

## Capital Region Northeast Water Service Commission

### Capital Reserve Fund Policy

**Policy Statement:** The purpose of this Reserve and the Reserve Fund Policy is to provide guidance with respect to the administration, establishment, targeted level and investment.

#### Major Capital Expenditures

It will be the CRNWSC Board's practice to maintain adequate capital reserve to replace and rehabilitate major capital assets, as required, and to provide for new capital assets that have been identified in the 5-year and 20-year capital plan.

To achieve this, the following principles will apply:

- Reserve for the full cost of replacement or rehabilitation of major assets will be funded from the operations and maintenance budget at a rate which reflects the consumption of that asset by current ratepayers, (depreciation or amortization expense). Contributions to this reserve will commence in the fiscal year that the asset is acquired or put into service and will be based on the useful life of the underlying asset, (depreciation rate policy). The depreciation or amortization expense portion of the Capital Reserve along with its' investment interest will be retained in reserve until such time as it is necessary to fund the Capital once the asset is fully depreciated and requiring replacement or rehabilitation.
- Reserve will also be maintained for growth related capital projects as identified in the 5-year and 20-year capital plans. The financial capital reserve allocation to reserve will be an annual budgeted allocation along with any surpluses generated through the Operation and Maintenance budget. It will be the Commission's objective to fund 40% of future capital projects to support growth and debenture fund the remaining 60%. This funding strategy of 60% of growth-related Capital from debenture borrowing will require consideration of the Commissions' debt limit as set forth under the Municipal Government Act.

#### Investment of Reserve Funds

Reserve funds may be invested for a term that will not exceed its' expected date of need. The related investment income will be credited to the reserve on an annual basis.

All contributions to and/or withdrawals from the investment portfolio to fund capital projects shall be approved by the Commission Board, normally as part of the annual budget approval process or specifically by resolution.

Date Approved: JAN 20 / 2020