

Rockdale County Policy #2013-1-20 As Amended
October 13, 2020
Rockdale County Water and Sewer Financial Management Policy

2020-438: Rockdale County, Georgia Water and Sewerage Revenue Bonds, Series 2020: Letter of Direction; Notice of Redemption; Certificate and Other Related Documentation – To Consider the Adoption of a bond resolution authorizing the issuance of up to \$82,000,000 of water and sewerage revenue bonds, series 2020 and the execution of related documents and Amend Policy Number #2013-1-20 to increase the debt service coverage ratio from 1.10x to 1.25x and to eliminate the aspirational goal of 1.50x. – Resolution #R-2020-17: A motion was made by Commissioner Washington, seconded by Commissioner Williams and was passed unanimously to approve this resolution and policy amendment as presented.

As amended this 13th Day of October 2020

Rockdale County, Georgia
Board of Commissioners



Osborn Nesbitt, Sr., Chairman

ATTEST:



Jennifer O. Rutledge, County Clerk/
Director of Legislative Affairs



Sherri L. Washington., Commissioner Post I



Dr. Doreen Williams, Commissioner Post II

Approved as to form:



M. Qader A. Baig, County Attorney

ROCKDALE COUNTY WATER AND SEWER FINANCIAL MANAGEMENT POLICY

SUMMARY

Purpose:

The purpose of establishing financial policies for the County’s Water and Sewer utilities is to promote the financial integrity and stability of the utilities and to provide for the sustainability of essential utility services. This policy forms the foundation of utility financial management and, with routine application, can act as primary guidelines for consistent decision making.

FINANCIAL PERFORMANCE OBJECTIVES		
Measurement	Objective	Section
Working Capital Reserves	The greater of 4 months of O&M budget	A.1
Capital Improvements Reserve Fund	Minimum fund balance target of 50% of annual depreciated capital costs	B.1
Debt Service Coverage Ratio	≥ 1.10	C.1
Debt Burden to Asset Value	≤ 50%	C.2
Sufficiency of Revenues Above Debt Requirements	Annual Debt service shall not exceed 35% of annual gross revenues	C.4
Credit Ratings	Aa2 – Moody’s; AA+ – Standard & Poor’s; AA+ – Fitch	C.2

SECTION A. GENERAL FINANCIAL POLICIES

- A.1. **Working Capital Reserves:** Water Resources shall maintain a fund balance at a level to adequately provide cash flow for daily financial needs in addition to adequate reserves to counter revenue instability and unanticipated expenses. The budgeted minimum reserve balance shall be equal to the larger of the following: a) 33% (four months) of the Operations & Maintenance (O&M) Budget.
- A.2. Water Resources shall make conservative, but reasonable estimates of revenues and costs on an annual basis.
- A.3. If the Water Resources Director deems it necessary at any time to submit any Budget or other proposal to the Board that does not comply with the parameters set forth in this document, he/she shall seek specific approval from the Board for such a proposal.

SECTION B. ASSET MANAGEMENT AND FUNDING POLICY

- B.1. *Capital Improvements Reserve Fund:*** Water Resources shall maintain a Capital Improvements Reserve Fund with a minimum fund balance target of 50% of the annual depreciated capital costs. The Capital Improvements Reserve Fund shall be an unrestricted reserve that is a component of the total Fund balance. The purpose of this reserve fund is to: ensure more sustainable funding for rehabilitation and replacement of the water and sewer systems and capital equipment; cover major unplanned increases in capital project costs; pay for previously unplanned capital needs; and provide funding flexibility needed in the Annual Budget to adjust for CIP costs carry-over adjustments.
- B.2. The annual budget shall provide 100% funding for maintenance activities required to ensure the operational integrity and safety of facilities and facility components.
- B.3. Water Resources shall use a comprehensive approach to properly maintain all capital facilities, equipment, vehicles, etc.
- B.4 Water Resources and Finance will work together annually to ensure that assets are added to the asset list with the proper classification to ensure the assets values are depreciated with the correct life cycles.
- B.5 Water Resources will conduct an annual inventory of all assets and report findings back to the Finance Department to make any corrections necessary.
- B.6 An amortization schedule shall be established for each physical asset to reflect the reasonable useful life of the asset.
- B.7 Water Resources will prepare a 5-10 year CIP which is based in part on the Master Plan and will be updated on an annual basis.
- B.8 Water Resources will maintain a 20-25 year Master Plan that will be updated on a scheduled basis.

