

West Goshen Sewer Authority

Financial Management Policy

Policy Statement

The operating policies and fiscal performance goals represent an effort to establish written policies for guiding the Sewer Authority's financial management practices. While some of the performance goals are specific and will limit certain types of financial activity, the goal statements are not intended to restrict the Board's ability and responsibility to respond to emergency or service delivery needs above and beyond the limitations established by the fiscal performance goals.

Policy Purpose

Additional policies will be developed to support the Sewer Authority's financial management policy. Policy guidelines will be established to support the Municipal Authorities Act, which governs the West Goshen Sewer Authority.

Scope

West Goshen Sewer Authority Enterprise Fund. ("Tapping Fee Fund")

Responsibility

The Sewer Authority Treasurer is responsible for maintaining and revising this policy with the review and approval of the Sewer Authority Board.

Policies and Goals

Revenue Performance Policies and Goals

- A. Review of Fees:** The Authority Board will establish and periodically re-evaluate, with a minimum of every 3-years, tapping fee charges and any other set fees at a level related to the cost of providing the service and/or establish new fees, where necessary.

- B. Review of Contracts/Services:** The Authority will establish and re-evaluate on a periodic basis, not to exceed 3 years, contractual items and services such as bank depositories, insurance carriers, and the annual independent auditors.
- C. Enterprise Funds:** The enterprise fund of the Authority will maintain revenue which will support the full direct and indirect costs of the Authority, including costs of Authority operation; capital investment; and debt service.

I. Operational Expenditures Performance Policies and Goals

- A. Budgetary Balance:** The Authority will adopt and maintain a balanced budget in which on-going expenditures will not be allowed to exceed reasonable estimated on-going resources and revenue.
- B. Current Expenditures:** The Authority will pay for all current operation and administration expenses from current revenue sources.
- C. Capital Equipment Maintenance:** The operating budget will provide for the adequate capital maintenance/upgrade of assets and equipment.
- D. Budgetary Control:** The Authority will maintain a budgetary control system which will enable it to adhere to the adopted budget. This includes a centralized record keeping system to be adhered to by all programs and activities receiving annual appropriations. Proposed major budgeted expenditures such as equipment acquisitions, and capital improvements will have prior Board approval.
- E. Monthly Reports:** The Authority will prepare and maintain a system of regular monthly reports detailing actual revenues and expenditures. The Authority will compare actual revenues and expenditures to budgeted amounts. Three reviews will be performed per year. One in April for the prior year outcomes; one in August for current year performance through June 30th; and one in November for the YE projected outcome and budget setting for the upcoming year.

II. Fund Balance

- A.** A fund balance will be maintained to provide the Authority with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing.
- B.** The Authority will maintain a Sewer Reserve Fund balance with a minimum of \$1,500,000.

- C. Funds in excess of the targeted \$1,500,000 shall be used for capital improvements or other annual operating expenditures, as authorized in the annual budget-setting process by the Board.
- D. Except in extraordinary circumstances, the Sewer Reserve Fund balance shall not be used to fund any portion of the ongoing and routine year-to-year operating expenditures of the Authority, including planned capital investment projects. It shall be used primarily to ensure an adequate, unassigned balance is available to respond to unforeseen emergencies, to address unanticipated cash flow issues, and to provide overall financial stability.

III. Capital Acquisition Policies

- A. The Authority will make all capital improvements in accordance with an adopted and funded Capital Improvement Program (CIP). The adopted CIP will be based on the need for capital maintenance or upgrades to the sewer system assets.
- B. The Authority will develop and revise annually a minimum five-year and up to 10-year plan for capital improvements including: design; development; implementation; and operating and maintenance costs.
- C. All capital improvement projects approved in the annual operating budget are approved at the budgeted amounts through the completion of the project. The Board approves both the individual project total budget and the projected cash outlays for all capital improvement projects for the current fiscal year.
- D. The Authority Engineer and staff will identify the estimated costs, potential funding sources, and project schedule for each capital project proposal before it is submitted to the Board for approval.
- E. The Authority will use intergovernmental assistance and other outside resources whenever possible to fund capital improvements providing that these improvements are consistent with the capital improvement plan (CIP) and the Authority's priorities, and the future operating and maintenance costs of these improvements have been included in the budget.
- F. Staff will coordinate development of the Capital Improvement Plan with the development of the operating budget.
- G. Cost tracking of all components of the Capital Improvement Program will be updated monthly to ensure project completion against budget and established time lines.

