



GRAND RAPIDS PUBLIC UTILITIES COMMISSION AGENDA ITEM

AGENDA DATE: August 30, 2023

AGENDA ITEM: Review Revenue, Grant, Investment, Operating Reserve, and Capital Improvement Plan Policies and revised Debt Management Policy.

PREPARED BY: Jean Lane, Business Services Manager

BACKGROUND:

These six financial related policies interconnect. I used GFOA best practices along with reviewing similar governments' policies to draft each policy. During the work session, I will comment on key points and the connection between the policies, and point out areas of the policy language which could be different.

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 tax payer
- 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, 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 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

- 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 ratified by GRPUC

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

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:

Review policies and comment.