



AGENDA ITEM: 7

MEETING DATE: October 29, 2014
TO: Board of Directors
FROM: Sally Lyon, Director of Finance and Administration
SUBJECT: Designating Unrestricted net Assets

RECOMMENDATION: Adopt PI 309:

DISCUSSION: Net Assets are the amount by which the District's assets exceed its liabilities. Net assets may consist of three components:

- Invested in capital assets, net of related debt, - this amount is equal to the District's net investment in fixed assets, as we have no outstanding debt.
- Restricted - net assets which have constraints placed on them by external creditors, grantors, contributors, or laws or regulations of other governments. We currently have \$16,468 that is restricted related to the funds we are required to set aside as a bond for the sewerage facilities that were dedicated to TSD.
- Unrestricted – those net assets that do not meet the definition of “invested in capital assets,” or “restricted.” Per GASB Statement No. 34,

In the government environment, net assets often are designated to indicate that management does not consider them to be available for general operations. In contrast to restricted net assets, these types of constraints on resources are internal and management can remove or modify them.

The basis for the District's current designations were developed by a subcommittee of the Board in October of 2006. The Board has reviewed the allocations and made appropriate changes annually since then.

The current Policy advises that “prudent fiscal management of the funds which have been entrusted to the District calls for annual re-evaluation of the noted designations.”

The current designations can be broken down into two classifications:

- Those that are set dollar amounts such as the Designation for Annoyance Reduction and Community Outreach Programs, or the Designation for Pavement Maintenance and;

- Those that are calculated based on District planning documents such as the Designation for Grant Eligible Capital Improvement Projects, which is based on grant- eligible projects forecasted for the two years beyond the year currently being budgeted; or the Designation for Operating Funds, which is calculated based on estimated property tax revenues and cash flow projections.

A paper about unrestricted net assets from the California Special District Association notes that prudent accumulation of reserves:

- a. reflects the District’s view of its business environment;
- b. supports and informs strategic planning by identifying opportunities and constraints;
- c. helps inform customers and constituents about the District’s direction and priorities by showing funding to priority mission areas.

CURRENT DESIGNATION LEVELS

The designation levels as of the District’s financial statements for the year ended 9/30/13 are as follows:

Designated for land acquisition/management	\$2,750,000
Designated for operating funds	2,500,000
Designated for non-grant eligible projects	2,217,911
Designated for recognition of net pension liability	1,500,000
Designated for annoyance reduction and community outreach	1,000,000
Designated for pavement maintenance	500,000
Designated for grant eligible projects	445,200
Designated for fuel spill cleanup	30,000
Total unrestricted net assets at 9/30/13	<u>\$10,943,111</u>

At year end 9/30/14, it is estimated that unrestricted net assets will be approximately \$12 million. This number will get finalized with the completion of the Audited Financial Statements. During the fiscal year ended 9/30/14, Designated for land acquisition/management was reduced by \$212,000 with the purchase of Alder Hill. Staff proposes increasing it back to \$2,750,000. The designation for operating funds is calculated based on budgeted cash flow for the upcoming year. The policy states that the minimum designation should be equal to four month’s cash flow, estimated at \$2.65 million. Although this amount is unlikely to be tapped to cover a cash-flow shortfall, it is prudent to have the funds set aside. Designated for

grant eligible projects is based on the grant eligible vehicles for \$540,000 reduced by 50 % grant reimbursement and pavement rehabilitation, grant eligible, projects of \$1.9 million. Pavement projects will most likely be FAA funded at a 90% rate. Staff would recommend adjusting the non-grant eligible projects to bring the total unrestricted net assets to \$12 million projected.

Proposed designation levels are:

Designated for land acquisition/management	\$2,750,000
Designated for operating funds	2,650,000
Designated for non-grant eligible projects	1,400,000
Designated for recognition of net pension liability	1,500,000
Designated for annoyance reduction and community outreach	1,000,000
Designated for pavement maintenance	500,000
Designated for grant eligible projects	2,170,000
Designated for fuel spill cleanup	30,000
Total unrestricted net assets at 9/30/14	\$12,000,000

FISCAL IMPACT: Designating funds in the various areas proposed does not limit the District’s flexibility to move and use the funds when a compelling opportunity presents itself.

PUBLIC COMMUNICATIONS: The designations are detailed in the financial statements and are a primary indicator to the reader of the financial statements of the current direction of the Board. They are a form of communication with stakeholders that should not be overlooked.

