

**ASHLAND CITY COUNCIL
STUDY SESSION
MINUTES
July 31, 2023**

Mayor Tonya Graham called the meeting to order at 5:31 p.m.

Mayor Graham, Councilor Hyatt, Bloom, Dahle, Kaplan, were present. Councilor DuQuenne and Hansen were not present.

1. Public Input - None

2. DEQ Croman Mill Redevelopment Update

Community Development Director Brandon Goldman provided background on the update and introduced Anthony Chavez, Seth Sadofsky, Don Hanson from DEQ, Shane Latimer from SCS Engineering and property owner Mike Montero.

Chavez and Hanson provided information on the test results. Migration of contaminants would most likely be negligible but required more testing. The property owner could remove the contamination, it was not deep and could be done in a short time, but the process had to be approved by DEQ. Remedial action could take a couple of years to decades. There were a lot of different factors, and it would depend on the amount of contamination. DEQ needed to conduct more testing.

DEQ would not require fencing off the contaminated areas nor did they have the authority to request it. This was private property with no trespassing signs. People walking their dogs through the property would not be exposed. The city could request the property owner to add more fencing if they wanted. Montero added as soon as DEQ approved their cleanup plan they would begin working on it. They would look into additional signage costs. There were issues with ongoing illegal camping. Townmakers LLC wanted flexibility where residential would be established.

3. Enterprise Funds Ending Balance Report

David Runkel/Ashland/Spoke to the ending fund balance. Customers had been overcharged for years for the new water treatment plant. Some have moved or died. These charges were not in the budget rules. He thought utilities should be supplied at a lower cost and used the City of Eugene as an example.

Finance Director Mariane Berry provided a presentation on Enterprise Funds, Fund Balance Policies Review (see attached):

- Enterprise Funds – Fund Balance Policies Review.
- Enterprise Funds.
- Differences between Enterprise Funds and the General Fund.
- Enterprise Utility – essential services.

- GFOA’s guidelines in establishing Enterprise financial policy.
- Ending Fund Balance Policy.
- Key Points for Ashland.
- Enterprise Managers with rate-setting consultants key to establishing appropriate reserve levels.

Berry introduced Dawn Lund, a rate consultant for Utility Financial Solutions, LLC. Lund spoke on how minimum cash reserves were determined and provided an example of cash reserves.

- City of Ashland Case Reserves Discussion
- Utility Financial Solutions, LLC
- Cash Reserve Policies.
- Cash Reserves Policy should identify minimum cash reserve level.

Lund clarified each of the five enterprise funds in the utility department would be calculated individually. One enterprise could have debt increasing the risk while another did not. City Manager Joe Lessard added utilities stood alone, each entity has a different group of ratepayers that must be protected.

- Determination of Minimum Cash: At Least 5 Factors to Consider.
- Minimum Reserve Policy.
- Questions?

Lund addressed supply chain pressures and explained those costs would fall in the capital improvement line. The percentage did not go up but the dollar value for cash reserve minimum would go up. The city could anticipate the cost increase by adding a 3% rate adjustment to achieve the \$16million minimum. She went on to explain how the five year capital improvement program smoothed out minimum capital.

Mayor Graham extended the meeting for ten minutes with council consent.

The mayor wanted to see the spreadsheets and formulas that determined the 25% and policy. She was also interested in resilience funding for disaster events. Council wanted a better understanding of the rate process for the electric utility.

4. Adjournment of Study Session

The Study Session adjourned at 7:18 p.m.

Respectfully Submitted by:

Attest:

Clerk of the Council Pro Tem Dana Smith

Mayor Tonya Graham



Enterprise Funds – Fund Balance Policies Review

July 31, 2023

City of Ashland Cash Reserves Discussion

Presenter:

Dawn Lund

Vice President

Utility Financial Solutions

dlund@ufsweb.com

Utility Financial Solutions, LLC



- International consulting firm providing cost of service and financial plans and services to utilities across the country, Canada, Guam and the Caribbean
- Instructors for cost of service and financial planning for APPA, speakers for organizations across the country, including AWWA
- Hometown Connections preferred vendor

Cash Reserve Policies

- Prudent financial planning
- Many utilities across the country have them
- 90 days used to be a standard, but bond rating agencies look for closer to 200+ days
- Projects needs to be budgeted for and is used as part of the minimum calculation, translating to rate changes when appropriate

Cash Reserves

- Policy should identify **minimum** cash reserve level
 - Cash should be allowed to be above the minimum level
 - Cash reserves will fluctuate over time depending on age of assets, timing of expenses and capital improvement program
 - Falling below minimum levels trigger a rate increase or bond issuance for large improvements

