

**UTAH DIVISION OF WASTE MANAGEMENT AND RADIATION CONTROL**  
**Solid Waste Program**

**Local Government Financial Test Guidance**

This guidance is not a rule. It has been prepared to give the reader information, in plain language, about how the Utah Division of Waste Management and Radiation Control expects to interpret Rule R315-309-8 and other sections of the solid waste rules financial assurance and the local government financial test. In the event questions arise regarding the matters discussed in this guidance, the text of the rule will govern.

Local governments may possess sufficient financial capacity and fiscal responsibility to demonstrate that their resources are adequate to meet their financial assurance obligations without use of third-party mechanisms (i.e. trust funds, letters of credit, and surety bonds). Therefore, a local government financial test and local government financial guarantee is allowed for use by local governments to reduce the regulatory burden of financial assurance requirements for closure and post-closure care for landfills owned by a local government.

The local government test and the government guarantee require that information be submitted to the Director. The following is a summary of the information requirements:

1. An up-to-date statement of the current cost estimates for closure and post-closure care of the landfill.
2. A statement by the Chief Financial Officer (CFO) that the government meets the conditions of the local government test. A sample letter, including the required conditions, is included in this guidance.
3. The independently audited year-end financial statements for the latest fiscal year.
4. A report to the local government from the local government's independent certified public accountant (CPA) or the appropriate State agency that describes the procedures performed and the resultant findings.
5. A copy of the comprehensive annual financial report (CAFR) or certification that the requirements of General Accounting Standards Board Statement 18 have been met.

The conditions referred to in 2 above that must be met for the local government to use the test are as follows:

1. The closure and post-closure care costs along with all other environmental obligations do not exceed 43 % of the local government's annual revenue

2. The local government has either:
  - a. outstanding uninsured general obligation bonds rated no lower than Baa by Moody's or BBB by Standard and Poor's; or
  - b. meets the following ratios:
    - i. cash plus marketable securities to total expenditures greater than or equal to 0.05; and
    - ii. annual debt service to total expenditures less than or equal to 0.20.
3. The local government's comprehensive annual financial report was:
  - a. Prepared in conformity with Generally Accepted Accounting Principles for governments,
  - b. Audited by an independent, certified public accountant, and
  - c. The auditor issued an unqualified opinion for the report.
4. The local government:
  - a. Is not currently in default on any outstanding general obligation bonds,
  - b. Has no outstanding general obligation bonds rated lower than Baa as issued by Moody's or BBB as issued by Standard and Poor's; and
  - c. Has not operated at a deficit equal to five percent or more of total revenue in each of the past two fiscal years.
  - d. Has no adverse or qualified opinion from an independent certified public accountant that audits the local government's financial statements. Qualified opinions will be evaluated on a case-by-case basis.

Local governments can use the test to assure all costs for which they pass the test up to the maximum described in #1 above. The Local government test can be used in combination with others financial assurance mechanisms.

For a financial test to accurately describe a local government's financial condition the financial data must be verifiable and have common standards and accounting practices for analysis. For that reason only financial statements using generally accepted accounting principles (GAAP) for governments can be used as a basis for evaluation.

## **REPORTING REQUIREMENTS**

In addition to preparing an annual financial report in compliance with GAAP for governments the following three items must be submitted to Director annually:

1. Chief financial officer (CFO) letter- A draft example of a CFO letter is included in this guidance. The CFO letter should list all current cost estimates covered by the financial test; providing evidence that the local government passed the financial component (i.e., evidence of its bond rating or a demonstration showing that the local government's annual financial data meet the specific measures required by the test), certification of meeting the general criteria of the

financial test described above, and a calculation of the amount of total costs which may be assured by this method.

2. Year-end financial statements for the latest fiscal year - Included in the annual financial report should be the unqualified opinion from the independent certified public accountant.

