

RESERVE ACCOUNTS

Section 1. PURPOSE

This policy is to provide the Bedford Regional Water Authority (“Authority”) with guidance related to the reserve accounts where funds are allocated on a regular basis (“setaside”) to prepare for routine large expenditures that often carry over across fiscal years.

Section 2. GENERAL

- A. The Authority has implemented “best management practices” for the control of its financial accounts; this includes that reserves be accumulated to provide for contingencies and planned/unplanned major expenses.
- B. The reserves, when combined with unrestricted cash and investments, are to maintain a Days Cash on Hand (“DCH”) floor of 180 days. Water and sewer rates will be set accordingly to replenish these reserves if cash/investment levels drop below the DCH floor.
- C. Each year the Board of Directors (“Board”) will adopt a budget that includes a total amount of setasides to be directed to the reserve accounts for the upcoming fiscal year; the Executive Director will inform the Director of Finance of the amount to be added each month to each of the reserve accounts, in an amount to not exceed the total approved by the Board for the year.
- D. None of the reserve accounts can be drawn down to a negative balance. The Board needs to approve of any requests to draw the accounts below the minimum balance stated herein.
- E. The Executive Director may authorize the redistribution of funds as needed between the various reserve accounts, as long as the minimum balances are maintained and sufficient funds remain in each account to perform the intended purpose of the account.
- F. The ‘Account Manager’, as shown herein, shall routinely monitor the balance of the accounts, and ensure that sufficient funds are in the account to fund the repair and/or replacement of the assets that are funded by the setaside account. The Account Manager shall review the accounts with their managing Director at least annually to prepare for future purchases and expenditures.

Section 3. ACCOUNTS

- A. Below are a list of the reserve accounts maintained by, and entirely controlled by, the Authority; also shown is the minimum balance that should be maintained in each account at all times unless otherwise approved by the Board.
 1. **Capital Reserve Account 1001-0020**
 - a. Purpose: The Board has required that the Authority maintain a capital reserve account to be prepared in the event of a major unplanned expense, such as a catastrophic failure of one or more critical asset(s).
 - b. Use: This reserve account does not have routine setasides placed in the account. The interest earnings from all of the reserve accounts is placed in this account.
 - c. Minimum Balance: \$500,000

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- d. Account Manager: Director of Finance
- 2. **Economic Development Account 1001-0023**
 - a. Purpose: To support the County and the Town of Bedford with Economic Development projects. This can include partnering with the County and/or Town to share the cost of providing water and/or sewer service for the purpose of attracting and retaining businesses in the County and/or Town.
 - b. Use: The Board must approve of the use of the funds from this account; approval shall be considered by the Board on a case-by-case basis. The primary source of the funding for this account is from the Authority's portion of the co-location leases from cellular and broadband providers on the water storage tanks.
 - c. Minimum Balance: \$200,000
 - d. Account Manager: Executive Director
- 3. **Vehicles and Equipment Account 1001-0025**
 - a. Purpose: The fleet of vehicle and heavy equipment need to be replaced on a regular basis in order to properly maintain the fleet with reliable vehicles and heavy equipment.
 - i. Vehicles: All trucks, cars, vans, and trailers that require registration through the Virginia Department of Motor Vehicles ("DMV").
 - ii. Heavy Equipment: Excavators, backhoes, skid steer loaders, farm tractors, forklifts, trenchers, riding mowers, and other equipment with hour meters that are not registered with the DMV and have a replacement cost of greater than \$5,000.
 - iii. Small equipment: chainsaws, locating equipment, trash pumps, and other equipment that is not registered with the DMV and have a replacement cost of between \$500 and \$4,999.
 - b. Use: This reserve account shall have sufficient funds added on a regular monthly basis to ensure that the entire fleet can be routinely replaced prior to the end of each piece's useful life. The life of heavy equipment varies widely depending on the type of equipment and the use of the heavy equipment; as such, there are no standard guidelines for their replacement but rather they will follow an industry standard for when to replace the equipment. As a guideline, most vehicles will be targeted for replacement at the least of the following:
 - i. Gasoline Vehicles: 150,000 miles
 - ii. Diesel Vehicles: 200,000 miles
 - iii. 15 years
 - iv. When the monthly cost of maintaining a vehicle routinely exceeds the amortized cost of replacing the vehicle.
 - c. Minimum Balance: \$100,000
 - d. Account Manager: Maintenance Manager
- 4. **IT/OT Replacement Account 1001-0030**
 - a. Purpose: This account is for the replacement of Information Technology ("IT") equipment and Operational Technology ("OT") equipment. IT equipment includes servers, phones, network equipment, printers, scanners, and end-user devices; IT equipment is primarily for the Authority's general business processes. OT equipment includes those devices that monitor and control the Authority's industrial operations and processes. OT equipment includes items such as programmable logic controllers

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(“PLC’s”), Supervisory Control and Data Acquisition (“SCADA”) cabinets, control panels, and human-machine interfaces (“HMI’s”).

