

DATE: February 3, 2020
TO: Matt Jordan, General Manager
FROM: Christina Sackett, Chief Financial Officer *CS*
SUBJECT: FY19 Year-end Reporting of Encumbered and Unencumbered Funds Transfers –
Receive Report

SUMMARY

At its August 2019 meeting, the Board approved the transfer of the unexpended funds remaining available at the close of fiscal year 2019, to various funds and accounts. At that time, preliminary estimated amounts were approved, subject to the reporting of final numbers at completion of the annual audit. The 2019 annual audit has been completed and the final transfer amounts are presented in the table below.

RECOMMENDATION

Receive year-end transfers status report of unexpended funds, as recorded for the FY2019 annual audit and as previously approved by the Board.

COST/FUNDING SOURCE

Fiscal year 2019 Uniform Rate unexpended funds collected, no impact on FY2020 Uniform Rate

DISCUSSION

At year-end, the Agency is required by contract and by its bond indentures to transfer unexpended funds to the Utility Reserve Fund and must be recorded within 90 days of year-end. Funds may then flow to the Rate Stabilization Account and various other funds to allow for their use in subsequent years as approved by the Board. At the start of the new fiscal year, funds are made available for board-designated uses by transfers from the Rate Stabilization Account or reserves and applied to the appropriate budget categories.

Each August, staff asks for Board approval to make the appropriate transfers to close the fiscal year and provides a best estimate of the transfer amounts at that time and states the final amounts will be reported to the Board at completion of the annual financial audit. This advance Board approval process allows staff to make the appropriate journal entries, within the annual audit time constraints, when the final numbers are determined. The final transfer amounts vary depending on actual activity for the last three months of the fiscal year. The table on the next page presents the final amounts transferred to close fiscal year 2019.

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Year-End Fund Source	Fund Destination Fiscal Year 2020	August 2019 Estimated Amount	Year-End 9/30/19 Final Amount
Encumbered Funds – FY19 Previously Approved Purchase Orders	Operating Fund – applied to appropriate budget categories.	\$7,136,472	\$6,896,475
Unencumbered Funds – Uniform Rate	Operating Fund – per approved FY2020 Budget.	\$4,168,060	\$4,168,060
	Capital Improvement Fund – Retention of 2019 fund interest earnings and a fund increase up to \$5,000,000.	Up to \$5,000,000 Plus, Interest earned	\$5,356,993
	Renewal and Replacement Fund – Retention of 2019 fund interest earnings.	Interest Earned	\$509,008
	Rate Stabilization Account – Unencumbered funds to be sued for Board approved purposes or rate reduction in subsequent budget years.	\$8,300,000 or such other amount that remains available at year-end	\$4,500,000
	Utility Reserve – Retention of 2019 fund interest earnings and balance of 2019 gross revenues.	Up to \$500,000 Plus, Interest Earned	\$696,105

BACKGROUND

The Master Water Supply Contract provides that any unencumbered funds remaining at year-end be budgeted for the succeeding fiscal year and be used for the same purposes for which rates are charged to the members and allows creation of a Rate Stabilization Account and a Capital Improvement Fund. Bond covenants require that all Gross Revenues, other than Capital Improvement and Renewal and Replacement charges, which remain on deposit in the Revenue Account, after funding the Operation, Maintenance and Administration Fund and the Sinking Funds, be transferred to the Utility Reserve Fund. The covenants further permit transfer of funds from the Utility Reserve Fund to a Rate Stabilization Account in such amounts as the Agency deems appropriate.

Under the Board's Utility Reserve Fund policy and Rate Stabilization Account policy, unencumbered funds flow first to the Utility Reserve Fund, which has priority on the funds to meet bond covenant requirements. After meeting bond covenant requirements, any remaining funds are transferred to the Rate Stabilization Account for use in a subsequent year. The policy requires that transfers of encumbered amounts over 3% of budgeted revenues and unencumbered amounts be brought to the Board for approval. In August 2019, the Board approved the following transfers.

The transfer of encumbered funds from fiscal year 2019 to 2020 of \$6,896,475 covers completion of activities under open purchase orders carried from 2019 to 2020 for board-approved and budgeted activities.

The transfer of \$4,168,060 was approved in the budget for 2020 and utilizes unencumbered funds from fiscal year 2019 to finance activities previously Board-approved for 2020.

Retention of interest earnings in the Capital Improvement Fund and an increase in the fund up to \$5,000,000. This transfer of \$5,356,993 is the interest retention of \$356,993 and additional funding of \$5,000,000. The Capital Improvement Fund is designated by the Board to provide funding for various board-approved capital projects. The cash fund balance at the end of Fiscal Year 2019 was \$26,700,916.

Retention of interest earnings in the Renewal and Replacement fund, which is this transfer of \$509,008. The Agency is required to maintain an amount equal to five percent of the prior fiscal year's gross revenues or other such amount as is certified by the Consulting Engineer. Management's aim is to maintain a minimum balance of \$20 million. The cash fund balance at the end of Fiscal Year 2019 was \$33,474,159.

A transfer of unencumbered funds totaling \$4,500,000 to the Rate Stabilization Account to be available for use in fiscal year 2020 or thereafter as subsequently approved by the Board. This transfer assists in maintaining management's preferred minimum fund balance, equal to 10% of budgeted gross revenues. The cash fund balance at the end of Fiscal Year 2019 was \$41,581,818. The Board has previously approved transfers out to be used in fiscal year 2020, totaling \$15,636,535. This includes the \$6,896,475 of encumbered funds under open purchase orders, the fiscal year 2020 budget approved transfer of estimated unencumbered funds totaling \$4,168,060, the \$1,600,000 fiscal year 2020 budget approved use of rate stabilization funds, \$1,522,000 of carry forward funds from fiscal year 2019 budgeted activities that did not get completed or encumbered, plus use of rate stabilization funds totaling \$1,450,000 for Desal expansion feasibility studies. This leaves an available cash account balance of \$25,832,411, which is 14.0% of the fiscal year 2020 budget, to be used for contingencies and maintaining or minimizing future rate increases.

The final transfer of \$696,105 is the interest retention of \$484,151 and the remaining excess unencumbered funds of \$211,954 into the Utility Reserve Fund, which must maintain, at a minimum, 10% of the yearly budgeted Gross Revenue to always provide adequate operating capital. The fund must also be maintained at levels to ensure the Agency complies with its bond covenant requirement, net revenues plus the preceding September 30th Utility Reserve fund balance must be equal or great than 125% of the annual debt service coming due in the fiscal year. The cash fund balance at the end of Fiscal Year 2019 was \$29,314,554.