3 Independent Accountant's Special Report - This report should confirm that the data used in the CFO letter to pass the test were taken directly, or appropriately derived from, the audited year-end financial statements. This special report must state that, in connection with that examination, no matters came to the accountant's attention that caused him to believe that the data in the CFO letter should be adjusted. A draft example of an Independent Accountant's Special Report is included in this guidance.

The above items must be submitted with the annual report due March 1 of each year and be updated annually. Included in the submittal should be evidence that the costs are updated annually for inflation. If a local government can no longer satisfy all of the financial test criteria it must obtain alternative financial assurance within 120 days of the close of the fiscal year.

# LETTER FROM CHIEF FINANCIAL OFFICER FOR THE LOCAL GOVERNMENT GUARANTEE

Douglas J. Hansen, Director  
Utah Division of Waste Management and Radiation Control  
PO Box 144880  
Salt Lake City, Utah 84114-4880

Dear Mr. Hansen:

I am the chief financial officer of *(insert name of local government)*. This letter is in support of the use of the financial test to demonstrate financial assurance for closure, post-closure care, *[and/or remedial action]* cost estimates covered by the local government financial test are shown for each facility.

*(For each facility, fill in the following paragraph, including its permit identification number, name, address, and current closure and/or post-closure cost estimates. Identify each cost estimate as to whether it is for closure or post-closure care.)*

## Part I.

*(name of local government)* is the owner or operator of the following facilities in Utah for which financial assurance for closure or post-closure care is demonstrated through the financial test specified in R315-309-8. The current closure and/or post-closure cost estimates covered by the test are shown for each facility. *(Include all landfill facilities.)*

a.

Name & Permit Number: \_\_\_\_\_  
Address: \_\_\_\_\_  
Closure Cost Estimate: \_\_\_\_\_  
Post-Closure Cost Estimate: \_\_\_\_\_

b.

Name & Permit Number: \_\_\_\_\_  
Address: \_\_\_\_\_  
Closure Cost Estimate: \_\_\_\_\_  
Post-Closure Cost Estimate: \_\_\_\_\_

c.

Name & Permit Number: \_\_\_\_\_  
Address: \_\_\_\_\_  
Closure Cost Estimate: \_\_\_\_\_  
Post-Closure Cost Estimate: \_\_\_\_\_

Total of all current closure and post-closure cost estimates from all facilities listed above: \_\_\_\_\_

The fiscal year of (*name of local government*) ends on (*month, day*). The (*name of local government*) independently audited, fiscal year-end financial statements for the latest completed fiscal year, have been placed in the facilities operating record. (*A copy of the financial statements and the auditor's special report should be attached to this letter*).

## Part II

### Alternative I - Bond Rating

The figures for the following items marked with an asterisk are derived from the (*name of local government*) independently audited, fiscal year-end financial statements for the latest completed fiscal year, ended (*date*).

Current bond rating of most recent rated general obligation bonds that are not secured by insurance, a letter of credit, or other collateral guarantee for (*name of local government*).

1. Rating service and rating: \_\_\_\_\_
2. Date of issuance of bond: \_\_\_\_\_
3. Date of maturity of bond: \_\_\_\_\_

### Alternative II - Financial Ratios

1. \*Total of cash and marketable securities: \$ \_\_\_\_\_
2. \*Total expenditures: \$ \_\_\_\_\_
3. \*Annual debt service: \$ \_\_\_\_\_

Is line 1 divided by line 2 greater than or equal to .05? \_\_\_\_\_

Is line 3 divided by line 2 less than or equal to .20? : \_\_\_\_\_

I hereby certify that {*name of local government*} meets the requirements of {*Fill in Alternative I or Alternative II*}.

