

Utility and Financial Definitions

Enterprise Fund

An enterprise fund is a separate financial structure used for operations that primarily support themselves through user fees rather than property taxes.

Water and sewer systems are commonly operated as enterprise funds because:

- customers pay directly for the service they use;
- revenues are dedicated to utility operations;
- and expenses are tracked separately from the Town's general operating budget.

Enterprise fund revenues are generally used for:

- daily operations,
 - maintenance,
 - infrastructure repairs,
 - capital improvements,
 - debt payments,
 - and reserve balances.
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Reserve Balance

A reserve balance is money set aside to help maintain financial stability and respond to unexpected costs or emergencies.

Utility reserve balances may be used to:

- address emergency repairs,
- replace failed equipment,
- manage cash flow timing,
- respond to unexpected operational costs,
- and help stabilize rates over time.

The Water & Sewer Authority's rate study discussed maintaining reserve balances equal to approximately 90 days (25%) of operating expenses.

Bond Anticipation Note (BAN)

A Bond Anticipation Note, commonly referred to as a “BAN,” is a short-term borrowing tool used while preparing for long-term financing.

A BAN is often used when:

- immediate funding is required,
- long-term bond financing is still being finalized,
- or additional financial planning is underway.

In Watertown’s case, a General Obligation BAN was issued in October 2025 associated with obligations arising from the Waterbury litigation matter.

The BAN is anticipated to later convert into long-term bond financing.

Bond Premium

A bond premium is additional money received during a bond issuance when investors are willing to pay more than the principal amount of the bond.

Bond premiums may:

- strengthen cash reserves,
- reduce immediate borrowing pressures,
- provide liquidity,
- or potentially be used to offset borrowing costs depending on the financing structure selected.

The current rate study evaluated different approaches regarding potential use of bond premium proceeds.

Debt Service

Debt service refers to the scheduled repayment of borrowed money, including:

- principal payments (the amount borrowed), and
- interest payments (the cost of borrowing).

For water and sewer utilities, debt service may be associated with:

- infrastructure projects,
- capital improvements,
- treatment facilities,
- equipment,
- or litigation-related financing obligations.

Debt service is an important component of utility financial planning because it affects:

- annual operating costs,
- reserve planning,
- and future rate considerations.