



**FINANCIAL MANAGEMENT POLICIES  
FOR THE  
VILLAGE CENTER SERVICE AREA (VCSA)  
&  
LITTLE SUMTER SERVICE AREA (LSSA)  
WATER AND SEWER ENTERPRISE FUNDS**

**ADOPTED BY THE BOARD OF SUPERVISORS OF THE  
VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT ON AUGUST 11, 2021**

**Contents**

GENERAL .....	1
BACKGROUND .....	2
POLICY OBJECTIVES .....	2
DEFINITIONS .....	3
FINANCIAL POLICIES .....	7
Fund Balance Policies.....	7
<i>Cash Reserves Policies</i> .....	7
<i>Fund Balance Policies – Other</i> .....	9
Debt Coverage Policy .....	9
Operating Budget Policy .....	10
Capital Budget Policy .....	10
Rate and Financial Plan Review Policy.....	11
Contribution in Aid of Construction Fees / Impact Fees Policies.....	12
UPDATES TO FINANCIAL POLICIES .....	12

**GENERAL**

The Village Center Community Development District (the "District") recognizes that one of the keys to the long-term sound financial management of the District's water and sewer enterprise funds for the VCSA & LSSA (the "Enterprise Funds" or the "Systems") is the adoption of formal fiscal policies associated with the financial management and creditworthiness of the Systems (the "Financial Policies"). This view is supported by

bond rating agencies, investors, and the Government Finance Officers Association. The Financial Policies are primarily intended to help protect the financial resources of the Enterprise Funds through:

- Formal adoption of industry-recognized best practices for utility financial management;
- Guiding the managers of the Enterprise Funds 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;
- Developing a process to efficiently finance necessary capital improvements;
- Providing a framework for the Enterprise Funds 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 Funds.

## **BACKGROUND**

Water and sewer rates are established by the Village Center Community Development District for the Village Center Service Area and the Little Sumter Service Area. These rate structures help ensure the continued success of the utilities by providing funding that allows the utilities to meet their legal and water obligations.

Each utility operates under a consumptive use permit issued by either the St Johns Water Management District (SJWMD) or 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. Each utility is monitored by the water management district for its consumption.

## **POLICY OBJECTIVES**

The primary objectives of these Financial Policies are:

- The desire to maintain strong operations and maintenance programs and provide the necessary funds to finance priority and ongoing capital projects in order to deliver high-quality water and 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 water and sewer service;
- 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 run in accordance with good business practices and these Financial Policies.

These Financial Policies are in addition to other policies that may be adopted from time to time by the Board of Supervisors of the Village Center Community Development 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 Policies and are presented to provide general guidance associated with the interpretation of these Financial Policies:

**All-in Debt** means all outstanding debt and long-term liabilities incurred for the financing of Capital Improvements – including additions, renewals, replacements, and betterments to the systems – or to establish reserves as a condition of issuing the debt; or assigned by the District to be paid through 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 Systems in amounts not in excess of those specified for each purpose.

**Board** means the Board of Supervisors of the Village Center Community Development District.

**Capital Improvement Plan** represents the capital expenditures for the utility plant-in-service of the Systems 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 Funds.

**Capital Improvements** represent expenditures for asset additions, betterments, replacements, and upgrades for the Systems 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 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 Policies.

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

**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 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. The ratio indicates the ability of revenues, after the payment of Operating Expenses, to meet the annual Debt Service obligation. The Financial Policies target a coverage ratio above the minimum requirement to maintain a strong credit and to reduce the cost of future borrowings with the objective to provide for long-term rate stability and overall lower rates.

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

**District** means the Village Center Community Development 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.

**Enterprise Fund Financial Management Policies or Financial Policies** means these policies which are applicable to the District's VCSA & LSSA water and sewer Enterprise Funds, as may be amended and adjusted from time to time.

**Enterprise Funds** are the Enterprise Fund of the District's VCSA water and sewer system and the Enterprise Fund of the District's LSSA water and sewer system.

**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 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.

**LSSA** means the Little Sumter Service Area of the District.

**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** means 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 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 does 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 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 a 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 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 due to weather events and other occurrences; and iv) ensure reliable service and ameliorate the effects to monthly service rates from unanticipated costs.

