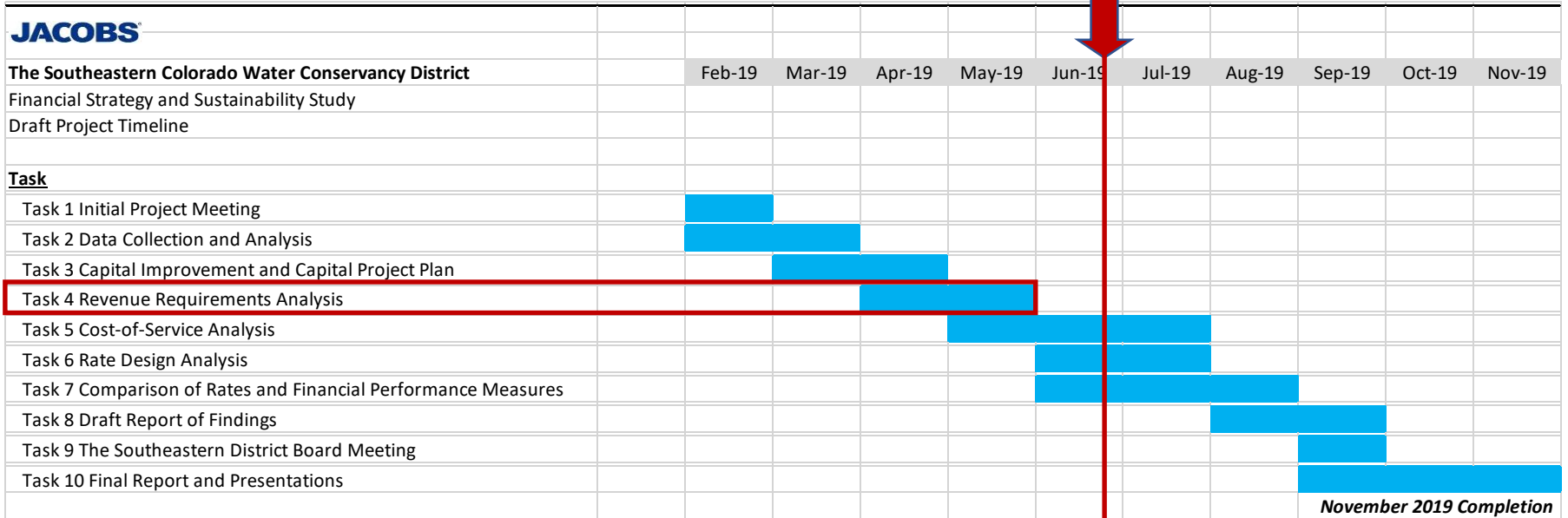


Discussion Topics

- **Workshop 1 – Recap**
- **Workshop 2 - Purpose**
- **Reserves Background**
- **Methods to Establish Reserves**
- **Categories of Reserves**
- **Reserves Targets**
- **Reserves Policies and Procedures**
- **Summary and Conclusions**



Project Schedule



Workshop 1 Recap and Workshop 2 Purpose



What Are We Solving For?

The Net Revenue Requirement is defined as ...

- Revenue

- O&M Expenses

- Debt/Financing

- Capital Investments

- Cash Reserves

Revenue Requirements

- **Net Revenue Requirement**



Workshop 1: Summary

- **Base Case Projections forecast the unrestricted fund balances for the next 10 years**
- **To maintain the Base Case, status quo, a doubling of rate revenue is needed over the next 10 years.**



What Was Not Included in the Base Case Financial Plan?

- **Unknown RAX items (above \$1.0 million/year)**
- **District-Initiated Capital Investment (Betterments)**
 - Clarity will follow asset valuation and condition assessment work
- **District-Initiated Capital Investments (Development & Improvement)**
- **Unanticipated hydro project performance**
- **Additions to cash reserves**



Purpose of this Workshop 2

- **Understand and discuss the need for cash reserves**
- **Forecast of unrestricted reserves, compare with other agencies, and make recommendations for reserve targets**
- **Receive comments from the Committee**
 - Proposed reserve targets
 - Specific capital projects
 - Reasonableness of assumptions
 - Other Topics
- **Not our Purpose of this Presentation**
 - Financial plan or other revenue requirements
 - District effectiveness and efficiency
 - Cost drivers or cost-of-service
 - Individual rates and charges, or phase-in timeframe for rates
 - All of these will be topics at subsequent workshops



Reserves Background



Why Does the District Need a Reserve Fund?

- **Fry-Ark Repayment Contract with USBR specifies the use of Ad Valorem revenue for payment toward:**
 - 1: The annual OM&R obligation of the District (incl. RAX)
 - 2: Repayment of construction costs
 - 3: A Reserve Fund
- **“If there is a shortfall, the District will be billed the balance on the next billing cycle and shall pay the shortfall from the District’s other sources of revenue.”¹**
- **The only source currently available to generate additional revenue for both Project and non-Project uses is in the Water Activity Fund – from water rates.**

¹ Amendment No. 11 To Contract No. 5-07-70-W0086, Between the United States of America and the Southeastern Colorado Water Conservancy District, Fryingpan-Arkansas Project, Colorado



Previous Staff Recommendations for “Assigned Accounts and Targets for Specific Purposes”

Framing the Future of Finances

Fund Balance Reserves

Executive Committee
September 13, 2018

The Finances of the Southeastern Colorado
Water Conservancy District



Definitions

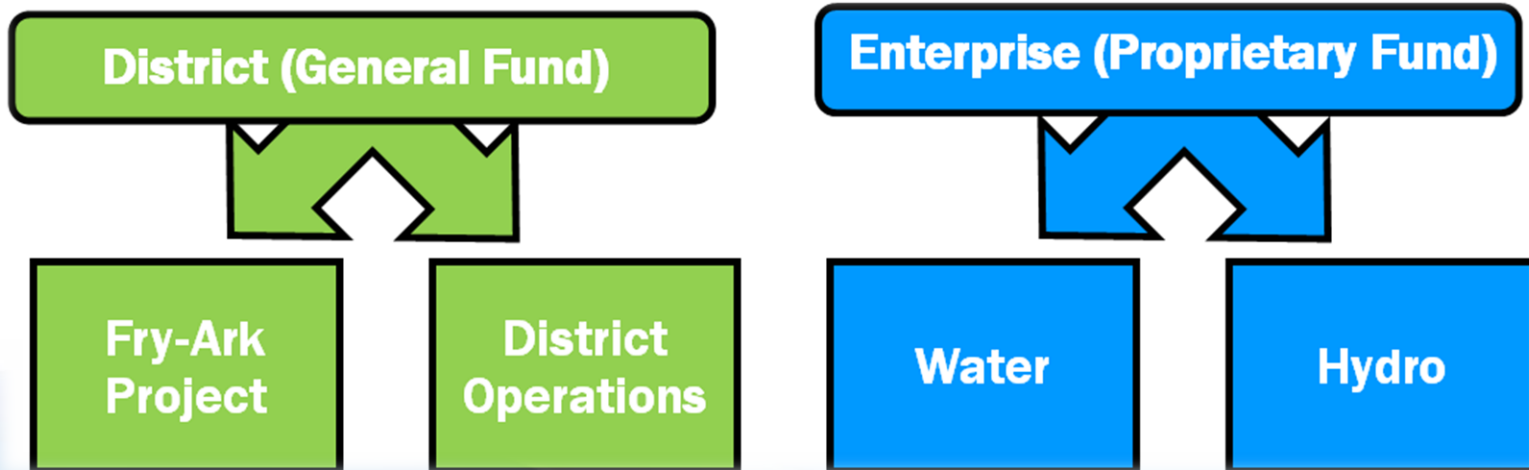
Accounting clarifications

Restricted	For a specific purpose stipulated by external resource.
Committed	For a specific purpose determined by Board resolution.
Assigned	Intended for a specific purpose accounts neither restricted or committed.
Non-spendable	Legally or contractually required to be maintained intact.
Unassigned	Residual classification for general fund.
Unrestricted	Remainder of net positions not restricted.



Workshop 2 - Structure of Funds

- Reserve Fund planning targets (today's workshop) are consolidated for the General and Enterprise Fund
- Underlying subfund amounts are also provided for clarification



Unrestricted Reserves – General Fund

12/31/2018 Fund Balance	\$ 15,577,000
Prepaid, Assigned Items	(1,687,109)
TABOR	(150,000)
Fry-Ark Obligation	(1,500,000)
Enlargement	<u>(2,000,000)</u>
Starting Study Fund Balance (unassigned)	\$ 10,200,000

Fry Ark Project Fund: \$4,300,000

District Operations: \$5,900,000



Unrestricted Reserves – Enterprise Fund

12/31/2018 Fund Balance	\$ 11,550,000
Project Water Rate Stabilization	(812,000)
Restricted for Hydro Contract - LOPP Contract	(100,000)
Rocky ford settlement Upper & Lower Current	(2,000,000)
Rocky ford settlement Upper & Lower Future	(2,000,000)
Hydropower balance due	<u>(2,780,000)</u>
Starting Study Fund Balance (unassigned)	\$ 3,858,000

Water Activity: \$ 6,638,000
 Hydro Project: \$(2,780,000)



Categories of Reserves



Survey of Similar Agencies

- **CAWCD – Central Arizona Water Conservancy District**
- **SNWA – Southern Nevada Water Authority**
- **CUWCD – Central Utah Water Conservancy District**
- **TRWD – Tarrant Regional Water District**
- **Denver Water**
- **NCWCD – Northern Colorado Water Conservancy District**
- **OID – Oakdale Irrigation District**
- **CNPPID – Central Nebraska Public Power and Irrigation District**



Survey - Most Common Reserve Categories (2014)

