

Introduction

To ensure the financial stability of the Town of Danvers' Water & Sewer Enterprise Funds it is essential that financial policies be adopted and adhered to in the preparation and implementation of annual operating and capital budgets.

Retained Earnings

Maintaining adequate reserves is a fundamental principle of sound financial management.

- i. Water & Sewer Enterprise Fund Retained Earnings, as certified by the Massachusetts Department of Revenue, shall serve as the principle reserves for the Water & Sewer Enterprise Funds.
- ii. The Water Enterprise Fund Retained Earnings balance should be at least 10% of the gross revenues of the Water Enterprise Fund after appropriation at Town Meeting.
- iii. The Sewer Enterprise Fund Retained Earnings balance should be at least 10% of the gross revenues of the Sewer Enterprise Fund after appropriation at Town Meeting.
- iv. 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, or rate stabilization.

Capital

The Town shall provide consistent and stable funding sources for the timely and periodic renewal and/or replacement of water and sewer infrastructure, vehicles and equipment.

- i. For capital with a useful life of 10 years or under, the Town shall have a goal to finance said capital through retained earnings or rate revenue.
- ii. For capital with a useful life of greater than 10 years, the Town shall consider borrowing per the regulations set forth under M.G.L. Chapter 44, Section 7 & 8, when sufficient Retained Earnings are not available in accordance with the policy described above.
- iii. Capital projects to be funded through the Enterprise Fund will be developed through an agreed to and reviewed 5-year Capital Improvement Plan which will be updated each year.

Rate Structures

- i. The Town will continue its existing practice of establishing water rates in order to promote conservation, cover operational costs, and provide for capital improvements.
- ii. Rate should be proposed and adopted in a manner sufficient to cover all Water and Sewer Division operational costs incurred during the fiscal year with the exception of catastrophic events.

Indirect Costs

- i. Indirect costs shall be reviewed on an annual basis to ensure that they are reasonable in relation to the services being provided by the General Fund in support of Water & Sewer Operations.