NewGen Strategies & Solutions

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Memorandum

To: Joe Gimenez, Windermere Oaks WSC

From: Grant Rabon, NewGen

Date: January 22, 2021

Re: Financial Policies

NewGen facilitated a public discussion with the Windermere Oaks Water Supply Corporation Board ("Board") on October 12 to examine possible financial policies that the Board may want to adopt. This memorandum codifies the key conclusions from that discussion and provides possible financial policies that the Board may want to review, modify (as appropriate), and, ultimately, adopt. NewGen is happy to provide further guidance, as desired, on the adoption of financial policies and/or assistance developing a plan to become compliant with the adopted policies thereafter.

Possible Financial Policies for Consideration

- The term of debt generally shall not exceed the useful life of the asset(s) financed and shall not generally exceed 30 years.
- Debt service coverage of at least 1.50x shall be targeted (and actual debt service coverage shall be in compliance with all relevant debt covenants).
- Ongoing routine, preventive maintenance should be funded on a pay-as-you-go basis from current revenues.
- Major capital projects[1] should be financed through a combination of cash (i.e., equity) and debt. An equity contribution ratio of at least 15% is desirable.
- The utility shall target an unrestricted[2] operating reserve balance of cash and other liquid investments equivalent to a range of 90 to 120 days of budgeted cash operations and maintenance expenses.
- Rates shall be designed to generate sufficient revenues to:
    - support the full cost of operations and debt;

[1] Major capital projects for the purposes of implementing this financial policy are *generally* (but not exclusively) defined as involving assets with a useful life greater than five years with an overall cost of $50,000 or more.
[2] Unrestricted, for the purposes of implementing this financial policy, shall be defined as the operating reserve balance of cash and other liquid investments excluding any funds restricted by agreement (e.g., debt covenant) or reserved for a specific purpose (e.g., capital projects).

- provide debt service coverage and meet other debt covenants, if applicable;
- ensure adequate and appropriate levels of reserves and working capital; and
- ensure sufficient funding for capital renewals and replacements.[3]

[3] This level of capital reinvestment is primarily concerned with maintaining the capability of the existing facilities. Equity buy-in fees or other capital contributions from new customers are intended to help fund system expansions.