Agency	Restricted Reserves	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
		Operating Reserve	Capital Reserve	Debt Service Reserve	Exposure or Contingency Reserve	Other Unrestricted Reserves
SECWCD	✓	?	?	?	?	✓
CAWCD	✓	✓	✓	✗	✓	✓
SNWA	✓	✓	✓	✓	✓	✗
CUWCD	✓	✓	✓	✓	✓	✓
TRWD	✓	✗	✗	✗	✗	✗
Denver	✓	✓	✓	✓	✓	✗
NCWCD - 2014	✓	✗	✗	✗	✗	✓
OID	✓	✓	✓	✗	✓	✓
CNPPID	✓	✓	✓	✗	✓	✓



Survey - Most Common Reserve Categories (2019)

Agency	Restricted Reserves	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
		Operating Reserve	Capital Reserve	Debt Service Reserve	Exposure or Contingency	Other Unrestricted
SECWCD	✓	?				
CAWCD	✓	✓				
SNWA	✓	✓				
CUWCD	✓	✓				
TRWD	✓	✗				
Denver	✓	✓				
NCWCD - 2019	✓	✓				
OID	✓	✓				
CNPPID	✓	✓				



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What's New:

- ▶ Regional Pool Allocation Set at 12,500 Acre-Feet
- ▶ Northern Water Mourns Loss of Board Member Bill Fischer
- ▶ Conservation Gardens Fair - June 8
- ▶ Invitation for Public Comment on Reserve Fund Policy
- ▶ May 2019 Snowpack & Streamflow Forecast
- ▶ Final Bid Results of 2 Units of C-BT Project Water
- ▶ C-BT Water Quota Increased to 70 Percent

Survey - Most Common Reserve Categories (2019)

Agency	Restricted Reserves	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
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SECWCD	✓	?	?	?	?	✓
CAWCD	✓	✓	✓	✗	✓	✓
SNWA	✓	✓	✓	✓	✓	✗
CUWCD	✓	✓	✓	✓	✓	✓
TRWD	✓	✗	✗	✗	✗	✗
Denver	✓	✓	✓	✓	✓	✗
NCWCD - 2019	✓	✓	✓	✗	✓	✓
OID	✓	✓	✓	✗	✓	✓
CNPPID	✓	✓	✓	✗	✓	✓



What Categories of Reserves Are Appropriate for SECWCD?

- **Restricted Reserves**
- **Unrestricted Reserves**
 - Working Cash Reserve
 - Operating Reserve
 - Exposure Reserve
 - Capital Reserve
- **Also known as Strategic Reserves**

Survey - Most Common Reserve Categories

Agency	Restricted Reserves	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
		Operating Reserve	Capital Reserve	Debt Service Reserve	Exposure or Contingency Reserve	Other Unrestricted Reserves
SECWCD	✓	?	?	?	?	✓
CAWCD	✓	✓	✓	✗	✓	✓
SNWA	✓	✓	✓	✓	✓	✗
CUWCD	✓	✓	✓	✓	✓	✓
TRWD	✓	✗	✗	✗	✗	✗
Denver	✓	✓	✓	✓	✓	✗
NCWCD - 2019	✓	✓	✓	✗	✓	✓
OID	✓	✓	✓	✗	✓	✓
CNPPID	✓	✓	✓	✗	✓	✓

Southwestern Colorado Water Conservancy District

Setting Reserve Targets

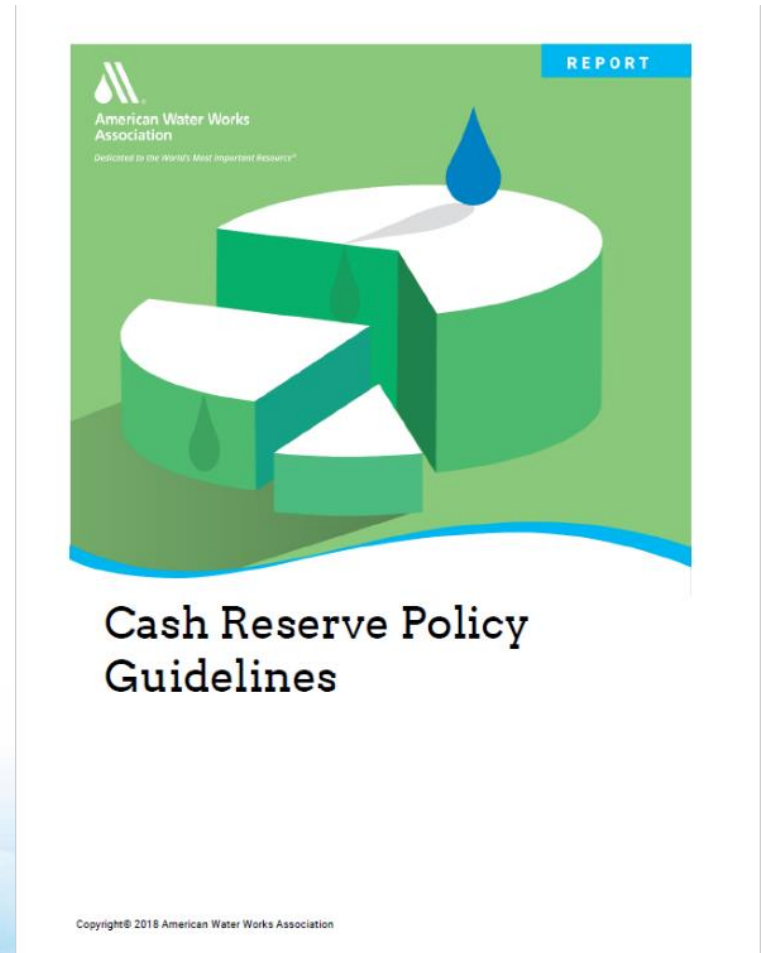


How NOT to Establish Financial Reserves...



Methods to Establish Reserves Levels

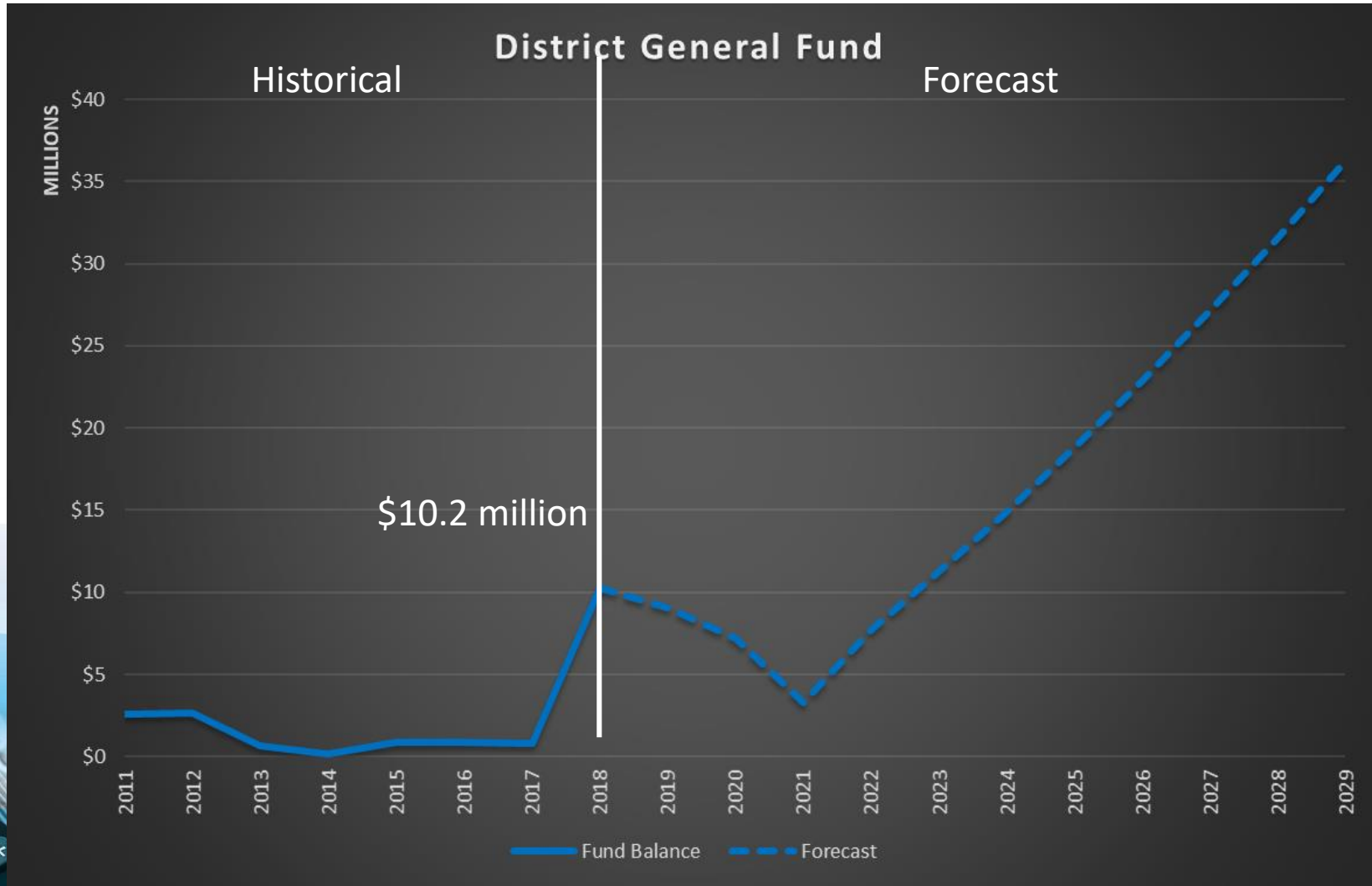
- **Policy Guidelines**
- **Analysis of Historical Range**
- **Survey Comparable Agencies (Water Districts)**
- **Bottom-up: What Should they be for SECWCD?**



