



Memo

To: Board of Directors
From: Gary Belair, Board Director
Date: February 16, 2022
Re: Motion - Adopt Chapter 9, Article 6, Emergency Reserve Funds Policy

Motion

I move to rescind Chapter 1, Article 10 Reserve Funds Policy and adopt Chapter 9, Article 6 Emergency Funds Policy as presented in the attached redlined version.

Background

The Finance & Planning Committee proposed the Emergency Funds Policy to further define the established “Reserve Funds” policy adopted in July 2017.

The proposed policy establishes “Emergency Reserves,” defined as significant unplanned events such as acts of God, compliance with a State or Federal mandate, or the failure of a critical piece of Village infrastructure like a dam that cannot be addressed using normal operating funds. The proposed policy defines Emergency Funds as:

- 1) Utility Emergency Reserves, to be funded through net utility earnings (except as noted in Section 3 of the policy) and used for Emergency water or waste-water repairs and replacements.
- 2) General Emergency Reserves, to be funded through net earnings and used for Emergency asset repairs and replacements.
- 3) Operating Emergency Reserves, to be funded through a combination of net operating earnings and available line of credit access.

Minimum amounts for each of the Reserves have also been designated per the attached policy.

Adoption of Chapter 9, Article 6 Emergency Reserve Funds Policy was discussed by the Board at the February 2, 2022, Discussion Session.

**CHAPTER 9, ARTICLE 6
EMERGENCY RESERVE FUNDS**

SECTION 1. PURPOSE: To establish Emergency Reserve Funds (“Emergency Reserves”). Emergencies are defined as significant unplanned events such as acts of God, compliance with a State or Federal mandate, or the failure of a critical piece of village infrastructure like a dam that cannot be addressed using normal operating funds.

This policy was formerly referred to “Reserve Funds” last adopted July 19, 2017. It is expanded herein to clarify the purpose of this policy and establishes guidelines for use of and replenishment of Emergency Reserve Funds and confirming/adjusting Emergency Reserve targets.

SECTION 2. DEFINITIONS AND GOALS: The Emergency Reserves are defined as funds set aside by action of the Board of Directors. Ongoing management of Emergency Reserves is delegated to the POA General Manager. HSVPOA shall maintain three separate reserve funds, as follows.

- A. Utility Emergency Reserves.** To be funded through net utility earnings (except as noted in Section 3) and used for Emergency water or waste water repairs and replacements. The minimum funding levels are designated by the Board of Directors from time to time as detailed in Section 3 and Section 4.
- B. General Emergency Reserves.** To be funded through net earnings (excluding water and waste water operations) and used for Emergency asset repairs and replacements. The minimum funding levels are designated by the Board of Directors from time to time as detailed in Section 3 and Section 4.
- C. Operating Emergency Reserves.** To be funded through a combination of net operating earnings and available line of credit access. These funds will be used for priority operational needs during a short-term cash shortage. The minimum funding levels are designated by the Board of Directors from time to time as detailed in Section 3 and Section 4.

SECTION 3. FUNDING EMERGENCY RESERVES: To establish the Reserves, the Board of Directors has designated the following minimum amounts for each of the Reserves of existing accumulated unrestricted net assets as the beginning balance of the fund as of 12/31/2020:

Basis	Date Last Set	Minimum Amount	Funded Amount	Last Funded Date	Comments
UTILITY EMERGENCY RESERVES					
Minimum of 1-year estimated depreciation of water/waste water assets	12/2017	\$1,996,035	\$1,596,828	6/2021	
GENERAL EMERGENCY RESERVES					
Minimum of 1-year estimated depreciation of all assets other than water/waste water assets	12/2017	\$2,388,000	\$2,089,239	6/2021	

OPERATING EMERGENCY RESERVES					
Minimum of 1-month average monthly operating expenses	12/2017	\$2,541,000	\$2,500,000	N/A	Funded through a combination of the investment account and available line of credit

Reserve contributions (if applicable) shall be deposited, at a minimum, annually into the accounts at the direction of the Board of Directors.

It is also understood that the 2014 water plant expansion exhausted all previous reserves, consuming all Public Utility reserves and \$3M in general POA funds. The Public Utility Department has repaid by year end 2020 \$3 million into the general operating account. After January 1, 2021 net earnings, if any, of the Public Utility Department shall go to fund the Utility Emergency Reserve or the Utility Capital Fund as designated by the Board of Directors.

SECTION 4. FUNDING PHILOSOPHY: HSVPOA recognizes the duty to adequately fund both current operations and save for future needs. As such, related annual budgets will balance spending and saving decisions.