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

**Systems** means the VCSA & LSSA water and sewer utility systems of the District.

**VCSA** means the Village Center Service Area of the District.

**Working Capital** means the amount of current assets less current liabilities which is available to meet enterprise fund current obligations as well as provide for any non-recurring or extraordinary expenditures or changes in revenues that would affect the Net Revenues of the system. Working Capital in these Financial Policies relates to the amount of cash available to meet such current obligations after recognition of the current liabilities payable from such cash balances.

## **FINANCIAL POLICIES**

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

### **Fund Balance Policies**

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

#### *Cash Reserves Policies*

1. Operating Reserve Policy – The District will establish and maintain for each system a cash-funded operating reserve (the "Operating Reserve") 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.
  - 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 re-establish the operating reserves over a period not to exceed three (3) fiscal years.

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. The cash balances established in this fund (the "Renewal & Replacement Reserve") are to: i) mitigate risks regarding planned and unanticipated renewals, replacements, and capital expenditures, or increases in materials, labor, or other costs from ongoing or planned projects; ii) provide for changes in expenditure priorities resulting in the advancement or addition of certain projects; iii) promote the availability of funds for renewals, replacements, and capital reinvestment for the existing infrastructure, with the intent to limit outages and inability to provide service from equipment or infrastructure failures or as a result of Force Majeure Incidents due to weather events and other occurrences; and iv) ensure reliable service and ameliorate the effects to monthly service rates from unanticipated costs.

2.1 The District will maintain for each system a minimum unappropriated and unencumbered Renewal & Replacement Reserve equal to the prior year's annual depreciation expense (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 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 Funds.

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 in an amount equal to the Renewal & Replacement Reserve Target over a period not to exceed three (3) fiscal years. Compliance with the re-establishment of the Renewal & Replacement Reserve Target may not be achieved through the deferral of maintenance and/or identified capital reinvestment.



3. Cash Reserves Policy – For each system, the District establishes a Cash Reserves Target equal to 365 Days Cash on Hand that shall include the Operating Reserve and Renewal & Replacement Reserve. If Cash Reserves at the end of the preceding fiscal year are less than the Cash Reserves Target, the District will develop a plan to re-establish the Cash Reserves in an amount equal to the Capital Reserves Target over a period not to exceed five (5) fiscal years. 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 – Other*

4. Other Required Deposits and Reserves – All other funds and accounts established separately by the District for the Systems: 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.
5. 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 Funds.

#### **Debt Coverage Policy**

For the purpose of evaluating compliance with these Financial Policies, the District will recognize all outstanding indebtedness and long-term liabilities incurred for the financing of Capital Improvements, additions, renewals, replacements, and betterments to the Systems or to establish reserves as a condition of issuing the debt; or assigned by the District to be paid through revenues of the Systems (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 Systems.

Debt 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 each 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"). 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 each system. Net Revenues less the annual All-in Debt service payments represent the amounts available for other purposes of the Systems 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 period not to exceed three (3) fiscal years.

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

### **Operating Budget Policy**

The annual operating budget for each 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 iii) reflect these Financial 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 "Capital Improvement Plan") for the Systems 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 and its consulting engineers.

### **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 positions of the Systems. These processes are intended to: i) minimize financing costs through proper planning for Renewal & Replacement and Capital Improvement spending and financing needs; ii) obtain formal endorsement by the Board for long-term financial needs and sources of financing; and iii) maintain or strengthen the credit ratings of the Systems.
2. The District shall perform a formal rate study at least once every ten years. The rate study will contain a ten-year financial forecast, and the District shall adopt a ten-year schedule of rates, fees, and charges based on the results of the rate study.
3. The District staff shall analyze the financial positions of the Systems 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 if increases in rates above what has been adopted by the Board are necessary, 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 Systems will be based on the following principles, in order of priority:
  - a. Meeting Debt Service Coverage and cash reserve requirements delineated in the Financial 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.

As part of the annual financial planning process, the District staff will prepare multi-year operating and capital budgets to ensure rates are sufficient to meet the needs of the utilities.

4. The Systems will be run in a business-like manner. Rates and fees will be set to ensure the full recovery of each system's operating and capital expenditures. This practice will ensure that the Enterprise Funds have reduced financial risk and will meet Federal, State, and local regulations as well as service area demands.

### **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 POLICIES**

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