



**FINANCIAL MANAGEMENT POLICIES  
FOR THE  
CENTRAL SUMTER UTILITY (CSU)  
ENTERPRISE FUND**

**ADOPTED BY THE BOARD OF SUPERVISORS OF THE  
NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT ON May 13th, 2024**

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**GENERAL**

The North Sumter County Utility Dependent District (the "District") recognizes that one of the keys to the long-term sound financial management of the District's enterprise fund for the CSU (the "Enterprise Fund" or the "System") is the adoption of formal fiscal policies associated with the financial management and creditworthiness of the System (the

"Financial Management Policies"). This view is supported by bond rating agencies, investors, and the Government Finance Officers Association.

## **BACKGROUND**

Water and sewer rates are established by the North Sumter County Utility Dependent District for the CSU service area. These rates help ensure the continued success of the utility by providing funding that allows the System to meet its legal and regulatory obligations.

The System operates under consumptive use permits issued by the Southwest Florida Water Management District (SWFWMD). A consumptive use permit (CUP) is a type of permit which allows water to be withdrawn from surface and groundwater supplies for reasonable and beneficial uses such as public supply (drinking water), agricultural and landscape irrigation, and industry and power generation. The System is monitored by the SWFWMD for its consumption.

## **POLICY OBJECTIVES**

Policies are primarily intended to help protect the financial resources of the Enterprise Fund through:

- Formal adoption of industry-recognized best practices for utility financial management;
- Guiding the managers of the Enterprise Fund in the financial planning cycle and decision-making process;
- Establishing appropriate levels of operating and capital cash reserves, and providing available funds for emergencies and extraordinary expenditures with accumulated cash funds;
- Developing a process to efficiently finance necessary capital improvements;
- Providing a framework for the Enterprise Fund to achieve and maintain strong credit ratings; and
- Maintaining reasonable and justified levels of rates and fees to promote the long-term sustainability of the Enterprise Fund.
- Generally balanced against the customers ability to pay.

The primary objectives of these Financial Management Policies are:

- The desire to maintain strong operations and maintenance programs and provide the necessary funds to finance priority and ongoing capital projects to deliver high-quality potable water, irrigation, and sanitary sewer services;
- The desire to have available funds and access to financial resources to be able to quickly respond to unplanned Capital Improvement Plan projects, emergency, catastrophic, and Force Majeure Incidents and to allow for the continued ability to provide potable water, irrigation, and sanitary sewer services;
- The desire to maintain a strong financial condition aimed at preserving and enhancing the Enterprise Fund's credit ratings to minimize capital project financing costs and promote long-term System sustainability; and
- The desire to maintain reasonable and justified levels of rates and fees over the long term in accordance with good business practices and these Financial Management Policies.

These Financial Management Policies are in addition to other policies that may be adopted from time to time by the Board of Supervisors of the North Sumter County Utility Dependent District (the "Board") and will be reviewed periodically and updated as appropriate.

## DEFINITIONS

The following are definitions of key terms that are referenced or used in the Financial Management Policies and are presented to provide general guidance associated with the interpretation of these Financial Management Policies:

**All-in Debt** means all outstanding debt and long-term liabilities incurred by the System, or assigned by the District to be paid through the revenues of the System.

**Appropriation** represents the authorization of the District to incur expenditures or liabilities for goods, services, or Capital Improvements to be used for purposes as specified in the budgets of the System in amounts not in excess of those specified for each purpose.

**Board** means the Board of Supervisors of the North Sumter County Utility District.

**Capital Improvement Plan** represents the capital expenditures for the utility plant-in-service of the System identified over a multi-year period, generally five (5) to ten (10) years, that are planned to be constructed by the District and which are included in the budget and financial / rate plan for the Enterprise Fund.

**Capital Improvements** represent expenditures for asset additions, betterments, replacements, and upgrades for the System that benefit future periods and are capitalized for financial reporting and cost recovery purposes; such amounts are not considered as Operating Expenses.

**Cash Reserves** represent the amount of unrestricted cash or cash equivalents (short-term, highly liquid investments that are readily convertible into cash within six months) on deposit, net of liabilities and Encumbrances, which are held in a separate account or fund for use by the District.

**Cash Reserves Target** represents the target minimum unappropriated and unencumbered Cash Reserves balances as defined in these Financial Management Policies.