- b. Use: This reserve account shall have sufficient funds added on a regular monthly basis to ensure that IT and OT equipment can be routinely replaced prior to the end of each piece of equipment’s useful life. The life of the equipment varies widely depending on the type of equipment and the use of the equipment; as such, there is no standard guidelines for their replacement but rather they will follow an industry standard for when to replace the equipment.
 - c. Minimum Balance: \$100,000
 - d. Account Manager: Information Systems Manager
- 5. Meter Replacement Account 1001-0035**
- a. Purpose: The water meters utilized by the Authority need to be routinely replaced in order to maintain accurate readings for billing the Authority’s customers.
 - b. Use: This reserve account shall have sufficient funds added on a regular monthly basis to ensure that meters can be replaced on a maximum of a 12 (twelve) year schedule.
 - c. Minimum Balance: \$50,000
 - d. Account Manager: Customer Service Manager
- 6. Sewer Line Replacement Account 1001-0040**
- a. Purpose: This account is used for replacing existing sewer lines and that have failed or are near failure.
 - b. Use: These funds may be used by the Authority’s Capital Improvement Project (“CIP”) Crew to purchase materials to replace sewer lines, or they may be used to hire a contractor to perform the labor and supply the materials. These funds can also be used for engineering design and surveying costs directly related to the replacement of specified segments of the sewer lines. Enough funding shall be provided into this account to allow for a full year of sewer line replacement work.
 - c. Minimum Balance: \$200,000
 - d. Account Manager: Engineering Manager
- 7. Waterline Replacement Account 1001-0045**
- a. Purpose: This account is used for replacing existing waterlines and that have failed or are near failure.
 - b. Use: These funds may be used by the Authority’s Capital Improvement Project (“CIP”) Crew to purchase materials to replace waterlines, or the funds may be used to hire a contractor to perform the labor and supply the materials. These funds can also be used for engineering design and surveying costs directly related to the replacement of specified segments of the waterlines. Enough funding shall be provided into this account to allow for a full year of waterline replacement work.
 - c. Minimum Balance: \$200,000
 - d. Account Manager: Engineering Manager
- 8. Tank Rehabilitation Account 1001-0050**
- a. Purpose: The funds in this account are to be used to rehabilitate and repair water storage tanks.
 - b. Use: Due to the high cost of applying paint coatings to water tanks, and the routine need to perform this work, this account will accrue a balance over multiple years before the

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funds are used for a single tank rehabilitation. These funds can also be used for engineering design directly related to the rehabilitation of a specified tank. Enough funding should be provided into this account to perform one tank painting every 5 years.

- c. Minimum Balance: \$300,000
- d. Account Manager: Water Operations Manager

9. Water Facilities Account 1001-0060

- a. Purpose: This account is used for routine replacements and repairs to existing water plants and pump stations.
- b. Use: These funds may be used by the Water Operations department for repairs and replacements of items critical to plant or pump station operation and are less dependent upon available capital funding.
- c. Minimum Balance: \$100,000
- d. Account Manager: Water Operations Manager

10. Sewer Facilities Account 1001-0065

- a. Purpose: This account is used for routine replacements and repairs to existing wastewater plants and pump stations.
- b. Use: These funds may be used by the Wastewater Operations department for repairs and replacements of items critical to plant or pump station operation and are less dependent upon available capital funding.
- c. Minimum Balance: \$100,000
- d. Account Manager: Wastewater Operations Manager

11. Escrow Account 1001-1100

- a. Purpose: Occasionally a developer or customer is required to provide surety to the Authority to ensure that a project is completed properly or to minimize risks to the Authority when standards are not met; this account is funded from surety payments to the Authority.
 - b. Use: When the risk to the Authority has been substantially reduced, the funds from this account may be returned or credited to the original issuers of the funds.
 - c. There is no minimum balance for this account.
 - d. Account Manager: Director of Finance
- B. The Authority maintains a Cell Tower Revenue account which is funded through a portion of the rents that are collected from co-location leases on the elevated water towers. The percentage of the rents that are placed in this reserve account is based on two agreements with the County of Bedford. There is no minimum balance required in this reserve account.
- 1. New London Tank: The Economic Development Authority (“EDA”) owned the land that was dedicated to the Authority to construct the New London water storage tank; as such, 40% (forty percent) of the monthly revenue generated from the co-location lease(s) is placed in this reserve account. The EDA is required to authorize funds being used from this account in order to assist in funding water and sewer related expenses.
 - 2. Smith Mountain Lake Tank: The County of Bedford (“County”) owned the land that was dedicated to the Authority to construct the Smith Mountain Lake water storage tank; as such, 40% (forty percent) of the monthly revenue generated from the co-location lease(s) is placed in this reserve account. The County of Bedford is required to authorize funds being used from this account in order to assist in funding water and sewer related expenses.

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Section 1. REVISIONS

- A. This policy was approved and adopted by the Authority's Board of Directors on March 15, 2022, effective March 16, 2022.
- B. Approved May 21, 2024, effective May 22, 2024:
 - 1. Revisions were made to include the addition of Water Facilities and Sewer Facilities Funds in Section 3.
 - 2. Section 3.A.3.iii. was added to include small equipment purchases.