

Sponsor: Petero/Colby

ORDINANCE NO. 70-21

AN ORDINANCE APPROVING AND ADOPTING A WATER UTILITY CASH RESERVE POLICY INCLUDING THE CALCULATION METHOD TO DETERMINE THE MINIMUM CASH RESERVE.

WHEREAS, the legislative authority of the City has determined it to be beneficial to the City to adopt a Water Utility Cash Reserve Policy; and

WHEREAS, the City of Jackson has prepared a Water Utility Cash Reserve Policy, a copy of which is attached hereto and incorporated by reference herein, that provides the procedures desired by the City and which is adopted by this Ordinance; and

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF JACKSON THAT THE WATER UTILITY CASH RESERVE POLICY IS HEREBY ADOPTED AS THE POLICY OF THE CITY REGARDING THE METHODS, POLICIES, AND PROCEEDURES TO ADDRESS THE WATER UTILITY CASH RESERVE AND THE CALCULATION METHOD TO DETERMINE THE MINIMUM CASH RESERVE.

It is hereby found and determined that all formal acts of this council concerning and relating to adoption of this ordinance were adopted in an open meeting of this council and that the deliberations of the council and any of its committees resulted in such formal action, were in meeting open to the public, in compliance with all legal requirements including Section 121.22 of the Ohio Revised Code.

PASSED AND ADOPTED by the Legislative Authority of the Political Subdivision on this 27th day of December, 2021.

Samuel D. Fulke
President

ATTEST:

Cinda Kuehn
Clerk of the Legislative Authority

Approved this 27th day of December, 2021.

RANDY
Mayor



CITY OF JACKSON
WATER UTILITY
CASH RESERVE POLICY

2021

**CITY OF JACKSON
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CITY OF JACKSON
WATER UTILITY CASH RESERVE POLICY

INTRODUCTION

Cash reserve policies are often established by utilities to provide a guideline to determine the appropriate amount of cash reserves to maintain to help ensure:

1. Adequate cash exists to make timely payment of bills;
2. The short-term and long-term financial health of the Utility;
3. Stable rates are maintained for customers;
4. Adequate cash exists to fund unanticipated expenses; and
5. Existing and future debt service payments and rate covenants are met.

In recent years, a sluggish economy, volatile prices, and rising capital improvement costs have posed challenges to maintaining stable Water rates and adequate cash reserves. It is important for utilities to maintain the financial ability to mitigate the impact of rate adjustments for customers of the utility.

The cash reserve guidelines proposed in this report should be considered the minimum level of cash that should be maintained by the utility. The decision to carry more cash than the established minimum cash guidelines should be based on the assessments of uncertainties and other financial policies such as:

- The financial risk facing the utilities
- Rate setting policies
- Variability in costs
- Debt policies
- Catastrophic events
- Future capital improvements needed by utility
- Water Line Extension policies

The adequacy of these guidelines should be reviewed annually, and if appropriate, revised as needed. The City shall maintain an amount equal to or greater than the Minimum Cash Reserve amount identified herein in a separate Water Reserve Fund.

CITY OF JACKSON
WATER UTILITY CASH RESERVE POLICY

CASH RESERVE POLICY

To help ensure timely completion of capital improvements and enable the utility to meet requirements for large unexpected expenditures, a minimum cash reserve policy should be established. This report attempts to quantify the minimum amount of cash the utility should keep in reserve; however, the actual cash reserves may vary above or below the minimum and is dependent on the life cycle of assets currently in service, and other factors as stated above. The minimum cash reserve calculation considers the risk "in total" and not each individual category. For example; catastrophic events can occur and the amount may far exceed the amount set aside under investment in assets. This category should also consider short term financing and the reserves set aside in the remaining four categories.

The methodology used in this report is based on certain assumptions related to percent of operation and maintenance, catastrophic events, capital improvements, and debt service. The establishment of minimum cash reserves should consider a number of factors including:

Working Capital Lag - Timing differences exist between when expenses are incurred and revenues received from customers. Establishing a minimum cash reserve helps ensure cash exists to pay expenses in a timely manner.

- **The cash reserve policy will include 25% of annual operating expenses excluding depreciation. Also includes 25% annual Water Distribution and Utility Billing.**

Catastrophic Events – Catastrophic events may occur that require substantial investments to replace damaged assets. Some examples of catastrophic events include storms, earthquakes, floods, or tornadoes. Many of these catastrophic events may allow the utility to recover the cost of damages from insurance or FEMA; however, insurance and FEMA reimbursements can take between 6 months to 2 years to recover. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion and to arrange short term financing options. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies. The percent to the minimum cash reserves are dependent on the age of the assets in service and the level of risk of catastrophic type events.

- **The cash reserve policy will include \$450,000 to cover temporary funding of repairs caused by an unexpected catastrophic event.**

CITY OF JACKSON
WATER UTILITY CASH RESERVE POLICY

CASH RESERVE POLICY

Annual Debt Service – The City’s Water Utility currently has outstanding debt for the existing water plant, and it is anticipated that the City will be issuing debt in the near future to fund major capital improvements.

- **The cash reserve policy will include 100% of the projected portion of debt service. (Next year’s debt service payment)**

Capital Improvement Program – Some capital improvements are funded through bond issuances and some through cash reserves. The establishment of a minimum cash reserve level helps to ensure timely replacement or construction of assets.

- **The cash reserve policy will include 20% of the total of the five-year capital improvement program less improvements funded through the issuance of bonds.**

If certain events occur that results in cash reserves falling below the minimum cash reserve levels, the City Council should take action to restore the cash reserves to the minimum levels over the subsequent three years. These actions may include a number of options:

1. Rate Adjustments
2. Cost reductions
3. Issuance of debt to fund capital improvement programs
4. Modification of the assumptions used to determine the cash reserve levels

The calculated minimum cash reserves are listed below and should be updated and reviewed by the City on an annual basis.

CITY OF JACKSON
WATER UTILITY CASH RESERVE POLICY

MINIMUM CASH RESERVE CALCULATION

Minimum Cash Reserve Calculations

Based on the projected operation and maintenance, purchased power and capital improvement expenditures and future debt service payments, the minimum cash reserves are listed below:

	Percent Allocated	Projected 2022	Projected 2023	Projected 2024	Projected 2025	Projected 2026
Operation & Maintenance	25%	\$ 471,955	\$ 486,114	\$ 500,698	\$ 515,718	\$ 531,190
Catastrophic Event	Fixed	\$ 450,000	\$ 450,000	\$ 450,000	\$ 450,000	\$ 450,000
Debt Service Reserve	100%	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000
5 Year Cap Imp - Net of Financing	20%	\$ 200,000	\$ 212,000	\$ 224,720	\$ 238,203	\$ 252,495
Recommended Minimum Cash Reserve		\$ 1,281,955	\$ 1,308,114	\$ 1,335,418	\$ 1,363,922	\$ 1,393,685

The cash reserve calculation should be updated every year in connection with the budget process and the updating of the Utility's financial projections. The discussion with the City Council should include a visual description of the past trends, current position and future projections of cash reserves. Any changes in expenses, debt and capital improvements will impact the cash reserve minimum. The City shall maintain an amount equal to or greater than the Minimum Cash Reserve amount identified herein in a separate Water Reserve Fund.