

ACTION BRIEF

BOARD OF DIRECTORS



Agenda Number 4.b.ii

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MEETING DATE: Thursday, May 5, 2022

AGENDA ITEM: Discussion and Consideration of Action to Approve Targets for Reserves (*Finance^*) - Dunlap

RECOMMENDATION: The Finance, Audit and Power Committee recommends that the Board of Directors approve revised targets as follows:

- a) \$161 million for Strategic Reserves
- b) \$281 million for Extraordinary Cost Reserves
- c) \$89 million for Working Capital

FISCAL IMPLICATIONS: No

Impact on Budget:

None

Additional spending authority requested: None

Impact on Reserves:

None

Impact on Rates:

None

LINKAGE TO STRATEGIC PLAN, POLICY, STATUTE OR GUIDING PRINCIPLE:

2022 CAWCD Board Strategic Plan

Finance: Maintaining long-term financial strength to achieve CAP's goals and being prepared to address opportunities or challenges

PREVIOUS BOARD ACTION/ACTIVITY:

February 20, 2020 The Finance, Audit and Power Committee discussed the strategic reserve targets and alternative target consideration.

April 16, 2020 The Finance, Audit and Power Committee recommended that the Board update the strategic and working capital reserve targets.

May 7, 2020 The CAWCD Board of Directors revised the strategic reserve target to \$153 million and the working capital reserve target to \$51 million.

March 17, 2022 Staff presented recommended updates to the targets to the Finance, Audit and Power Committee.

April 21, 2022 FAP Committee recommended updates to the strategic reserve, the extraordinary cost and working capital targets.

ISSUE SUMMARY/DESCRIPTION:

As discussed at the March 17, 2022 Finance, Audit and Power Committee, the current strategy and targets for the Strategic Reserves and Working Capital were set by the Board in May 2020.

As part of the two-year financial planning cycle, one of the activities included on the calendar for “even” years is a review of the Strategic Reserves and Working Capital strategy and targets.

The Strategic Reserve target is made of several reserves, each with its own purpose. Each reserve target is based on its own unique basis as appropriate for that reserve and is analyzed based on a consistent methodology, which is important from a financial management perspective. The methodology is based on best practices of the Government Finance Officers Association (GFOA). The end of the year is the measurement point for comparison to the target.

2022 Update

After discussion, the FAP Committee recommended the Board update the Strategic Reserves target, update the Working Capital target (including removing the term reserves) and establish a target for the Extraordinary Cost Reserve. The proposed targets for each of the areas are in the following table:

<i>Millions</i>	2022 Update	Current Target
Operating Reserve:	\$ 80	\$ 75
Capital Reserve:	73	70
Contingency Reserve:		
Includes:		
- Property/Casualty Insurance	5	5
- Medical Insurance	1	1
- Legal	2	2
Strategic Reserves	\$ 161	\$ 153
Extraordinary Cost Reserve	\$ 281	\$ -
Working Capital	\$ 89	\$ 51

Stakeholder Feedback

Stakeholders have submitted support of the proposed targets.

SUGGESTED MOTION:

I move that the Board of Directors approve revised targets as follows:

- a) \$161 million for Strategic Reserves
- b) \$281 million for Extraordinary Cost Reserves
- c) \$89 million for Working Capital

ATTACHMENTS:

1. Presentation