ATTACHMENTS: Draft of PI 309

TRUCKEE TAHOE AIRPORT DISTRICT POLICY INSTRUCTION

PI NUMBER 309

Formerly PI 213

Effective: July 23, 1998
Revised: March 27, 2003
October 26, 2006
October 25, 2007
September 25, 2008
August 27, 2009
September 23, 2010
September 22, 2011
January 26, 2012
September 27, 2012
September 26, 2013
October 29, 2014

SUBJECT: DESIGNATING UNRESTRICTED NET ASSETS

PURPOSE: To establish district policy for designating unrestricted net assets

BACKGROUND:

Net assets are the amount by which the District's assets exceed its liabilities. Net assets may consist of three components: Invested in capital assets, net of related debt, Restricted and Unrestricted. Net assets are restricted when constraints are placed upon them, such as by creditors, or when there exists enabling legislation which includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. The District will restrict the appropriate portion of net assets, if either of those conditions is met. The majority of the District's net assets consist of the other two components: those that are invested in capital assets, and those that are unrestricted.

Accounting standards allow, and prudent fiscal policy demands, that the District evaluate the unrestricted reserves and make designations which reflect tentative plans for resource utilization in future periods. The designations are reflective of Board policy, potential capital improvement projects, forecasted financial results and the District's strategic plan. These designations are internal, and the Board can remove or modify them as required.

Designations of unrestricted net assets are not shown on the face of the financial statements. They are reported in the footnotes to the District's annual financial statements and as a supporting schedule in the monthly financial package. They are also exclusive of amounts actually budgeted for similar items in the current budget.

POLICY:

1. The Truckee Tahoe Airport District Board of Directors recognizes the need to designate Unrestricted Net Assets. The designations establish and confirm the intention of the Board of

Directors to designate working capital for nine future uses: a) debt retirement, b) completing prior year budgeted construction and improvement projects, c) maintenance necessitated by a catastrophic event, d) operating funds, e) the recording of the net pension liability related to the defined benefit pension plan of the District's employees, f) acquisition of land to maintain open space, g) noise abatement and community outreach projects, h) grant eligible capital improvement projects, and i) future non-grant eligible projects. These designations have been stated in order of priority, and each designation should be met before fulfilling the next one.

2. By this Policy Instruction the Directors establish the target designations of Unrestricted Net Assets to accomplish the District's goals. The District recognizes that prudent fiscal management of the funds which have been entrusted to the District calls for annual re-evaluation of the noted designations. The target designation amounts may be adjusted at each fiscal year end to coincide with the planning for the strategic future uses of working capital. At the time of the annual budget, the Board of Directors will review the net asset designations and discuss the effect any budgeted cash shortfall or surplus on them.

3. DESIGNATION OF UNRESTRICTED NET ASSETS FOR DEBT RETIREMENT

- a. The target total of both the Restricted Net Assets for Debt Retirement and the Designation of Unrestricted Net Assets for Debt Retirement will be an amount equal to the total principal payments due during the next five fiscal years.
- b. The Restricted Net Assets for Debt Retirement will equal the amount of Restricted Cash as determined by the loan covenants.
- c. The Designation of Unrestricted Net Assets for Debt Retirement will be equal to the difference between the target total determined in paragraph (a.) above, and the Restricted Net Assets for Debt Retirement.
- d. When new debt is acquired, the increase in the Restricted Net Assets for Debt Retirement and/or the Designation of Unrestricted Net Assets for Debt Retirement may be funded over three years.

4. DESIGNATION OF UNRESTRICTED NET ASSETS FOR COMPLETING PRIOR YEAR CAPITAL PROJECTS

The District undertakes capital improvement projects which frequently take place over more than one fiscal year. Working capital funds need to be set aside to provide for completion of projects in progress.

The target amount for the Designation of Unrestricted Net Assets for Completing Prior Year Capital Projects is the estimate of the cost to complete all budgeted capital improvement projects at each fiscal year end.

5. DESIGNATION OF UNRESTRICTED NET ASSETS FOR HAZMAT SPILL CLEANUP OR OTHER CATASTROPHIC EVENT

The District would like to set aside funds for emergency hazmat spill containment and remediation costs. The target amount for the Designation of Unrestricted Net Assets for

Hazmat Spill Cleanup is \$30,000.

