

# Financial Policies



Little Rock  
Wastewater

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## ***Financial Policies***

LRW is accounted for as an Enterprise Fund, which is a proprietary fund. Enterprise Funds are used to account for operations that are financed and operate in a manner similar to private business enterprises. The intent of the governing body is that the cost of providing services to the users of the system be financed or recovered primarily through such services and are accounted for in this fund. This includes but is not limited to, administration, operations, engineering, information services, maintenance, financing and related debt issues, depreciation, and billing and collection.

### **Flow of Funds Policy**

The flow of funds is established based on parity bond ordinances. The most recent bond ordinance is #20,046. The ordinance states that rates charged for services of the System are fixed by ordinances of the City and all System revenues shall be paid into a special fund designated "Sewer Fund" (or Revenue Fund). The System revenues so deposited in the Revenue Fund are pledged and applied in sequence to: (a) current expenses of maintenance and operations; (b) payment, pro rata, into the bond fund being maintained in connection with the Parity Bonds and any Additional Bonds that require monthly deposits; (c) payment, pro rata, into the bond fund being maintained in connection with the Subordinate Bonds; (d) payment into the Deprecation Fund (3% of System Revenues remaining after disbursement into a, b, and c from above; (e) any surplus in the Revenue Fund after making all disbursements and providing for all funds described above may be used for any lawful purpose related to the System authorized by the LRSSC.

### **Sewer Revenue Fund**

All gross revenues are deposited into the Revenue Fund as collected. Monies on deposit in the Revenue Fund shall be first used to pay all Operation and Maintenance Expenses. The revenues of the System not actually required to pay Operations and Maintenance Expenses (the "Net Revenues") shall be transferred from the Revenue Fund to the other funds, in the order of priority, in the manner set forth in the Bond Ordinance.

### **Bond Fund**

The following shall be deposited in the Bond Fund:

1. Such amounts, in equal monthly installments, by the 10th of the month following the month of Closing, and on or before the 10th of each month thereafter, as will be sufficient to pay the interest scheduled to come due on the bonds next interest payment date, less any amount already on deposit therein for such purposes derived from the proceeds of the bonds or from any other lawfully available source.

2. Additional sums as necessary to provide for the Trustee's fees and expenses and any arbitrage rebate payment due to be paid to the United States Treasury under Section 148(f) of the code.

### Reserve Fund

So long as the funds on deposit in the Reserve Fund created for the benefit of all bonds are equal to the Reserve Fund Requirement, no deposits need to be made to the credit of the Reserve Fund. However, should the Reserve Fund at any time contain less than the Reserve Fund Requirement, then subject and subordinate to making the required deposits to the credit of the Bond Fund, LRW shall transfer from the Net Revenues in the Revenue Fund and deposit to the credit of the Reserve Fund, by the 10th day of each month, such amounts in equal monthly installments to accumulate within at least a 24 month period equal to the Reserve Fund Requirement. The money on deposit in the Reserve Fund may be used to pay the principal of and interest on all bonds at any time there are not sufficient funds on deposit in the Bond Fund for such purpose.

### Depreciation Fund

Three percent (3%) of the remaining money in the Revenue Fund at the end of each month after all payments required to be made from the revenue fund have been made and all deficiencies accumulated from prior months have been paid shall continue to be paid to the Depreciation Fund established in connection with the System, and shall be held in and paid out from such fund for the following purposes:

- To be used solely for the purpose of paying the cost of replacement made necessary by the depreciation of the System.

### Contributions in Aid of Construction Fund

Any monies that may be received by the LRSSC that shall represent contributions in aid of construction shall be deposited in a separate account at the Depository Bank. Such contributions shall not be considered as part of the gross revenues of the System. Payments from such bank account shall be made only for the purposes for which the contributions were made, including any refunds that may become due to any contributor.

### **Capital Improvements and Operations Budget Policy**

A budget will be prepared for all capital expenditures contemplated, including completions of active construction projects, projects and capitalized purchases planned for the succeeding calendar year, and all projects for which a commitment of funds is to be made even though the actual expenditure will not occur in the succeeding year.

This actual budget is used for projecting anticipated capital requirements and becomes a vital element in the LRW Operating Plan.

The initial capital budget will be prepared within each division within LRW, assimilated and reviewed by the Manager of Finance, and submitted for approval of the Manager of Engineering Services and Chief Executive Officers.

Subsequent to the CEO's approval the Capital Budget will be incorporated into the LRW Operating Plan and submitted to the LRSSC for approval.

