

## Ronald Wastewater District Assumption Transition Financial Policies Issue Paper

### Brief description of the issue

As per the Interlocal Operating Agreement, the following financial policy and debt topics are to be addressed during the assumption transition period: call of bonded debt, liability and indebtedness assumption, use of cash reserves, and maintenance of reserve funds. The City also feels that financial policies should be in place at the City prior to assumption to address how capital needs and operation and maintenance needs of the City's new sewer utility are financed. The City currently has financial and debt policies for the City's various funds (attached), and the new sewer fund should be added to these policies.

### Statement as to why it is being considered

Currently, RWD has no outstanding debt; all prior bond and Public Works Trust Fund debt has been retired. Thus, there is no current issue with calling bonded debt prior to assumption or assumption of outstanding liabilities that the City would take on. However, there are four main issues that should be addressed in this section of the Transition Plan:

- What should the RWD policy be between now and the formal assumption date regarding the use of District cash and the maintenance of reserves;
- What should the RWD policy be regarding any new debt incurred between now and the formal assumption date;
- What should the financial and debt policies be for the City regarding the new sewer utility after assumption occurs; and
- What is the policy and procedure regarding expenditures related to assumption (i.e., costs that might be incurred to move assumption forward)?

### Financial Policy Agreements

District cash reserve levels -

- ~~—What is the District's current reserve level and can this be maintained within the current rate structure while providing for current operations and maintenance and implementation of the current capital improvement program?~~
- The desired cash reserve level at the time of assumption is 90 days of operating expenses.
- ~~—Given that the District last completed their Comprehensive Plan in 2010, staff recommends updating the plan in 2016 (or sometime prior to assumption). What would be the capital need and financial considerations included in the plan? How might these financial considerations affect cash reserve levels?~~

District Interim Debt Policy—

- ~~—Does the District have any plans to issue debt between now and the end of 2017?~~
- ~~—If so, for what?~~
- ~~—Should the District take on any new debt at all?~~
- ~~—If so, under what circumstances?~~

#### ~~City sewer utility debt and financial policies—~~

- ~~—What is the appropriate reserve level (example: continues CIP and other expenditures as stated but maintains a \$1 million or greater reserve)?~~
- ~~—Pay as you go or debt finance?~~
- ~~—Combined operations and capital funds or separate?~~
- ~~—Financial planning and rate period (commonly six years and consistent with CIP)?~~
- ~~—Fund depreciation or not (aka direct funding capital repair and replacement)?~~
- ~~—Maintain Industry standard metrics (operating reserve level, capital reserves, rate stabilization reserve, debt service coverage, etc)?~~
- ~~—Bill payment/non-payment requirements?~~

#### ~~Assumption Costs—~~

- ~~—Are there any identified costs that might be incurred to implement assumption? Consultant costs? Other?~~
- ~~—If so, who pays for these costs? Cost split? One entity or the other?~~

#### **Alternatives or options being considered**

~~Alternatives can be crafted after first discussing the policy questions with the CEO.~~

#### **Recommendations for policies and/or actions**

Staff recommends that the CEO discuss these policy agreements and move these forward into the Transition Plan, which will ultimately be adopted by the CEO and accepted by the City Council and RWD Board of Commissioners.

#### **Work plan and schedule for addressing each action**

~~The Transition Plan should answer the policy questions regarding RWD cash reserve levels, RWD use of debt prior to assumption, and how incurred assumption expenditures are dealt with. Adoption of the Transition Plan will then serve as the District's and City's commitment to adhere to these agreed upon interim policies prior to assumption.~~

~~The Transition Plan should identify the financial and debt policy questions for the City Council to consider (and potentially provide recommendations for policy language) regarding how the City's sewer utility should be operated. After adoption of the Transition Plan, the City Council will need to amend their financial and debt policies to incorporate the new sewer utility financial and debt policies. This future work task will be identified in the Issue Paper for Policy and Code Changes.~~

**Attachment** - City of Shoreline Debt and Financial Policies from 2014 Budget