SECTION C. DEBT & REVENUE MANAGEMENT POLICY

The following financial ratios shall be reviewed and taken into advisement before additional long term debt is incurred:

DEBT MANAGEMENT

C.1. **Debt Service Coverage Ratio:** Water Resources shall maintain a minimum annual Debt Service Coverage Ratio of 1.10. If additional debt is to be incurred by the system, the minimum coverage ratio shall be 1.20. The desired annual debt service coverage ratio is 1.50; however, if the minimum coverage ratio for any fiscal year falls below less than 1.10 and is sustained beyond one fiscal year, a review of the rate model shall be conducted to determine what action shall be made to achieve the minimum of 1.10 debt service coverage ratio. This action does not include a one-time anomaly such as a severe weather event or other unforeseen circumstance that can be supported by the reserve fund.

C.2. **Debt Burden to Asset Value:** The comparison of outstanding debt to infrastructure value is a reasonable indicator of debt capacity. Water Resources' debt to plant ratio (outstanding debt divided by the book value of fixed assets) shall not exceed 0.5 (50%). C.3. **Credit Ratings:** Water Resources shall maintain Credit Ratings of at least Aa2, AA+ and AA+ from Moody's, Standard & Poor's and Fitch, respectively.

REVENUE MANAGEMENT

C.4. **Sufficiency of Revenues above Debt Requirements:** Water Resources shall maintain debt service as a percent of revenue at or below 35% of revenues.

C.5. **Rate Model:** Water Resources in conjunction with the Finance Department will update the rate model on an annual basis to ensure debt service requirements are met.

C.6 **Financial Reviews and Adjustments:**

A. Annual Events:

- Fund balance transfers from Revenue Fund to Capital Accounts
- Rate sufficiency reviews utilizing Rate Model
- Release of funds from Restricted Accounts as authorized
- Publication of annual RWR financial statements

B. Financial Reviews and Corrective Action

- The Director of RWR will review all critical financial parameters annually and submit recommendations to the BOC regarding recommended actions to maintain or restore a financial performance parameter (s) to its prescribed level.

SECTION D. ANNUAL BUDGETING PROCESS

The preparation of the following documents on an annual basis is a key component of Water Resources' annual budgeting and rate setting process. Those documents followed by an asterisk (*) shall be presented for Board of Commissioners adoption.

Budget Calendar: The budget calendar shall include the proposed dates of all Board meetings and work sessions at which budget matters are to be discussed, and shall list the dates by which major budget tasks have been or are to be completed by staff.

10-Year CIP including a 5-year CIP Budget Plan*: The CIP provides for the orderly repair and replacement of existing facilities, helps identify lead time for project planning, regulatory approvals, land acquisition, design, and construction, and provides a framework for strategically analyzing a wider range of acceptable alternatives, and for identifying, ranking, and executing projects.

Annual Budget*: The annual budget provides the appropriation necessary to operate during the ensuing fiscal year. The specific process and timeline for completing key components of Water Resources' annual budgeting and rate setting process will vary from year-to-year; however, the following table sets forth guidelines to which Water Resources should generally adhere.

