MEMORANDUM

Date: October 23, 2012

To: Buckman Direct Diversion Board

From: Brian Shelton, Business Administrator and Fiscal Manager

Subject: Proposed Draft Revision to the BDD Working Capital and Billing Policy

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PURPOSE
Staff seeks the Board's consideration and discussion of a draft revision (Attachment 1) of the Board adopted Working Capital and Billing Policy (Attachment 2).

BACKGROUND
This item was presented to the Board at the October 11, 2012 Board meeting. The Board directed staff to bring a draft revision to the Board for its consideration and discussion. The purpose of revising the policy is to refine and clarify cash management policy, especially with regard to the management of cash revenues accumulated during a fiscal year. The Board adopted Working Capital and Billing Policy (Attachment 2) contains a section named "Final Billing & Reconciliation" which states:

> "Any credit may be carried forward and applied to subsequent month's pre-billing or reconciliation billing payment"

The adopted version of the policy does not provide direction to staff as to how to manage excess cash revenue, and it does not seem to provide enough guidance on how to manage credits. A credit is created when the actual expenditures are less than the monthly pre-bill based on budgeted expenditures.

ANALYSIS (Recap)
The utility enterprise funds of both the City of Santa Fe and the Santa Fe County typically strive to maintain 90 days of cash-on-hand to cover unforeseen gaps in the timing and amount of cash collections during the course of a given fiscal year. There would be three (3) key benefits to the partners of establishing a cash-on-hand target and appropriate methodology:

1. Limit the amount of accumulated excess revenue.
2. Provide a prudent safeguard against unforeseen shortfalls in the timing and amount of cash collections.
3. Ensure consistent reporting and management of excess revenues and cash-on-hand.

DRAFT POLICY REVISION ELEMENTS

The following enhancements were incorporated to the draft policy revision (Attachment 1).

1. Incorporate the key aspects of the following three enhancements (a, b, and c) to work together.
    a. **Specify that the operating fund should maintain a target balance of unrestricted cash-on-hand** for the purposes of
        i. Limiting the amount of accumulated excess revenue that the fund should maintain.
        ii. Providing a prudent measure of safeguard to unforeseen shortfalls in percentage or timing of cash collections.

    b. **Specify a calculation methodology** for determining an operating fund target balance of unrestricted cash on hand.
        i. It is recommended that this be based on 90 days to be consistent with utility enterprise fund policies of both the City of Santa Fe and Santa Fe County.
        ii. It is recommended that this methodology be straightforward. For this reason, it is recommended that the target balance be based on the average daily budgeted expenditures for the current year's adopted operating expenditure budget so that each partner's portion of the target balance can be determined.

    c. **Require refund of operating credits on a quarterly basis and at the end of the fiscal year.** Unapplied excess revenue *above and beyond the cash-on-hand target* is applied to the respective partner's next monthly operating budget pre-bill.

2. **Require that all operating fund credits be applied to pre-bills of the operating fund only** and not be applied to pre-bills for either the Emergency Reserve Fund or Repair and Replacement Fund.

3. **Specify the internal financial model and purpose of the BDD Operating Fund.**

RECOMMENDATION

Adopt the revised policy as presented in Attachment 1, including any additional refinements or edits to which the Board agrees. Thank you very much.

Proposed Working Capital and Billing Policy

Purpose

The Buckman Direct Diversion (BDD) Operating Fund is a working capital fund. Establishing such working capital funds is standard practice for such enterprise funds among local governments such as the City of Santa Fe and Santa Fe County. A working capital fund is a revolving fund because it is financed primarily from recurring revenues from its customers (the BDD's owners) and because the fund's spending authority depends on and adjusts to those revenues. Working capital funds are established to help improve the efficiency of services by ensuring that the operation's annual budget fairly allocates its costs while providing its managers expanded flexibility to respond to owner needs. A working capital fund should break even over time; however, it is prudent for a working capital fund to maintain a positive cash balance to manage variability in the timing and amount of cash flows. The purpose of this policy is to set forth procedural guidance for obtaining owner advances via pre-bills, how earnings (revenues) are recognized based on invoiced expenditures, and how the dollar differences between owner advances and invoiced expenditures shall be managed. Additionally, the policy provides for a target balance of cash-on-hand including a calculation methodology. Cash plays an extremely important role as it is the only means by which the working capital fund pays its bills.

