



UNDERSTANDING YOUR CITY'S FINANCES

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The Proprietary Funds

This series is designed to give the citizens of the City of Grovetown a better understanding of how the City is funded through various sources, how those funds are organized for specific purposes and the accounting activities that track the results of the City's operations

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Introduction

The purpose of this series is to share information with you, the citizens of the City of Grovetown, regarding your City's finances. I really want to stress that one point; it is *your* City. As discussed previously, the City exists for your benefit. Not to make a profit for you, like a business corporation does for its shareholders, but to provide services to you and your fellow citizens. Services that would be exceedingly difficult or expensive to provide for yourself. The City is funded by your taxes, fees, etc. and it is controlled by your elected representatives (the mayor and council).

In the earlier editions of "Understanding Your City's Finances", I shared a brief overview of fund accounting and details about the City of Grovetown's General Fund. In this edition I would like to briefly review the basics of fund accounting and share with you more details about the City's proprietary funds (the Water Sewer Fund and the Stormwater Fund).

Fund Accounting

As discussed in the previous edition, the City of Grovetown accounts for its financial position and results of operations using fund accounting. This means that rather than having a single set of accounts for all operations, the city's accounts are grouped into "funds". The type of service provided is the main determining factor in which operations are grouped into which funds. There are several fund types used in local government accounting. Each municipal government has a general fund, usually one or more proprietary funds, and several special revenue funds as necessary.

Proprietary Funds

The word "proprietary" brings to mind of course, the word "proprietor", which we associate with a business. The reason for classifying certain operations of the City in a proprietary fund is that those services are operated like a business. They provide a product such as water, and bill the cost of providing that product back to the consumers on the basis of a rate per unit of consumption (dollars per gallon in the case of water).

It is important to stress that the City's proprietary funds, though they may be accounted for like a business, they are not operated to earn profits for shareholders (like Wal-Mart or ExxonMobil, for instance). Rather they operate to provide a service for their members and the members share the cost of providing the service (similar to an electrical cooperative like Jefferson Energy). All costs borne by the proprietary fund will be passed on to the customers of that fund.

Water & Sewer Fund

The City of Grovetown's largest proprietary fund is the Water & Sewer Fund. As discussed above, the Water & Sewer Fund provides water and sewer service to each of its customers on a dollar per gallon fee basis. The Water & Sewer Fund has four main sources of operating revenues (% are approximate and vary slightly from year to year):

- Water fees (50% of overall revenue)
- Sewer fees (40% of overall revenue)
- Water & sewer tap fees (7% of overall revenue)
- Late charges (2% of overall revenue)
- Miscellaneous (1% of overall revenue)

The main operating expense categories of the Water & Sewer Fund are (% are approximate and vary slightly from year to year):

- Water & sewer capacity purchased from Columbia and Richmond Counties (40% of overall expenses)
- Salaries & benefits (25% of overall expenses)
- Insurance (9% of overall expenses)
- Maintenance and repair (7% of overall expenses)
- Utilities (3% of overall expenses)
- Vehicle expense (2% of overall expenses)
- Other expenses (6% of overall expenses)
- Depreciation (8% of overall expenses)

Debt Service & Capital Expenditures

The list above only represents the operating expenses of the Water & Sewer Fund. Over the years there have been large capital expenditures made to establish and maintain water & sewer services to the customers of the Water & Sewer Fund. For example in 2005, the City issued Water & Sewerage Revenue Refunding Bond Series 2005 in the amount of \$1,660,000. These bonds were issued to pay off the existing balance of earlier bond issued in 1987 in order to establish the City’s first sewer treatment plant.

This type of bond does not constitute a debt of the City’s taxpayers, rather it is to be repaid wholly from water sewer “net revenues”, which are defined in the bond agreement as all the revenues listed above less the expenses listed above (excluding depreciation). The bond covenant requires that the Water Sewer Fund charge rates that are sufficient to meet all of those expenses and produce net revenues as defined above in an amount equal to 1.2 times the debt service amount. This is just one type of debt that the Water Sewer Fund has incurred. In 2009, the City borrowed a net \$1,500,000 from the Georgia Environmental Finance Authority (GEFA), in order to finance water distribution system improvements.

In addition to the debt service requirements placed on the Water & Sewer Fund by the 2005 bond covenants, the 2009 GEFA loan carries a debt service requirement as well. The debt service requirements of those two borrowings amounts to about \$250,000 per year. As stated on the previous page the Water & Sewer fund must charge rates that produce revenues sufficient to pay its operating expenses and to service its debts.

In 2015, the City Council & Mayor made plans to build a new sewer plant. The new sewer plant is designed to be of sufficient size to eliminate the City’s need to purchase sewer capacity from Columbia and Richmond Counties. In 2016, the City Council & Mayor signed agreements with GEFA to finance the new sewer plant and some additional infrastructure. These new borrowings are adding significant amounts to the annual debt service requirements that the water sewer fund must meet:

Water Sewer Fund Debt Service Requirements EACH Year

Year	Current Debts	New Borrowings	Total
2017	\$ 250,396	\$ 85,000	\$ 335,396
2018	250,936	475,000	725,936
2019	250,936	1,089,000	1,339,936
2020	250,936	1,230,000	1,480,936
2021-2031	99,828	1,230,000	1,329,828
2032 - Payoff	-	1,230,000	1,230,000

More information on the Water Sewer Fund budget and finances will follow in later editions.

Stormwater Fund

The other proprietary fund the City currently operates is the Stormwater Fund. It was established in 2015 to account for the billing, collection and expenditures of stormwater user fees. This fee is often derided as being a “rain tax”, but the stormwater fee is not a tax, it’s a user impact fee. This section will explain the rationale for a stormwater fee and how it is designed to work.

All cities have some amount of stormwater infrastructure in the form of drains, pipes, ditches, retention ponds, etc. Prior to implementation of the stormwater fee, this infrastructure was installed, repaired, and maintained using funds from other sources, such as the General Fund or the Water Sewer Fund. But those funding sources do not enable a fair and equitable sharing of the costs associated with stormwater management.

Property taxes are based on assessed value of one’s property, not the amount of potential stormwater impact. It could be the case that two properties with a similar assessed property tax value have very different impacts on the stormwater system. Water sewer fees are based on consumption, and that is also not a good measure of impact to the stormwater system. Two properties could have users consuming similar amounts of water sewer capacity but again have very different impacts on the stormwater system.

The stormwater user fee seeks to allocate the costs of maintaining the stormwater infrastructure based on how much a particular piece of property impacts the City’s stormwater system. As a general rule, the more impervious area that is on a particular property, the higher the stormwater user fee for that particular property. Impervious area is that area on a particular property where precipitation will not soak in, such as buildings, parking lots driveways, sidewalks, etc.

Conclusion

As stated in the first editions, the City’s finance and accounting structure is complex. It is hoped that this publication will be useful in shedding light on that complex structure for the benefit of the citizens of the City. Future issues will take an in depth look at what we have described so far and also introduce the other special purpose funds the City maintains, such as SPLOST & T-SPLOST.