

## MEMORANDUM

**TO:** Board of Trustees

**THROUGH:** Indra Winquest  
District General Manager

**FROM:** Paul Navazio  
Director of Finance

Joseph J Pomroy, P.E.  
Director of Public Works

**SUBJECT:** Review, discuss and possibly approve setting the goals and objectives to issue a Request for Qualifications and direct Staff to publicly advertise the Request for Qualifications

**STRATEGIC PLAN:** Long Range Principle #2 and Long Range Principle #5

**DATE:** August 6, 2020

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### **I. RECOMMENDATION**

Staff recommends that the Board of Trustees makes the following two motions.

Motion 1: Confirm the goals and objectives (insert goal and objective number(s)) to be included in preparing a scope of work.

The goals and objectives to be included in the scope of work may be all or a combination of the following items.

Goal and Objective #1 - Utility Rate Setting Methodology

Goal and Objective #2 - Reserve Fund Balance Analysis

Goal and Objective #3 - Performance Management and Asset Management Analysis

Motion 2: Direct Staff to proceed with a Request for Qualifications for Professional Services, through public advertising, for the set goals and objectives.

## **II. DISTRICT STRATEGIC PLAN**

Long Range Principle #2 - Finance - The District will ensure fiscal responsibility and sustainability of service capacities by maintaining effective financial policies for operating budgets, fund balances, capital improvement and debt management.

Long Range Principle #5 – Assets and Infrastructure – The District will practice perpetual asset renewal, replacement, and improvement to provide safe and superior long term utility services and recreation activities.

## **III. BACKGROUND**

The IVGID Board of Trustees has requested that a consultant be engaged to perform a Utility Rate Study and Reserve Analysis to guide establishing water and sewer charges beyond FY2020/21. A Utility Rate Study and Reserve Analysis can vary in scope and range from a validation of cost-of-service revenue requirement to consideration of alternative rate structure(s) and methodologies. Utility rate studies can also include evaluation of the range of options for capital and operations reserve funds and provide guidance on development of Board Policy on these reserves. A Utility Rate Study and Reserve Analysis could also be informed by a more comprehensive review of utility operations, to include a complex asset replacement analysis and utility operations and maintenance expense analysis.

The discussion for the August 12, 2020 Board of Trustees meeting is to confirm the Board's expectation on the depth and breadth of the goals and objectives for the scope of work for the planned Utility Rate Study and Reserve Analysis prior to Staff issuing a Request for Qualifications to solicit prospective consultants for this work. This Request for Qualifications will be publicly advertised.

The following three goals and objectives provide a summary of possible scope of work elements to facilitate the Board's discussion.

### **Goal and Objective #1 - Utility Rate Setting Methodology**

The generally accepted rate-setting methodology includes three categories of technical analysis, revenue requirement analysis, cost of service analysis and rate design analysis

- Revenue Requirement Analysis – This technical analysis compares the revenues of the utility and compares it to the operating and capital costs to determine the adequacy of the existing rates to recover the utility costs. This is typically done for the current year or a test year.

- **Cost of Service Analysis** – This technical analysis allocates the revenue requirements from the previous step to the various customer classes (residential, commercial, industrial, irrigation, etc.) in a fair and equitable manner. This is performed by analyzing the cost of customer demands and usage patterns from the various customer classes.
- **Rate Design Analysis** – This technical analysis determines how to recover those costs identified for the customer classes by developing the rate structure used for billing water and sewer charges.

## **Goal and Objective #2 - Reserve Fund Balance Analysis**

Reserve levels are set by Board Policy to meet the specific needs of the utility. Presently, Board Policy 7.1.0 and Board Practices 7.2.0 and 19.2.0 establish reserve policy and working capital targets for utility operations, debt and capital expenditures, respectively.

A robust reserve policy provides not only for target levels of reserves, but should also consider the purpose of the reserve, when reserve funds may be used (and not used), as well as how reserve funds are to be replenished if utilized. Further, reserve funds can be made up operational reserves, capital reserves, debt payment reserves, rate stabilization reserves or emergency fund reserves.