Determination of Minimum Cash: At Least 5 Factors to Consider

| Five Risk Factors to Consider | % Risk Range to Allocate | Influenced By: |
|--|-----------------------------|---|
| O&M Expenses (Less Power Costs and Depreciation) | 12-25% | Billing Cycle - timing of expenses VS Receipts |
| Power Costs | 10-25% | Max Month converted to working capital days |
| Historical Investment in Assets | 1-3% | Age of System, Likelihood of ice, wind, other |
| Annual Debt Payment | 50-100% | Timing of Debt Payments |
| Total Five-Year Capital Plan | 20% | 1/5 of five-year plan - funds beginning of season |
| Total of These Five Items | | \$X,XXX,XXX MINIMUM Recommendation |

Minimum Reserve Policy

| Five Risk Factors to Consider | % Risk Range to Allocate | MINIMUM Reserves |
|--|--------------------------|------------------|
| O&M Expenses (Less Power Costs and Depreciation) | 12.3% | \$2,958,904 |
| Power Costs | 15.6% | 5,675,082 |
| Historical Investment in Assets | 2.0% | 3,311,700 |
| Annual Debt Payment | 80.4% | 505,879 |
| Total Five-Year Capital Plan | 20.0% | 1,800,000 |
| Total of These Five Items | | \$14,251,565 |

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Add other line items unique to your utility

Questions?



Enterprise Funds

An enterprise fund is a **self-supporting government fund** that sells goods and services to the public for a fee.

*Government Finance Officer's Association (GFOA): "local governments should adopt a target amount of working capital to maintain in each of their enterprise funds. Additionally, governments should use working capital as the **measure of available margin or buffer** in enterprise funds."*

Generally: Working Capital = Ending Fund Balance = **Liquidity**

Liquidity is crucial –

- To mitigate current and future risks
- Ensure stable services and fees
- For long-term planning >> credit ratings



Enterprise Funds



**PLAN &
PREPARATION**

Reserve policies set

**EVENT
RESPONSE**

Reserve policies tested

RECOVERY

Reserve policies tested

Different from the General Fund which has more flexibility, Enterprises provide crucial services to residents.



GFOA
Best Practices

Utility Cost
Studies

ENTERPRISE – UTILITY
essential services

Enterprise Reserve Policy

BUDGET

Other
Programs



Enterprise Funds

GFOA's guidelines in establishing Enterprise financial policy:

- Strength of collection practices
- Historical consumption of inventories and prepaids
- Support from general government
- Transfers out (cost allocations)
- Cash cycles
- Customer concentration
- Demand for services
- Control over rates and revenues
- Asset age and condition
- Volatility of expenses
- Control over expenses
- Management plan for working capital



Enterprise Funds

Ending Fund Balance Policy:

- Water* 25%
- SDC Water N/A
- Wastewater* 25%
- SDC Wastewater N/A

Percentages are typically average annual expenditure for prior 3 years

Must add any additional debt service and legal requirements

** Additional contingency appropriation budgeted for non-recurring expenditures of 3% annual operating expenditure*

- Stormwater* 20%
- SDC Stormwater N/A
- Electric* 25%
- Telecommunications* 20%

Owned Utility Reserves Comparisons:

- *McMinnville 25%*
- *Forest Grove 25%*



Enterprise Funds – Key Points for Ashland

- Reserves aid in **rate stabilization**
 - Volatility to rate payers are minimized through reserves
 - Cost of service increases are easier to absorb at any given time
 - Inflationary pressures are here for awhile

- Reserves impact **long term planning**
 - Credit agencies requirements
 - Water Fund – LT debt for water treatment plant
 - Electric Fund – RESP loan
 - Telecom Fund – AFN future plans



Enterprise Funds – Key Points for Ashland

➤ Emergency events

- A single ice storm or wildfire can wipe out reserves, coupled with inflationary pressures and supply chain issues, can be **devastating to liquidity**
- The **recovery costs** of an emergency/crisis – not just response costs; impact to receivables/collections, staffing, other costs are re-prioritized

➤ Balances built up over time due to:

- Staffing **vacancies** and volatility the last few years
- Timing issues with **supply chain constraints**
- Unused EFB is (generally) **re-appropriated** in each biennium



Enterprise Funds

Enterprise Managers with rate setting consultants
key to establishing appropriate reserve levels

introducing speaker

~ Dawn Lund ~

Utility Financial Solutions, LLC
Rate consultant for City of Ashland Electric

Dawn Lund is the vice president of Utility Financial Solutions, a consulting practice that specializes in financial planning, cost of service, and rate-setting for public power utilities. Dawn has over 25 years of experience in financial analysis for utility systems. She specializes in providing financial assessments, cost of service studies, and financial plans for utilities throughout the country, Canada, Guam, and the Caribbean. She teaches a variety of financial planning courses and regularly speaks at conferences and industry events for APPA and other organizations across the nation.



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