MEMORANDUM

TO: Board of Trustees

THROUGH: Steven J. Pinkerton
General Manager

FROM: Gerald W. Eick, CPA CGMA
Director of Finance, Accounting, Risk Management and Information Technology

SUBJECT: Continuation of Capital Projects and Debt Service Components Board of Trustees Study Session – October 1, 2015

STRATEGIC PLAN: Long Range Principle 2 Finance, Build understanding of different aspects to capital improvement and debt service, Project financial results for capital improvement and debt service as a part of budget deliberations

DATE: November 18, 2015

I. OUTCOME AFTER THE PRESENTATION: BOARD DIRECTION ON REPLACEMENT FUNDING

Does the Board direct further analysis and development of a recommendation for asset replacement funding with the primary objective being predictability and stability (for CIP consequences) – bonding and/or other means i.e. increase to Recreation Facility Fee?

II. BACKGROUND

On October 1, 2015, Staff began a discussion with the Board seeking direction on a number of topics relative to the process of developing the 2016-2017 capital improvement plan (CIP) and related budgets including debt service. This was more an opportunity to discuss the matter and focus on the next steps on information gathering, analysis, and evaluation of alternatives. The Study Session PowerPoint had the specific points for requested Board directives. Due to time constraints to complete other agenda items, the full presentation was not made. We are taking the opportunity of the agenda item on December 3 to complete the discussion. In the meantime, the need to reflect on why and how we use governmental accounting has become clear. As a result of the decisions

made October 1, Staff is already preparing for a meeting in January 2016 to specifically address the commitment of the Board to the legacy projects and the pace at which we would consider getting them accomplished between 2016 through 2019. However, insights gained now about the acceptability of those ideas would aid in the preparation for that meeting. The Board will make its final decisions during the period of February through May of 2016 as the 2016-2017 budgets are finalized.

This discussion is still in its strategic phase. However, to consider alternatives, several tactics and some actual data has been provided. Our budget calendar provides future opportunities to drill down on details. Our current CIP ideas and options don't match up with the scope of the current Board direction and written policies. The session started on October 1 and now scheduled for December 3 will allow us to explore the degree of changes we will be making. Staff will use the next few months to analyze and develop specific solutions to arrive at a list of choices to complete a comprehensive capital plan that addresses what will be purchased and how it will be funded for the next five years. Staff will be updating a number of policies and will bring policies and practices back to the Board by April 2016. That target for completion of any updates allows the policies and practices to guide the final budget decisions that would be approved in May 2016. In June or July, the District approves the full Five Year Capital Plan along with the annual filing for the Debt Management Policy. All of the information, both on funding and spending, will be accumulated to support the development of that policy document. If bonds are part of the decision process, and authorizations are expected to be completed by June 30, 2017, the District would have to disclose this in the 2016 annual filing.

III. FINANCIAL IMPACT AND BUDGET

While several items presented in the PowerPoint contain specific amounts, the real intention of this study session is discussion and not to arrive at a measured answer. The true financial and budget impacts will be developed over the next steps (to be performed by Staff) and then presented to the Board of Trustees and the general public for deliberation in 2016. To allow ample time for discussion, Staff is scheduling a January 2016 meeting to facilitate a preliminary report on funding and CIP priorities for 2016-2017. It will also aid analyzing the probable carryover projects from 2015-2016 and the funding for those as we consider isolating capital expenditure resources from operations.

IV. COMMENTS

The Board of Trustees, the District General Manager, and Senior Staff have agreed that a longer process of study sessions and development of direction is the preferred approach for the 2016-2017 budget. During this process, the adopted 2015-2017 Strategic Plan, the District Long Range Principles, and stated objectives will define the course of action going forward. By getting clear and concise Board direction, we can build each step in the proper order to make the 2016-2017 operating budget and the 2017-2021 capital plan our action plan.

Our final work product for budget adoption will be a separate budget book for operations and then another separate budget book for capital expenditure and debt service. This will also allow us to state the respective strategic Board directives and outline the action plans for each.

District Staff is also developing a critical path chart to differentiate the budget process from the project management of four major capital improvement projects. At a minimum, five years will be charted out to get past the completion of legacy project(s), the effluent pipeline, and to know the status of implementing the Beach, Diamond Peak and the Recreation Master Plans. This chart will be introduced in 2016.