Analysis of Historical Range

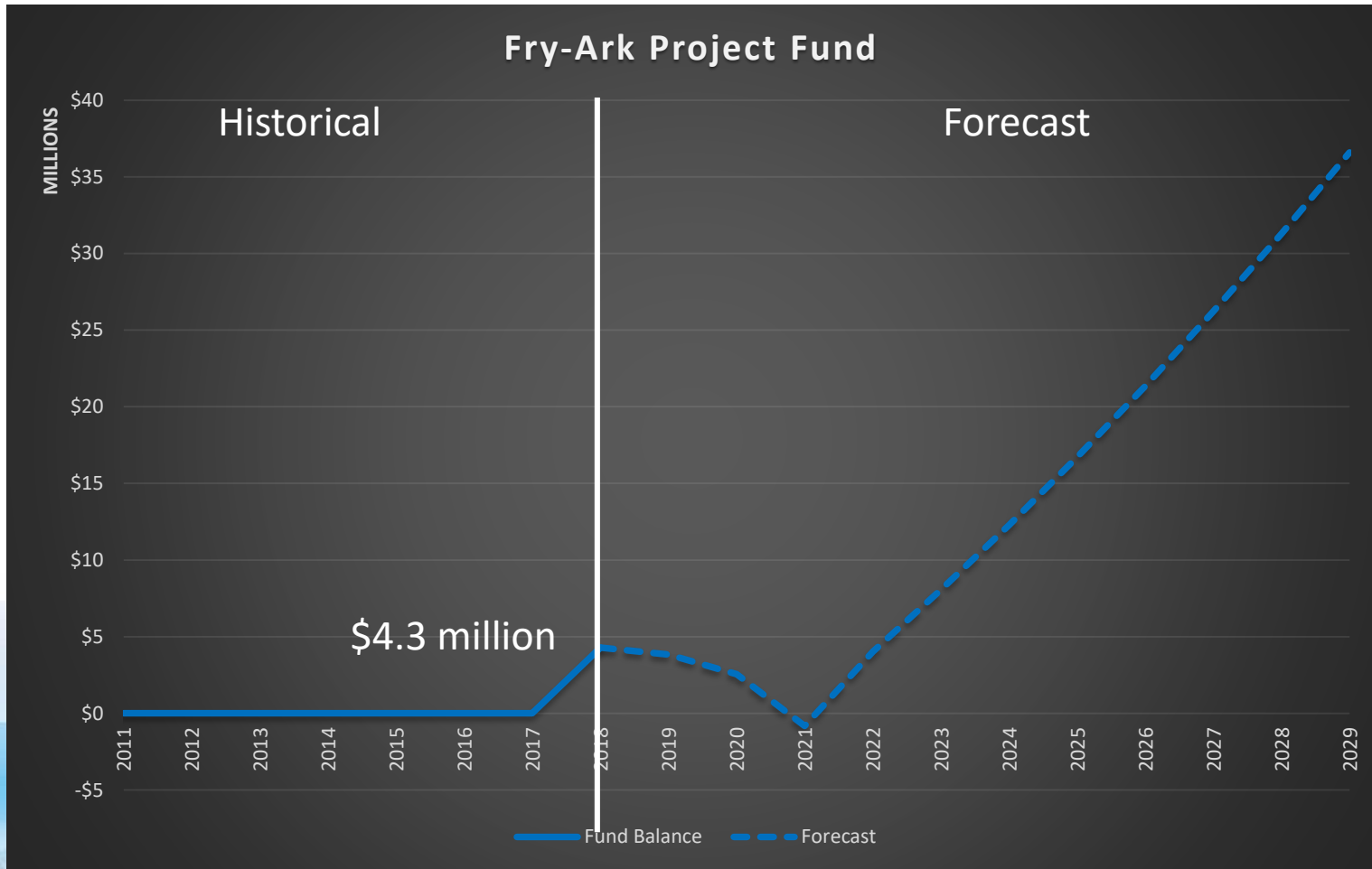


Analysis of SECWCD's Historical Unrestricted Reserves General Fund



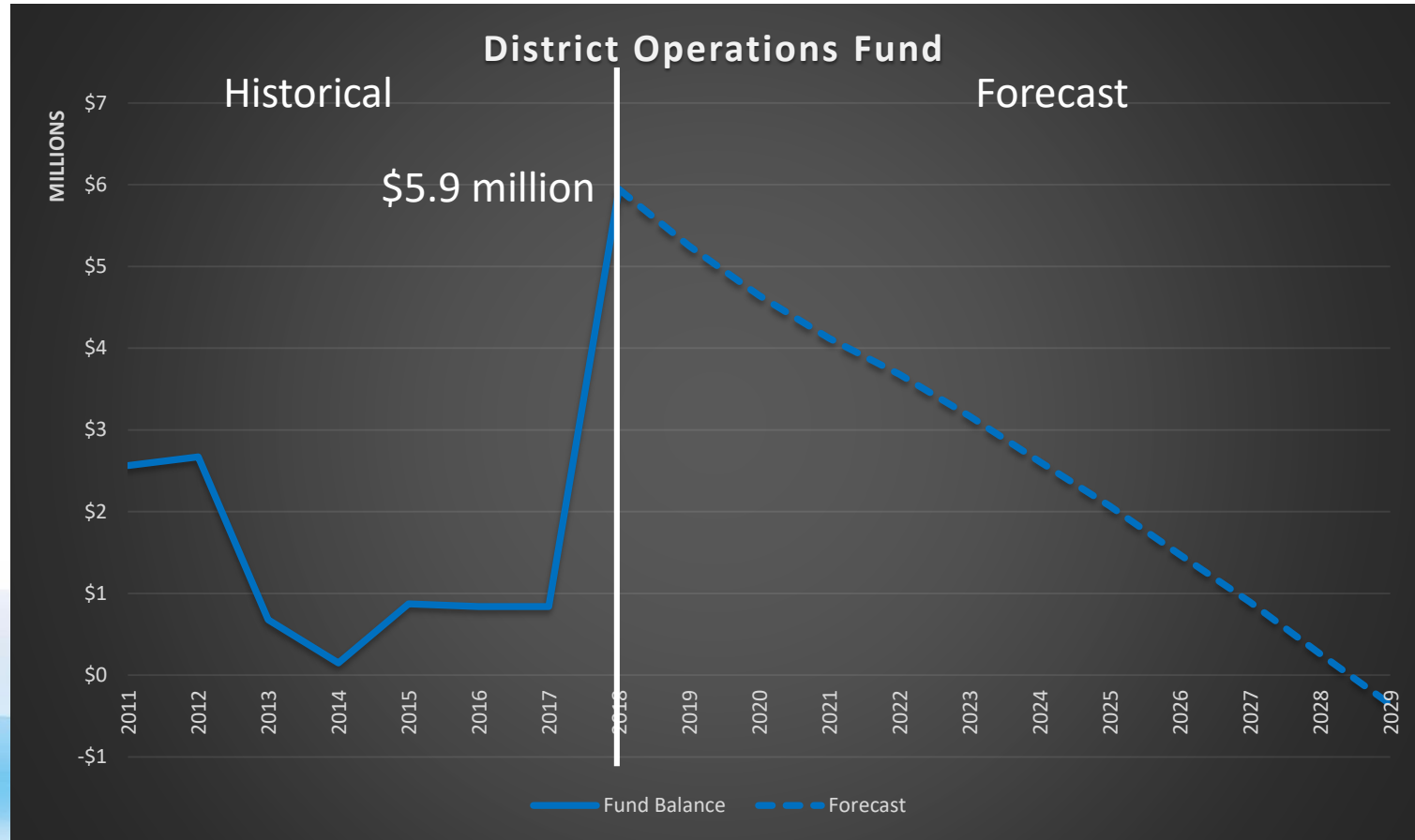
NEW SLIDE

Analysis of SECWCD Historical Unrestricted Reserves

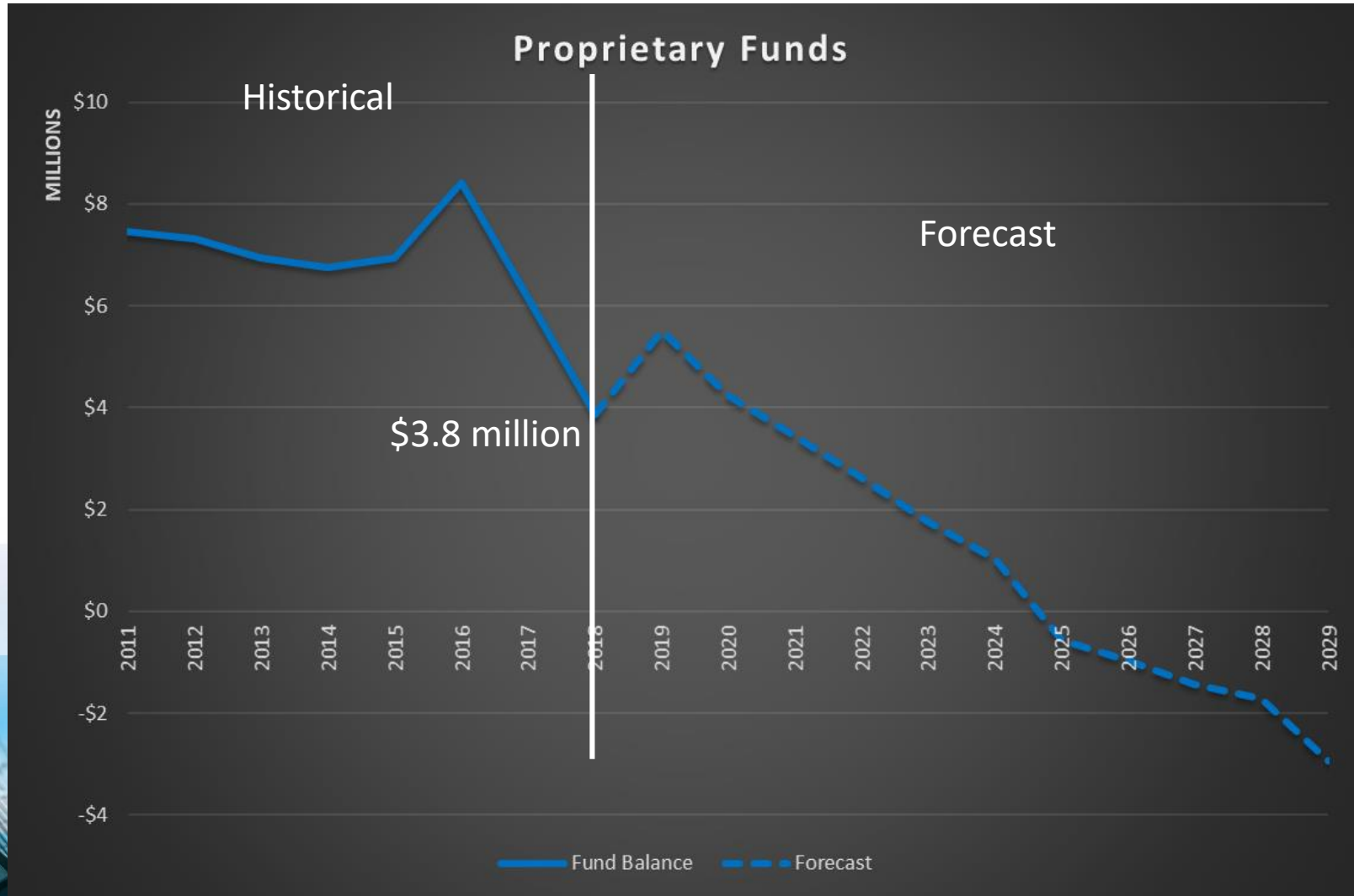