Internal Financial Model

Because it is a reimbursable fund, the BDD Operating Fund uses appropriations (budgets) as a source of its funding and requires an internal financial model to ensure the integrity of the charges back to its owner accounts.

Sample Flow of Funds from Owner Accounts to BDD Operating Fund Accounts (BDDOFA)				
Owner Budget Accounts	**BDD Operating Fund Account**	**BDD Statement of Activities**	**BDD Cash Flow Statement**	**BDD Balance Sheet**
A. Begin Monthly Cycle				
Obligation to BDDOFA creates obligated but unexpended balance	1- Pre-bill Invoice	no impact	increases cash	increase cash; increase liability to owner
no impact	2- Obligate funds	no impact	no impact	no impact
no impact	3- Treat and deliver water which incurs expenditures	expenditures incurred	decreases cash	reduce cash

Sample Flow of Funds from Owner Accounts to BDD Operating Fund Accounts (BDDOFA)				
Owner Budget Accounts	**BDD Operating Fund Account**	**BDD Statement of Activities**	**BDD Cash Flow Statement**	**BDD Balance Sheet**
Incur expenditures, reduce obligated balance	4- Expenditure Invoice	earn revenue	no impact	reduce liability to owner
may incur expenditures and further reduce obligated balance	5- Monthly Reconciliation Statement Invoice	no impact	may increase cash	may increase cash
End Monthly Cycle				
B. Monthly and Annual True Up Reconciliation				
Incur expenditures, reduce obligated balance	6- Quarterly True Up Reconciliation	additional expenditure and additional revenue	increase or decrease cash from actual cash-on-hand after quarterly reconciliation vs. target cash-on-hand balance	increase or reduce cash

Pre-Bill Procedure

No later than the 25th day of the preceding month each owner of the project will receive a pre-~~billing~~ bill invoice for the subsequent month based on their share of the facility's budgeted amounts. This amount will be due and payable on the 1st day of ~~the operating~~each month. For example, for September operations each partner will receive a pre-bill invoice no later than August 25th and must ~~deposit those funds~~remit payment to ~~with~~ the fiscal agent by September 1st.

Disbursements of Cash

During the course of ~~the operating~~each month the fiscal agent ~~will distribute these funds~~shall use cash receipts to ~~meet payroll and benefits obligations as scheduled based on the employee calendar and to pay vendors as services are rendered~~pay all fixed and variable operating costs. For example, every two weeks ~~the BDD must meet a payroll~~there are payroll expenditures for services rendered in the preceding two weeks. ~~The payment of those amounts shall be drawn from cash received through the monthly pre-billing. Other vendors will typically submit invoices after they have rendered services and with terms that require payment 30 days after invoice receipt. Those i~~ Invoices from BDD vendors and suppliers shall be paid when they are presented to the fiscal agent in accordance with the fiscal agent's procurement policy and accounts payable procedures.

Final Billing & Reconciliation

~~Ten~~ Twenty-five calendar days after the prior month end, ~~determining the actual cost of water delivery for the month~~ each owner ~~will~~ shall receive a monthly billing package. The monthly billing

package shall contain: ~~a reconcilingan~~ ~~bill~~ invoice that ~~will~~ details ~~the~~ each owner's share of actual facility ~~expenses~~ expenditures in the ~~operating~~ prior month~~;~~. ~~The~~ a reconciliation ~~bill~~ statement invoice ~~will~~ which shall show ~~initial~~ cash ~~paid~~ payments ~~with~~ for ~~the~~ pre-bill invoices, and a working capital statement which shall show ~~the~~ each owner's share of actual monthly ~~costs~~expenditures, ~~with~~ and the difference between the payments and the expenditures resulting in either a net amount due to the owner, termed herein as a credit, or an additional amount due and payable to the ~~BDD~~fiscal agent. Any amounts due and payable ~~to the BDD~~ under a reconciling ~~billing~~ statement invoice ~~are immediately due and payable and~~ must be received by the fiscal agent within ~~three~~ -ten business days. Any credit in excess of each owner's share of the annual target balance of cash-on-hand, as calculated following the policy herein, shall be trued up as compared to actual cash on hand on a quarterly basis by the fiscal agent. The excess credit above and beyond actual cash-on-hand will, at the owner's option, either be credited to the next available pre-bill or be disbursed, or refunded, on a quarterly basis to each owner by the fiscal agent. ~~may be carried forward and applied to a subsequent month's pre-billing or reconciliation billing payment. Under no instance shall interest be paid, accrued or applied on owner credit balances.~~ Owner credits shall be applied to that owner's share of the BDD Operating Fund only.