Board Study Session
2016-2017 Capital Improvement Budget
December 3, 2015

Gerry Eick, Director of Finance,
Accounting, Risk Management and
Information Technology

INCLINE VILLAGE
GENERAL IMPROVEMENT DISTRICT
ONE DISTRICT ~ ONE TEAM

2016-17 Budget Calendar
Revision dated October 1, 2015

- Operating Component
  - √ August: Educate & review
  - √ September: Review dynamic pricing & format function & object
  - √ November: Key Rates and/or dynamic pricing
  - – January: Utility Rate Study
  - – February: Deliberate programming priorities
  - – March: Expenses & punch cards
  - – April: Preliminary Budget
  - – May: Adopt 2016/2017 Budget
- Capital Projects & Debt Service Components
  - √ October: Prioritize/define debt versus pay as you go, highlight current 5 year plan
  - – October to January: Staff goes through CIP & finance analysis
  - – February: Preliminary CIP & funding plan is released
  - – March: Feedback & follow up from further analysis
  - – April: CIP Tour
  - – May: Adopt 2016/17 CIP
  - – June: Adopt 5 Year Capital Budget & Financing Plan

Recap from Board Session of October 1, 2015

- *Changes to threshold – Staff recommendation is none; Board direction is all of the Board members agreed that $2.5 million is a good goal for bond proposal and that Staff will look at the pipeline of projects, report on that project and report on what projects can be bundled as well as doing an analysis of our reserves at the time of the proposal.*
- *Correlation to project type – Staff recommendation is reference to asset life and for permanent infrastructure; Board direction is to go with the recommendation of a 20-year life.*
- *Changes to maturity – Staff recommendation developing reference and process to add 20 year recreation bonds (if ever needed); Board direction is do it and lay out when we would use 10 year and/or 20 year bonds.*
- *Continue study for additional Practice – Staff recommendation adding Municipal Finance Leasing (for equipment); Board direction is to look at as an option, be very clear, debt financing versus lease financing including the analysis and, for any asset, detail and include what the impact is on Recreation Fee.*
- *Reviewed intergenerational equity.*
- *Deferred discussion of replacement funding until today.*

Objective of Government Accounting

- Fund Level measures delivery of services
  - What resources are available
  - How are they used
- Accounting and Financial Reporting applies to Operations, Capital Expenditures & Debt Service
- Enterprise Funds use depreciation, while capital and debt principal is only in cash flow statements
- District-wide Financial Reporting measures net position including the affects of depreciation on a full accrual basis

Deciding Factor for Fund Type of Government Accounting

- Non-exchange transactions fit the governmental accounting fund type because the District provides a benefit or value without directly receiving equal value in exchange (flow of sources and uses)
- Exchange transactions fit the enterprise (business) accounting model because the District provides simultaneous transfer of equal value (earnings and cost)

Facets of Government Accounting

- Focus is on flow of resources
- Allocation recognizes efficiency; provides benefits to what services are provided or costs that are incurred
- Value is measured to balance what resources are available and used to provide services
- Resiliency is the challenge of ups and downs
- Sustainability of service levels is a motivator to allow planning for a longer term horizon

Objective of Business Accounting

- Measures results of operations
  - Earned revenues
  - Matching expenses to generate or earn revenue
  - Uses depreciation, while only cash flow statements reflect capital expenditure and debt repayment
- Focus is on results and motivations of the provider to generate sales and control costs to build return on investment or equity

Facets of Business Accounting

- Reward of profitability falls to the provider(s) not the users of the product or services
- Profit comes from charging as much as possible and spending as little as possible while providing a value to induce a transaction
- Direct expenses and allocations are made to strictly measure the cost of a product or service generated

Government Accounting: Flow of Resources

- Applies to Capital Assets by measuring:
  - what is available
  - degree of maintenance balanced with usage
  - when will it need to be replaced and/or changed
- Applies to Operations by measuring:
  - revenue streams and other sources
  - human capacities and related costs
  - products and services purchased from vendors

Government Accounting: Allocation

- Matches availability with community need
- Recognizes priorities change
- Looks to a larger picture of accomplishment; not a precise costing of individual transactions
- Considers the interaction of capital assets, human capacity, and ability to purchase from others as a source of ability to serve

Government Accounting: Value

- Considers best use of public funds to achieve the greatest good
  - Public funds can be capital or monetary
  - Greatest good is defined by community need and priorities through elected body
- Considers method of service delivery and ability to be resilient or sustained as necessary

Government Accounting: Resiliency

- Budget for an expectation in operations
  - Things change especially for our weather driven programs
    - Can we deal with an increase in season or demand?
    - Can we deal with a decrease in season or demand?
- Budget for capital expenditures
  - Within the year, events can change the need to maintain, repair or replace, can we react?
- What portion of our inflows are discretionary?