Task	Time Frame	Rationale
Review strategic issues, policies and economic assumptions	April/May	Strategic issues, policies, and economic assumptions that are expected to impact and the preparation of budgets (O&M and CIP) and rates. The identification of these key issues will help shape the annual budgeting process.
Cost containment and efficiency review	June/July	Cost containment and/or efficiency opportunities that may impact the O&M or CIP budgets are to be reviewed
Capital Improvements Plan Review	July/August	The CIP provides for the orderly repair and replacement of existing facilities, lead time for project planning, regulatory approvals, land acquisition, design and construction, a framework for strategically analyzing a wider range of acceptable alternatives, and a framework for identifying, ranking, and executing projects.
Operations and Maintenance Budget Review	August/September	The O&M budget provides funding for properly operating and maintaining RWR services and programs.
Financial Modeling and Rate Review	September	Upon completion of CIP and O&M budgets, this information and other planning assumptions shall be entered into the 15-year financial planning model. The model shall be used to interactively generate various scenarios to find an appropriate balance between spending, debt, rate adjustments and fund balance. The effectiveness of each scenario shall be measured by various targets and ratio analyses.
Conduct Public Hearings	October	The Board Commissioners shall hold public hearings on the draft O&M budget; CIP budget; and proposed rates, fees and charges for the coming year.
Adopt Budgets and Rates	November	The Board Commissioners shall adopt the O&M budget, CIP budget and rate schedule for the coming year.

TERMS AND DEFINITIONS

Revenue Fund – Revenue arising from operations of water/wastewater systems

Renewal & Extension Fund – The moneys remaining in the Revenue Fund, except for a working capital reserve in an amount to be determined by the County but not to exceed two month's estimated operating and maintenance costs.

Bond Fund(s) - The issuance of bonds is the primary and most widely accepted method of funding large capital projects. The obligations of the County are secured by a pledge of the Water and Sewer System's net revenues and by a pledge of the County's full faith and credit and taxing power.

Special purpose local option sales and use taxes (SPLOST Fund) – levied for certain purposes and subject to voter approval, imposed on the purchase, sale, rental, storage, use, or consumption of tangible personal property and related services.

Customer Deposits –Liability for payments made by customers as a prerequisite to receiving water or wastewater utility service, or equipment. The deposit will subsequently be returned to the customer when requirements for the liability period have been met or agreement for return of equipment has been satisfied.

Capital Improvement Plan (CIP) – is a short-range plan, usually 5-10 years, which identifies capital projects and equipment purchases, provides a planning schedule and identifies options for financing the plan.

Capital Cost Recovery (CCR Fund) - Recover a share of the costs existing ratepayers have paid to construct the capital facilities that allow new customers to be served. Because Water Resources do not use CCR fees to subsidize operations these contributions do not impact operating income.

Restricted Water CCR Fund – Liability for payments made by customers as a prerequisite for water or sewer commitment that is retained in a special fund until the designated liability period has expired.

Restricted Wastewater CCR Fund – Liability for payments made by customers as a prerequisite for water or sewer commitment that is retained in a special fund until the designated liability period has expired.

Unrestricted Capital Improvement Fund- Non-recurring projects of a fixed nature or long life, which provides new or additional public facilities or services.

Debt Service Sinking fund – is where an issuer makes deposits periodically to make sure there are enough funds available for when the time comes to pay debt service requirements. More specifically, a Debt Service Sinking Fund is usually used to keep money to pay the principal and interest of long term debts

Short Term Debt – Debt obligation that is payable within one year.

Debt Service Coverage Ratio - Is calculated by dividing total net operating revenue by total required payments on outstanding debts

Approved this 13th day of August 2013.

ROCKDALE COUNTY, GEORGIA
BOARD OF COMMISSIONERS

By: Richard A. [Signature]
Richard Oden, Chairman and CEO

By: not present
Osborn Nesbitt, Sr., Commissioner

By: Janice Van Ness [Signature]
Janice Van Ness, Commissioner

Attest: Jennifer Rutledge [Signature]
By: Jennifer Rutledge, County Clerk