NEW SLIDE

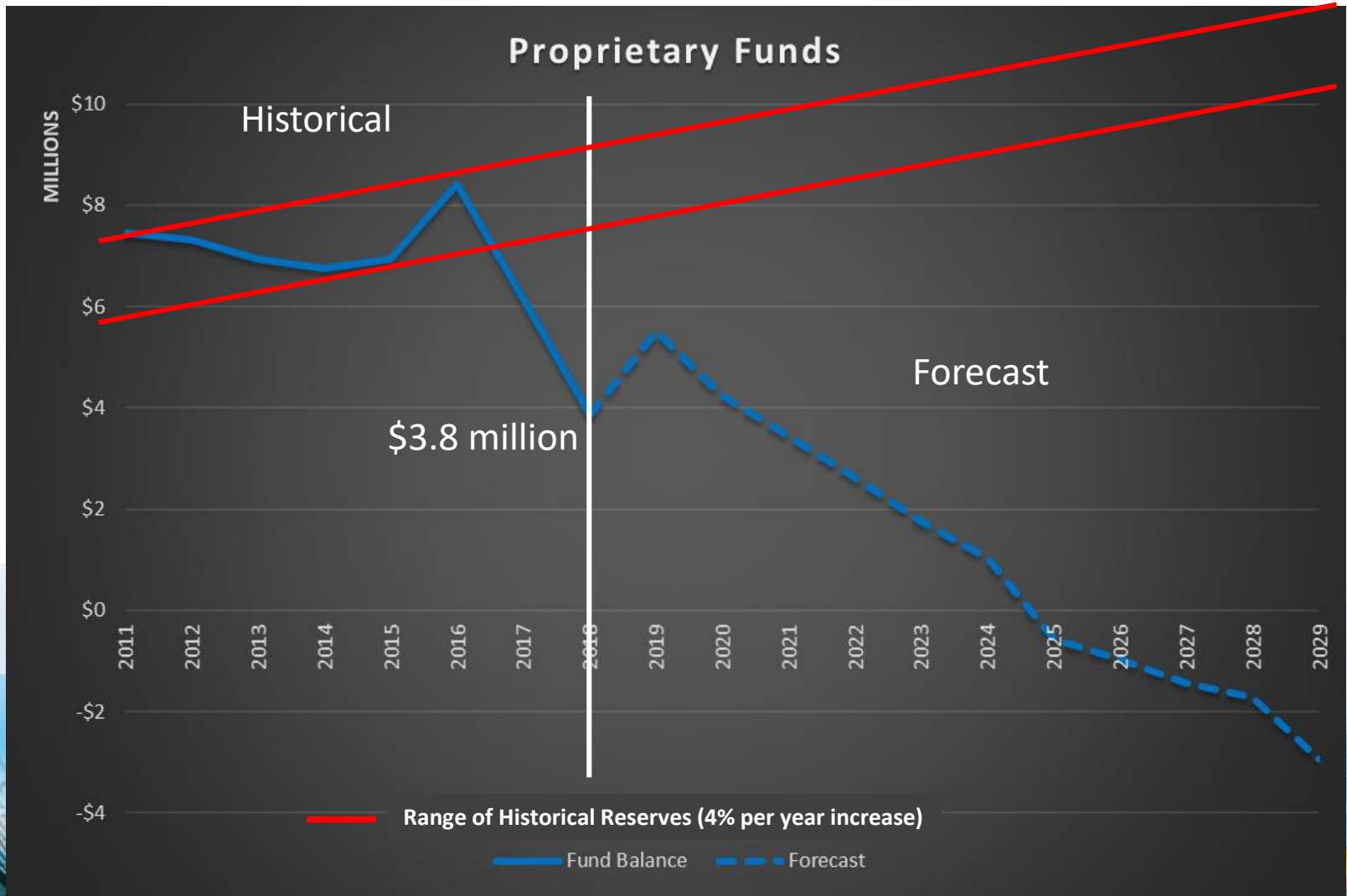
Analysis of SECWCD Historical Unrestricted Reserves



Analysis of SECWCD's Historical Unrestricted Reserves Enterprise Fund



Analysis of SECWCD's Historical Range Enterprise Fund



Survey and Comparisons District General Fund (only)

