FINANCIAL MANAGEMENT POLICY

Section 1. PURPOSE

This policy is to document the financial management objectives of the Bedford Regional Water Authority ("Authority"). It is designed to be a working guide for Authority management and leadership. These policies ensure that the Authority is financially capable to meet its immediate and long-term objectives.

Section 2. POLICY

A. The financial management policy is a statement of the guidelines that will influence and guide the financial management practice of the Authority. A financial management policy that is adopted, adhered to, and regularly reviewed is recognized as the foundation of sound financial management. An effective financial management policy should:

1. Contributes significantly to the Authority's ability to prepare for and insulate itself from financial crisis by being able to better manage stressful financial internal and external events.
2. Promotes long-term financial stability by establishing clear and consistent guidelines, and
3. Directs attention to the total financial picture of the Authority rather than a single issue area.

Section 3. OPERATING BUDGET & FINANCIAL REPORTING POLICIES

A. The Authority will budget for all current operating expenditures to be paid for with operating revenues.
B. The Authority will maintain operating reserves, as indicated below, to help maintain the operations and maintenance functions that would otherwise have to be deferred, require debt issuance, or require rate increases.
C. Authority staff should, not only during the preparation of the budget but in the budget execution, use due care and promote cost savings and operating efficiencies at all times especially during periods of revenue shortfall.
D. In preparing its annual budget, the Authority will base its revenue and expenditure projections on historic performance, while also taking into consideration operational needs, current trends, events, and developments in regulatory, local markets, building developments and environmental activities.
E. Capital recovery charges will not regularly be used to finance continuing Authority operations, but instead will be used for funding expansion and replacement of system infrastructure or adding to Authority reserves.
F. The Authority will prepare monthly financial statements showing the progress of budget estimates compared to actual results. These monthly reports and the Authority's budgets are prepared on a cash flow or modified cash flow basis and differ from final audited year-end reports.
G. The Authority will annually prepare a Comprehensive Annual Financial Report (CAFR) that is audited by an independent CPA firm. The annual report is prepared to meet Generally Accepted Accounting Principles (GAAP) and the Governmental Accounting Standard's Board (GASB) Statements. This report will be submitted to the Government Finance Officers Association (GFOA) for review each year for consideration in the Excellence in Financial Reporting Program.

H. The Authority shall follow all applicable state laws and internal policies related to procurement.
I. The Authority will annually submit the budget document to the GFOA for consideration in the Distinguished Budget Presentation Awards Program.

Section 3. CAPITAL BUDGET

A. The Authority will prepare and update annually for adoption a Capital Improvement Plan (CIP) that is developed for a ten-year planning period. Future capital expenditures necessitated by changes in projected service demands or goals set forth by the Board, changes in regulatory environment, maintenance and replacement of infrastructure that has reached the useful life will be included in capital planning projections.
B. The first year of the five-year CIP planning period will become the most current capital budget for the Authority, provided funds are available from the operating budget surplus. Board action is required to add additional projects, authorizing the expending of capital resources to the capital budget subsequent to the normal updating of the CIP.
C. The Authority will maintain all assets at a level adequate to protect the Authority's capital investment, meet permitted regulatory requirements, and to minimize future maintenance and replacement costs. Examples of maintaining assets at a level adequate to protect its investment include, but are not limited to, regularly scheduled preventative maintenance.
D. The Authority will attempt to determine the most cost effective and flexible financing method for all new projects individually or as a whole, depending on the specific direction of the Board, or what is in the best financial interest of the Authority as a whole.

Section 4. DEBT

A. The Authority will utilize a balanced approach to capital funding utilizing debt financing, CIP planned current-year revenues (pay-as-you-go), and planned capital reserve fund transfers from Authority reserves.
B. The Authority will analyze all sources of debt financing when it has been determined that there is a need for debt.
C. When the Authority finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected average useful life of the project(s) and equipment being financed.
D. When assessing capital project funding approaches and the issuance of debt, the Authority will conduct a series of financial analyses to demonstrate its financial ability to incur such debt under its current rate structure, and to determine if, when and to what degree rate structures need to be adjusted in the event that the current rate structure is not able to accommodate new additional debt.
E. The Authority will review its current debt structure periodically as interest rates fluctuate and optional bond redemption rates arise for refunding or advance refunding opportunities.
F. The Authority will remain in compliance with all debt covenants as they are provided. The Authority shall maintain net revenues, such that they are equal to 1.25x of annual debt service.

Section 5. RESERVE POLICIES

A. The Authority has implemented best management practices which dictate that cash/investment reserves be accumulated to provide for contingencies and planned/unplanned major expenses.
B. The following reserves have been established:
    a. Vehicle and Equipment
    b. Information Technology
    c. Meters
    d. Sewer lines
    e. Waterlines
    f. Tank Rehabilitation
C. The above mentioned reserves serve as working capital and are important to provide funds for the potential lag between operating revenues and operating expenditures, as well as unplanned minor repairs, unexpected major repairs, planned replacements, rehabilitation of system assets, or fluctuations in the operating budget.
D. These reserves may be used to pay for capital costs in order to avoid or minimize the amount that would otherwise be recovered through user fees.

Section 6. REVENUE POLICIES

A. A diversified and stable revenue system will be maintained to shelter services from short-term fluctuations.
B. Rate studies are to be conducted to ensure that rates will continue to support direct and indirect costs of operations, administration, maintenance, debt service, depreciation/amortization of capital assets, and system development. These studies are to be performed formally on a periodic basis by an outside firm that specializes in utility rates. Annually, staff will analyze projections performed by the consultant and adjust as necessary during the budgetary and rate development process.
C. A rate study was conducted in conjunction with consolidation of the former Public Service Authority and former City of Bedford in 2013. This study covers a 10 year period in which the County and former City rates are to be equalized. All rates will be equalized in FY 2024.
D. The Authority shall develop and maintain a comprehensive list of various fees and charges. Fees will be set at levels sufficient to cover the entire cost of service.
E. Growth pays for growth: costs related to the expansion of system capacity should be funded with new/future customers who cause the need for such additional capacity through capital recovery and connection fees.

Section 7.

A. The Authority's operating expenditures are to be funded with on-going operating revenues to the extent possible.
B. Department managers are responsible for submitting their annual budget requests and for maintaining their budget with the funds approved by the Board of Directors.

FINANCIAL MANAGEMENT POLICY

C. The Authority will hire additional staff only after the need of such positions has been demonstrated, analyzed, documented, and approved by the Board of Directors.
D. The Authority will invest in technology and other efficiency tools to maximize productivity.
E. All compensation planning will focus on the total cost of compensation, which includes direct salary, health care benefits, retirement contributions, and other benefits of a non-salary nature, which are a cost to the Authority. Periodic compensation surveys will be conducted to determine the comparison to similar positions within the market.

Section 8. REVISIONS

F. This policy was approved and adopted by the Authority's Board of Directors on June 16, 2020, effective June 17, 2020.