

Fund Descriptions

The Regional Water Resource Agency (RWRA) accounts are organized and operated on the basis of funds and account groups. A Fund is an independent, fiscal accounting entity, with a self-balancing set of accounts. Fund accounting segregates funds according to the intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. RWRA maintains a minimum number of funds consistent with legal and managerial compliance. Accounting groups are a reporting device to account certain assets and liabilities of governmental funds not recorded directly in those funds. RWRA has the following fund types:

Pursuant to the Environmental Protection Agency regulations and recommendations from the Kentucky Division of Water, RWRA's 1992 Rate Study included the establishment of a revenue stream and associated funds for total system Operation, Maintenance and Replacement (OM&R). Approximately 85% of the revenue generated by RWRA has been allocated for OM&R. This revenue is allocated based on the approximate following breakdown: Wastewater User Charge - 56%; Basic Service Charge - 22%; Transported Waste - 4%; Quality Surcharge - 3%.

OPERATING & MAINTENANCE FUND:

The operation and maintenance of the RWRA system is administered through the ***Operating and Maintenance Fund***. The "day-to-day" operations, which include plant and field operations, engineering, finance, personnel and administration, etc., are funded through this account. Approximately 72% of the Wastewater User Charge Revenue is deposited in the Operation and Maintenance Fund.

REPLACEMENT FUND:

RWRA established recommendations for both "Replacement" and "Depreciation" needs within the system. The recommended allocations have been consolidated into a single account entitled the ***Replacement Fund***. As a result of the 1992 "Rate Study", a complete System analysis established the allocation of approximately 28% of Wastewater User Charge Revenues to be placed in said Fund. Monies from this account are used for the rehabilitation and/or replacement of facilities (i.e., pipes, pumps, electrical/mechanical controls, lift stations, structures, equipment, etc.).

ENVIRONMENTAL IMPROVEMENT FUND

The Environmental Protection Agency (EPA) has required communities throughout the United States to initiate various applicable programs such as the Combined Sewer Overflow (CSO) Policy to meet a higher level of controls associated with water quality improvements of the federal Clean Water Act. RWRA has entered into a Consent Judgment with the Kentucky Energy and Environmental Cabinet to develop a Long-Term Control Plan (LTCP) to address compliance with the CSO Policy. Many of the projects associated with requirements from EPA also provide improvements to the community through drainage improvements, reduced flooding, and potential contact with pathogens by the citizens, etc. Other program expenditures associated with the Clean Water Act that are anticipated to be required by EPA such as nutrient controls, total maximum daily loads (TMDLs), and potential costs associated with Municipal Separate Storm Sewer Systems (MS4s), etc. may be allocated to this fund in the future.

RWRA has established an Environmental Improvement Fee designed to pay for capital improvements that are associated with environmental improvements within the community. This fund was established to track RWRA's future expenditures within the community related to environmental improvement projects.

DEBT SERVICE FUND

The *Debt Service Fund* serves as a temporary accumulation account that accumulates transfers from other funds for Debt Service payments.

INSURANCE FUND

The *Insurance Fund* contains monies related to RWRA's partially self-funded health insurance plan, worker's compensation insurance, and property and liability insurance.

EXPLANATION OF GROWTH-RELATED FUNDS

The Regional Water Resource Agency (RWRA) has established *Growth-Related Funds* and associated fees for the extension of wastewater services to new and unsewered areas. RWRA has adopted the philosophy that "growth pay for growth". This philosophy allows for the extension of wastewater services without placing the long-term financial burden on the current customer base. RWRA developed three (3) different fees related to extensions in an effort to equitably distribute the associated costs of extensions to those customers receiving the new service. These fees are structured on an "Equivalent Residential Unit" (ERU) basis for each specific customer served. The following narrative describes the intent and purpose of each fee, along with the allocation of the associated fund. Projects may have multiple funding sources.

ASSESSMENT FUND

When RWRA constructs facilities that provide availability of service to specific lots/properties, in unsewered areas within an established Assessment Zone, all benefited properties shall pay a proportionate *Assessment Fee*. ALL costs associated with the construction of facilities within a Zone (i.e., easement acquisition, legal, engineering, construction, etc.) along with the assigned existing and potential ERU value(s), shall be used to determine the applicable Assessment Fee.

The *Assessment Fund* shall reflect all revenues and expenditures related to each specific Assessment project. Capital Projects determined to have Assessment related expenses will be budgeted in this fund.

SYSTEM DEVELOPMENT FUND

In an effort to follow the "growth" philosophy, where capital construction by RWRA is involved, RWRA established a uniform *System Development Fee*, which would be assigned to those properties that receive a direct, or indirect, benefit from the construction of the related facilities.

The System Development Fee is designed to eventually recover the expenditures related to system-wide System Development Capital Improvements. Each "qualified existing user" is allowed to pay this fee on a monthly basis until the total associated System Development Fee for each property is paid in full. All System Development revenues and expenditures will be reflected in the *System Development Fund*. Capital Projects determined to have System Development related expenses will be budgeted in this fund.

CAPACITY FUND

RWRA established the *Capacity Fund* and associated fee for customers that receive service from the RWRA system after July 1, 1997. This fee is a calculated equitable ownership of the system and enables new customers to "buy in" to the system once service is made available.

A Capacity Fee is designed to recover the costs of the proportionate share of RWRA's system capacity used by a specific customer. The funds generated from the collection of Capacity Fees shall be deposited into the *Capacity Fund*. These funds shall be used for system capacity improvements (i.e., plant/lift station/sewer line/capacity up-grades, etc.) as determined by the RWRA Board. Capital Projects determined to have capacity related expenses will be budgeted from this fund.

RESERVE FUND

The RWRA Board has established amounts for specific and necessary reserve issues that will be retained in the *Reserve Fund*. As a condition of the Kentucky Infrastructure Authority (KIA) Loan Agreement, RWRA is required to set aside \$2.5 million in a designated Reserve account. The RWRA Board approved additional Emergency, Operating, and Replacement Reserves in the amount of \$3.5 million. Of these Board reserves, \$2 million has been designated for unanticipated or emergency system failures. The net interest income from this account can be used at the Board's discretion or may be left to accumulate in the designated reserves.

However, RWRA's recent financial conditions required RWRA to expend funds that were included in RWRA's additional emergency, operating and replacement reserves, thus reducing the additional \$3.5 million board-designated reserves. A rate increase has been authorized by the Owensboro-Daviess County Rate Review Board which should enable RWRA to continue operations and may allow the reserve level to increase. The City of Owensboro and Daviess County Fiscal Court recognized that RWRA reduced its Board-designated reserves and committed to provide assistance in the amount of \$1 million each should RWRA require it on an emergency basis. It was also recommended by the Rate Review Board that RWRA appear bi-annually before that body to determine RWRA's financial needs.