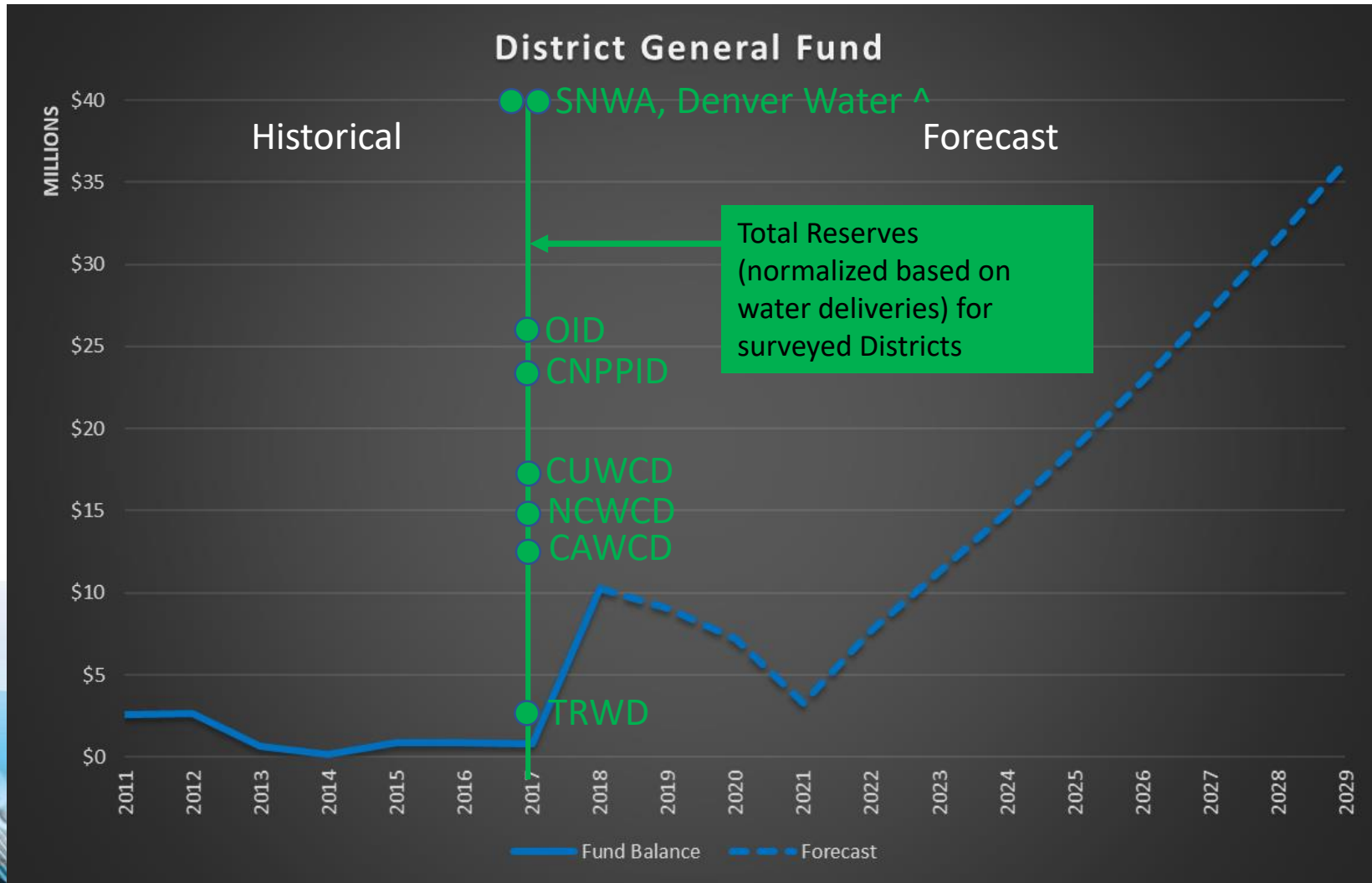


Survey of Similar Agencies

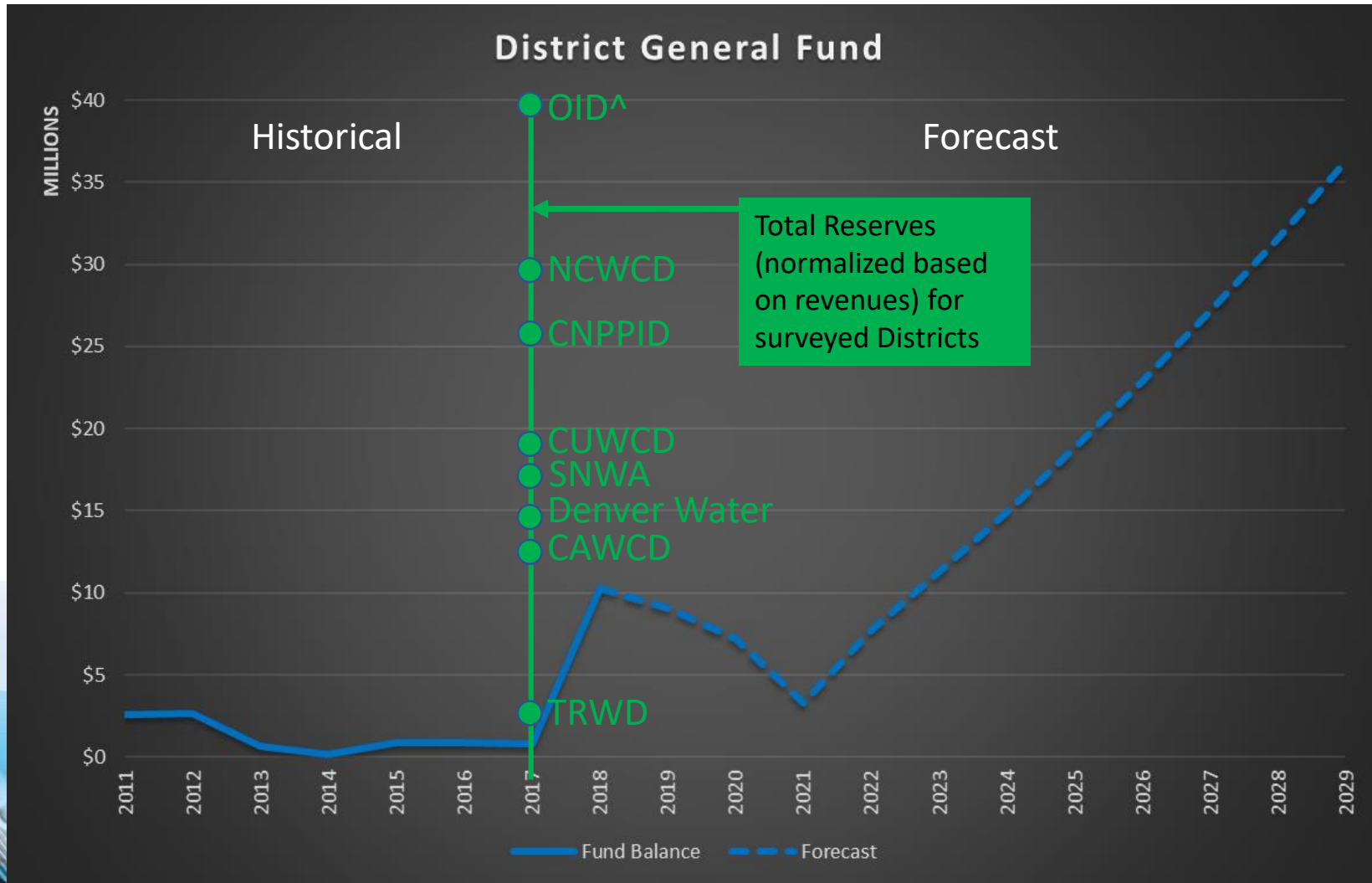
- **CAWCD – Central Arizona Water Conservancy District**
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Survey Data – Unrestricted Reserves (Normalized based on Water Deliveries)



Survey Data – Unrestricted Reserves (Normalized based on Revenues)



Bottom-Up



Southeastern Colorado Water Conservancy District



Bottom-up: What Should Reserve Levels Be?

- **Every agency is unique**
 - Capital facilities responsibility
 - Insurance coverages
 - Financing capability and capacity
- **Issues facing SECWCD**
 - Aging infrastructure
 - Sedimentation
 - Annual water yield (and water sales revenues) more volatile than originally anticipated
 - Future capital projects
 - Environmental regulations and requirements
 - Emergencies and natural disasters
 - Unusual and unplanned events
- **Only you know your organization's unique needs**

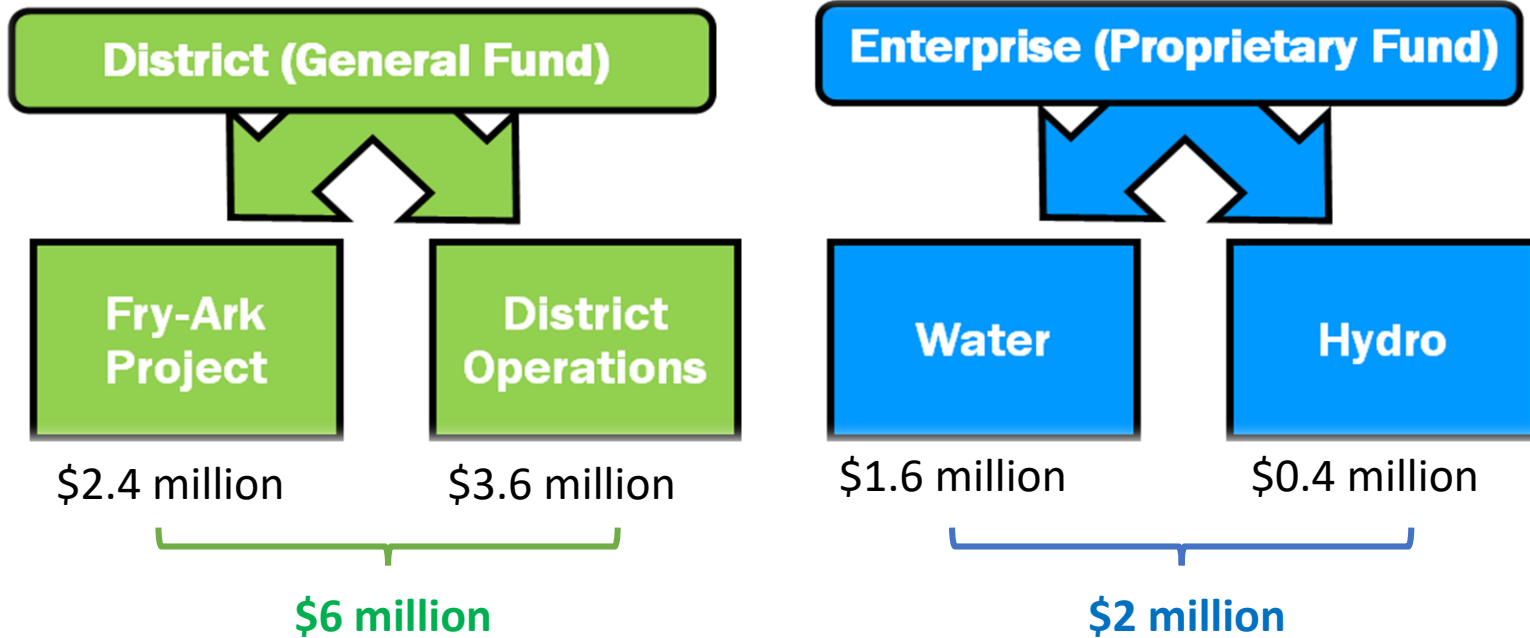


Operating Reserve

- **Established to fund unforeseen operating needs**
- **One hundred percent of the annual operating budget (365 days of operating expenses)**
- **Basis:**
 - **Example: 3-year average operating expenses**



Operating Reserve



**Recommended Targets: \$ 6 million (General Fund)
\$ 2 million (Enterprise Fund)**



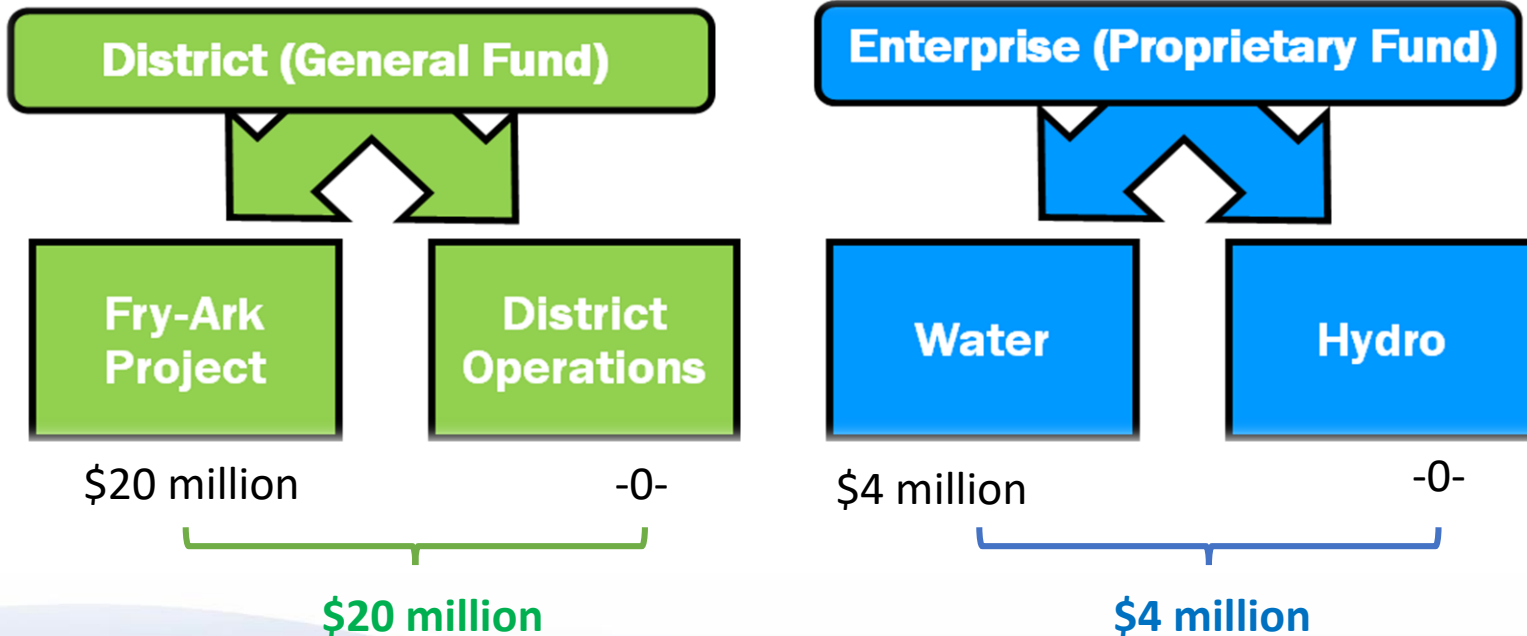
Capital Reserve

- **Established to fund unforeseen or specific capital needs.**
- **Basis:**
 - **Example: Percentage of assets under management by the District (or Bureau)**
 - **Example: Capital improvements forecast/planning expectations – which would include RAX**



Capital Reserve

- Established to fund unforeseen capital needs or specific needs.