Beginning 2022 and at least biennially thereafter, the Board of Directors in conjunction with the General Manager and Controller, and with advice from the Finance and Planning Committee will review and confirm/adjust the Emergency Reserve Fund targets looking forward 3-5 years. Upon Board approval of a change in targeted minimum fund levels, the table in Section 3 will be updated to reflect Board decision. The Board of Directors may from time to time direct that a specific source of revenue other than net earnings be set aside for these Emergency Reserve Funds. Examples may include onetime gifts, special grants or special appeals.

SECTION 5. INVESTING EMERGENCY RESERVES: The Emergency Reserves will be funded and maintained in a bank account or investment fund in accordance with the HSV Investment Policy. Interest earned on the Utility Emergency Reserve and the General Emergency Reserve will remain within those funds. Interest earned on the Operating Emergency Reserve will be deposited to the general operating account.

SECTION 6. RESERVE SHORTFALLS: If any one of the Emergency Reserves is and has been less than 80% of the minimum targeted funding level for two consecutive years, the Board of Directors will adopt an operational budget sufficient to fund the Emergency Reserves to its minimum targeted funded level over a planned number of years.

SECTION 7: USING EMERGENCY RESERVES:

- A. The General Manager, working with the Controller and POA staff, will identify reasons for accessing the Emergency Reserves and confirm the use is consistent with the purpose as described in this policy. The General Manager will perform the following:

1. Analyze the reason for the needed funds.
2. Assess the availability of any other sources of funds.
3. Evaluate the time period that the funds will be required and then replenished.
4. Submit to the Board a project request including a description of the project, necessary resources, a listing of needed funds and appropriate timelines. Upon approval, the General Manager is then authorized to spend funds in accordance with Policy Chapter 9 Article 3 (Purchasing Policy).
5. Provide quarterly reporting of disposition of Emergency Reserves, status of replacements/repairs and outlook for replenishment.
6. Assets in any of the above funds may only be used for the purpose of that fund and shall not be withdrawn, borrowed against, or transferred to any other fund.

8-11-99, 8-25-99, 11-19-03, 07-19-17

CHAPTER 21, ARTICLE 610
EMERGENCY RESERVE FUNDS

SECTION 1. PURPOSE: ~~To provide cash reserves for maintaining corporate assets and/or operations in a manner that encourages long term sustainability and market relevance.~~

To establish Emergency Reserve Funds (“Emergency Reserves”). Emergencies are defined as significant unplanned events such as acts of God, compliance with a State or Federal mandate, or the failure of a critical piece of village infrastructure like a dam that cannot be addressed using normal operating funds.

This policy was formerly referred to “Reserve Funds” last adopted July 19, 2017. It is expanded herein to clarify the purpose of this policy and establishes guidelines for use of and replenishment of Emergency Reserve Funds and confirming/adjusting Emergency Reserve targets.

SECTION 2. FUND TYPES: The Emergency Reserves are defined as funds set aside by action of the Board of Directors. Ongoing management of Emergency Reserves is delegated to the POA General Manager. HSVPOA shall maintain three separate funds, as follows.

- ~~A. **Public Utility Reserve.** To be funded through net utility profits and used for water or waste water projects, except as noted in Section 3 below. 1 year of annual depreciation (water and waste water assets) shall be the minimum targeted funded level.~~
- ~~B. **Non-Utility Asset Repairs & Replacements.** To be funded through net operating profits (excluding water & waste water operations) and used for capital projects that maintain and/or improve property value and asset conditions or emergency asset repairs. 1 year of annual depreciation shall be the minimum targeted funding level.~~
- ~~C. **Operating Reserves**—To be funded through a combination of net operating profits and available line of credit access. These funds will be used for priority operational needs during a short-term cash shortage. One month of average budgeted operating expense shall be the minimum targeted funding level.~~
- A. **Utility Emergency Reserves.** To be funded through net utility earnings (except as noted in Section 3) and used for Emergency water or waste water repairs and replacements. The minimum funding levels are designated by the Board of Directors from time to time as detailed in Section 3 and Section 4.
- B. **General Emergency Reserves.** To be funded through net earnings (excluding water and waste water operations) and used for Emergency asset repairs and replacements. The minimum funding levels are designated by the Board of Directors from time to time as detailed in Section 3 and Section 4.
- C. **Operating Emergency Reserves.** To be funded through a combination of net operating earnings and available line of credit access. These funds will be used for priority operational needs during a short-term cash shortage. The minimum funding levels are designated by the Board of Directors from time to time as detailed in Section 3 and Section 4.