**Contributions in Aid of Construction Fees** mean impact fees and charges if any, levied upon and collected from new users of the System that represent a pro rata share or the costs of the System and that are attributable to the increased demand such additional connections create upon the System to the extent the same are lawfully collected and pledged.

**CSU** means the Central Sumter Utility of the District.

**Customers** refer to the rate payers within the Central Sumter Utility of the District.

**Days Cash on Hand** is defined as "Current unrestricted cash and investments plus any restricted cash and investments (if available for general System purposes), divided by operating expenditures minus depreciation, divided by 365."

**Debt Ratio** means the Outstanding Principal amount of debt compared to the Net Fixed Assets or utility plant investment of the System and indicates how much the System has leveraged the cash flow of the enterprise fund for utility plant capital investment.

**Debt Service** represents the annual deposits required from System revenues to a sinking fund, loan repayment fund, or its equivalent as required for the principal and interest payments made by the enterprise fund for repayment on outstanding indebtedness of the System. Debt Service includes general obligation debt and other long-term liabilities assigned to the System.

**Debt Service Coverage** is a requirement of the District's bond and loan agreements and represents the ratio of the Net Revenues divided by the Debt Service.

**Debt Service Coverage Target** represents the target minimum unappropriated and unencumbered Debt Service Coverage as defined in these Financial Management Policies.

**Debt Service Reserve** represents the amount of cash, cash equivalents or investments which is unrestricted to mitigate additional financial risk associated with the System's outstanding indebtedness.

**Debt Service Reserve Target** represents the target minimum unappropriated and unencumbered Debt Service Reserve balance as defined in the fund balance policies section of this document.

**District** means the North Sumter County Utility Dependent District.

**Encumbrance** means the amount of cash (either on account or secured through financing, grant commitment, etc.) that has been committed by the District to pay an expenditure for the System established by contract, purchase order, or some other means at a future date and that restricts the cash for such specific expenditure (is not available for any other purpose of the System).

**Enterprise Fund** is a fund type established by Generally Accepted Accounting Principles (GAAP) which is used to report any activity for which a fee is charged to external users for goods and services and generally is used when debt is solely backed by fees and charges and there is a legal or policy decision to recover the cost of providing services, including Capital Improvements. For the purposes of these Financial Management Policies, Enterprise Fund refers to the enterprise fund of the District's CSU system.

**Financial Management Policies** means these policies which are applicable to the District's CSU Enterprise Fund, as may be amended and adjusted from time to time.

**Fiscal Year** means the period commencing on October 1 of each year and continuing through the next succeeding September 30, or such other period as may be prescribed by law as the fiscal year of the District.

**Force Majeure Incidents** are caused by the usual and natural consequences of external forces (e.g., severe weather event), are beyond the reasonable control of the District, and may result in an inability to meet the objectives of these Financial Management Policies.

**Gross Revenues** means the total revenues derived from the operations of the System and includes income from rates, fees, and charges; income on investments; and other revenues associated with the operation of the System. Gross Revenues does not include property and cash capital contributions and non-recurring fees such as government grants for capital, contributed utility plant and water and sewer Contributions in Aid of

Construction Fees (impact fees) received by the System as part of the land development process.

**Net Fixed Assets** means the total depreciable and non-depreciable capital assets (utility plant-in-service), including construction-work-in-progress, less accumulated depreciation and amortization.

**Net Revenues** means Gross Revenues less Operating Expenses.

**Operating Expenses** mean the expenses for the operation, maintenance, repairs, and replacements with respect to the System, and includes administrative expenses, insurance, and other payments calculated in accordance with Generally Accepted Accounting Principles. Operating Expenses for purposes of compliance with these financial management policies shall include transfers to the General Fund from the utility that recover the allocated cost of services provided to the utility by the General Fund (indirect cost reimbursement). Operating Expenses do not include depreciation and amortization expenses (non-cash expenses) or the payment of interest expense on outstanding indebtedness.

**Operating Reserve** represents the amount of cash, cash equivalents or investments which is unrestricted to provide adequate levels of Working Capital to i) mitigate current and future risks regarding revenue shortfalls and unanticipated expenses; and ii) ensure stable services and rates.

**Operating Reserve Target** represents the target minimum unappropriated and unencumbered Operating Reserve balance as defined in the fund balance policies section of this document.