## Part III

In addition, I hereby certify that (*name of local government*) meets the following conditions:

- ◇ (*name of local government*) financial statement's are prepared in conformity with Generally Accepted Accounting Principles for governments and has had these financial statements audited by an independent certified public accountant. [UAC R315-309-8(2)(c)];
- ◇ (*name of local government*) has not operated at a deficit greater than 5% or more of total annual revenue in each of the past two fiscal years;

◇ (name of local government) is not in default on any outstanding general obligation bonds and does not have any outstanding general obligation bonds rated lower than Baa as issued by Moody's or BBB as issued by Standard and Poor's;

◇ (name of local government) most recent fiscal year-end financial statements have not received an adverse opinion, a disclaimer of opinion, or a qualified opinion from the independent certified public accountant that audits the financial statements as required under [UAC R315-309-8(4)], (qualified opinions will be reviewed on case-by-case basis), and

◇ (name of local government) financial statements comply with the requirements of Statement #18 of the Governmental Accounting Standards Board (GASB).

#### Part IV

(Fill in the following items to verify the use of the financial test mechanism)

- ◇ (Name of local government) total annual revenue (general fund) \$\_\_\_\_\_X  
.43 = \_\_\_\_\_
- ◇ Amount that can be assured by the local government financial test \$\_\_\_\_\_
- ◇ Total of all landfill closure and post-closure costs from Part I \$\_\_\_\_\_
- ◇ Total of all other assured environmental costs (list all UIC, UST, hazardous TSD, and solid waste management facilities) \$\_\_\_\_\_
- ◇ Total of all assured costs (landfill and other) \$\_\_\_\_\_

I hereby certify that the statements, evidence provided, and certifications made in Parts I through IV above are correct and that (name of local government) meets the requirements of UAC R315-309-8 (all/a portion) of the assured costs for closure, post-closure care, and/or remedial action for the above named facilities. (If less than 100% indicate the other financial assurance mechanism(s) to be used).

(Signature)

(Name)

(Title)

(Date)

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To *[name of local government]*  
*[address]*

We have performed the procedures as specified in UAC R315-309-8 enumerated below, which were agreed to by the *[name of local government]*, solely to assist you and the Utah division of Waste Management and Radiation Control in evaluating the *[name of local government]*'s use of the financial test to demonstrate financial assurance for closure and post-closure care during the year ended *[date of audited financial statement]*. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. This report does not constitute a legal determination as to *[name of local government]*'s compliance with specified requirements.

The procedures that we performed and our findings are as follows:

- 1 We compared the numerical information appearing on page 2 (Part II; [Fill in Alternative I or II] of the accompanying letter dated *[date]* , items 1, 2, and 3, to the year end financial statements of *[name of local government]* for the year ended *[date of audited financial statements]* and found them to be in agreement.
- 2 We recomputed the numerical or percentage information required on page 2 (Part II; Alternative II) based on the above information and found them to be mathematically correct. *[Use only if using Alternative II]*
- 3 We have audited the financial statements of the *[name of local government]* as of *[date of audited financial statement]*. As reported in the Independent Auditor's Report dated *[date of report]*, our audit includes expressing an opinion regarding these financial statements, and assessing the accounting principals used. We confirm that the *[name of local government]* financial statements are prepared in conformity with Generally Accepted Accounting Principals, and that the *[name of local government]* financial statements did not receive an adverse opinion, disclaimer of opinion, or other qualified opinion.
- 4 We recomputed the dollar amount representing Operating Deficit using the numerical or percentage information appearing on an analysis schedule prepared by *[name of local government]*. Such analysis schedule details the components of Operating Deficit. We compared the amounts appearing on such analysis schedule representing Total Expenditures and Total Revenues to the audited financial statements for the years ended *[date of the two most recent audited financial statements]* and found such amounts to be in agreement. We recomputed the Operating deficit percentages and found such amounts to be mathematically correct.
- 5 We recomputed the numerical or percentage information required on page 3 (Part IV) of the accompanying letter using the information from item # 4 above and found such amount to be mathematically correct.

We were not engaged to perform an examination, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we been engaged to perform additional procedures, other matters might have come to our attention that would have been reported to you.

This report is furnished for the use of *[name of local government]* and the Utah Division of Waste Management and Radiation Control and should not be used by anyone other than these specified parties.

*[name of independent certified public accountant]*      *[date]*