

City of La Crosse

Sanitary Sewer Utility Rate Review and Cash Reserve Policy

1. INTRODUCTION AND PURPOSE

The La Crosse Sanitary Sewer Utility (“Utility”) operates and maintains a regional wastewater treatment plant on Isle La Plume, 27 sanitary lift (pumping) stations, and over 200 miles of sanitary sewers that make up the wastewater collection and treatment systems for the City of La Crosse. The Utility staff also operates and maintains seven lift stations and 134 miles of storm sewers as part of the Storm Water Utility.

Currently, the regional La Crosse treatment plant accepts and treats waste from not only the City but several adjacent entities, including the City of Onalaska, the Town of Campbell, Sanitary Districts 1 and 2 in the Town of Shelby, and the City of La Crescent.

The Utility is governed by the City Council (“Council”), the Board of Public Works (“BPW”), and the Finance and Personnel Committee (“F&P Committee”). This Rate Review and Cash Reserve Policy (the “Policy”) is designed to establish guidelines to ensure the fiscal stability of the Utility and provide guidance to the Utility staff, Council, BPW, and F&P Committee in the management of the Utility’s finances.

Properly designed rate review and reserve policies send a positive signal to ratepayers, investors, and regulatory and credit rating agencies that the City is committed to maintaining the long-run fiscal strength of the Utility. Strong and transparent financial policies, including maintaining prudent reserves for emergencies, rate stability, working capital and capital improvements, are consistent with best practices in the utility industry and are important to the Utility as they help to:

- Maintain the short-term and long-term financial health of the Utility.
- Fund unanticipated cost contingencies.
- Ensure funds exist for system improvements.
- Ensure cash exists for the timely payment of bills.
- Act as a significant positive credit factor in bond ratings.

2. ANNUAL RATE REVIEW POLICY

In 2025 and subsequent years, after completion of year end audit adjustments, Utility staff shall review the prior year’s year-end balances of designated and undesignated cash reserves and the rate of return and cash flow generated by the Utility during the preceding year. Utility staff shall report this information to the BPW, along with a recommendation regarding adjustment of sewer rates. The recommended actions may include no adjustment to rates, a cost-of-living adjustment, preparation of a full cost of service rate study, or other actions consistent with

Wisconsin law, City ordinances, intermunicipal agreements, bond covenants, or financial assistance agreements with the State of Wisconsin. Utility staff may report financial information or provide recommendations to the BPW for an adjustment to sewer rates more frequently than required by this policy.

3. CASH RESERVES POLICY

A. Definitions

1. **Restricted Reserves:** Restricted reserves are reserve funds that may only be used for a specific purpose(s) defined by City ordinance or policy, bond covenants, financial assistance agreements with the State of Wisconsin, intermunicipal agreements, Wisconsin Statutes, or other applicable regulations or agreements. Restricted reserves will be placed in segregated accounts and funds may only be used for the specified purpose(s).
2. **Unrestricted Reserves:** Unrestricted reserves may be used for any purpose authorized by Wisconsin Statutes.
3. **Designated Reserves:** Designated reserves include all cash reserves that are maintained by the Utility in accordance with this policy. This includes both restricted and unrestricted reserves.
4. **Undesignated Reserves:** Undesignated reserves include any reserves held by the Utility more than the cash reserves that are maintained in accordance with this policy.

B. General Policy

This policy establishes minimum target levels for cash reserves to be maintained by the Utility. All cash reserves held by the Utility in accordance with this policy are Designated Reserves. Only funds on hand more than the minimum amounts described in this policy may be considered "Undesignated Reserves". This policy establishes the following Designated Reserves, described in more detail below:

1. Operating Reserves
2. Special Redemption Fund
3. Debt Service Reserves
4. Equipment Replacement Fund
5. Connection Fee Fund
6. Capital Improvement Reserves

C. Operating Reserves

1. **Type:** Unrestricted
2. **Purpose and Definition:** Ensures sufficient resources to pay budgeted operating and maintenance expenses, recognizing the timing differences between payment of expenditures and receipt of revenues and the potential for unexpected expenses or loss of revenue.

