

Scott Point Waterworks District



Policy Number: 015

Revision: 1

Date: March 14, 2022

Financial Reserve Levels

Applicable to: Trustees of Scott Point Waterworks District

Trustees are expected to provide budgets that plan expenditures of capital replacements from parcel taxes and expenditures on operating and maintenance costs from water tolls. However, it is also prudent for the trustees to ensure that budget and 10-year planning process allow for an appropriate level of financial reserves. These reserves allow for unplanned expenditures, pre-saving for large planned expenditures and managing variations in the annual revenue stream.

1. Prior to consideration of financial reserves, trustees should ensure there is sufficient financial flexibility to balance the bi-monthly toll revenue and annual parcel tax revenue against more regular monthly expenditures. It has been deemed prudent to maintain flexibility equal to 2 months of revenue (about \$15,000).
2. Reserves are considered in 3 buckets:
 - a. An Operating Reserve that would smooth out extraordinary operating expenses;
 - b. A Capital Reserve which would allow a level of spending above a routine annual maintenance capital amount for minor projects, project definition costs for larger projects, and uninsured losses; and
 - c. A Renewal Reserve for larger expected capital amounts in next 10 years that requires a by-law to access.
3. A target for each reserve and total reserves should be specified as a range in which the trustees are comfortable to operate. If reserves shrink below the range, alternate funding such as special levies or borrowing may be necessary to fund larger capital expenditures. Above the range, reductions in parcel tax could be considered.
4. The Operating Reserve will avoid unnecessary toll fluctuations and provide a cushion for lumpier operating expenses such as tank cleaning, and hydrant maintenance. The 10 Year Plan includes non-routine operating expenses of \$35, 000 in a 5 year cycle. An alternate view would hold it advisable to hold reserves to purchase delivered water in case of emergency supply disruption,

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- currently estimated at \$45,000 for July/August. It is recommended that the Operating Reserve be \$45,000.
5. A Capital Reserve will allow for the lumpiness in expenditures for the replacement of smaller, maintenance capital items and for amounts for studies and pre-planning of large capital projects. About 2 years worth of expenditures appears adequate. The 10 Year Plan has routine replacements at \$5,000 per year for normal replacements and \$5,000 per year for emergency items. At 2 years of expenditures, the Capital Reserve level is recommended at \$20,000.
 6. The Renewal Reserve will provide for a gradual build up for larger capital projects that are foreseeable in the 10-year Plan. The current strategic plan includes replacement of a well pump-house, the RO unit, or a section of water main. It is recommended that the Renewal Reserve be no more than \$60,000 would be ample for this.
 7. A total of these amounts would yield:
 - a. Operating Reserve: \$45,000
 - b. Capital Reserve: \$20,000
 - c. Renewal Reserve: \$10,000 to \$60,000

Total: \$75,000 to \$135,000
 8. Tolls should be managed to completely cover the total routine and non-routine operating costs, as well as the Operating Reserve, averaged over a 10-year period.
 9. Parcel taxes should be managed to build the Capital and Renewal Reserves to stay within the tolerance levels while avoiding unnecessary fluctuations.