Government Accounting: Sustainability

- Any entity needs to maintain a flow of resources to sustain itself
  - More resources coming in than going out, keeps the process going for the long term
- Where revenue is a source, you want to exceed uses
- For government, this is measured as a flow of resources, not a bottom line

Budget Allocation Objectives

- The District allocates resources based on need
  - Buildings, Infrastructure, Equipment
  - Human capacity
  - Financial capacity (pay cash versus debt)
- Focus meeting needs through services provided
- Implies a greater complexity than just a bottom line result because sometimes the resources originate in another year

Applying Facets to IVGID

- Flow of Resources – budget sources & uses
- Allocation – communicate priorities
- Value – budget relates services by programs and functions to allocation of resources
- Resiliency – budget for the probable range of activity but have management alternatives
- Sustainability – build net position to have financial strength to continue long term

Role of Policy and Direction

- Provides the structure and focus of effort
- Provides the acceptable means by which we accomplish our tasks
- Identifies the goals and objectives that lead to accountability
- Establishes the lines of authority to act and sets near term expectations for accomplishment by General Manager and Staff

Role of Measurement

- Overall – demonstrate compliance with laws and regulations
- Community – demonstrate delivering on the promise of services to meet needs
- Management – provide methods to build on opportunities and adjust to meet challenges
- Staff – provide feedback that worthwhile work results in achieving the goals and objectives

Role of Fund Accounting

- Fund Types have separate and distinct purposes
  - Special Revenue are operating funds where at least 20% of the revenue is from a dedicated source
  - Capital Expenditure is for the acquisition or construction of governmental fund equipment, buildings, and infrastructure
  - Debt Service is for the payment of principal and interest on governmental fund bond liabilities

Net Position by Fund Type

- Fund Types have distinct purposes, any residual is held for the same purpose
  - By definition, Special Revenue, Capital Expenditure and Debt Service Funds can only be considered either Restricted, Committed, or Assigned
  - IVGID has each fund type for Community Services and Beaches as a way to segregate these resources and report how they were used or are held for future use

Last Step in Accounting Transition

- The Board of Trustees will be asked to authorize transfers of Net Position based on the audited results of June 30, 2015 between the old Enterprise Funds and the new Special Revenue Funds – must be completed by June 2016
- These Residual Equity Transfers were budgeted in the forms adopted May 21, 2015
- IVGID also budgeted current year operating transfers for carryover and new capital projects that will isolate those resources

Next steps and looking to the future

- With separate accounting in place for Operations, Capital Expenditure, and Debt Service, do we consider:
  - Policy and Direction for Asset Replacement funding in lieu of present strict pay as you go?
  - What threshold can we establish that makes proper use of intergenerational equity?
- Do we want to transfer further amounts from operations to capital for near term projects?

What Efficient Bonding Means

- Consider cost of issuance and interest – an efficient agency looks at (1) its needs and sees if bundling of needs makes sense and reduces cost of issuance and (2) is the timing right such that cost of issuance is low
- Consider term and maturity – an efficient agency minimizes the term to what is most suitable to its payers and targets the shortest maturity to match ability to repay
- Consider spending window to match IRS 3 year contracting limits – an effective agency understands the pace of its project completion and considers what it will take to complete its projects in an efficient and effective manner
- Consider providing for reimbursement of prior incurred costs to expand spending window – a fiscally responsible agency looks at its existing debt and matches its pay off to taking on new debt without further encumbering its payers, while allowing projects to proceed
- What is the marketability of the total bond – an astute agency knows when it is right to bond for its project by maintaining its bond rating to ensure that the bond it seeks will be attractive to the market as a whole

Community Service Bond

- Why a Community Service Bond?
  - — Bundling projects saves the District and the community multiple bond issuance costs
  - — It is done when an existing bond debt drops off so that the potential for an increase in the Facility Fee is minimized
  - — It applies the intergenerational equity
- What would the Community Service Bond cover?
  - – Diamond Peak Culvert $3,350,000 (25+ year life)
  - – Diamond Peak Paving $1,500,000 (25+ year life)
  - – Mountain Course Clubhouse and Maintenance Facility $2,100,000 (25+ year life)

Using the priority model we discussed October 1, all three of these projects are rated as Priority #1.

- When would we do the Community Service Bond?

