



Town of Natick, Massachusetts

Water/Sewer Enterprise Fund Financial Policies

To protect the Water & Sewer Enterprise Fund's financial stability and to ensure the availability of adequate financial resources in times of emergency, it is essential that policies regarding the enterprise fund's financial management be adopted and adhered to in the preparation and implementation of the operating and capital budgets.

1) Reserves

Maintaining adequate reserves is a fundamental principle of sound financial management. Although there is no standardized reserve policy guidance for enterprise funds in Massachusetts, industry practice would suggest the following:

- a) Retained Earnings (as certified by the Mass. Department of Revenue *eff. July 1* of each fiscal year) shall serve as the principle reserves for the Water & Sewer Enterprise Funds.
- b) Retained Earnings balance should be at least 10% of the gross revenues of the Water & Sewer Enterprise Fund after accounting for planned draws in any fiscal year (e.g. capital purchases).
- c) Reserves can be used for any lawful purpose, but serve primarily to provide financial security in case of catastrophic and unforeseen events, or capital and asset renewal and replacement.
- d) Reserves should not be used to subsidize ongoing operations, whenever possible.

2) Capital

In order to preserve the Town's fixed asset base and ensure that Water and Sewer facilities, and equipment efficiently and effectively support the Town's programs and operations, the Town should provide consistent and stable funding sources for the timely and periodic renewal and/or replacement of water/sewer infrastructure, vehicles and equipment. To that end:

- a) **Methods of Financing:** Generally, the Town should finance all vehicles, equipment and infrastructure with a useful life less than 10 years out of its Retained Earnings. For those vehicles, equipment and infrastructure with a useful life greater than 10 years, the town should consider borrowing as per the regulations set forth under M.G.L. Ch. 44 Sec, 7 & 8 and/or any other applicable laws, if sufficient Retained Earnings are not available.
- b) **Debt Management:** When borrowing is necessary to finance a capital improvement, the Town Finance Director shall seek to issue bonds in such way as to minimize issuance and interest costs while achieving the best terms for the financial betterment of the Enterprise Fund.
- c) **Capital Planning:** All capital projects funded through the Enterprise Fund must be part of the agreed to and adopted 5-year Capital Improvement Plan.
- d) **Roadway Improvement:** Any disruption caused of a paved surface as a result of Water & Sewer Infrastructure Improvements shall be restored as part of the Water & Sewer project and paid for out of revenues of the Water & Sewer Enterprise Fund.

3) Rate Structures

- a) The Town of Natick should continue its established practice of ascending or inclined block rates for water usage in order to promote conservation.
- b) Rates should be proposed and adopted sufficient to cover all costs incurred during the fiscal year with the exception of catastrophic events. Mid-year rate modifications should be avoided whenever possible.

4) Indirect Costs

- a) Indirect costs shall be reviewed at regular intervals to ensure that they are reasonable to the services being provided by the General Fund in support of Water & Sewer Operations.

These policies should be reviewed at regular intervals for their effectiveness and continued improvement.