SECTION 3. FUNDING STARTUP:

~~As of the date of policy adoption, HSVPOA has \$100k in Public Utility Reserves, \$358k in Non-Utility Reserves, a \$1mil available Line of Credit, and \$1.5mil in investments, which serve as the starting point for this revised policy. The minimum funding levels described above are projected to be in place within 5 years and will be a component of the annual budget process.~~

To establish the Reserves, the Board of Directors has designated the following minimum amounts for each of the Reserves of existing accumulated unrestricted net assets as the beginning balance of the fund as of 12/31/2020:

<u>Basis</u>	<u>Date Last Set</u>	<u>Minimum Amount</u>	<u>Funded Amount</u>	<u>Last Funded Date</u>	<u>Comments</u>
<u>UTILITY EMERGENCY RESERVES</u>					
<u>Minimum of 1-year estimated depreciation of water/waste water assets</u>	<u>12/2017</u>	<u>\$1,996,035</u>	<u>\$1,596,828</u>	<u>6/2021</u>	
<u>GENERAL EMERGENCY RESERVES</u>					
<u>Minimum of 1-year estimated depreciation of all assets other than water/waste water assets</u>	<u>12/20/17</u>	<u>\$2,388,000</u>	<u>\$2,089,239</u>	<u>6/2021</u>	
<u>OPERATING EMERGENCY RESERVES</u>					
<u>Minimum of 1-month average monthly operating expenses</u>	<u>12/2017</u>	<u>\$2,541,000</u>	<u>\$2,500,000</u>	<u>N/A</u>	<u>Funded through a combination of the investment account and available line of credit</u>

Reserve contributions (if applicable) shall be deposited, at a minimum, annually into the accounts at the direction of the Board of Directors.

~~It is also understood that the 2014 water plant expansion exhausted all previous reserves, using \$6.2mil of cash for the project. The Public Utility Department will repay \$3mil into the general operating account over the next 6 years to help address the deferred maintenance resulting from such usage of cash. Upon repayment, all excess profits of the Public Utility Department shall go to fund the Public Utility Reserve. Until that time, a minimum of \$100k will be added to the Public Utility Reserve Fund.~~

It is also understood that the 2014 water plant expansion exhausted all previous reserves, consuming all Public Utility reserves and \$3M in general POA funds. The Public Utility Department has repaid by year end 2020 \$3 million into the general operating account. After January 1, 2021 net earnings, if any, of the Public Utility Department shall go to fund the Utility Emergency Reserve or the Utility Capital Fund as designated by the Board of Directors.

~~This policy was formerly referred to as "Building Reserve Fund". It is expanded herein to reflect both operating and capital reserve elements, along with minimum funding levels.~~

SECTION 4. FUNDING PHILOSOPHY:

HSVPOA recognizes the duty to adequately fund both current operations and save for future needs. As such, related annual budgets will balance spending and saving decisions.

Beginning 2022 and at least biennially thereafter, the Board of Directors in conjunction with the General Manager and Controller, and with advice from the Finance and Planning Committee will review and confirm/adjust the Emergency Reserve Fund targets looking forward 3-5 years. Upon Board approval of

a change in targeted minimum fund levels, the table in Section 3 will be updated to reflect Board decision. The Board of Directors may from time to time direct that a specific source of revenue other than net earnings be set aside for these Emergency Reserve Funds. Examples may include onetime gifts, special grants or special appeals.

SECTION 5. ACCOUNT REQUIREMENTS:

Interest earned on the Public Utility Reserve will remain within that fund. Interest income earned on asset and operating funds will be deposited to the general operating account.

Reserve contributions shall be deposited, at a minimum, annually in accounts as defined in Article 20's Investment Policy Statement.

SECTION 5. INVESTING EMERGENCY RESERVES: The Emergency Reserves will be funded and maintained in a bank account or investment fund in accordance with the HSV Investment Policy. Interest earned on the Utility Emergency Reserve and the General Emergency Reserve will remain within those funds. Interest earned on the Operating Emergency Reserve will be deposited to the general operating account.

SECTION 6. RESERVE SHORTFALLS: If any one of the Emergency Reserves is and has been less than 80% of the minimum targeted funding level for two consecutive years, the Board of Directors will adopt an operational budget sufficient to fund the Emergency Reserves to its minimum targeted funded level over a planned number of years.

SECTION 7: USING EMERGENCY RESERVES:

- A. The General Manager, working with the Controller and POA staff, will identify reasons for accessing the Emergency Reserves and confirm the use is consistent with the purpose as described in this policy. The General Manager will perform the following:
1. Analyze the reason for the needed funds.
 2. Assess the availability of any other sources of funds.
 3. Evaluate the time period that the funds will be required and then replenished.
 4. Submit to the Board a project request including a description of the project, necessary resources, a listing of needed funds and appropriate timelines. Upon approval, the General Manager is then authorized to spend funds in accordance with Policy Chapter 9 Article 3 (Purchasing Policy).
 5. Provide quarterly reporting of disposition of Emergency Reserves, status of replacements/repairs and outlook for replenishment.
 6. Assets in any of the above funds may only be used for the purpose of that fund and shall not be withdrawn, borrowed against, or transferred to any other fund.