**Outstanding Principal** means the total principal amount of all forms of debt previously issued by the District for the System that are paid from the Net Revenues of the System – including Senior Lien debt, Subordinate Lien debt, and general obligation debt assigned to the System – that has not yet been paid by the enterprise fund and represents a liability to the System. Such amount does not include accrued interest that may be due on outstanding indebtedness; interest is an expense of the System.

**Renewal & Replacement Fund** consists of funds set aside to provide for the renewal and replacement of plant fund assets as distinguished from additions and improvements to the plant.

**Renewal & Replacement Reserve** represents the amount of cash, cash equivalents or investments for Capital Improvements to i) mitigate risks regarding unanticipated capital expenditures or increases in materials, labor, or other costs from ongoing or planned capital projects; ii) provide for changes in capital expenditure priorities resulting in the

advancement or addition of certain capital projects; iii) promote the availability of funds for capital reinvestment for the existing infrastructure intended to limit outages and inability to provide service from equipment or infrastructure failures or as a result of Force Majeure Incidents.

**Renewal & Replacement Reserve Target** represents the target minimum unappropriated and unencumbered Capital Reserve balance as defined in these Financial Management Policies.

**Senior Lien** refers to the priority of the payment of Debt Service from Net Revenues and has the highest priority of payment after the payment of Operating Expenses.

**Subordinate Lien** refers to the priority of the payment of Debt Service from Net Revenues and has a lower priority of payment when compared to Senior Lien debt.

**System** means the CSU system of the District.

**Working Capital** Working Capital in these Financial Management Policies mean the amount of cash available to meet current obligations after recognition of the current liabilities payable from such cash balances.

## **FINANCIAL MANAGEMENT POLICIES**

The following Financial Management Policies will guide financial management and utility rate activities for the Enterprise Fund:

### **Credit Rating Policy**

The District shall strive to achieve and maintain financial performance for the Enterprise Fund consistent with that of utilities with an uninsured bond rating of "AA" or better.

### **Fund Balance Policies**

Cash Reserves provide a measure of the immediate liquidity of the System and the ability to meet unanticipated expenditures and changes in cash flow. The maintenance of Cash Reserves promotes the financial stability of the Enterprise Fund and reduces short-term and overall financial risk.

#### *Cash Reserves Policies*

1. Operating Reserve Policy – The District will establish and maintain for the System a cash-funded operating reserve (the "Operating Reserve") to provide adequate levels of Working Capital.

- 1.1 The District will maintain a minimum unencumbered and unrestricted Operating Reserve balance equal to one hundred and twenty (120) days of the current fiscal year budgeted operating expenses ("Operating Reserve Target").
  - 1.2 If the Operating Reserve unrestricted balance at the end of the preceding fiscal year is less than the Operating Reserve Target, the District will develop a plan to reestablish the operating reserves to an amount equal to the Operating Reserve Target over a reasonable and financially responsible period of time, considering the Customers' ability to pay.
2. Renewal & Replacement Reserve Policy – The District will establish and maintain for the System an ongoing cash-funded Renewal & Replacement fund for renewals, replacements, and Capital Improvements.
  - 2.1 The District will maintain for the System a minimum unappropriated and unencumbered Renewal & Replacement Reserve equal to the prior year's annual depreciation expense or a minimum unappropriated and unencumbered Renewal & Replacement Reserve equal to 2% of the high-level replacement cost of depreciable assets or a percentage of the average five-year Capital Improvement Plan, or a specified minimum amount, as determined by the Board (the "Renewal & Replacement Reserve Target").
  - 2.2 The Renewal & Replacement Reserve will be in addition to the funds held on deposit for purposes of maintaining the minimum Operating Reserve as described in section 1.1 herein. It is contemplated in these Financial Management Policies that the monies on deposit that are included as a component of the Renewal & Replacement Reserve may be expended on renewals, replacements, and Capital Improvements to meet the overall financial objectives and funding needs of the Enterprise Fund.
  - 2.3 If the Renewal & Replacement Reserve balance at the end of the preceding fiscal year is less than the Renewal & Replacement Reserve Target, the District will develop a plan to re-establish the Renewal & Replacement Reserve to an amount equal to the Renewal & Replacement Reserve Target over a reasonable and financially responsible period of time, considering the Customers' ability to pay.
3. Debt Service Reserve Policy – The District shall establish and maintain for the System a cash-funded debt service reserve (the "Debt Service Reserve") to mitigate the additional financial risk associated with the System's outstanding indebtedness.