3. Target (Minimum) Level: Equal to 250 days of operation and maintenance expenses, based on the most recent year's expenses.
4. Events or Conditions Prompting Use of the Funds: Operating reserves may be routinely used by the Utility to cover temporary cash flow deficiencies caused by timing differences between revenues and incurring expense obligations, unexpected increases in operating expenses or loss of revenue.

D. Special Redemption Fund

1. Type: Restricted.
2. Purpose and Definition: Funds set aside to make current principal and interest payments on outstanding Utility debt. A fraction of the next principal and interest payment(s) is accumulated in this fund each month and used to make the payments when due.
3. Target (Minimum) Level: As required by the Utility's schedule of principal and interest payments.
4. Events or Conditions Prompting Use of the Funds: Funds in the Special Redemption Fund will be used as needed to make principal and interest payments when due.

E. Debt Service Reserves

1. Type: Restricted
2. Purpose and Definition: Ensures ability to make debt service payments in an extreme event that may impact the Utility's ability to provide services. The Debt Service Reserve is intended to prevent an event where the Utility would be unable to pay its debt service obligations during such emergencies, or extreme market disruptions.
3. Target (Minimum) Level: As required by any notes or bonds issued by the Utility.
4. Events or Conditions Prompting Use of the Reserve: The Debt Service Reserve may be utilized in the event the Utility is otherwise unable to pay its debt service obligations, in accordance with bond covenants.

F. Equipment Replacement Fund

1. Type: Restricted
2. Purpose and Definition: Funds set aside to pay the costs of replacing equipment necessary to maintain the capacity and performance of the wastewater collection and treatment system.
3. Target (Minimum) Level: As required by the Wisconsin Department of Natural Resources (WDNR) as a condition of receiving any loans from the Wisconsin Clean Water Fund Program. It is the policy of the Utility to use the percentage schedule as defined by the WDNR to calculate the minimum amount of funds to be held in the Equipment Replacement Fund.
4. Events or Conditions Prompting Use of the Reserve: These funds may be used on a regular basis to fund replacement of equipment, as defined by Wisconsin Administrative

Code. If the amount in the fund is reduced below the minimum amount required by WDNR, the Utility must replenish the funds within three years.

G. Connection Fee Fund

1. Type: Restricted
2. Purpose and Definition: Used to segregate connection fee revenues. These funds may only be used for capital improvements to the Wastewater Treatment Plant, interceptor sewers, or interceptor lift stations.
3. Target (Minimum) Level: All connection fee revenues collected by the Utility, less any funds expended for capital improvements as allowed for by this policy, City ordinance, and intermunicipal agreements.
4. Events or Conditions Prompting Use of the Reserve: These funds may be used for any capital improvement to the WWTP, interceptor sewers, or interceptor lift stations.

H. Capital Improvement Reserves

1. Type: Unrestricted
2. Purpose and Definition: Provide funds to ensure continuity of cash funded construction projects, recognizing the amount of cash funded construction may vary from year to year.
3. Target (Minimum) Level: Equal to the average amount of the next five years of cash funded capital outlay as defined by the Utility's adopted Capital Improvement Program.
4. Events or Conditions Prompting Use of the Funds: These funds may be used to cash fund routine capital improvements in a year when current revenues are less than the amount needed, or for unanticipated capital costs.

I. Funds in Excess of Minimum Reserve Requirements

Funds in excess of the minimum levels described above are considered Undesignated Reserve Funds of the Utility and may be used for any purposes consistent with Wisconsin law, City ordinances, intermunicipal agreements, bond covenants, or financial assistance agreements with the State of Wisconsin.

J. Replenishment of Reserves

Reserves below the minimum target levels could leave the Utility exposed to operational risks, credit risks, violation of bond covenants, or violation of financial assistance agreements with the State of Wisconsin. Should the Utility draw down reserves below the minimum targeted level, Utility staff will develop and present a plan to the BPW for replenishing reserves.