The scope of work for the proposed study is expected to include a task order that requests a range of options and recommendations for establishing a well-defined reserve fund policy. The Board of Trustees would then develop its own specific policy based on industry best practices and how it best serves the District.

## **Goal and Objective #3 - Performance Management and Asset Management Analysis**

An informal committee was convened by the District General Manager to discuss development of scope parameters for the Utility Rate Study and Reserve Analysis. In the course of the committee's discussion a member of the committee suggested that the Board consider expanding the scope of planned study (or separate study) to evaluate the long-term needs of the utility, benchmarked against industry best practices.

This effort would perform an efficiency and effectiveness audit of utility operations and maintenance, as well as review the efficacy of the utilities current capital improvement plan. This would look at all levels of the operation for costs and performance in each business unit including treatment and distribution of water, collection and treatment and disposal of sewage, maintenance of assets, customer

service operations, meter reading and billing, snow removal operations, small and large equipment maintenance, and other utility functions.

The asset management analysis would perform an analysis of the existing assets, their condition, their current value, the replacement cycle for that asset, costs of replacement and future needs of additional assets. This would develop long term capital costs, from five to fifty years. This would then inform the decision for pay as you go or for debt service financing.

#### **IV. FINANCIAL IMPACT AND BUDGET**

The Utility Rate Study and Reserve Analysis would be an operating expense in the Utility Fund. The approved FY2020/21 budget includes \$50,000 for this work. Staff believes that this funding level would be sufficient to support the scope of the Utility Rate Setting Methodology and Reserve Fund Balance Analysis (Goal and Objective #1 and 2). Should the Board wish to expand the scope of the planned study, or more appropriately undertake a Performance and Asset Management Analysis prior to undertaking a rate and reserve study, funding will need to be augmented. A comprehensive review of the District's Utility operations is expected to cost well in excess of the funding included in the FY2020/21 budget.

#### **V. SCHEDULE**

The schedule to complete these tasks will be dependent on the selection of the goals and objectives. It is expected that Goal and Objective #1 and #2 can be completed in the current fiscal year and be utilized to inform the 2021-22 Budget Process. Goal and Objective #3 would require substantial engineering and professional management evaluation and would likely take up to 12 months to complete and would most likely have to be accomplished prior to Goal and Objectives #1 and #2.

#### **VI. COMMENTS**

Following is a primer on Utility Rates which has been extracted from the District's website and is provided as information.

*A Primer on Utility Rates – This information is currently on the IVGID website and is reproduced here to provide information on the current water and sewer rate structure.*

*How are water and sewer billing rates determined?*

*A rate study is performed anytime water and sewer rates need to be evaluated for change. Base rates are determined off of the cost of*

*operation, maintenance, repair, and administration costs. Details of the rate study are presented to the Board of Trustees. Capital charges are collected to fund the replacement of infrastructure and assets in the District. Water tier rates are in place to encourage water conservation and cover any costs associated with having to increase the water rights held by the District. Our annual Water Management Plan is a reporting requirement to the State of Nevada and details the water consumption in the District.*

### Water & Sewer Rate Structure

*The Public Works budget is comprised of water, sewer and general administration categories. Water is further broken down into water supply, pumping, treatment, transmission and compliance. Sewer is further broken down into effluent disposal, pumping, treatment, collection and compliance. General administration includes customer service, legal, lobbying, central services and other miscellaneous expenses. The general administration is spread evenly between sewer and water. Trash will not be a part of this discussion.*

*The water and sewer rates are based on the water and sewer budgets and are made up of three main components - fixed charges, variable charges, and capital improvement charges. Each major division in the water and sewer budget has a portion of fixed and variable costs and the rates are designed to fund these expenses. The fixed, variable and CIP rate components are discussed below.*

### Fixed Charges

*To provide water and sewer services, there is a portion of the costs that are fixed charges. These are sometimes called the ready to serve costs. Essentially, there is a certain level of costs that are incurred to staff, operate and maintain our system prior to delivering any water or treating any wastewater from our customers. There is a requirement for minimum staffing to be prepared to provide service, a certain amount of supplies such as tools, training, and equipment that are needed to be ready to serve and there are electrical and gas charges to our facilities so that they can be ready to serve our demands. These fixed charges are calculated as a percentage of the budget components to determine the fixed charges of operating the water and sewer system.*

