

DPU-W



FINANCIAL PLANNING GUIDELINES

I. OVERVIEW

The financial planning guidelines outlined in this document provide a framework for achieving the mission and end policies of the City Council during the provision of all essential functions by DPU-W.

CITY MISSION

To provide services that ensure a high quality of life, sound fiscal management, and a dynamic business environment, while creating an inclusive community that values diversity.

CITY ENDS POLICIES

These policies were written to identify the City's intent, examine why the City exists and direct where the City is headed. Ends policies focus on bigger-picture outcomes, and "means" are developed to reach the outcomes of the ends policies.

- Public Safety - delivery highly responsive emergency services to provide for a safe community.
- High Performing Government – provision of reliable, efficient, and high-quality services.
- Economic Development - be the location of choice for businesses.
- Financial Stability - be financially stable and maintain a AAA bond rating.

ESSENTIAL FUNCTIONS (DPU-W)

- Provision of safe, potable water for drinking, fire suppression, and sanitary needs.
- Collection, conveyance, and treatment of wastewater.

II. FINANCIAL PLANNING

DPU-W shall prepare short-term (1-5 years) and long-term (6+ years) planning documents to ensure the sufficiency of revenues to meet anticipated expenditures (Operating, Capital, Debt Service, Cash Reserve Targets).

SHORT TERM PLANNING (ANNUAL BUDGET)

Annually, DPU-W shall prepare a budget in conformance with State Statute and City Policy for review and approval by the City Council. The annual budget shall include a listing of all anticipated revenues and expenditures for the year of adoption. Revenues in conjunction with existing cash reserves in the Water Enterprise Fund shall be sufficient to meet all obligations anticipated to occur in the target year. Adjustments, if needed, to rate ordinances should be prepared, reviewed, and adopted during this

period. The annual budget shall include a five-year list of anticipated capital expenditures with the budget representing the first year.

SHORT TERM PLANNING (RATE STUDY)

User rates and charges should be evaluated periodically to determine their sufficiency in supporting the expenditure obligations of the department. It is recommended that this be performed at minimum on a three-year interval and no further out than five years.

Rate studies typically involve review in the following areas:

- Water Demand:
 - Growth in customer base.
 - Per capita demand trends.
- Cost of Service Recovery:
 - Examination to determine if water fees/charges are sufficient to cover operating, capital debt service, and cash balance targets for water supply, water distribution/metering, administration related purposes.
 - Examination to determine if wastewater fees/charges are sufficient to cover operating, capital debt service, and cash balance targets for wastewater collection, conveyance, treatment, and administration related purposes.
- Customer Class Equity:
 - Ensuring each customer class is contributing their proportional share of the over all costs for service and no one class is subsidizing another.
- Rate Design:
 - Selecting the right combination of consumption-based charges and fixed-charges to ensure financial sustainability.
 - Consideration of fixed charges for capital improvements.
- Cash Reserve Targets
- Capital Expenditures:
 - Anticipated expenditures for capital and strategies to ensure sufficient revenues are available for increases in the amount of investment as required.

LONG RANGE PLANNING (CAPITAL IMPROVEMENT PLAN)

The Capital Improvement Plan (CIP) is a long-range framework for identifying projects. These projects typically include the following activities: replacement/installation of infrastructure, major maintenance activities, equipment replacement, regulatory upgrades at Springbrook, and vehicles. The CIP is an integral component necessary for DPU-W to carry out its essential functions.

The primary purpose of the CIP is the development of a document in which projects are evaluated, planned, and presented in an ordered sequence. Included in the development of the plan are the needs of the DPU-W to carry out essential functions at a high service level, achieve regulatory compliance, match the timing of related activities in other departments and the fiscal ability of the City to achieve implementation.

DPU-W staff and City Leadership collaborate to determine project priorities and funding for short and long-range needs and provide this information to the Public Utility Advisory Boards and City Council regarding capital projects for consideration in the annual budget.

CIP STRATEGIC PLANNING:

While the CIP is adopted annually for a five-year period during the budget process, the strategic planning horizon typically extends further outward to ten or twenty years. This long-term planning horizon allows staff to see trends that may require intervention in earlier periods to avoid significant changes over a short timeframe. Drastic increases in the CIP over a short duration could place stress on personnel capacity to complete the work, create significant community disruption and impair our ability to provide any necessary funding.

CIP METHODOLOGY:

The selection and timing of projects should be data driven, reflect industry best practices, coordinate with other city departments, and ensure the continuity of essential functions. Therefore, a planning methodology has been developed for a significant portion of the capital assets. Probability of Failure (PoF) and Consequence of Failure (CoF) factors were devised. These PoF and CoF scores are then multiplied to yield a risk score called Business Risk Exposure, or BRE. The higher the BRE score the greater the priority for replacement. Coordination with other departments (Electric, Public Works, TED) occurs annually to avoid potential conflicts.

CIP ASSET CATEGORIES:

The CIP is divided up into categories to aid in decision making and provide an understanding regarding the allocation of resources by activity type.

Water Supply:

Examples: Well Rehabilitation, Reservoir/Storage major maintenance, pumping stations.

Water Distribution & Metering:

Examples: Watermain Replacement/Rehabilitation, Water Meters/AMI, Hydrants, Valves.

Wastewater Collection & Pumping:

Examples: Sewer Main Replacement/Rehabilitation, Manholes Replacement/Rehabilitation, Lift Station Major Maintenance, Pumping Stations, I&I Reduction.

Water Reclamation (Springbrook):

Examples: Facility Improvements, Treatment Process upgrades, equipment replacement,

Chargebacks:

This section accounts for Water related financial contributions for projects that occur in other departments or funds and based on proportionality or benefits received.

CIP REVIEW & UPDATES:

An annual review shall be conducted to determine changes in conditions of the capital assets, updated CIP plans in other departments, any federal/state regulatory changes along with their potential impacts, and potential financial constraints. Adjustments to the plan will be made as necessary and in time for inclusion in the annual budget. Outside consultants should be used when the expertise on evaluation of assets or investigation of alternative solutions is not available with existing personnel.