




ENTERPRISE FUNDS

SPOKANE CITY COUNCIL
MASTERING MUNICIPAL FINANCE



● Enterprise Fundamentals

 Water + Wastewater

 Solid Waste

 Golf

 Development Services

 Integrated Capital Management (ICM)

GASB* DEFINITION

Funds used to account for operations that are financed and operated in a manner like a private enterprise.

The intent is for costs to be fully recovered through user fees and charges.

**Governmental Accounting Standards Board*

KEY IDEA | Ratepayers fund these services, not taxpayers. Each fund is self-supporting.





Enterprise -vs- General Fund

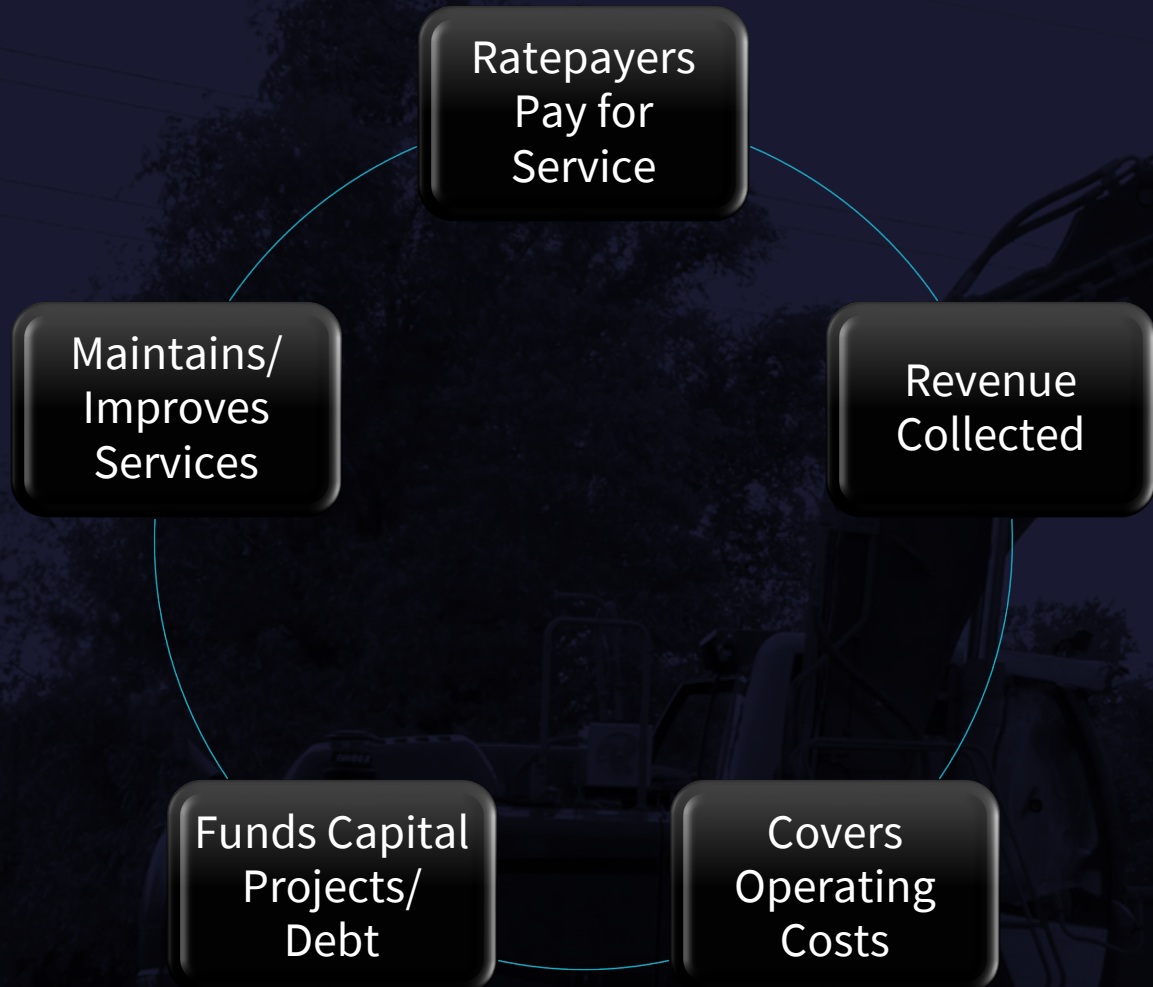
Designed as distinct financial worlds

	ENTERPRISE FUNDS	GENERAL FUND
Revenue Source	Rates + User Fees	Taxes, Intergovernmental, Grants
Who Pays	Rate Payers, Customers, Users	All Residents + Businesses
Fund Balance Use	Reinvest in That Operation	City Operations + Services
Accounting	Full Accrual – Like a Business	Modified Accrual
Debt	Revenue Bonds (Rate-supported)	GO Bonds (Tax-supported)
Transfers Out	Tightly Restricted By Law	Funds General Purpose



● How These Funds Work |

Revenue generated from users then cycles back to serve these consumers.



