

TRUCKEE TAHOE AIRPORT DISTRICT POLICY INSTRUCTION

PI NUMBER 309

Effective: July 23, 1998
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
November 5, 2015
October 26, 2016
(Due to Fiscal Year Change 2017 is included in 2016)
March 28, 2018
March 27, 2019
June 24, 2020

SUBJECT: DESIGNATING UNRESTRICTED NET ASSETS (Updated annually each Spring)

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 Quarterly Financial Report to the Board. They are also exclusive of amounts actually budgeted for similar items in the current budget.

POLICY: 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 future uses:

- Debt Retirement (when applicable)
- Pavement Maintenance Capital Reserve
- Facility Maintenance Capital Reserve
- Utility Capital Reserve
- General Fund Operating Contingency
- Capital Project Reserve
- Acquisition of Land and Forest Management Capital Reserve
- Annoyance Reduction and Outreach Projects Reserve
- Rolling Stock Reserve

By this Policy Instruction the Directors establish the target designations of Unrestricted Net Assets to accomplish the District's goals. The prioritization is considered on an annual basis. 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.

Total CY2021 unrestricted net assets is \$6,540,200. The unrestricted net asset designation categories are as follows:

Debt Services and Retirement

At the beginning of CY2021 the District has \$6,819,657.68 in debt due to the loan obligation for the Executive Hangar Project with an annual debt service payment of \$539,047 including principle and interest. The District annually budgets for the loan payment and additionally has one year of debt service payment reserved in Unrestricted Net Assets. The District also receives approximately \$325,000 in annual hangar rent proceeds from same Executive Hangar project that are applied to this debt service obligation.

Pavement Maintenance Capital Reserve

The single most vital asset to the Airport is the pavement. The District undertakes pavement capital improvement projects which frequently take place over more than one fiscal year per the Districts CIPs. Working capital funds need to be set aside to provide for completion of projects in progress and for future project funding. 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 \$1,000,000 to be set aside for future CIP projects and FAA matching funds.

Facility Maintenance Capital Reserve

The District has a Facility Maintenance Plan that recommends expenditures over a ten year period. This plan will be updated in 2021. The District is required to make many capital improvements/purchases which are not eligible for FAA grants. Based on the District's maintenance plans, there must be a designation of net assets of an amount which will provide a solid basis for projects anticipated in future fiscal years. The budgeted expenditures are projected at \$400,000.

Forest Management Capital Reserve

The District has a 14 Year Forest Management Plan that project expenditures for management of lands the District currently owns. As a result, the District designates \$300,000 dollars for land, forest, and watershed rehabilitation and management projects, with that amount to be evaluated on an annual basis or as need presents itself.

General Fund Operating Contingency

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 designation for operating funds is calculated based on budgeted cash flow for the upcoming year. This designation should be equal to six month's cash flow, estimated at \$4.08 million. Although this operating reserve is unlikely to be needed to cover a cash-flow shortfall, it is prudent to have operating funds set aside. The District is designating \$990,200 for CY2021.

Annoyance Reduction and Outreach Projects Reserve

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 \$500,000 for annoyance reduction and community outreach programs.

Designated for Capital Projects

Staff recommends setting aside funds for Future Capital Projects. As these are large multi-year capital expenses, staff recommends designating \$1,500,000 to these projects. If the Board decides to move forward with any of these projects, construction likely will span 2 fiscal years.

Rolling Stock Reserve

The District maintains a Fleet Management Plan with establishes a schedule for the periodic replacement of District rolling stock. This Plan is updated annually with the District Budget process and revised and updated based on the condition of the fleet and needs of the District including available funding. Some vehicles and equipment are eligible for FAA AIP Grant Funding. District Staff will apply for Federal funding prior to seeking District funds for said equipment. The District will maintain a \$250,000 Rolling Stock Reserve based on available funding.

Acquisition of Land

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. The District will set aside \$1,000,000 for opportunities should they arise for the land acquisition partnerships or the purchase of open space.

Utility Capital Reserve

The District has a Utility Maintenance Plan and recommends expenditures over a ten year period. The District has a goal to maintain utilities annually and on consistent bases to assure the proper working order of critical systems. The District maintains domestic drinking water, fire protection, sanitary sewer, storm drain systems, power distribution, and communication systems. The Board will allocate funding based on availability for projects as outlined in the Utility Maintenance Plan on an annual bases and keep a capital reserve of \$100,000 based on availability to assure adequate funding should the need arise to address system failures or required and/or unforeseen system maintenance and upgrades. The District does foresee upcoming costs to repair, replace, and upgrade the domestic drinking water system within the next 3 years.

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Teresa O'Dette, President