**Recommended Targets: \$20 million (General Fund)
\$ 4 million (Enterprise Fund)**

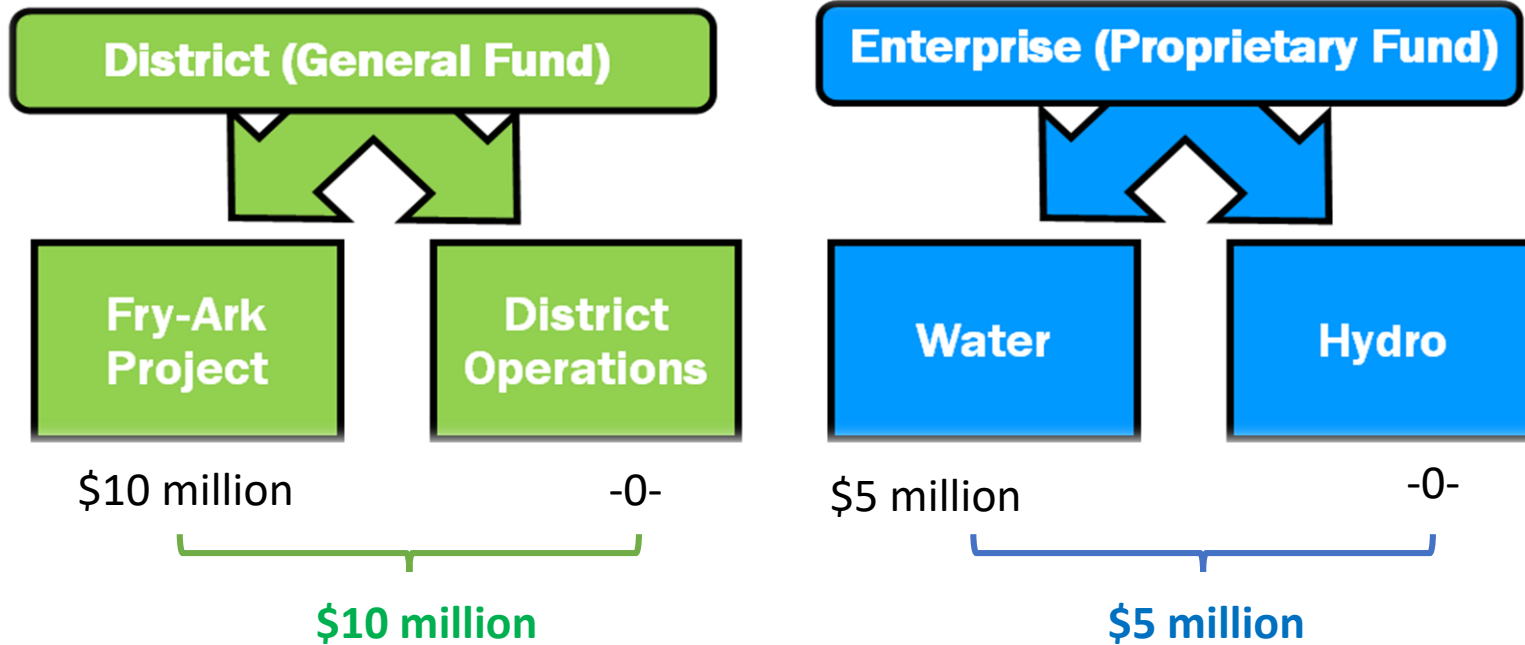


Exposure Reserve

- **Established to fund extraordinary events not otherwise covered in the operating or capital reserves.**
- **Basis:**
 - Administrative Exposure
 - Legal, medical, property and liability damages. Losses and judgments.
 - Environmental Exposure
 - Acts of God, regulatory mandate, environmental events, water quality changes
 - Environmental exposure - sufficient to fund a significant environmental exposure
 - May be used together with other monies in reserve
 - For example - \$30 million exposure would be reduced by operating reserve, capital reserve, and administrative exposure reserve, potentially certain restricted reserves, together with all other funds.



Exposure Reserve

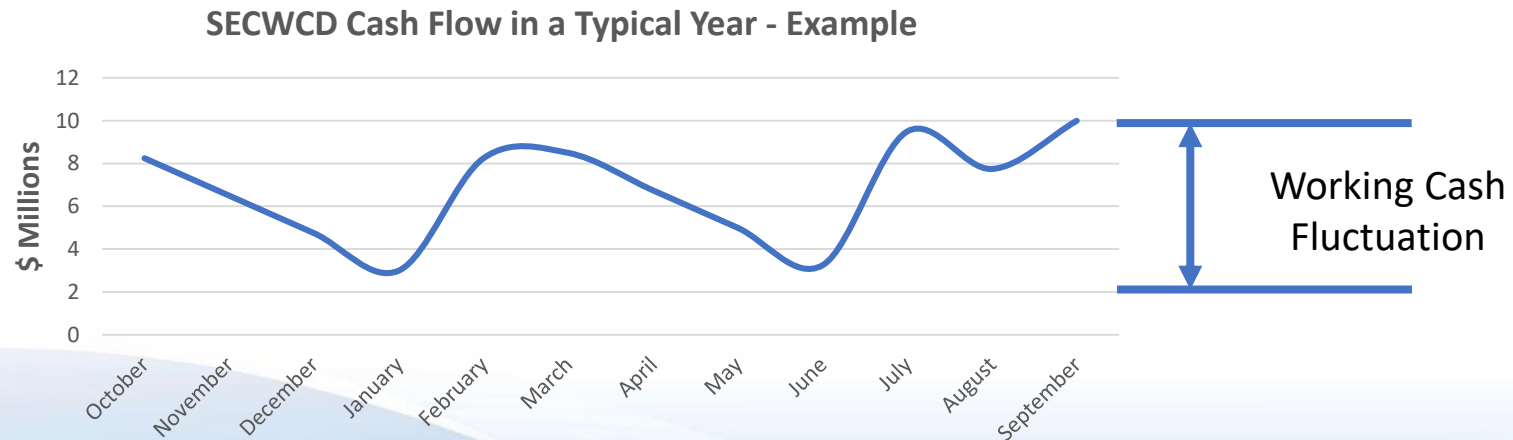


**Recommended Target: \$10 million (General Fund)
\$ 5 million (Enterprise Fund)**

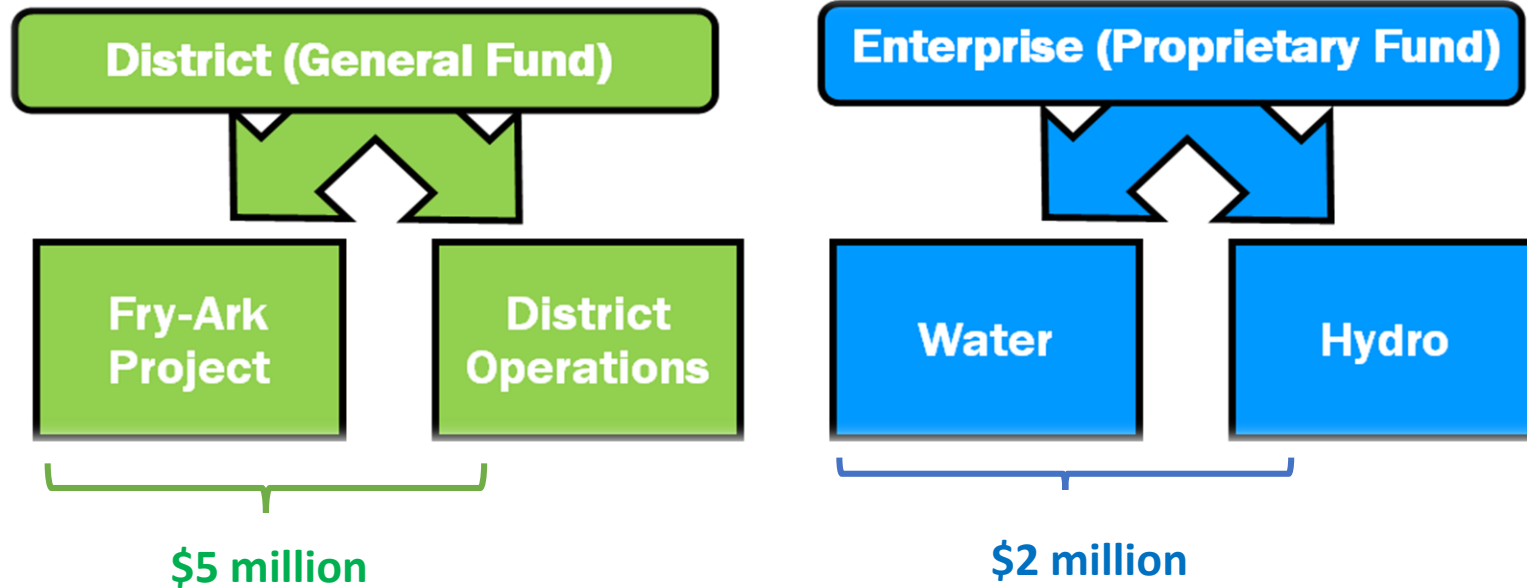


“Working Capital” or “Working Cash”