### Consumption Charges

*To provide water and sewer services, there is a portion of the costs that are variable charges. These charges are the costs to treat and distribute water and to collect, treat and dispose wastewater. The variable charge for water is essentially the cost to pump it out of Lake Tahoe, treat the water and deliver it to the customer. The variable charge for sewer is essentially what it costs to collect the wastewater and deliver it to the wastewater plant, treat the wastewater, pump and dispose of the effluent and biosolids. This requires staff, chemicals, supplies, tools, equipment, and energy to perform these services.*

#### Capital Improvement Charge

*The capital improvement charge funds the replacement of water and sewer infrastructure. There are separate connection fees to new customers to buy into existing infrastructure. The capital charge is based on funding the costs of the five-year capital improvement plan with a consideration for the multi-year capital plan.*

#### Defensible Space Fee

*The Defensible Space Fee pays for the work IVGID does on its property to manage the watershed and reduce fire fuel loads. This work also provides a protective boundary for the homes of Incline Village and Crystal Bay from the potential destruction caused by wildfires. The Fuels Management Program began in 1991 in a collaboration of the NLTFPD and IVGID. Annually approximately \$450,000 to \$500,000 is spent to maintain the 1,000+ acres of land IVGID owns. The defensible space fee on the Public Works statement pays for 50% of the IVGID share of costs for fuels treatment. The other 50% share of this cost is paid by the IVGID Recreation Facility Fee. The Angora Fire in South Lake Tahoe and wild fires in other mountain regions continue to remind us of the significance of this effort in our community.*



## **Budgeting and Fiscal Management Appropriate Level of Fund Balance Policy 7.1.0**

**POLICY.** The District will maintain a formal practice on the level of Fund Balance that should be maintained in the General and Special Revenue Funds.

The adequacy of Unassigned Fund Balance in the General Fund should be assessed based upon the District's own specific circumstances. (Nevertheless, the Government Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments, regardless of size, maintain Unassigned Fund Balance in their General Fund of no less than five to fifteen percent of regular General Fund operating revenues.) The Nevada Administrative Code (NAC 354.650) requires a budgeted fund balance of 4%, based on the actual expenditures of the General Fund's previous fiscal year.

Building "stabilization arrangements" in the General Fund is an acknowledged purpose in response to revenue shortfalls and unanticipated expenditures.

The District employs the term "fund balance" to describe the net position of governmental funds calculated in accordance with Generally Accepted Accounting Principles (GAAP) at the individual fund level. Budget professionals commonly use this same term to describe the net position of governmental funds calculated on a government's budgetary basis. In both cases, fund balance is intended to serve as a measure of the financial resources available for use in a governmental fund type.

Financial reporting distinguishes restricted fund balance from unassigned and unrestricted fund balance. Typically, only the latter is available for spending. A "stabilization arrangement" indicates a designated portion of unassigned or unrestricted fund balance is subject to an action by the governing body concerning the use of that amount.



**Budgeting and Fiscal Management  
Appropriate Level of Fund Balance  
Practice 7.2.0**

**RELEVANT POLICIES: 1.1.0 Strategic Planning, 7.1.0 Appropriate Level of Fund Balance, 12.1.0 Multi-Year Capital Planning, and 13.1.0 Capital Project Budgeting, 14.1.0 Debt Management**

**PRACTICE.** It is the practice of the Incline Village General Improvement District, hereinafter referred to as the District, to maintain Fund Balance in the General Fund and each governmental or proprietary fund type in a manner which provides for contractual, bond and customer service obligations, while meeting its routine and non-routine cash flow requirements and complying with all federal, state and local statutes and regulations.

**1.0 SCOPE**

This Practice shall apply accounting principals as forth in Governmental Accounting Standards Board (GASB) Statement 54 considering the unique characteristics of the District. To that end the following measurements will apply to each fund or type:

**General Fund**

The General Fund must meet the minimum balance requirements under Nevada Administrative Code Section 354.650.

