



GRAND RAPIDS PUBLIC UTILITIES COMMISSION AGENDA ITEM

AGENDA DATE: August 30, 2023

AGENDA ITEM: Consider a motion to adopt Resolutions 09-18-23-08 adopting the Revenue Policy, Resolution 09-18-23-09 adopting the Grant Policy, Resolution 09-18-23-10 adopting the Investment Policy, Resolution 09-18-23-11 adopting the Operating Reserve Policy, Resolution 09-18-23-12 adopting the Capital Improvement Plan Policy, and Resolution 09-18-23-13 adopting the Debt Management Policy.

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BACKGROUND:

Six interconnected financial-related policies were reviewed by the GRPU Commission at the August 30, 2023 work session. GFOA best practices along with reviewing similar governments' policies were reviewed to draft each financial policy. During the work session, the following key points were reviewed:

Revenue Policy

- Inclusive of all revenues and seek diversification
- Utility services that benefit specific users shall establish user fees
- User fees designed to fully recover direct and indirect costs of providing those services
- Use cost-of-service rate studies to determine user rates
- Rural customers pay more than City of Grand Rapids taxpayer
- Review user fees on a regular basis
- User fees are sufficient to cover operating costs, meet debt obligations, provide funding for capital improvement, provide for adequate working capital & operation reserves, and set aside money in capital replacement sub-account.
- Non-recurring (one-time) revenues should not be used for continuing operations or to balance the budget
- Review new revenue sources for fairness, economic impact, and cost
- Seek available grants which support the strategic plan, capital improvement plan, or operations budget

Grant Policy

- Apply for grants that are consistent with the strategic plan, capital improvement plan, or annual operations budget
- Cost analysis to review probable current or future expenses (added language from work session)
- Attempt to recover all allowable direct and indirect costs
- Grants not used for more than one annual operating budget current ongoing operating expenses
- Reviewed for cash match requirements and impact on operating budget.
- Cash match source of funding identified prior to application
- All grant applications and awards ratified by GRPUC (awards language added from work session)

Investment Policy

- Used LMC template which reflects MN state statutes
- Objectives – safety of principal, liquidity, return on investment, public trust
- Specific investment instruments included and excluded
- Diversification - limiting to avoid over concentration in securities (with exceptions), limiting higher credit risks, vary maturities, appropriate liquidity is maintained
- Collateralization per state law
- Safekeeping of securities per state law
- Depositories per state law
- Management of investment policy include Business Services Manager, General Manager, and City Treasurer.

Operating Reserve Policy

- Establish accumulated reserve target of 50% for electric, water, wastewater collection (sanitary sewer and domestic treatment)
- Reserve target of 50% is accumulated and calculated on previous year's audited annual expenses
- Amounts over the 50% operations reserve target will be transferred to the respective Utility Asset Replacement Reserve sub account to support capital improvement plan
- Must maintain the accumulated reserve target of 50%, if fall below the reserve targets Business Services Manager will inform General Manager
- Plan will be presented to GRPUC for approval as part of the annual budget process
- Unusual and extraordinary expenses are excluded from operating expense calculation (language added from work session)

Capital Improvement Plan Policy

- Promote long-term strategic view of asset management

- Capital assets and infrastructure important legacies that serve current and future generations
- Multi-year Capital Improvement Plan – capital needs, funding options, operating budget impacts
- Capital Improvement Plan developed to ensure financial feasibility and proper stewardship of capital investments
- Comply with adopted financial related policies
- Part of the annual budget process and approved by GRPUC
- Each individual capital asset should be classified, cost determined at purchase or placed into service, predetermined useful life, and depreciated.

Revised Debt Management Policy

- Long-term capital improvements or purchases issued using debt
- Use short-term debt based on type of capital improvement or purchase
- Review outstanding debt for possible refunding opportunities
- Debt structured for the shortest period of time to allow for the fair allocation of costs to current and future beneficiaries or users of the asset
- Interfund borrowing may be considered for loans
- 1st try and use pay as you go funding before short or long-term debt
- Debt financing shall be considered after all non-debt sources of funds
- Debt not used to fund on-going operations
- Long-term debt connected to assets in the capital improvement plan

RECOMMENDATION:

Adopt a separate resolution for each of the updated or new financial policies and rescind all previous policies and resolutions related to GRPU cash reserve, investments, and debt management plans.