- Cash reserves to fund seasonal variations in the operating cycle
- The low and high point during a typical year are estimated and the amount to cover the variance sets the target



“Working Capital” or “Working Cash”



Recommended Target: \$ 5 million (General Fund)
\$ 2 million (Enterprise Fund)



Summary of Proposed Levels of Unrestricted Reserves – General Fund

Reserve Fund	Historical	Survey	Bottom-up
Operating Reserve	NA	NA	\$ 6,000,000
Capital Reserve	NA	NA	\$20,000,000
Exposure Reserve	NA	NA	\$10,000,000
Working Cash	NA	NA	\$5,000,000
TOTAL UNRESTRICTED RESERVES (target)	NA	\$12,000,000- \$30,000,000	\$40,000,000



Summary of Proposed Levels of Unrestricted Reserves – General Fund

Reserve Fund	Historical	Survey	Bottom-up
Operating Reserve	NA	NA	\$ 6,000,000
Capital Reserve	NA	NA	\$20,000,000
Exposure Reserve	NA	NA	\$10,000,000
Working Cash	NA	NA	\$5,000,000
TOTAL UNRESTRICTED RESERVES (target)	NA	\$12,000,000- \$30,000,000	\$40,000,000

General Fund:

Fry-Ark Project: \$10-35 million

District Operations: \$ 2-\$5 million

Total: Range of \$12-\$40 million



Summary of Proposed Levels of Reserves – Enterprise Fund

Reserve Fund	Historical	Survey	Bottom-up
Operating Reserve	NA	NA	\$2,000,000
Capital Reserve	NA	NA	\$4,000,000
Exposure Reserve	NA	NA	\$5,000,000
Working Cash	NA	NA	\$2,000,000
TOTAL UNRESTRICTED RESERVES (target)	\$10,000,000 – \$12,000,000	NA	\$13,000,000



Summary of Proposed Levels of Reserves – Enterprise Fund

Reserve Fund	Historical	Survey	Bottom-up
Operating Reserve	NA	NA	\$2,000,000
Capital Reserve	NA	NA	\$4,000,000
Exposure Reserve	NA	NA	\$5,000,000
Working Cash	NA	NA	\$2,000,000
TOTAL UNRESTRICTED RESERVES (target)	\$10,000,000 – \$12,000,000	NA	\$13,000,000

Enterprise Fund

Water Activity: \$6-\$8 million

Hydro Fund: \$4-\$5 million

Total: Range of \$10-\$13 million

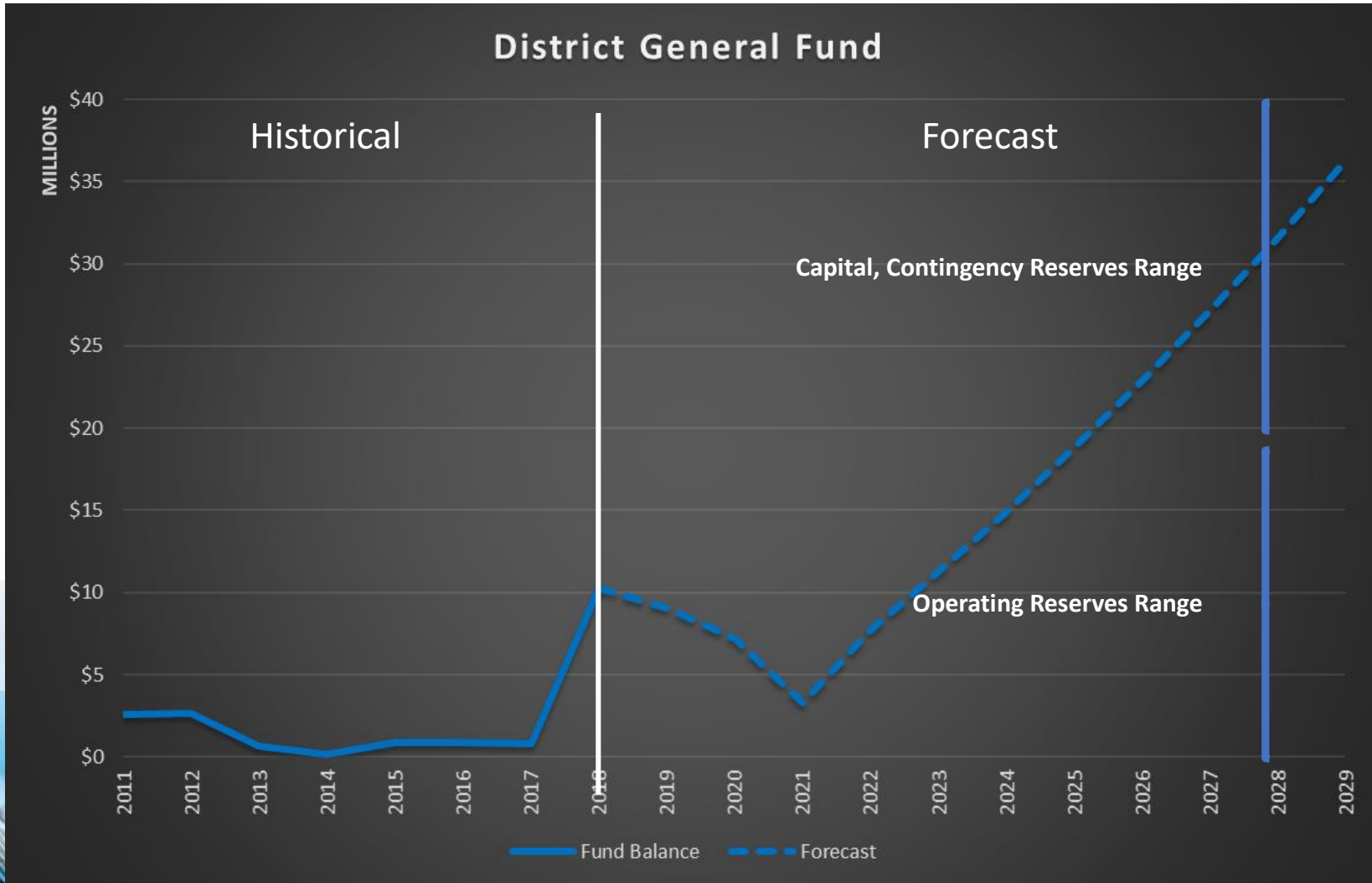


Capital Projects Funding

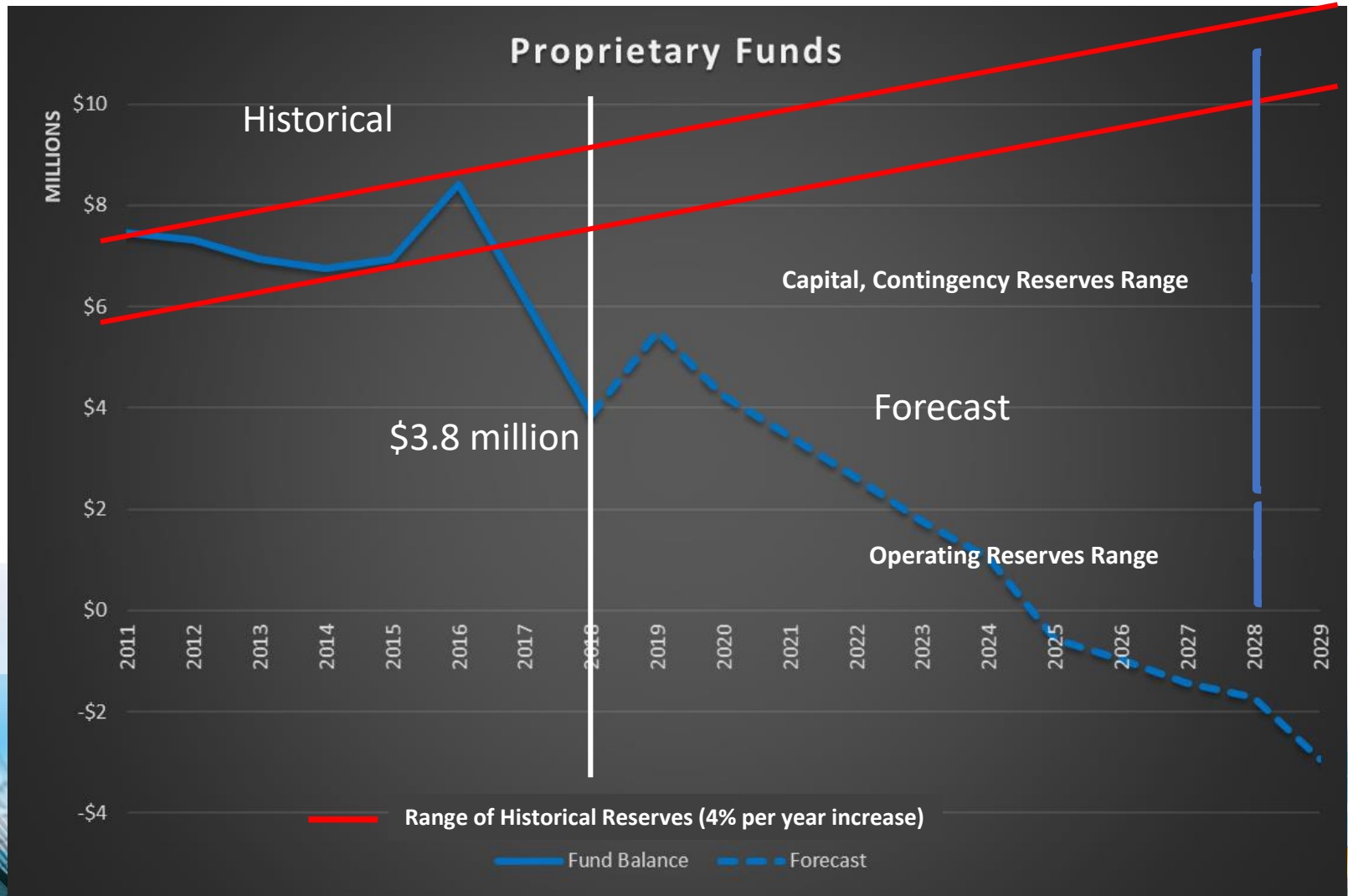
- **Future Capital Projects**
 - Pueblo Dam Interconnect
 - Betterments
 - Recovery of Storage (by Phase)
 - Enterprise Fund Development and Improvements
- **These would fall outside or above the unrestricted reserve fund levels discussed on previous slides**
- **In future years, once the reserve levels are established and more is known about RAX, capital investments, and other items, then capital project funding will be revisited.**