During the course of each fiscal year, ~~A~~all transactions will be ~~accounted for on a cash basis of accounting~~reported on a cash basis. ~~except as adjusted at year—end for reporting on a modified accrual basis of accounting.~~

~~Any payment that is not received on or before the due date shall incur a late charge equal to 1% of the balance per month. Amounts shall compound on a monthly basis and accrue additional late charges until paid in full. Late charges shall not be pro-rated in less than monthly increments.~~

Target Balance of Cash-On-Hand

To be consistent with the City of Santa Fe and Santa Fe County utility enterprise funds, the BDD Operating Fund shall maintain a target balance of 90 days of cash-on-hand, recognizing that there will be some variability in the actual amount of cash-on-hand at given any point in time due to the variable nature and timing of cash flows. The target balance shall be calculated by multiplying 90 by the average daily budgeted expenditure as based upon the current fiscal year's adopted operating fund expenditure budget so that each owner's portion of the target balance can be determined in a straightforward manner. The average daily budgeted expenditure is calculated by dividing an owner's share of its total adopted fiscal year operating fund expenditure budget by 365. The result of this operation is then multiplied by 90. The result of this second operation becomes the target cash-on-hand balance.

Example 1

FY12/13 Adopted Budget Expenditures	$	8,464,512.20
Divided # Days in Year		365
Average Daily Budget	$	23,190.00
Multiplied by 90 Days		90
90 Days Cash on Hand Target	$	2,087,100.00

In the above example, the current year Board Adopted FY12/13 operating expenditure budget is $8,464,512.20, so the average daily expenditure budget is $23,190. Using this daily figure, the 90-day cash-on-hand target of $2,087,100 could be established for the current FY12/13 fiscal year. The target balance of example 1 can be applied to the excess revenue in example 2.

Example 2
(Est. = estimated)

Est. Year End (FY11/12) Excess Revenue	$	3,027,475.00
less 90 Days Cash on Hand Target	$	(2,087,100.00)
Remainder = Est. Credit to Partners	$	940,375.00

The target cash-on-hand balance becomes a yard stick measure against which any excess revenues are compared to determine owner credits. The actual cash-on-hand shall be calculated by the fiscal agent during its quarterly true up reconciliation process.

Interest Income
~~If~~ When the ~~Facility~~ BDD Operating Fund carries excess cash ~~and~~ it shall earns interest income on ~~those balances~~it, and such interest income will remain within the BDD Operating Fund for the purposes of funding its ~~existing operating or capital needs~~operations. Under no circumstance shall interest be paid, accrued or applied to owner credit balances.

~~Budget adjustment requests (BARs) will be approved by the Board and forwarded to the Owners as soon as reasonable for appropriation.~~

ATTACHMENT 2

Appendix B – Board Adopted Working Capital and Billing Policy

Pre-Bill Procedure
No later than the 25th day of the preceding month each owner of the project will receive a pre-billing for the subsequent month based on their share of the facility's budgeted amounts. This amount will be due and payable on the 1st day of the operating month. For example, for September operations each partner will receive a pre-bill no later than August 25th and must deposit those funds with the fiscal agent by September 1st.

Disbursements of Cash
During the course of the operating month the fiscal agent will distribute these funds to meet payroll and benefits obligations as scheduled based on the employee calendar and to pay vendors as services are rendered. For example, every two weeks the BDD must meet a payroll for services rendered in the preceding two weeks. The payment of those amounts shall be drawn from cash received through the monthly pre-billing. Other vendors will typically submit invoices after they have rendered services and with terms that require payment 30 days after invoice receipt. Those invoices shall be paid when they are presented.