Upon approval, all proposed expenditures included in the Capital Budget will be classified as "Planned Expenditures." Any capital expenditure proposed during the course of the plan year which are not included in the approved capital budget, will be classified as "Unplanned Expenditures."

Expenditures equal to or greater than \$5,000 on construction projects or purchases of new equipment are hereby defined as capital expenditures. Expenditures equal to or greater than \$5,000 on work, equipment parts, or a combination of the two, that add discernible life to an existing depreciated asset are also defined capital expenditures. In general, expenses associated with additions, replacements, reconstructions, improvements, or betterments qualify as capital expenditures.

Due to state procurement laws and the nature of capital improvement expenditures, it generally takes more than one fiscal year to complete most capital improvement projects. Therefore many projects carry over from year to year before they are completed and placed into service. LRW does not award a project contract unless it is fully funded. However, many large projects have multiple year and/or multiple phase construction periods. LRW uses several benchmarks of efficiency to ensure capital budget integrity. These include timely completion clauses, aggressive efforts to minimize change orders, and tracking the progress of the overall **Capital Improvement Plan (CIP)**.

The following is a typical schedule for the development of a **CIP** and an **O&M budget**:

- January 1 – fiscal year begins.
- July and August – division heads formulate their requests for Operation and Maintenance (O&M) budgets as well as their capital budget requests for the upcoming budget year and the consecutive four years.
- September and October – department supervisors submit their budget requests, which are then combined into the first draft of the overall LRW budget. The Finance staff is responsible for combining them for each department's O&M and capital requests, budget revenues, and other expenditures.
- October and November – the CEO, division managers, and directors review the submitted budgets and establish priorities based on need and availability of funds. Any changes resulting from the management reviews are made at that time.
- November – one or more members of the LRSSC, serving as the Budget Subcommittee, review the budget document with LRW staff. Any revisions resulting from the Budget Subcommittee's review are made at that time. The

budget is presented at the regularly scheduled November or December LRSSC meeting. The budget for the coming year is considered for approval of that time.

### **Budget Amendment Policy**

Operating or capital budget line item transfers are done on a memorandum basis, submitted by the requesting manager to Finance. The transfer is subject to approval by management but does not need approval by the LRSSC. Emergency funding authorizations and amendments to the approved operating or capital budgets can only be done with approval by the LRSSC.

### **Revenue Policy**

Ordinance No. 19,647 also requires that the LRSSC maintain rates sufficient to produce or yield revenues to produce in each fiscal year an amount adequate to pay all expenses incurred for the operations and maintenance of the System as such expenses shall accrue during the year and to produce an additional amount equal to 120% of the aggregate amount required to be paid in such year for principal and interest and redemption premiums on bonds payable from the Bonds Funds. Another financial target that is used in preparing the five-year financial plan is maintaining a 90-day operating reserve fund balance.

LRW is a component unit of the City of Little Rock and operates as an autonomous enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. All activities necessary to provide such services are accounted for in this fund, including (but not limited to) administration, operations, maintenance, financing and related debt service, and billing and collection. Because LRW operates in a proprietary manner, the major revenue sources are user charges for wastewater services. LRW's revenue requirements are based on cost of service. This includes operating costs, expenditures for capital improvements, and repayment of debt. The description and figures of the revenue sources are covered in the financial overview section of this budget.

### **Investment Policy**

LRW also has an Investment Policy outlined in the bond ordinances that state available monies shall be invested and reinvested at the direction of the LRSSC in Eligible Investments. Those Eligible Investments shall be subject to redemption not later than seven (5) years after the date of investment. The primary objectives of the investment policy are 1) preservation of capital; 2) safety of LRW funds; 3) maintenance of sufficient liquidity; 4) maximization of return within acceptable risk constraints; and 5)

diversification of investments. The investment policy requires an annual review and adoption of its investment policy and strategies.

“Eligible Investments” means any of the securities that are at the time legal for investment of City funds pursuant to Resolution No. 10,609 of the City and Arkansas Code Annotated (2007 Supp.) 14-58-309, as each may be amended from time to time. “Eligible Investments” include:

1. U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value;
2. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities.

### **Debt Service Policy**

Planned rate increases on a consistent basis are programmed in the Financial Plan, and are mainly driven by the capital improvement program and debt service coverage required both by the revenue bond covenants and by the LRSSC benchmarks for financial management. The parity revenue bond covenants require debt service coverage of 1.2 times (meaning 120% of the current year’s debt service requirements must be available that fiscal year). LRW does not have a legal debt limit.