



**BEACON HILL**  
WATER AND SEWER DISTRICT

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# FINANCE POLICY

REVISED  
MAY 2011

The following policies are intended to give direction to planning decisions and help ensure that the District provides that adequate water/wastewater services to all customers efficiently, reliably and at the lowest possible cost consistent with prudent utility management.

Section 1 – General Rates and Financial Management Policies

- A. Rates will be adopted annually as part of the District’s annual budget process. In the absence of the need for an increase due to capital expenses, utility rates shall be adjusted annually on January 1, based on the amount of the annual percentage increase in the Bureau of Labor and Statistic’s Consumer Price Index – All Items for Portland, Oregon (Portland CPI-All Items). This increase, if any, shall be measured by comparing the final revision of the CPI for the second quarter of the calendar year just passed to same index twelve months prior thereto. Rates shall be rounded to the nearest half dollar. Rates so adjusted will be effective as of the date of adjustment. Per Resolution 415, this increase is automatic and no hearing is necessary.
- B. In the event a larger rate increase becomes necessary due to capital expenditures, such a rate increase must be adopted through separate resolution following an advertised public rate hearing. Provided, in such case the next January automatic rate adjustment shall be deferred to the following January unless otherwise provided.
- C. As part of the rate setting process, a six year revenue forecast shall be used for financial planning purposes. The forecast will project the annual rate increase needed, on a level basis, to meet all operating and capital funding requirements over the six year period while minimizing the need for large rate increases in a single year.
- D. The operating and maintenance budget will be set at a level sufficient to maintain facilities in good condition, provide sufficient staffing to ensure safe and continuous operation, and carry out the operations and programs necessary to meet all permit requirements.
- E. To accommodate periodic unanticipated or unforeseen needs, the District will strive to maintain at all times Operating Funds equal to at least 180 days of utility operating costs.
- F. Necessary appropriations for annual debt service requirements will be included in the annual budget.
- G. The District will exercise responsible cost control of administrative overhead expenses consistent with industry standards.
- H. Operating surpluses, after payment of debt service and any required deposits into the Bond Reserve Account will be applied to the Operating Reserves or Capital Reserves.

- I. Major capital investments and other commitments that would significantly affect costs or rates for Utility services will be evaluated using the revenue forecast. Such evaluations will address both short and long term impacts on costs and revenues, and address risks and uncertainties associated with the investments.
- J. The District requires development projects to complete infrastructure improvements necessary for new connections, both local facilities and general system upgrades, at the developer's expense and risk.
- K. Under state law, the District is allowed to collect a general facility or system development charge for new connections. The District's policy is to develop this charge based on the value of the existing system, less contributions and grants, including ten years of interest, plus the estimated cost of capacity related projects planned within ten years. In addition, the charges are reviewed each year as part of the budget process and will be adjusted either to reflect a change in capital expenditures or a change in expected construction costs based on the annual change of the ENR Construction Cost Index.
- L. When a capital project is funded from both rates and bond proceeds, the District will maintain records to allow a separate accounting of the expenditure of bond proceeds. Bond proceeds will be spent before drawing upon other available cash. The acquisition of grants or loans will not be assumed in the rate planning process.
- M. The District will set rates as described in Section 1, A above, to avoid large changes in rates from one year to the next. Increases should be kept as level as possible.

*Section 2 – Management policies for Debt Obligations*

- A. Capital projects financed through debt issuance will not be financed for a term longer than the expected useful life of the project assets.
- B. Capital financings will be designed to minimize the cost of funds, ensure equity over time among ratepayers, and provide for a timely completion of capital facilities.
- C. While both debt and pay as you go financing may be used to finance utility capital needs, the debt financing component will be managed to minimize annual volatility in rate requirements.
- D. The District has a goal of paying for a minimum of 20 percent of the capital program with cash from rates and charges over the long run. The District will finance all minor capital expenses for routine replacements, refurbishments and capital outlay with funds on hand.

- E. With respect to the issuance of any debt, alternative issuance timing and amortization structures will be analyzed to ensure the most cost efficient financing, given prevailing market conditions at the time of the sale.
- F. The District will set rates sufficient to provide debt service coverage in excess of the legal minimums. Rates will be set so the debt service coverage ratio on the Utilities senior lien debt, not including connection charge revenue, shall be at least 1.25.
- G. The amount and timing of any future debt offerings will be planned to comply with the additional bonds test and rate covenants for its senior lien bonds, as well as with these financial policies.
- H. The District will maintain regular communication with rating agencies that rate the bonds and will update the agencies in the event of material adverse changes in its business position.

Section 3 – Management policies for Investment of District Funds

- A. Service receipts and income will be collected and deposited into a checking account located at an approved public depository on a daily basis. Credit card and ACH payments will be deposited into the same account. At the end of each day the entire balance will be transferred to the BHWSO main checking account. Once each month receipts will be transferred either by wire transfer for direct investment.
- B. Claims and payroll will be paid out an interest bearing checking account at an approved public depository. As needed funds will be transferred from the BHWSO main checking account to cover expenses. This account shall carry a net zero balance.
- C. Checks used to pay claims shall require two signatures. Three signatories shall be appointed by the Commissioners, one being the General Manager.
- D. District funds, including all reserve funds established by this policy statement and any bond proceeds, will be invested in a manner that will provide the highest investment return with the maximum security while meeting the Districts daily cash flow demands. All investments shall conform to all Washington statutes governing the investment of public funds.
- E. Safety of principal is the foremost objective for District investments. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital.
- F. The District's investments will remain sufficiently liquid to enable the District to meet all reasonably anticipated operating requirements.

- G. The management of inactive cash and the investment of funds are the responsibility of the General Manager or its designee. Investments will be reviewed by the Board of Commissioners at their regular monthly meeting.
- H. In the execution of this delegated authority, the General Manager may establish accounts with qualified financial institutions for the purpose of effecting investment transactions in accordance with this policy.
- I. Investments shall be limited to certificates of deposit with qualified depositories defined in Chapter 39.58, RCW, certificate notes or bonds of the United States, or other obligations of the United States, or its agencies, or any public companies owned by the government of the United States, Washington State or through investments with the Washington State Local Government Investment Pool.
- J. Investments in time certificates of deposit shall be fully insured up to the maximum authorized by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings & Loan Insurance Corporation (FSLIC), as appropriate. All deposits shall be additionally protected by the Public Deposit Protection Commission (PDPC) provides security by protecting public deposits, which exceed the amount insured by the FDIC.

The Beacon Hill Water and Sewer District financial management policy shall be adopted by resolution of the District Board of Commissioners. The policy is subject to continuous review and evaluation by the General Manager and his/her designee in order to assure a degree of accountability and professionalism that is worthy of the public trust. All recommended modifications must be approved and adopted by resolution of the District Board of Commissioners.