

### **3.8 Cash Reserves**

Minimum cash reserve guidelines proposed in this policy should be set to allow reserves to float above the minimum guidelines. The decision to hold more money than the established minimum cash guidelines should be based on the assessments of uncertainties and other financial policies such as: the financial risk facing the utilities, rate setting policies, variability in power costs, debt policies, future capital improvements needed by utility, and line extension policies.

The adequacy of the guidelines will be reviewed by the Finance Committee each year, unless otherwise determined by the Board, and if appropriate, revised guidelines may be recommended.

To ensure timely completion of capital improvements and enable the Lewes BPW to meet requirements for large, unexpected expenditures, a minimum cash reserve policy will be established. Minimum cash reserves attempt to quantify the minimum amount of cash the Lewes BPW should keep in reserve, the actual cash reserves may vary substantially above the minimum and is dependent in part on the life cycle of assets currently in service.

The total of the cash reserve funds is broken down into six types, Working Capital Lag, Risk Management Reserve, Current Year Capital Improvement Program, Five Year Capital Improvement Program, Customer Deposit and Self Insurance. Customer deposits must be maintained at one hundred percent (100%).

If certain events occur that result in cash reserves falling below the minimum cash reserve levels, the Board will take action to restore the cash reserves to the minimum levels within the next five years through a detailed replenishment plan. These actions may consider a number of factors including: rate adjustments, cost reductions, issuance of bonds to fund capital improvement projects, and modification of the assumptions used to determine the cash reserve levels.

(Board Resolution No. 15-004; Board Resolution No. 21-005; Board Resolution No. 22- )

### **3.8.1 Working Capital Lag**

Timing differences exist between when expenses are incurred and revenues are received from customers. Establishing a minimum cash reserve helps ensure cash exists to pay expenses in a timely manner.

The cash reserve policy will include twenty-five percent (25%) of budgeted annual operating expenses.

(Board Resolution No. 15-004)

### **3.8.2 Risk Management Reserve**

Catastrophic events may occur that require substantial investments to replace damaged assets. The Board should ensure adequate cash reserves exist to replace the assets in a timely fashion and to arrange short term financing options. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies. The percent to the minimum cash reserves are dependent on the age of the assets in service and the level of risk of catastrophic type events. Current Federal Emergency Management Agency guidelines should be considered when deciding the Risk Management Reserve.

The cash reserve policy will include two percent (2%) of the historical investment in assets as recorded in the financial statements.

(Board Resolution No. 15-004; Board Resolution No. 22- )

### **3.8.3 Capital Improvement Program**

Some capital improvements are funded through bond issuances and some through cash reserves. The establishment of a minimum cash reserve level helps to ensure timely replacement or construction of assets and timely payments to contractors.

The cash reserve policy will include 15% of the current year capital improvement program.

The cash reserve policy will include 15% of the five-year capital improvement program.

(Board Resolution No. 15-004; Board Resolution No. 22- )

#### **3.8.4 Customer Deposits**

Certain customers, as determined by the Lewes BPW, are required to make a deposit prior to receiving utility services. The majority of deposits are associated with electric service. Persons requesting development plan review are required to establish an escrow account.

The cash reserve policy will include one hundred percent (100%) of the funds held as customer deposits and escrow accounts.

(Board Resolution No. 15-004; Board Resolution No. 22- )

#### **3.8.5 Self-Insurance**

It is not economically justifiable for Lewes BPW to carry some types of insurance on some of the facilities and operations. Examples are flood insurance on the wastewater lift stations and a portion of the water reclamation treatment plant plus pollution insurance on stormwater and wastewater operation. Insurance deductibles are also included in the self-insurance reserve. The Board will maintain cash reserves in the amount it deems reasonably necessary to cover the following self-insurance expenses: the wastewater treatment plant and pump stations.

(Board Resolution No. 15-004; Board Resolution No. 22- )