Final Billing & Reconciliation
Ten days after determining the actual cost of water delivery for the month each owner will receive a reconciling bill that will detail the owner's share of actual facility expenses in the operating month. The reconciliation bill will show initial cash paid with the pre-bill invoice, the owner's share of actual monthly costs with the difference resulting in a net amount due to the owner or payable to the BDD. Any amounts due to the BDD under a reconciling billing are immediately due and payable and must be received by the fiscal agent within three business days. Any credit may be carried forward and applied to a subsequent month's pre-billing or reconciliation billing payment. Under no instance shall interest be paid, accrued or applied on owner credit balances.

All transactions will be accounted for on a cash basis of accounting except as adjusted at year –end for reporting on a modified accrual basis of accounting.

Any payment that is not received on or before the due date shall incur a late charge equal to 1% of the balance per month. Amounts shall compound on a monthly basis and accrue additional late charges until paid in full. Late charges shall not be pro-rated in less than monthly increments.

If the Facility carries excess cash and earns interest on those balances such interest income will remain within the BDD for the purposes of funding existing operating or capital needs.

Budget adjustment requests (BARs) will be approved by the Board and forwarded to the Owners as soon as reasonable for appropriation.

FLOW CHART FOR DISCUSSION PURPOSES - Actual Invoices In Current Fiscal Year

PERIOD	1		2		3		4		5		13
June to Fiscal Year End 6/30/2012	Jul-12		Aug-12		Sep-12		Oct-12		Nov-12		Year-End
		LAG		LAG		LAG		LAG		LAG	
Prebill (1)	6/25/12		8/1/12		8/22/12		9/28/12				
Invoice (4)			8/23/12	23	9/21/12	**21**	10/17/12	17			
Reconciling Statement Invoice (5)					09/05/2012	36	10/3/12	**33**			
Monthly True Up (6)									11/25/2012	**94**	September 30, 2013 (90 DAYS)

	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12
Prebill Amount	$ (809,077.66)	$ (706,408.41)	$ (694,393.75)	$ (648,605.29)	
Invoice Amount	$ 176,893.08	$ 489,025.13			
Credit	$ (632,184.58)	$ (217,383.28)	$ (694,393.75)	$ (648,605.29)	
Accumulated Credit	$ (632,184.58)	$ (849,567.86)	$ (1,543,961.61)	$ (2,192,566.90)	

DRAFT DRAW DOWN SCHEDULE OF EXCESS REVENUES FOR DISCUSSION PURPOSES ONLY

Budget Month	City PreBill	County Prebill	Las Campanas Prebill	
12-Jul	$ 570,131.60	$ 207,372.00	$ 31,573.74	
12-Aug	$ 499,479.29	$ 178,974.59	$ 27,954.53	
12-Sep	$ 511,494.13	$ 157,392.31	$ 25,052.31	
12-Oct	$ 481,724.90	$ 142,365.08	$ 24,515.31	
12-Nov	$ 466,760.33	$ 134,301.88	$ 23,902.23	
12-Dec	$ 482,134.68	$ 132,660.78	$ 23,681.19	
12-Jan	$ 491,268.91	$ 131,738.68	$ 23,644.81	
12-Feb	$ 478,279.55	$ 131,074.54	$ 23,785.60	
12-Mar	$ 470,763.21	$ 130,131.97	$ 27,156.04	
12-Apr	$ 519,407.71	$ 146,225.64	$ 33,357.15	
12-May	$ 565,528.78	$ 171,137.22	$ 40,495.06	
12-Jun	$ 695,463.38	$ 233,052.99	$ 30,076.19	
Total	$ 6,232,436.47	$ 1,896,427.68	$ 335,194.16	$ 8,464,058.31
Credit	$ (4,462,378.55)	$ (1,382,830.70)	$ (75,307.39)	$ (5,920,516.64)
Est. Proposed 90 Cash On Hand	$ 1,536,765.16	$ 467,612.30	$ 82,650.61	$ 2,087,028.08
Remaining Credit	$ (2,925,613.39)	$ (915,218.40)	$ 7,343.22	$ (3,833,488.56)
Estimated # Months Depletion	6	6	0	

