

## 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:

- The RWD policy prior to assumption regarding the use of District cash and the maintenance of reserves;
- The RWD policy prior to assumption regarding any new District debt;
- The City's financial and debt policies for the new sewer utility after assumption occurs; and
- The policy regarding expenditures related to assumption (i.e., costs that might be incurred to move assumption forward)?

The Financial Policy Agreements below provide direction on these four policy issue areas:

### Financial Policy Agreements

#### District Cash Reserve Levels -

- The cash reserve level at the time of assumption will be approximately 90 days of operating expenses, with a minimum of 60 day operating expenses. 30 days of operating expenses for the utility is roughly \$1.1 million.
- The District will manage current cash reserve levels prior to assumption while maintaining current operations and implementing the identified capital improvement program.

#### Comprehensive Plan -

- An update to ~~the Sewer RWD's~~ Comprehensive Plan will be completed by the District prior to assumption that includes 1) a hydraulic analysis for the utility's entire service area based on future projected growth in the City, and 2) a capital program proposal based on the hydraulic analysis. Post assumption, the City will use the District's Sewer Comprehensive Plan update to conduct a cost of service analysis and a rate study for the sewer utility. ~~The Comprehensive Plan update~~

~~will include a capital program assessment, financial assessment, cost of service analysis, and potentially a condition assessment of pump stations.~~

- The Comprehensive Plan Update conducted by the District could be an Interim Opportunity that is supported by City.

#### District Interim Debt Policy -

- Although the District does not have any debt or any current plans to issue debt for implementation of their capital improvement program or other operational needs, if the District is interested in issuing debt prior to assumption, the District will discuss the potential issuance of debt with the CEO prior to taking formal Board action to issue any debt. This includes both issuing bond debt and taking on loans, such as Public Works Trust Fund loans.

#### City Sewer Utility Debt and Financial Policies -

- Prior to assumption, the City will review and adopt debt and financial policies for the new sewer utility. These debt and financial policies will be based on the financial analysis conducted as part of the District's Comprehensive Plan update.
- City financial policies for the sewer utility will include (but are not limited to) policies on cash reserve levels, debt policies ('pay as you go' or debt finance), fund management policies (combined or separate operations and capital funds), depreciation policies, bill non-payment policies, and rate and capital period policies.
- The City will review industry financial policy metrics to confirm that the City's adopted debt and financial policies meet industry standards.

#### Assumption Costs -

- If direct costs are incurred to implement the assumption of RWD, the utility will pay for these costs. Prior to any of these direct costs being incurred, these costs will be approved by 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.