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4 CITY OF CUYAHOGA FALLS, OHIO

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6 ORDINANCE NO. 101 - 2014

7  
8 AN ORDINANCE TO ADOPT THE CUYAHOGA FALLS  
9 ELECTRIC SYSTEM CASH RESERVE POLICY, AND  
10 DECLARING AN EMERGENCY.

11  
12 WHEREAS, the City of Cuyahoga Falls seeks to establish a Cash Reserve Policy to ensure  
13 financial stability, timely completion of capital improvements and to enable the Electric  
14 Department to meet requirements for large unexpected expenditures;

15  
16 NOW, THEREFORE, BE IT ORDAINED by the Council of the City of Cuyahoga Falls,  
17 County of Summit and State of Ohio, that:

18  
19 Section 1. That this Council hereby adopts the Cuyahoga Falls Electric System Cash  
20 Reserve Policy as prepared by Utility Financial Solutions, LLC, dated September 21, 2014  
21 and attached to this ordinance as Exhibit A.

22  
23 Section 2. Any other ordinances or resolutions or portions of ordinances and resolutions  
24 inconsistent herewith are hereby repealed, but any ordinances and resolutions not  
25 inconsistent herewith and which have not previously been repealed are hereby ratified and  
26 confirmed.

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28 Section 3. It is found and determined that all formal actions of this Council concerning  
29 and relating to the adoption of this ordinance were adopted in an open meeting of this  
30 Council, and that all deliberations of this Council and of any of its committees that resulted  
31 in such formal action, were in meetings open to the public, in compliance with all legal  
32 requirements, to the extent applicable, including Chapter 107 of the Codified Ordinances.

33  
34 Section 4. This ordinance is hereby declared to be an emergency measure necessary for  
35 the preservation of the public peace, health, safety, convenience and welfare of the City of  
36 Cuyahoga Falls and the inhabitants thereof, for the reason that it is immediately necessary  
37 to establish a Cash Reserve Policy to ensure financial stability, and provided it receives the  
38 affirmative vote of two thirds of the members elected or appointed to Council, it shall take  
39 effect and be in force immediately upon its passage and approval by the Mayor; otherwise it  
40 shall take effect and be in force at the earliest period allowed by law.

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43 Passed: 12/22/2014

44 Mary Ellen Pyke  
45 President of Council

46 David Quinn  
47 Clerk of Council

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49  
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51 Approved: 12-23-2014

52 [Signature]  
53 Mayor

54 11/10/14

**CASH RESERVE POLICY FOR THE CITY OF CUYAHOGA FALLS ELECTRIC UTILITY**

**Purpose**

To help ensure financial stability, timely completion of capital improvements and enable the utility to meet requirements for large unexpected expenditures, a minimum cash reserve policy should be established. Minimum cash reserves attempts to quantify the minimum amount of cash the utility should keep in reserve. Actual cash reserves may vary substantially above the minimum and is dependent on the life cycle of assets, future capital plan, rate setting polices, and debt policies.

**Methodology**

The methodology outlined in this ordinance is based on certain assumptions related to percent of:

1. Operation and maintenance
2. Purchase/production electric costs
3. Historical investment in assets
4. Debt service
5. Five-year capital plan

After the reserve minimum is determined, management should consider the minimum "in total" and not each individual category. For example; catastrophic events can occur and the amount may far exceed the amount set aside under "Historical investment in assets".

**Calculation and Risk Factors Used**

- **Operating Expenses:** The cash reserve policy will include 12.3% of annual operating expenses excluding depreciation expense and purchased/production electric expenditures.
  - 12.3% was derived by assuming a 45 day lag between billing and payment receipt from customers. (45 days/365 days).
- **Power Supply Expenses:** The cash reserve policy will include 50% of the max month or 5.0% of Annual Power Supply costs.
  - 5.0% was derived by dividing the max month power cost by 30 days and multiplying that total by a 15 day lag time.

| <b>Power Supply Risk</b>          | <b>2015</b> | <b>Forecasted Dollars</b> |
|-----------------------------------|-------------|---------------------------|
| January                           |             | \$ 3,013,447              |
| February                          |             | 2,895,106                 |
| March                             |             | 2,983,381                 |
| April                             |             | 2,785,127                 |
| May                               |             | 2,972,081                 |
| June                              |             | 3,445,120                 |
| July                              |             | 3,795,974                 |
| August                            |             | 3,506,825                 |
| September                         |             | 3,182,648                 |
| October                           |             | 3,142,329                 |
| November                          |             | 3,072,193                 |
| December                          |             | 3,271,555                 |
| <b>Total</b>                      |             | <b>\$ 38,065,786</b>      |
| Days to bill from P/S due date    |             | 15                        |
| Days to collect from customers    |             | 30                        |
| Days lag                          |             | 15                        |
| Max P/S Bill in year              |             | \$ 3,795,974              |
| Max P/S bill / 30 days * days lag |             | \$ 1,897,987              |
| Annual Power Supply Cost          |             | 38,065,786                |
| <b>Risk to carry</b>              |             | <b>5.0%</b>               |
| <b>Total</b>                      |             | <b>\$ 1,897,987</b>       |