Separate Accounting Required

Every dollar of revenue and expense is tracked within the fund. No commingling with General Fund.

Reserves Have Purpose

Fund balance used for capital replacement, rate stabilization, debt service.



● Fund Fire Walls |

Limited allowable transfers of enterprise fund dollars to other funds.

✔ Defined Regulatory Transfers

Payment in Lieu of Taxes (PILT)

EF pays City amount equivalent to or having reasonable relation to what private utility would pay in taxes.

Current: 21.5% City vs 12.5% peer average

Indirect Cost Allocation

Reimburse GF for interfund/internal services at an auditable rate (HR, IT, finance, legal, etc)+ Code Enf/RVs

Franchise Fees

Fee paid to City for use of public rights of way @ FMV/ reasonable rate consistently applied.

Interfund Loans + SIP

Borrowing between funds allowed if documented at market rate, on set schedule.

✘ Generally Impermissible Transfers

Sweeping Reserves to GF

Reserves limited to capital replacement, rate stabilization.

Using Rate Revenue for Other Purposes

Courts and auditors scrutinize this: Subject to ratepayer challenges.

Informal Transfers

Even well-intentioned transfers without documentation can create audit findings.

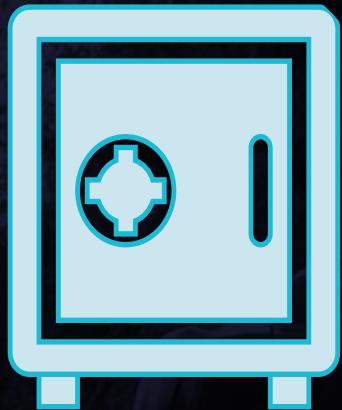
Transfers Violating Bond Covenant

Revenue bond covenants restrict pledged revenue use.

Fund Balance Uses

Every Enterprise Fund dollar works toward a designated purpose.

Enterprise
Fund
Balance



Debt Service Reserve



Contributed Capital:
Assets Ratepayers Didn't Pay For



Capital Replacement



Rate Stabilization, Operations



Unassigned, Unreserved



Council Duties |

In addition to its regular “power of the purse”, Council also serves as utility rate approval board for Enterprise Funds.



Approve Rates



Authorize Major Expenditures



Pass Budgets | CIP + biennial

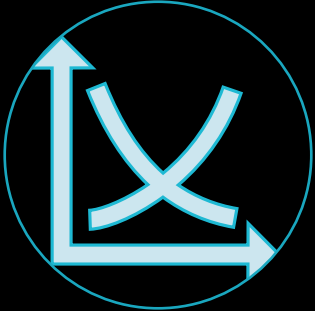


Determine Utility Transfer | Set Taxable Rate



● Council Budget Concerns

Questions to consider when reviewing Enterprise Fund budgets or SBOs...



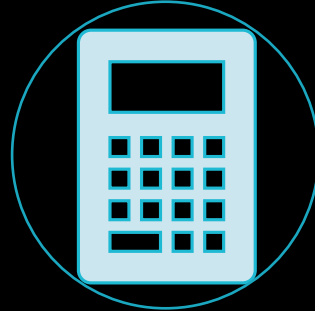
Are rates covering full cost of service?



How old is the infrastructure; Is CIP funded?



Is the fund balance declining YoY?
What are input costs doing?



What is the Fund's debt service coverage ratio?



Are interfund transfers documented, reasonable?



Implications for bond covenants?





Enterprise Fund Reserves

Essential fiscal shields to maintain resilience and protect against mounting economic shocks and inflationary pressures

NOT A 'RAINY DAY FUND'

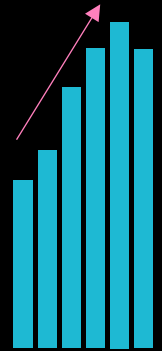
EF reserves are restricted assets essential for:

- Regulatory Compliance
- Debt Covenants
- Operational Solvency Requirements

RESERVES vs INFLATIONARY SHOCK

Inflationary insulation:

- Supplies costs have spiked
- Reserves absorb shocks to stabilize rates against emergency increases.



EMERGENCY + CAPITAL RESILIENCE

Cycle Balance | Safeguards against failures b/t budget cycles (broken mains)

Asset Management | Fully funds CIP to prevent catastrophic failures, support planned maintenance.

