

STAFFORD COUNTY BOARD OF SUPERVISORS		
UTILITIES FUND FISCAL POLICY		
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UTILITIES FUND FISCAL POLICY

In June, 2010, the Board re-established its commitment to the sustainability of the Utilities Department with the adoption of a new Utilities Fund Fiscal Policy ("Policy"). The intent in establishing the Policy is to provide an accounting and planning tool for the Board, the Utilities Commission, and County staff that is easy to administer and understandable, and properly allocates costs.

OBJECTIVES

Three primary objectives drive the establishment of this Policy:

1. The desire to maintain strong operations and maintenance programs, and complete priority capital projects, as developed and adopted each year, in order to deliver high-quality water and wastewater services.
2. The desire to maintain a strong financial condition aimed at preserving and enhancing the County's current bond ratings to minimize capital project financing costs.
3. The desire to maintain reasonable and well-justified levels of rates and fees, in accordance with this Policy.

ACCOUNTING FOR FINANCIAL ACTIVITIES

The Utilities Fund is subdivided into two categories: Capacity Expansion Fund and Operating Fund.

Sources and uses of funds are tracked by category and used in the monitoring of rate and fee adequacy.

The Utilities Fund will include an allowance for contingency equal to 1.5% of the annual budgeted operating expenses.

CAPACITY EXPANSION FUND

The County seeks to fund the Capacity Expansion Fund with the following financing sources, in accordance with the Rates section of the Policy:

- Availability and pro rata fees
- Bond proceeds
- Interest on investments allocated to this category

Expenditures from the Capacity Expansion Fund shall be used for the following:

- Projects required by system expansion or changes in regulations or technology
- Water and sewer extension projects
- Debt service on bonds issued for such construction

OPERATING FUND

The County seeks to fund the Operation Fund with user fees, in accordance with the Rates section of the Policy. Operating funds are used to pay annual operating and maintenance expenses provide for long-term repair, renewal and rehabilitation of capital assets.

- The Department of Utilities is committed to establishing and maintaining an asset management program to include proactive maintenance and long-term funding of its capital reinvestment projects.

RATES

- The Utilities financial position will be analyzed at least annually to evaluate the need for changes in rates and fees; so that, should increases be needed, they can be made in a manner that minimizes the volatility of any rate changes and their resulting impact on customers. The rate structure will be based on the following principles, in order of priority:
 - Meeting debt service coverage and cash reserve requirements contained in bond covenants and this Policy.
 - Maintaining a competitive market position, primarily with Stafford County's 'peer group' of municipalities.
 - Attempting to have growth pay for associated growth in water and sewer infrastructure based on the accounting of funds described above.
- The Department of Utilities will be run in a business-like manner. Rates and fees will be set to ensure that all of the costs of operating and maintaining the water and sewer utilities are recovered, including capital repair & replacement, so that the future of the enterprise is secure.
- Rates and fees will be set to ensure the integrity of the utility system and protect the County's bond ratings with an eye toward achieving the lowest rates over time. To accomplish these objectives, water and sewer user fees will, at a minimum, be recommended to the Board to increase annually by an amount equal to 75% of the most recent annual increase in the *Consumer Price Index – All Urban Consumers* (CPI-U), water and sewerage maintenance in U.S. city average as published by the U.S. Bureau of Labor Statistics.
- Stafford County recognizes the difference between residential and non-residential users and will break these groups into two classes and set rates accordingly.
 - Residential users typically increase outside water usage during the summer months. This additional water usage is primarily discretionary and creates an added burden on the system. It is appropriate that the rate structure for these users be set accordingly.
 - i. An average non-peak water usage value will be calculated for each customer.
 - ii. An inclining block rate structure will be used to bill for water usage, both to offset increased costs for the water treatment and distribution systems and to encourage water conservation.

- iii. Since outside water usage does not create additional wastewater treatment needs, charges for wastewater collection and treatment will be capped based on average usage.
- Non-Residential customers typically exhibit consistent year-round water usage and tend to have a natural incentive to conserve water as part of overall cost containment. This steady, predictable usage places a smaller burden on the utility, largely due to economies of scale.
 - i. The non-residential rate structure will consist of a flat rate block.
 - ii. Non-residential customers will not be subject to a wastewater cap.
 - iii. The non-residential class will include multi-family residences served by a single water meter, public and semi-public facilities, industrial and commercial accounts and mobile home parks.
- The rate ordinance will include emergency rates which will be in effect for periods of drought or water distribution system interruptions, as may be declared by the Board of Supervisors.

CASH RESERVES

- The County recognizes the importance of maintaining a cash balance sufficient to meet its needs, both predictable and unforeseen. To that end, “reserve funds” will be established with predetermined minimum balances to ensure the financial health of the enterprise.
- An Operating Reserve will be established and maintained in a total amount equivalent to not less than 150 days annual operating and maintenance expenses to ensure against short-term revenue shortfalls and unanticipated operating and/or maintenance expenses. This Operating Reserve shall include:
 - An amount equal to 5% of the projected costs of Repair, Renewal and Rehabilitation of the County’s capital assets over the next 20 years. This “3R” portion of the Reserve will be used to pay for unexpected major repairs as well as planned replacement or rehabilitation of fixed assets. This minimum amount satisfies the Repair and Replacement Reserve requirement of the Master Indenture and may be calculated in a different manner from time to time as allowed in the bond covenants.
 - A Reserve for Customer Deposits, calculated in accordance with “generally accepted accounting principles”.
- The Department of Utilities will regularly evaluate cash needs and provide a current status of the reserve funds each year to the Board, the Utilities Commission and County Administration staff.
- A cash flow projection will be prepared annually and provided to the Treasurer to aid in the investment of funds to achieve maximum returns.
- All funding alternatives, including borrowing between categories, will be considered in order to meet financing needs and to achieve the most cost-efficient operation of the Utilities Fund.
- The Department of Utilities will ask the Board to adopt a Reimbursement Resolution as part of the annual budget process.

DEBT SERVICE COVERAGE

The Department of Utilities will establish rates and fees for services provided by the system to ensure that, in each fiscal year, Net Revenues (Gross Revenues less Operating Expenses) are greater than or equal to the following:

- 150% of Senior Debt Service
- 125% of Subordinate Debt Service
- 100% of Total Debt Service, after excluding 100% of non-recurring revenues such as availability fees, pro rata fees, connection fees and reserves (this ratio will be met no later than FY 2018).

FORECASTING AND MONITORING

To help meet the Policy objectives, formal forecasting and monitoring processes will be used. These processes are intended to (1) give the County adequate lead time to phase in smaller annual rate increases for large capital projects and avoid much larger rate increases later; (2) only incur financing costs when needed by accurately planning for capital spending and financing needs; (3) obtain formal endorsement by the Board of Supervisors of the long-term financial needs and sources of financing; and (4) strengthen the Department of Utilities' bond ratings. These processes shall include the following:

- Annual adoption of a 10-Year Financial Plan. Future financial needs of the Utilities Fund will be projected over a ten-year period using information from all available sources; including, but not limited to, historical and projected financial data, projected growth rates, the County's Comprehensive Plan and the Department of Utilities Water and Sewer Master Plan. This forecasting model will be maintained in an electronic spreadsheet, updated annually, and presented to the Stafford County Board of Supervisors annually as part of the Budget process.
- Maintenance of a 3-year cash expenditure forecast by quarter with subsequent updating on at least a quarterly basis.
- Maintenance of annual capital and operating spending plans.