



May 17, 2023

Recommendation

Approve revised Board Policy 2016-34, Financial Reserve Targets for Water and Sewer Funds, adding in the Gas Fund, establishing parameters, target levels, and use of reserve funds.

Executive Summary

In August 2016, the Board of Utilities Commissioners adopted Board Policy 2016-34, setting a financial reserve policy establishing parameters associated with reserves, the calculations for each target level, and the principal purposes for the use of funds at the various reserve levels for both the Water and Sewer Funds.

With the passage of Measure BB in November 2022, the Gas Fund is now under the purview of the Board of Utilities Commissioners. For fiscal consistency and financial planning purposes, staff recommends revising the Policy to include the Gas Fund and otherwise including the changes shown in the attached Policy.

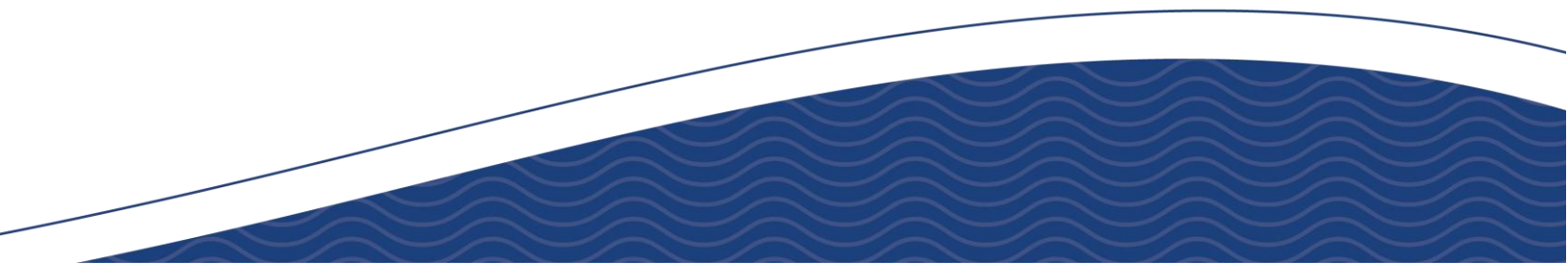
Fiscal Impact

There is no immediate fiscal impact. Reserve levels resulting from the policy will be used in the development of future budgets and rates.

B. Anatole Falagan
Assistant General Manager

Christopher J. Garner
General Manager

Attachment





BOARD OF UTILITIES COMMISSIONERS

[Policy Statement 2016-36]

FINANCIAL RESERVE TARGETS FOR WATER, ~~AND SEWER~~, AND GAS FUNDS

Purpose

Per Section 1403 (13) of the Long Beach City Charter, the Board of Utilities Commissioners has the complete and exclusive power and duty to expend all money received in connection with the operation of the Utilities Department or management of properties under the control of the Commission.

Per Section 1407 (1) – (3), the Board of Utilities Commissioners has the ability to use funds:

- (1) For the necessary expense of operating and maintaining the water works, ~~and the sewer~~, and natural gas system, and for such preliminary surveys, reconnaissance, options, estimates, engineering data, experimentation and investigation, as in the discretion of the Commission shall be necessary, or as shall be incidental to the extension or betterment of the physical properties, or the business of the department and/or the acquisition of additional lands, water, water rights and/or other property.
- (2) For the payment of the principal and interest, or either, due or coming due upon outstanding notes, certificates or other evidences of indebtedness issued against revenues from said water works, ~~and sewer~~, and natural gas system in accordance with this Charter, or bonds or other evidences of indebtedness heretofore or hereafter issued for the purpose of such water works, ~~and sewer~~, and natural gas system, or parts thereof.
- (3) For the necessary expense of constructing, extending and improving such water works, ~~and sewer~~, and natural gas system, including purchases of lands, water, water rights, and other property; also the necessary expenses of conducting and extending the business of the Utilities Department.

Consistent with this authority established under the Long Beach City Charter, the Board of Utilities Commissioners has adopted this policy establishing financial reserve targets for the Water, ~~and Sewer~~, and Gas Funds.

Section I. Reserve Parameters

- (1) Sufficient cash and securities should be kept on hand to:
 - a. At a minimum, fund ninety (90) days of operational expenses (excluding capital expenses);
 - b. Above the minimum, and up to a maximum, maintain stable and predictable rates and charges, and mitigate unplanned capital expenditures;
 - c. Above the maximum, mitigate increases in rates.



BOARD OF UTILITIES COMMISSIONERS

Policy Statement 2016-36

FINANCIAL RESERVE TARGETS FOR WATER AND SEWER FUNDS

(continued)

Section II. Reserve Calculations

- (1) Target Minimum
 - a. The Target Minimum reserve should be the fund balance as of September 30 of each year, equal to twenty-five percent (25%) of the fund's operational expenses for that year closing on September 30, excluding capital expenditures.
- (2) Target Maximum
 - a. The Target Maximum reserve shall comprise the sum of the Target Minimum and the following additional amounts, based on the budget closing on September 30.
 - i. A Rate Stabilization Reserve of an amount equal to five percent (5%) of projected volumetric revenues;
 - ii. An Emergency Capital Reserve of an amount equal to an index of capital project costs, based on a rolling three (3) year average of those indexed costs from the immediately prior three (3) fiscal years.

Section III. Principal Purposes of Reserve Funds

- (1) Below the Target Minimum, the principal use of these reserve funds should be to mitigate against an unplanned temporary loss of revenue, or an increase in costs.
- (2) Above the Target Minimum and below the Target Maximum, the principal use of these reserve funds is to:
 - a. Maintain stable and predictable rates and charges through the use of reserve amounts equal to the Rate Stabilization Reserve;
 - b. Mitigate unplanned emergency capital expenditures through the use of reserve amounts equal to the Emergency Capital Reserve
- (3) Above the Target Maximum, the principal use of these reserve funds is to mitigate increases in rates and charges.

Notwithstanding the fund parameters, targets and principal purposes listed above, the Board of Utilities Commissioners may direct the use of funds for any lawful purpose, consistent with its powers and duties established under the Long Beach City Charter.

ADOPTED: August 18, 2016
AMENDED: October 24, 2019