BDD RECONCILIATION OF ACTUAL EXPENDITURES TO PREBILLS

Activity as of 10/03/2012 | **Statement Date:** 10/03/2012

OPERATING FUND ONLY 7410/7280000 | **Customer #:** 505220

Carry Forward Grand Total Unapplied Operating Credit May 2011 - June 2012

	Subtotal
City of Santa Fe	(2,871,376.00)
Santa Fe County	(856,573.74)
Las Campanas Entities Combined - PENDING FISCAL AGENT APPROVAL of memo dated 2/7/2012	0.00
GRAND TOTAL CARRY FORWARD OPERATING CREDIT	**$ (3,727,949.74)**

City of Santa Fe Working Capital Transactions FY12/13

City of Santa Fe Transactions Excluding Chemicals

Date	Invoice Number and Description	Subtotal
06/25/2012	INV 4027807 JULY PreBill -City Operating Excluding Chemicals	(542,573.60)
08/01/2012	INV 4027941 AUGUST PreBill -City Operating Excluding Chemicals	(471,398.70)
08/22/2012	INV 4028438 SEPTEMBER PreBill -City Operating Excluding Chemicals	(475,424.75)
09/28/2012	INV 4028992 OCTOBER PreBill -City Operating Excluding Chemicals	(456,832.13)
08/23/2012	INV 4028440 billed City JULY expenditures Excluding Chemicals	1,325.49
09/21/2012	INV 4028988 billed City AUGUST expenditures Excluding Chemicals	327,172.83
10/03/2012	**City Account Balance Excluding Chemicals**	**(1,617,730.86)**

City of Santa Fe Chemical Transactions

Date	Invoice Number and Description	Subtotal
06/25/2012	INV 4027807 JULY PreBill -City - Chem	(27,558.00)
08/01/2012	INV 4027941 AUGUST PreBill-City - Chem	(28,080.59)
08/22/2012	INV 4028438 SEPTEMBER PreBill-City - Chem	(36,524.38)
09/28/2012	INV 4028992 OCTOBER PreBill-City - Chem	(24,892.77)
08/23/2012	INV 4028440 billed City JULY Chemical expenditures	107,975.46
09/21/2012	INV 4028988 billed City AUGUST Chemical expenditures	35,808.59
10/03/2012	**City Chemical Account Balance**	**26,728.31**

City of Santa Fe Transaction Subtotals

Date	Invoice Number and Description	Subtotal
06/25/2012	INV 4027807 Total City JULY PreBill	(570,131.60)
08/01/2012	INV 4027941Total City AUGUST PreBill	(499,479.29)
08/22/2012	INV 4028438 Total City SEPTEMBER PreBill	(511,949.13)
09/28/2012	INV 4028992 Total City OCTOBER PreBill	(481,724.90)
08/23/2012	INV 4028440 Total billed City expenditures JULY	109,300.95
09/21/2012	INV 4028988 Total billed City expenditures AUGUST	362,981.42
10/03/2012	**TOTAL CITY Account Balance**	**(1,591,002.55)**

BDD RECONCILIATION OF ACTUAL EXPENDITURES TO PREBILLS

Activity as of 10/03/2012 | **Statement Date:** 10/03/2012

OPERATING FUND ONLY 7410/7280000 | **Customer #:** 505220

Santa Fe County Working Capital Transactions FY12/13

Santa Fe County Transactions Excluding Chemicals

Date	Invoice Number and Description	Subtotal
06/25/2012	INV 4027807 JULY PreBill -County Operating Excluding Chemicals	(194,531.03)
08/01/2012	INV 4027941 AUGUST PreBill -County Operating Excluding Chemicals	(166,982.22)
08/22/2012	INV 4028438 SEPTEMBER PreBill -County Operating Excluding Chemicals	(147,703.79)
09/28/2012	INV 4028992 OCTOBER PreBill -County Operating Excluding Chemicals	(137,092.11)
08/23/2012	INV 4028440 billed County JULY expenditures Excluding Chemicals	35,849.34
09/21/2012	INV 4028988 billed County AUGUST expenditures Excluding Chemicals	101,264.46
10/03/2012	**COUNTY Account Balance Excluding Chemicals**	**(509,195.35)**

