

Number: BP 046

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Initiating Dept./Div.: Administration/Finance



BOARD POLICY

REGULATORY ACCOUNTING

PURPOSE

The maintenance, replacement and expansion of Central San's wastewater collection and treatment infrastructure assets is critical to achieving its mission to protect public health and the environment. Funding for such capital investments is provided for substantially through annual budgets, and rates established in periodic rate cases. Rate stability is a key goal of Central San's rate making, which has become a more challenging goal in light of increasing capital infrastructure investment needs.

Regulatory accounting provides the opportunity to account for revenues, expenditures, assets and liabilities in a manner consistent with ratemaking goals.

Accordingly, the purpose of this policy is to provide a framework for the creation of regulatory assets, liabilities, revenues and expenditures, and establish the process for approval of individual items to be subject to regulatory accounting treatment.

BACKGROUND

As a municipal business-type utility reporting as an enterprise fund, Central San is subject to accounting pronouncements issued by the Governmental Accounting Standards Board (GASB). In 2010, GASB adopted Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. One section of GASB 62 addresses "Regulated Operations" and provides that certain costs or credits may be included in rates for recovery or refund over a future period and consequentially are recorded as regulatory assets or liabilities in the financial statements. As long as Central San continues to meet the following criteria, the Board, in their role as rate regulator, has the ability to create regulatory assets or liabilities through the budgeting and rate setting process:

- Rates are subject to approval by an independent, third-party regulator or by a governing board empowered by statute to establish rates that bind customers.
- The rates are designed to recover the costs of regulated services.

- It is reasonable to assume that the rates are set at levels that can be charged to and collected from customers.

Title 6 of the Central San District Code contains the provisions permitting the Board of Directors to set rates, including capacity fees, sewer service charges and other fees.

POLICY

1.1 Overall Framework

Expenditures or revenues to be subject to regulatory accounting will typically be identified by staff through the formal budgeting or ratemaking process, although provision for such treatment may occur outside such processes. In either case, the Board shall be provided with a listing of items for proposed regulatory accounting treatment for adoption, along with analysis of the rate impact of such treatment. Upon adoption of regulatory accounting for such items, appropriate regulatory accounting through the establishment of regulatory assets and liabilities shall be effectuated, with appropriate amortization over time recorded.

Staff will assess whether the agency is continuing to meet the requirements to apply the "Regulated Operations" provisions of GASB 62 and report regulatory assets and liabilities. If the District no longer meets the requirements to apply regulatory accounting, all such regulatory assets and liabilities will be written off to expense or revenue.

1.2 Applicability

This policy is applicable to District Financial Statements prepared annually as part of the Comprehensive Annual Financial Report, the annual budget, financial plan and development of fees, rates and charges in accordance with the District Code.

1.3 Terms & Definitions

1. Regulatory asset: A regulatory asset is an incurred expense that the Board, in their role as rate regulator, intends to recover from customers through rates in a future period and/or through the capital budget.
2. Regulatory liability: A regulatory liability is an obligation resulting from the Board's decision, in their role as rate regulator, to return current receipts or revenues to customers through rates in a future period.
3. Amortization: The process of systematically allocating a regulatory asset to expense or a regulatory liability to revenue over time.

1.4 Responsibilities

The authority for making policy is vested in the Board, and implementation and ongoing compliance with such policy is delegated to the General Manager.

1.5 Standards & Procedures

Prior to pursuing a new regulatory asset or liability in either a budget or rate case proceeding or between such events, relevant staff will assess whether the costs or revenues are eligible, and communicate such items to the Board regarding proposed regulatory accounting treatment.

An Administrative Procedure will outline categories of Eligible Costs or Revenues, Ineligible Costs, and provide for consideration of appropriate Amortization/Recovery Periods.

1.6 Performance & Monitoring

Compliance with this policy may be monitored by the District's external financial auditor, and the Internal Auditor.

[Original retained by the Secretary of the District]