- 3.1 The District shall maintain a minimum unencumbered and unrestricted Debt Service Reserve balance equal to one hundred and twenty (120) days of the following year's Annual Debt Service (the "Debt Service Reserve Target").
4. Total Unrestricted Cash Reserves Policy – For the System, the District establishes a minimum total unrestricted Cash Reserves Target of 365 Days Cash on Hand that shall include the Operating Reserve, Renewal & Replacement Reserve, and Debt Service Reserve. The Days Cash on Hand shall be calculated using the numbers in the most recent adopted budget. The District shall strive to maintain total unrestricted Cash Reserves consistent with the medians for utilities with "AA" bond ratings as published by credit rating agencies. Compliance with the re-establishment of the Cash Reserves Target may not be achieved through the deferral of maintenance and/or identified capital reinvestment.

#### *Fund Balance Policies – Utility Asset Analysis*

5. Utility Asset Analysis – After the end of each Fiscal Year, the District staff shall provide to the Board a high-level utility asset analysis that considers i) the installed cost of System assets; ii) an estimate of the replacement cost new of the depreciable System assets based on historical changes in the *Engineering News-Record* Construction Cost Index or other applicable index; iii) based on the estimated service lives of the assets, the amount of annual capital replacement funding that could be supported; and iv) based on the age of the assets, the amount of cash reserves that the System should have ideally accrued for asset replacements. This asset analysis can help justify the amount of System cash. The District's consulting engineers may provide an alternative analysis for the Board's consideration.

#### *Fund Balance Policies – Other*

6. Other Required Deposits and Reserves – All other funds and accounts established separately by the District for the System i) for funding specific Operating Expenses, renewals, replacements, or Capital Improvements; or ii) as may be required under a separate policy approved by the Board will be funded in accordance with the terms and conditions of the documents or policies for which the funds were established. When necessary and prudent, the District may create additional accounts for a specific purpose. These accounts may include funding for specific capital projects or periodic but non-recurring expenditures, risk management, and revenue or rate stabilization, among others.

7. Other Provisions – The District staff will regularly evaluate cash needs and provide a current status of the reserve funds each year to the Board. All funding alternatives will be considered in order to meet financing needs and to achieve the most cost-efficient operations of the Enterprise Fund.

## **Capital Reinvestment Policy**

The District shall annually deposit into the Renewal & Replacement (R&R Fund) fund an amount sufficient to annually fund the 5-year Capital Improvement Plan while maintaining a minimum balance as determined by the Reserve & Replacement Reserve policy.

## **Debt Service Coverage Policy**

For the purpose of evaluating compliance with these Financial Management Policies, the District will recognize all outstanding indebtedness and long-term liabilities to be paid through revenues of the System (collectively referred to as "All-in Debt"). All-in Debt includes, but is not limited to, Senior Lien debt; Subordinate Lien debt such as state revolving fund (SRF) loans, and general obligation debt issued by the District for which payment is assigned to the System.

Debt Service Coverage – The Debt Service Coverage ratio indicates the ability, after the payment of Operating Expenses, to pay the annual principal and interest coming due on the outstanding All-in Debt. The Debt Service Coverage ratio measures the ability of the Net Revenues of the System to pay the annual Debt Service on All-in Debt and provide funds to meet other expenditures (after payment of the annual All-in Debt service payments). This coverage also indicates the future leveraging capability in the event of a significant event triggering the need for the issuance of additional indebtedness. The District will establish rates, fees, and charges for services for the System that will provide, in each Fiscal Year, Net Revenues which are greater than or equal to 150% of the annual All-in Debt service payment (the "Debt Service Coverage Target"). Based on communication from credit rating agencies regarding financial metrics suitable for an "AA" bond rating, a long-term goal is for the System Debt Service Coverage Target to be 200%. If the System Debt Service Coverage ratio is at least 200% in a future Fiscal Year, the District may strive to maintain a minimum 200% Debt Service Coverage ratio. The Debt Service Coverage ratio shall be determined as follows:

***Debt Service Coverage Ratio = Annual Net Revenues / Annual All-in Debt Service Payments from Net Revenues***

The Debt Service Coverage Target recognizes that the utility has significant annual or routine capital expenditure, renewals, and replacements that benefit existing customers and that should ideally be funded on a pay-as-you-go basis from the rates of the System. Net Revenues less the annual All-in Debt service payments represent the amounts

available for other purposes of the System such as funding pay-as-you-go capital needs.

