





FINANCE DEPARTMENT
CITY OF NEWARK

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November 30, 2016

TO: Mayor and City Council

VIA: Carol S. Houck, City Manager 

FROM: David A. Del Grande, Director of Finance 

RE: Reserve Question Raised by Councilman Morehead

This snapshot was handed out prior to our budget hearing on November 21, but it was not discussed during the council meeting since we were presenting the budget that evening.

RESERVE SNAPSHOT (BASED ON 12/31/2015 CAFR)

	GENERAL/CAPITAL PROJECTS FUND	ELECTRIC FUND	WATER FUND	SEWER FUND	PARKING FUND	TOTAL
Reserve Range¹:						
Total Minimum Per Current Policies	6,813,000	7,530,000	6,205,000	1,798,000	2,163,000	24,509,000
Total Maximum Per Current Policies	11,789,000	11,726,000	9,003,000	2,518,000	2,613,000	37,649,000
Unrestricted Net Position (12/31/2015):	(2,964,236)	9,063,044	1,570,527	3,967,088	129,028	11,765,451
Estimated Unrestricted Net Position (9/30/16):	(3,857,542)	11,663,000	2,600,000	3,740,000	310,000	14,455,458
Less Designated Reserves:						
Rate Stabilization Reserve Balance	-	2,179,619	-	-	-	2,179,619
2017 CIP reserve requirements	3,159,352	43,500	1,645,880	298,675	309,590	5,451,997
Total Designated Reserves:	3,159,352	2,223,119	1,645,880	298,675	309,590	7,631,616
Undesignated Reserves:	(7,016,894)	9,439,881	954,120	3,446,325	410	6,823,842
Add back GASB 68, Net pension liability effect 12/31/15	17,809,574	2,462,019	2,146,884	84,858	575,407	23,078,742
Balance without GASB 68 adjustment	10,792,680	11,901,900	3,101,004	3,531,183	575,817	29,902,584

¹ Current reserve requirements include an operating reserve based on the # of days, equipment replacement, and a capital reserve.

Per our current reserve requirements (operating reserve, equipment replacement and capital reserves) we should be carrying a balance that is highlighted in the gray box. Our current policies have our min and max reserves to be in the \$24.5M to \$37.6M range when we combine all the funds. Our min and max amounts consider # of days, equipment replacement and capital reserves within the calculation.

Our unrestricted net position at 12/31/15 was \$11.7 million, and our current estimated undesignated reserves after we consider the 2017 CIP requirements fell to \$6.8 million, far below our reserve requirements. Unrestricted net position reflects the difference between the City's assets and liabilities,

and changes on a monthly basis. CIP spending is one example of an item that could significantly change our net position on a month-to-month basis. Our estimated unrestricted net position at 9/30/16 is \$14.4 million.

From the \$14.4 million above, we have another \$7.6 million earmarked towards designated reserves. This primarily covers the \$2.1 million have put aside in the Electric rate stabilization fund, and \$5.5 million to cover the 2017 CIP.

This brings our estimated undesignated reserves to \$6.8 million after we deduct our 2017 obligations, far below the \$24.5 million that our policies call for as a minimum.

The undesignated reserves are low due to the GASB requirement that began in 2015. Beginning in 2015, Newark was required to begin incorporating GASB 68 into our financial statements. This requirement mandates that all governments have to report the City's full pension liability on our financial statements. Doing so reduced our undesignated reserve balance by \$23.1 million to \$6.8 million. For budget purposes, we recognize that we will not have every City employee with a pension retire tomorrow, so we do not essentially consider the full impact of GASB 68 when determining cash flow for budgeting purposes.

Historically, we have not reported balances by fund, as this is something I am working towards during my short time here. If you look at the funds individually, you can see that only electric and sewer are meeting their requirements. The General/Capital Projects Fund actually shows a negative undesignated reserve when the GASB 68 net pension liability is considered, as the majority of our workforce (currently under a pension plan) are funded via the General Fund.

When you add back the GASB 68 requirement (don't include it in our cash flow assumptions) Water is still far short of its minimum, as is Parking. So when BV reported that a loan to the Water Fund could be supported by the Sewer Fund, that is correct. However, it will put the sewer fund in a tight bind if future reserves are needed for sewer projects, and we are still utilizing the "pay-go" method of financing.

Please keep in mind that BV's reports are based on cash flow only. They began their report based on a point in time, so our figures may not be 100% equal to what they are showing today since our budget has changed numerous times over the past few months.

Cc: Andrew Haines, Deputy City Manager
Jill Hollander, Deputy Finance Director