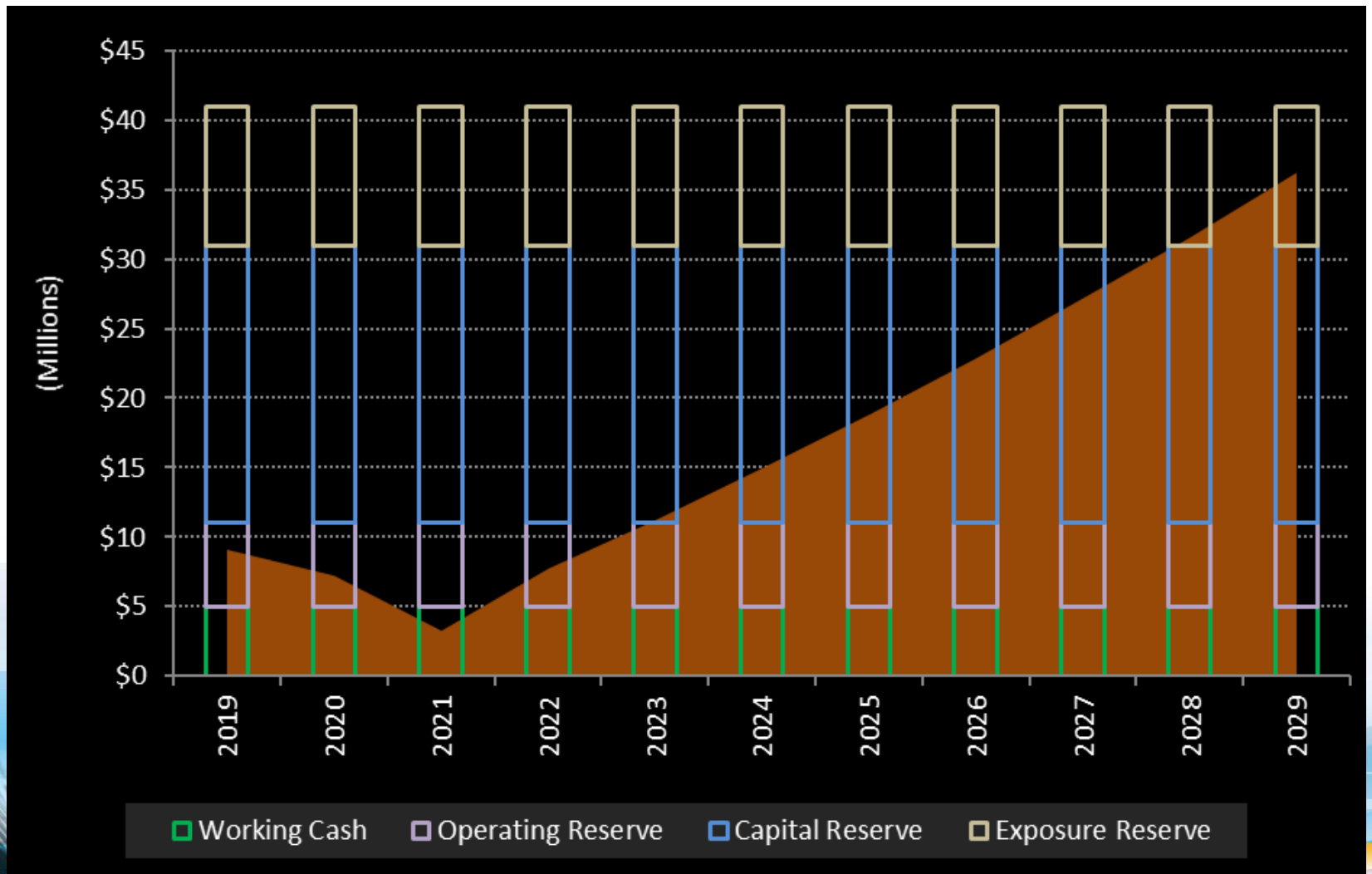
Historical Range Compared to Proposed Range



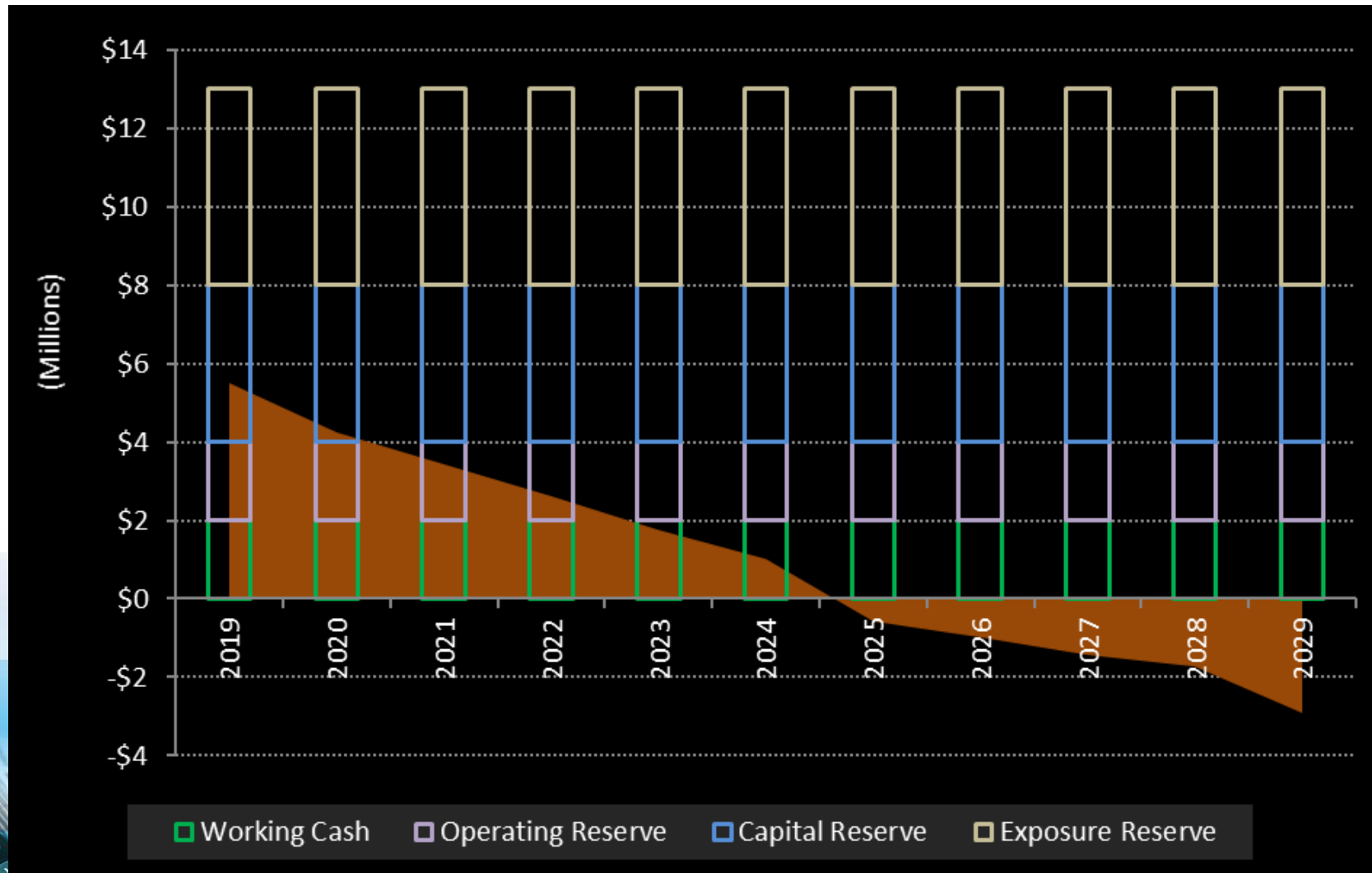
Analysis of SECWCD's Historical Range Enterprise Fund



Reserve Categories and Levels compared to Financial Forecast – General Fund



Reserve Categories and Levels compared to Financial Forecast – Enterprise Fund





Policies and Procedures



Southeastern Colorado Water Conservancy District



Reserves Policies and Procedures

- **One purpose of this rate study is to establish initial reserves categories or targets as needed to determine rates and charges**
- **Formal policies and procedures can be developed at a later date. Considerations may include:**
 - Timing – period of time to achieve targets
 - Funding of Reserves – funding sources and funding order
 - Disbursement of Reserves – authorization requirements
 - Replenishment – sources and timing of replenishment
 - Excess Reserves – procedures for excess reserves





Summary and Conclusions



Southeastern Colorado Water Conservancy District



Summary and Conclusions

- **SECWCD is seeking better definition and direction regarding its reserve funds**
- **The recommended categories of reserve funds are:**
 - Working Cash Reserve
 - Operating Reserve
 - Contingency or Exposure Reserve
 - Capital Reserve
- **The recommended levels of reserves, or targets, in each category should reflect SECWCD's unique circumstances, legal structure, financing capability, and risks of operation.**
- **In the future either a formal policy or a consensus regarding reserve targets is needed in order to effectively manage the financial performance of the District**





Survey - Most Common Reserve Categories (2019)

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CUWCD	✓	✓	✓	✓	✓	✓
TRWD	✓	✗	✗	✗	✗	✗
Denver	✓	✓	✓	✓	✓	✗
NCWCD - 2019	✓	✓	✓	✗	✓	✓
OID	✓	✓	✓	✗	✓	✓
CNPPID	✓	✓	✓	✗	✓	✓



Question and Discussion

END