**CASH RESERVE POLICY FOR THE CITY OF CUYAHOGA FALLS ELECTRIC UTILITY**

- **Historical Investments:** The cash reserve policy will include 2.0% of the historical investment in assets as recorded in the financial statements.
  - The typical range for set aside under this category is 1.0 – 3.0%. The following table will be used to determine the risk factor as assets are added and depreciated:

| Risk Table           |          |      |
|----------------------|----------|------|
| Depreciation Percent | 0 - 49%  | 1.0% |
| Depreciation Percent | 50 - 55% | 2.0% |
| Depreciation Percent | Over 55% | 3.0% |

- Cuyahoga Falls Electric Utility Assets are currently depreciated at 52.6%.

|                          |    |            |
|--------------------------|----|------------|
| Historical Rate Base     | \$ | 56,253,534 |
| Accumulated Depreciation |    | 29,593,868 |
| Percent Depreciated      |    | 52.6%      |

|   |             |
|---|-------------|
| <b>Risk Associated with Historical Assets</b> | <b>2.0%</b> |
|---|-------------|

- **Debt Payments:** The cash reserve policy will include 94% of the current portion of debt service.
  - The City of Cuyahoga Falls Electric Utility bonds are set up on a monthly and annual payment schedule. The analysis should include the percentage of the maximum payment of the year. Below is the example of The City of Cuyahoga Falls Electric Utility's debt payments:

| Payment Date | Principal  | Interest   | Total        |
|--------------|------------|------------|--------------|
| Various      | \$ 896,721 | \$ 200,623 | \$ 1,097,344 |

|              |                     |
|--------------|---------------------|
| <b>Total</b> | <b>\$ 1,097,344</b> |
|--------------|---------------------|

|                             |                     |
|-----------------------------|---------------------|
| <b>Highest Payment Risk</b> | <b>\$ 1,031,564</b> |
|-----------------------------|---------------------|

|                                |              |
|--------------------------------|--------------|
| <b>Percent of Yearly Total</b> | <b>94.0%</b> |
|--------------------------------|--------------|

|                                   |                     |           |
|-----------------------------------|---------------------|-----------|
| <b>Total Debt Schedules</b>       |                     |           |
| JCI (2008 Capital Lease) - Annual | \$                  | 1,025,584 |
| COMDOC Capital Lease - Monthly    |                     | 5,980     |
| <b>Total</b>                      | <b>\$ 1,031,564</b> |           |

**CASH RESERVE POLICY FOR THE CITY OF CUYAHOGA FALLS ELECTRIC UTILITY**

- **Capital Requirements:** The cash reserve policy will include 20% (1/5<sup>th</sup>) of the five-year capital improvement program less any improvements funded through the issuance of bonds.

**Cuyahoga Falls Calculation Based on 2013**

| <b>Recommended MINIMUM Reserves</b> | <b>Annual Cost</b> | <b>Percent Allocated</b> | <b>Projected 2015</b> |
|-------------------------------------|--------------------|--------------------------|-----------------------|
| Operations and Maintenance Risk     | \$ 7,795,864       | 12.3%                    | \$ 961,134            |
| Power Supply Risk                   | 38,065,786         | 5.0%                     | 1,897,987             |
| Historical Investment Risk          | 56,253,534         | 2.0%                     | 1,125,071             |
| Debt Service Risk                   | 1,097,344          | 94.0%                    | 1,031,564             |
| Five-Year Capital Plan Risk         | 14,581,667         | 20%                      | 2,916,333             |
| <b>Recommended MINIMUM Reserves</b> |                    |                          | <b>\$ 7,932,089</b>   |

**Action/Restoration**

If certain events occur that results in cash reserves falling below the minimum cash reserve levels, the City Council should take action to restore cash reserves to the minimum levels over the subsequent three years. These actions may include a number of options:

1. Rate Adjustments
2. Cost reductions
3. Issuance of bonds to fund capital improvement programs (The utility should strive to fund normal capital improvements through electric rates and cash generation)
4. Modification of the assumptions used to determine the cash reserve levels

The methodology outlined in this policy should be used to update the minimum cash calculation as part of the annual budget process.