SOLVENCY TARGET

Target: 60-90 days of working capital

Shields Against: Lower revenue during contractions; asset price fluctuations; changing mandates.



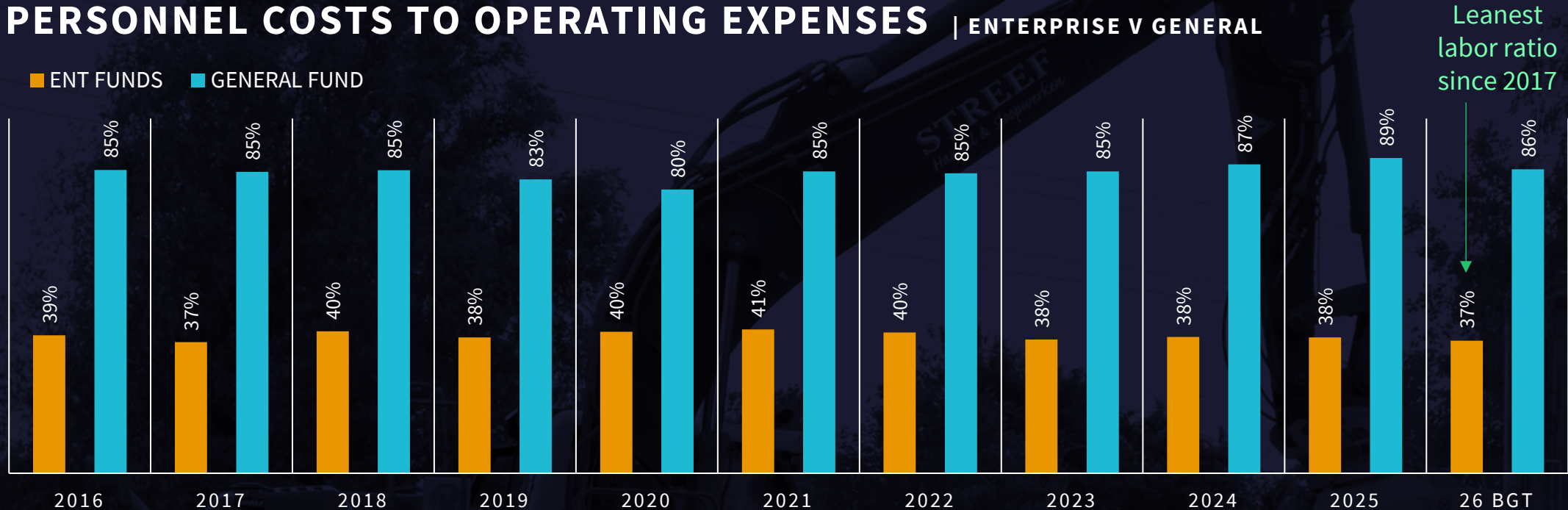


Operational Efficiency |

Personnel cost composition as percent of operating costs in Enterprise Funds relative to General Fund

PERSONNEL COSTS TO OPERATING EXPENSES | ENTERPRISE V GENERAL

ENT FUNDS GENERAL FUND



Leanest labor ratio since 2017

FISCAL NOTE | While EFs maintain lower personnel-to-operating expense ratios due to higher capital intensity, they remain susceptible to the same city-wide inflationary labor cost escalations as the GF.



● APPENDIX | Municipal Utility Tax (MUT) Benchmarks, Standards

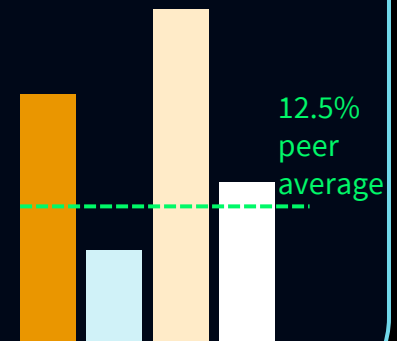
21.5%

CURRENT SPOKANE MUT RATE

Applies to Gross on Water, Sewer, Solid Waste
+ state taxes 5/3.85/3.6 %

COMPARATIVE MUT RATES | CITY PEERS

SPOKANE	21.5%
TACOMA	8.0%
VANCOUVER	28.9%
SEATTLE	15.5/12.0/14.2%



IMPACT ON OPERATIONAL METRICS



- Reduced Rate Stabilization Reserves (RSR)
- Crowding Out Operational Cash Flow
- Increased Debt Svc Coverage Pressure
- Potential Rate Fatigue Limiting Future Flexibility

REGULATORY + LEGAL



RCW 35.21.870 Taxation municipal utilities, limitations
WA CONST ART VIII Sec 7 Credit not to be loaned
SMC 07.08 Utility Taxes
BARS MANUAL Reporting standards





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