Santa Fe County Chemical Transactions

Date	Invoice Number and Description	Subtotal
06/25/2012	INV 4027807 JULY PreBill -County - Chem	(12,841.29)
08/01/2012	INV 4027941 AUGUST PreBill-County - Chem	(11,992.37)
08/22/2012	INV 4028438 SEPTEMBER PreBill-County - Chem	(9,688.52)
09/28/2012	INV 4028992 OCTOBER PreBill-County - Chem	(5,272.97)
08/23/2012	INV 4028440 billed County JULY Chemical expenditures	13,893.01
09/21/2012	INV 4028988 billed County AUGUST Chemical expenditures	8,840.53
10/03/2012	**COUNTY CHEMICAL Account Balance**	**(17,061.61)**

Santa Fe County Transaction Subtotals

Date	Invoice Number and Description	Subtotal
06/25/2012	INV 4027807 Total County JULY PreBill	(207,372.32)
08/01/2012	INV 4027941 Total County AUGUST PreBill	(178,974.59)
08/22/2012	INV 4028438 Total County SEPTEMBER PreBill	(157,392.31)
09/28/2012	INV 4028992 Total County OCTOBER PreBill	(142,365.08)
08/23/2012	INV 4028440 Total billed County expenditures JULY	49,742.35
09/21/2012	INV 4028988 Total billed County expenditures AUGUST	110,104.99
10/03/2012	**TOTAL COUNTY Account Balance**	**(526,256.96)**

BDD RECONCILIATION OF ACTUAL EXPENDITURES TO PREBILLS

Activity as of 10/03/2012 | **Statement Date:** 10/03/2012

OPERATING FUND ONLY 7410/7280000 | **Customer #:** 505220

Las Campanas Working Capital Transactions FY12/13

Date	Invoice Number and Description	Subtotal
06/25/2012	INV 4027807 JULY Prebill Las Campanas	(31,573.74)
08/01/2012	INV 4027941 AUGUST PreBill Las Campanas	(27,954.53)
08/22/2012	INV 4028438 SEPTEMBER PreBill Las Campanas	(25,052.31)
09/28/2012	INV 4028992 OCTOBER PreBill Las Campanas	(24,515.31)
08/23/2012	INV 4028440 JULY billed expenditures Las Campanas	17,849.78
09/21/2012	INV 4028988 AUGUST billed expenditures Las Campanas	15,938.72
10/03/2012	TOTAL LAS CAMPANAS Account Balance	(75,307.39)

Subtotal FY12/13 Operating Credit - EXCESS REVENUE

	Subtotal
City of Santa Fe	(1,591,002.55)
Santa Fe County	(526,256.96)
Las Campanas	(75,307.39)
GRAND TOTAL OPERATING CREDIT	$ (2,192,566.90)

Applied Credits in Lieu of Cash Payments for Operating Fund PreBills

	Subtotal
City of Santa Fe	0.00
Santa Fe County	0.00
Las Campanas Entities Combined	0.00
GRAND TOTAL OPERATING CREDIT	$ -

Grand Total Unapplied Operating Credit

	Grand Total
City of Santa Fe	(4,462,378.55)
Santa Fe County	(1,382,830.70)
Las Campanas Entities Combined	(75,307.39)

GRAND TOTAL UNAPPLIED OPERATING CREDIT $ (5,920,516.64)

Working Capital Summary

FY2013 FY2014 Adopted Budget	$ 8,464,512.20
# DAYS IN FISCAL YEAR	365.00
AVERAGE DAILY BUDGETED AMOUNT	$ 23,190.44
GRAND TOTAL UNAPPLIED OPERATING CREDIT	$ (5,920,516.64)
ESTIMATED NUMBER OF DAYS EXCESS REVENUES	(255.30)