IV. Debt Policies

- A. Debt Policy Purpose:** The purpose of this policy is to establish parameters and provide guidance governing the issuance, management, continuing evaluation of, and reporting on all debt obligation issues by the Authority, and to provide for the preparation and implementation necessary to assure compliance and conformity with this policy.
- B. Approved Uses of Debt:** Debt financing will be used for major, non-recurring items with a minimum of four years of useful life. An internal feasibility analysis will be prepared for each long-term financing which analyzes the impact on current and future budgets for debt service and operations. This analysis will also address the reliability of revenues to support debt service.
- C. Issuance Restrictions:** Long-term borrowing will not be used to finance current operations. The useful life of the asset or project shall exceed the payout schedule of any debt the Authority assumes.
- D. Types of Debt:** Whenever appropriate, the Authority shall use sewer revenue bonds instead of general obligation bonds so those benefitting from the improvements will bear all or part of the cost of the assets financed.
- E. Refunding Bonds:** Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding, or the refunding is essential in order to modernize covenants essential to operations and management.
- In general, advance refundings for economic savings will be undertaken when a net present value savings of at least 5% of the refunded debt can be achieved. Current refundings which produce a net present value savings of less than 5% will be considered on a case-by-case basis. Refundings with negative savings will not be considered unless there is a compelling public policy objective.
- F. Debt Limits:** In evaluating debt capacity, general-purpose annual debt service payments should generally not exceed 10% of general fund revenues, and in no case should they exceed 20%. The Township will limit its total outstanding general obligation debt to 5% of the assessed valuation of taxable property.
- G. Repayment Provisions:** Debt will be structured to achieve the lowest possible net cost to the Authority given market conditions, the urgency of the capital project, and the nature and type of security provided.

The Authority will seek to structure debt with level principal and interest costs over the life of the debt. “Backloading” of costs will be considered only when natural

disasters or extraordinary or unanticipated external factors make the short-term cost of the debt prohibitive; when the benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present; when such structuring is beneficial to the Authority's overall amortization schedule; or when such structuring will allow debt service to more closely match project revenues during the early years of the project's operation.

- H. Insurance/Letters of Credit/Enhancements:** Credit enhancements such as letters of credit, bond insurance may be used, but only when net debt service on the bonds is reduced by more than the costs of the enhancements.
- I. Investment of Bond Proceeds:** Bond interest earnings will be limited to funding changes to the bond financed CIP or be applied to debt service payment on the bonds issued for construction of the plan.
- J. Sales Process:** The Authority will generally conduct financings on a competitive basis. Negotiated sales will be considered in extraordinary circumstances when the complexity of the issue requires specialized expertise; when a change of underwriter may result in losses; when the negotiated sale would result in substantial savings in time or money; or when market conditions or Township credit are unusually volatile or uncertain.
- K. Professional Services:** The Authority will seek the advice of a financial advisor when necessary. The financial advisor will advise on the structuring of obligations to be issued, inform the Authority of various options, advise the Authority as to how choices will impact the marketability of the Authority obligations, and will provide other services as defined by contract approved by the Board. To ensure independence, the financial advisor will not bid on nor underwrite any Authority debt issues. The financial advisor will inform the Sewer Authority Board of significant issues.
- L. Bond Rating Goals:** The Authority will seek to establish, maintain and, if possible, improve our bond rating in order to minimize borrowing costs and preserve access to credit. The Authority (or designee of the Township) will maintain good, on-going communication with bond rating agencies about its' financial condition.
- M. Short-Term Debt:** Use of short-term borrowing, such as bond anticipation notes and tax-exempt commercial paper, will be undertaken only if the transactions costs plus interest of the debt are less than the cost of internal financing, or available cash is insufficient to meet working capital requirements.

Policy Approvals

Approved By:

Theodore J. Murphy, Esq., Chairman

Tinamarie Smith, Vice Chairman

Shaun Walsh, Secretary

Walt Wills, Treasurer

Phil Corvo, Member

Policy Revisions

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