6. DESIGNATION OF UNRESTRICTED NET ASSETS FOR OPERATING FUNDS

The District needs to have sufficient working capital available to pay bills and make payroll on a timely basis. The District's greatest exposure to having insufficient working capital would be in the event the Counties did not remit the property taxes on a timely basis. Currently sixty percent (60%) of the District's property taxes are credited to the District's account in January of each year. The target amount for the Designation of Unrestricted Net Assets for Operating Funds would be an amount equal to 60% of the current fiscal year's budgeted property taxes. The designation may be for any amount up to the target amount. No less than four months cash flow is designated.

7. DESIGNATION OF UNRESTRICTED NET ASSETS IN PREPARATION FOR RECOGNITION OF NET PENSION LIABILITY MANDATED BY GOVERNMENTAL ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) passed Statement Number 68, "Accounting for Pensions," in June of 2012. The statement, which is effective for fiscal years beginning after June 15, 2014, will require the District to record its share of the net pension liability of the risk pool it has been assigned to by CalPERS. As of the date of the most recent valuation (6/30/11), the net pension liability for the District (according to CalPERS) is \$1,356,194. The amount will likely increase each year until it must be recorded, so the designation should reflect the most current valuation and then be rounded up to the nearest half-million dollars. That amount shall be designated in Unrestricted Net Assets until such time as the District adopts GASB Statement Number 68 and records the appropriate liability in their financial statements.

8. DESIGNATION OF UNRESTRICTED NET ASSETS FOR FUTURE ACQUISITION/MANAGEMENT OF LAND TO MAINTAIN OPEN SPACE

The District recognizes that the acquisition of open-space which is in the District's area of influence will benefit the constituents in the future by preserving currently undeveloped areas as green space, and by eliminating the possibility of development occurring in areas which may be affected by airport noise. Although some of these purchases may be FAA grant eligible, the timing of possible acquisitions would make the grant process difficult. As a result, the District designates \$2.75 million dollars for possible land acquisition and management of the District's open space parcels, with that amount to be evaluated on an annual basis or as need presents itself.

9. DESIGNATION OF UNRESTRICTED NET ASSETS FOR ANNOYANCE REDUCTION AND COMMUNITY OUTREACH PROGRAMS

The District seeks to be a good neighbor to the surrounding community. Accordingly, the District is constantly searching for ways to reduce the annoyance caused by activity at the airport and to communicate with the public. The District realizes that there is a cost for each of the possible solutions to the noise situation and in no way wants the lack of funding to be an

impediment to a possible program. As such, the District sets a target designation of \$1,000,000 for annoyance reduction and community outreach programs.

10. DESIGNATION OF UNRESTRICTED NET ASSETS FOR PAVEMENT MAINTENANCE

The single most vital asset to the Airport is the pavement. The District recognizes that grant funding is not always available to complete necessary pavement maintenance. There is the possibility of maintenance work being required to preserve the operating capabilities of the airfield within a timeframe that does not allow for the grant funding process or at an expense in excess of what was anticipated in the annual budget. The District will designate \$500,000 to be used for pavement projects; the projects must go through the board authorization process to access these funds.

11. DESIGNATION OF UNRESTRICTED NET ASSETS FOR GRANT ELIGIBLE CAPITAL IMPROVEMENT PROJECTS

Certain capital projects are eligible for FAA grants. The District has presumed in its budgeting and forecasting process that the funding status of those projects which are eligible for FAA grants will determine whether or not the project will be completed. Some projects may be required to keep the airfield operating safely and comply with covenants of previous grants. The District would like to set aside funds for future FAA grant eligible projects which may not be funded by the FAA as presumed in the District's fiscal forecasting. The District sets as a target designation an amount equal one half of the full cost of grant eligible projects (excluding pavement maintenance) forecasted for the upcoming two years. The District recognizes that some of the projects planned will not be completed or may be postponed if funding is not available.

12. DESIGNATION OF UNRESTRICTED NET ASSETS FOR FUTURE CONSTRUCTION/ACQUISITION OF NON-GRANT ELIGIBLE PROJECTS

The District is required to make many capital improvements/purchases which are not eligible for FAA grants. Based on the District's equipment replacement schedule and the five-year forecast, there must be a designation of net assets of an amount which will provide a solid basis for projects anticipated in future fiscal years. For example, the District's Master Plan may suggest future building construction that would not be funded by FAA grants. This designation category will be the balance of the Unrestricted Net Assets which have not been otherwise designated.

John Jones, President