  Could intentionally start projects in 2016-17 but issue the bond in 2018 to follow completion of 2008 bond payments

Suggested Timeline for Community Services Bond

- The Board of Trustees would agendize the Community Services Bond in July 2016 (which entails bringing on Bond Counsel, etc.)
  - Allows the ability to reimburse costs incurred
  - Continue pre-design and preliminary analysis
- The Board of Trustees would agendize the initiation of the bond sale process in July 2017
  - Begin construction of priority project
- Close on bond issuance in June 2018
  - First debt service would occur December 2018
  - Contract for all three projects by June 2021

Possible Community Services Bond

IVGID Projection of Facility Fee to Support Debt Service Component
For the 14 Years Ending June 30, 2029

	Allocation of Bond	June 30, 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Community Services															
Championship Golf															
Recreation Refunding Series 2012	11.55%	$ 44,388	$ 44,574	$ 44,736	$ 44,761	$ 45,108	$ 44,969	$ 45,155	$ 45,657	$ -	$ -	$ -	$ -	$ -	$ -
Mountain Golf															
Possible 2018 Comm. Services Bond	30.00%	-	-	-	270,000	270,000	270,000	270,000	270,000	270,000	270,000	270,000	270,000	270,000	270,000
Facilities															
Chateau															
Recreation Refunding Series 2012	1.41%	5,401	5,424	5,443	5,446	5,489	5,472	5,494	5,555	-	-	-	-	-	-
Aspen Grove															
Recreation Refunding Series 2012	0.10%	396	398	399	399	402	401	403	407	-	-	-	-	-	-
Diamond Peak Ski Resort															
2008 Recreation Improvement	100.00%	904,850	904,450	904,150	-	-	-	-	-	-	-	-	-	-	-
Recreation Refunding Series 2012	42.93%	165,040	165,730	166,334	166,426	167,715	167,199	167,889	169,757	-	-	-	-	-	-
Possible 2018 Comm. Services Bond	70.00%	-	-	-	630,000	630,000	630,000	630,000	630,000	630,000	630,000	630,000	630,000	630,000	630,000
Recreation Center															
Recreation Refunding Series 2012	2.67%	10,252	10,295	10,333	10,338	10,418	10,386	10,429	10,545	-	-	-	-	-	-
Parks															
Recreation Refunding Series 2012	3.60%	13,854	13,912	13,963	13,971	14,079	14,035	14,093	14,250	-	-	-	-	-	-
Tennis															
Recreation Refunding Series 2012	1.62%	6,235	6,261	6,284	6,288	6,336	6,317	6,343	6,413	-	-	-	-	-	-
Beach															
Recreation Refunding Series 2012	36.12%	138,842	139,423	139,931	140,009	141,092	140,659	141,239	142,810	-	-	-	-	-	-
Total by Subfund or Function		$ 1,289,259	$ 1,290,467	$ 1,291,573	$ 1,287,638	$ 1,290,639	$ 1,289,438	$ 1,291,046	$ 1,295,395	$ 900,000	$ 900,000	$ 900,000	$ 900,000	$ 900,000	$ 900,000

Combination of funding options

- Utilize pay as you go and create fluctuation in the Recreation Facility Fee
- Utilize Intergenerational Equity for long lived infrastructure and have a predictable level and source for all other replacements
- Add strategy to funding of new or expansion projects
- Balance project scheduling with resources

Current Resources to Support Transition

- IVGID has collected a portion of the Facility Fee for reserves in six fiscal years; 2006 through 2014
- June 2005 Recreation Fund Unrestricted Net Assets were $1,258,789; June 2015 Community Services (formerly the Recreation Fund) Unrestricted Net Position is $5,271,000
- Board Practice 7.2.0 states that the 2016 target adequate Fund Balance is $3,454,380
- Community Services has $1,083,916 in carryover capital projects

Stabilizing Replacement Funding

- Consider using funded depreciation
- Formulated annual contribution to the designated fund for routine capital
- CIP purchases are made from the designated fund
- Over long term it eliminates fluctuation by venue
- Requires dedicated funding in the transition period (1 to 5 years)
- Needs Board Policy and supporting process to address funding for non-replacement projects (new ideas)

Board Direction on Replacement Funding

Does the Board direct further analysis and development of a recommendation for asset replacement funding with the primary objective being predictability and stability (for CIP consequences) – bonding and/or other means i.e. increase to Recreation Facility Fee?

Yes or No

RECAP - Board Study Sessions October 1 and December 3, 2015

- Set direction for Debt Management Policy updates:
  - Threshold to consider bonding
  - Length of maturity, add alternatives
  - Correlate asset type and length of useful life
  - Add leasing
  - Consider intergenerational equity
- Analyze possible asset replacement funding