

TRUCKEE TAHOE AIRPORT DISTRICT
BOARD OF DIRECTORS AGENDA ITEM SUMMARY

Topic: **PI 309 - DESIGNATING UNRESTRICTED NET ASSETS**

Purpose	Information:	Guidance:	Decision: X
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Recommendation Adopt PI 309, revised as follows:

- An added designation specific to Net Pension Liability recognition.
- Decrease the Designation for Future Acquisition/Management of Land to Maintain Open Space from \$2.25 million to \$2 million.
- Revision to the Grant-Eligible Project designation to consider projects forecast for the upcoming two years in determining the amount of the designation.

Last Action The current PI 309 was approved at the 9/22/2011 Board Meeting – and then again in January of 2012 due to the change in the numbering system.

Discussion **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, - 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 in October of 2007, September of 2008, August of 2009, September of 2010 and September of 2011.

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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; the Designation for Operating Funds, which is calculated based on estimated property tax revenues and cash flow projections, or the new Designation related to the recognition of the District’s Net Pension Liability, which is calculated based on the Pension Plan’s valuation performed by CalPERS.

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 ISSUES

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 (6/30/10), the net pension liability of the entire Miscellaneous 2.7% at 55 Risk Pool was \$859,853,232. As the accounting standard is recently released, the details of how to determine the District’s portion of that liability are not yet firmly established, although the determination is to be consistent with the manner in which the contributions to the pension plan are determined. Staff does not recommend early adoption of this pronouncement; however, as the liability will need to be recognized sometime within the next couple of years, it is prudent to earmark those funds. Based on the District’s review of the September 30, 2010 Actuarial Valuation of the Plan, the District estimates its share of the net pension liability to be approximately \$1,750,000. That amount should be designated in Unrestricted Net Assets until such time as the District adopts GASB

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Statement Number 68 and records the appropriate liability in its financial statements.

In fiscal 2011-2012 there were \$750,000 budgeted for land acquisition/development. The District expended \$829,638 during the year: \$328,623 to obtain the Conservation Easement on the Jones Property and \$501,013 related to the Tahoe City Golf Course Easement. The amount in excess of the current year's budget has been deducted from the net assets designated for land acquisition/management, leaving a balance in that designation account of \$2,170,365. As the update to the forest management plan for Waddle is in process, staff used a placeholder of \$50,000 for forest work for next summer. If work is required beyond the amount budgeted, it could be funded by this designation. Staff suggests taking the level of this designation to \$2 million. In addition, the 2012-2013 budget will include \$750,000 for land acquisition/development and \$50,000 for land management of the District's open space parcels.

When the District's financial statements for the year ended 9/30/12 are prepared, the designations will be something like this, if the revised policy instruction is adopted (based on 7/31/12 balance, adjusted for estimated activity through the end of the fiscal year):

Designated for land acquisition/management	\$2,000,000
Designated for operating funds	2,000,000
Designated for recognition of net pension liability	1,750,000
Designated for annoyance reduction and community outreach	1,000,000
Designated for grant-eligible projects	690,200
Designated for non-grant eligible projects	585,600
Designated for pavement maintenance	500,000
Designated for fuel spill cleanup	30,000
Estimated total unrestricted net assets at 9/30/12	<u>\$8,555,800</u>

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. The final amount designated at 9/30/12 will be revised based on the approved budget. The amount shown here is an estimation based on the current draft of the budget.

The amount designated for annoyance reduction and community outreach at September 30, 2011 was \$1,000,000. The account was authorized to cover the additional costs related to the Air Fair

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(\$46,223) and \$35,000 of funding for the Community Park. The anticipated balance for year end is \$919,000. Staff recommends returning the level of the designation to \$1 million, in accordance with the current policy.

In the prior year a designation to specifically address pavement maintenance was added; the amount stated was \$500,000. In Fiscal 2012 the District will spend approximately \$1.3 million on both pavement maintenance expense and pavement reconstruction capital projects (excluding the AIP funded projects). The original amount budgeted for pavement maintenance was \$530,000; the \$500,000 designation for pavement maintenance and \$226,235 of the designation for non-grant eligible projects were tapped at the May 2012 meeting to allow additional pavement maintenance to be completed. Staff suggests returning the funds in that designation to \$500,000.

The amount designated for grant-eligible projects is based on the formula outlined in the policy. As stated above, the calculation takes into account grant-eligible projects (not pavement related) which are forecasted for the upcoming two years. The following projects are included in the calculation:

2013	Ramp Lighting / Seg Circle	\$ 490,000
2013	Replace Plow Truck	\$ 430,400
2014	Replace Loader	\$ 460,000

The amount designated for non-grant eligible projects would be earmarked for the projects listed as "other capital projects" in the five-year plan. The specific projects listed (excluding the \$200,000/year in 'other') total \$231,000 dollars in fiscal 2014 and \$272,000 in fiscal 2015.

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.
Communication Strategy	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 <u>Journal of Accountancy</u> article, "GASB Vote Places Unfunded Pension Liabilities on Government Balance Sheets," June 2012