**Special Revenue Funds**

Community Services; 25% of a fiscal years' operating expenditures (based on the current adopted budget) other than capital expenditure and debt service.

Beach Enterprise; 25% of a fiscal year's operating expenditures (based on the current adopted budget) other than capital expenditure and debt service.

**Proprietary Fund Types:**

Measurements of target fund balances:



**Budgeting and Fiscal Management  
Appropriate Level of Fund Balance  
Practice 7.2.0**

Utilities .....Operations - 25% of operating expenses for the fiscal year based on the current adopted budget.  
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Internal Services.....Operations - 25% of operating expenses for the fiscal year based on the current adopted budget.  
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Workers Compensation.....An amount equal to the State of Nevada required deposit, plus sufficient resources to cover the last determined open exposure for prior claims, if not covered by purchased insurance or a termination insurance policy.

\*\* Operating expenses for these calculations do not include depreciation or interest expense since they are covered by separate definitions.

**2.0 Definition of Stabilization Arrangement**

In conformity with GASB Statement 54, the District may establish a stabilization arrangement only when it includes:

2.0.1 Recognition of the authority by which the arrangement is established including resolution, ordinance or other action.

2.0.2 When to make additions to the stabilization amount

2.0.3 When stabilization amounts can be spent

2.0.4 That a balance will be reported at each fiscal year end.

**3.0 Other Classifications**

The District will apply other classifications and accounting standards under GASB 54 including the use of Nonspendable, Restricted, Committed, Assigned, Unassigned and Unrestricted when presenting either a Statement of Net Position or other forms of fund balance in its financial reports.



**Budgeting and Fiscal Management  
Appropriate Level of Working Capital  
Practice 19.2.0**

**RELEVANT POLICIES: 1.1.0 Strategic Planning, 12.1.0 Multi-Year Capital Planning, and 13.1.0 Capital Project Budgeting, 14.1.0 Debt Management, 19.1.0 Appropriate Level of Working Capital**

**PRACTICE.** It is the practice of the Incline Village General Improvement District, hereinafter referred to as the District, to maintain Working Capital in each Enterprise Fund in a manner which provides for contractual, bond and customer service obligations, while meeting its routine and non-routine cash flow requirements and complying with all federal, state and local statutes and regulations.

**1.0 SCOPE**

This Practice shall apply accounting principals as forth in Generally Accepted Accounting Principles (GAAP) considering the unique characteristics of the District. To that end the following measurements will apply to each fund:

- Strength of collections of accounts receivable, to the extent they can be converted to cash within a timeframe expected for use in the District's operations.
- Historical consumption of inventories and prepaid expenses, to the extent they can be utilized to support operations within the timeframe of the District's budget cycle.
- Levels and flow of annual operating expenses. At no time will the calculation consider less than 45 days operating needs. However, any amount over 90 days needs must be specifically supported and approved in writing by the District's General Manager.
- Support by the General Fund. This includes shared expenses and operating transfers that represent Central Services Cost Allocations.
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- Control over rates and revenues.
- Asset age and condition, whether there is a chance of extra ordinary repairs or a replacement under the Capital Improvement Plan.
- Volatility of expenses and the ability to control fixed and variable costs.



## **Budgeting and Fiscal Management Appropriate Level of Working Capital Practice 19.2.0**

- Management plans for Working Capital including any inherent affects of Restricted Net Position or items extending beyond one year that would normally not be covered by Working Capital.
- Debt Service or Multi-Year Capital Plan needs identified as current requirements.

### **2.0 Definition of Target amounts for Working Capital as measured each Fiscal Year End**

#### **Utilities**

*Operations* – 45 to 90 days of operating expenses\*\*

*Debt Service* – up to one year's payments of interest expense, since current maturities of long term debt are already considered in determining working capital, when classified as a current liability.

*Capital Expenditure* – up to 1 year of a 3 year average depreciation

\*\* Operating expense excludes depreciation and interest.

### **3.0 Other Accumulation of Resources**

The District may accumulate other resources in support of Debt Service or the Multi-Year Capital Plan in addition to Working Capital since these needs extend beyond the measurement period of one year.