If the Debt Service Coverage for a given Fiscal Year is less than the Debt Service Coverage Target, the District will develop a plan to meet the Debt Service Coverage Target over a reasonable and financially responsible period of time considering customer's ability to pay.

The District may not establish rates that do not meet the rate covenants associated with the issuance of any debt of the System.

## **Operating Budget Policy**

The annual operating budget for the Enterprise Fund will i) be structurally balanced, with revenues sufficient to meet expenses (those that are ongoing in nature); ii) reflect rates set at levels intended to support the direct and indirect costs of the System, with the intent to provide the lowest reasonable rates over time, not necessarily the lowest fees and user charges during the current or budget Fiscal Year, and at a level necessary to ensure the adequate maintenance and operations of the System and to enable the utility to continue accomplishing its mission; and iii) reflect these Financial Management Policies and include amounts necessary to maintain the required operating and capital reserves.

## **Capital Budget Policy**

The District staff will prepare a five-year capital expenditure and funding plan (the "CIP") for the System each fiscal year that includes the following for each individual capital project i) the name and capital project number; ii) the required annual Appropriation for the project by fiscal year; iii) the prior period Encumbrances by capital project through the current fiscal year if not identified in the Capital Improvement Plan Appropriation; iv) the planned funding sources associated with project financing; and v) a description of the project. The first year of the Capital Improvement Plan will constitute the budget for the respective fiscal year. Annually and as part of the Capital Improvement Plan development process, the District staff will prioritize the budget expenditures recognizing the following criteria: regulatory compliance, safety, expansion, criticality of asset renewal and replacement, efficiencies in joint project construction with other public agencies, availability of funding sources, affordability, and other factors prescribed from time to time by the District staff, its consulting engineers, and the Board.

## **Rate and Financial Plan Review Policy**

1. The District staff will use a formal forecasting and expenditure monitoring process in the evaluation of the financial position of the System.
2. The District shall perform a formal rate study at least once every five years. The

rate study will contain a ten-year financial forecast, and the District shall adopt at least a five-year schedule of rates, fees, and charges based on the results of the rate study.

3. The District staff shall analyze the financial position of the System annually to determine whether the adopted rate and financial plan remains sufficient to avoid substantial future rate increases. The District shall conduct revenue sufficiency or rate studies as needed so that the resulting impact to customers will be minimized or phased over time. The rate reviews may be performed internally or with a rate consultant. The level of rates charged to customers of the System will be based on the following principles, in order of priority:
  - a. Meeting Debt Service Coverage and cash reserve requirements delineated in the Financial Management Policies;
  - b. Maintaining rates considered affordable by utility industry standards; and
  - c. Maintaining competitive rates, primarily with those of neighboring utilities or utilities with similar service characteristics.
4. The System will be run in a business-like manner. Rates and fees will be set to ensure the full recovery of the System's operating and capital expenditures. This practice will ensure that the Enterprise Fund has reduced financial risk and will meet Federal, State, and local regulations as well as service area demands.

### **Automatic Rate Adjustments**

In the absence of a formal study recommendation or action by the Board, the monthly user rates shall be automatically increased effective October 1st of each fiscal year to keep up with inflation in the Consumer Price Index. The indexing provision shall be adopted concurrently with the rate resolution. The Board is required to review approved and/or proposed rate changes annually as part of the budget approval process.

### **Fixed Charge Recovery Policy**

The fixed charge components of the System's monthly user rates shall be established to generate at least 30% of the total user rate revenues.

### **Contribution in Aid of Construction Fees / Impact Fees Policies**

Collections from each Contribution in Aid of Construction Fee shall be placed and accounted for in a separate trust or account. Water contribution in aid of construction fees may only be used to i) pay for extensions, expansions, oversizing, or other future capital

construction expenditures for the water system to enable the water system to provide service to new customers; or ii) retire bonds or other indebtedness issued previously for the expansion of the water system to serve new customers now requiring service from the water system. Similarly, sewer contribution in aid of construction fees may only be used to pay for growth- or expansion-related sewer capital projects as well as expansion-related debt allocable to the sewer system.

## **Updates to Financial Management Policies**

These policies will be reviewed and updated at a minimum once every five (5) years to reflect needed changes in policy.