

# Staff Report

for the Regular Meeting of the Board of Directors February 28, 2018

**TO:** District Board of Directors  
**FROM:** Marvin Davis, MBA, CPA, Finance Manager/Treasurer  
**DATE:** February 14, 2018  
**SUBJECT:** Reserve Policy 3040

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***FINANCE***

## **RECOMMENDATION:**

Adopt Resolution 2018-06 (Updating Administrative Policy – Reserves), as recommended by the Administrative Practices Committee.

## **BACKGROUND:**

Staff encountered ambiguity while implementing reserve policy 3040 and is recommending clarification.

- Segregation and reporting of the District's capacity or system expansion fees are not consistent with Government Code 66013.
- Maintenance of Debt Service Reserves is in accordance with debt covenants and a policy is required when District acts as fiduciary on debt proceeds.
- Operating/Rate Stabilization Reserves appear redundant as they reference the same type of reserve so clarification is necessary.
- Hydroelectric Loss of Revenue/Penalty Reserve is tantamount to Operating Reserve so clarification is necessary.
- Staff recommends a percentage of the Accrued Leave Reserve as liquidation of the total liability, in a single year is unlikely.
- Practically, the Board must develop an order to calculate reserves to ensure implementation of the policy is consistent with their direction.

## **BUDGETARY IMPACT:**

MD

Attachment: Policy Number 3040, Policy Matrix

**Nevada Irrigation District  
Reserve Policy 3040**

Reserve Policy	Purpose	Min, Max \$	Source of Funds	Earns Interest on Principal
3040.2 Definitions	Define cash types	See Below	See Below	N/A
<b>3040.3 Restricted Reserves</b>				
3040.3.1.1 Capacity Fee: Treated	Compliance with GC Section 66013	\$2,000,000	Capacity Fees	Yes, remains in reserve
3040.3.1.2 Capacity Fee: Raw	Compliance with GC Section 66013	\$2,000,000	Capacity Fees: Source of Supply component	Yes, remains in reserve
3040.3.2.1 Debt Service	Final debt service payment	Covenant driven	Covenant driven	Yes, remains in reserve
3040.3.2.2 Loan/Fiduciary	Contract compliance	Contract compliance	Contract driven	Yes, remains in reserve
3040.3.3 Customer Deposits	Pay customer refunds	Liability account driven	Customer deposits	No
<b>3040.4 Designated Reserves</b>				
3040.4.1.1 Operating	Fund anticipated deficits in operations and maintenance	6 months annual operating costs using 3 year average	Operating Income	Remain in Working Capital
3040.4.2.1 Rate Stabilization	Fund anticipated deficits in operations and maintenance	\$0	Operating Income	Remain in Working Capital
3040.4.2.2 Community Investment Stabilization	Community Investment Program (CIP) projects	Max of \$1,500,000	Unused annual CIP budget	Remain in Working Capital
3040.4.3 Capital Improvement/Replacement	Maintain District capital assets	\$0	Property tax (Water) and operating income	Yes, remains in reserve
3040.4.4 Hydroelectric Loss or Revenue/Penalty	Offset loss of revenue, pay CAISO penalty or purchase power	\$0	Operating Income	Yes, remains in reserve
3040.4.5 Insurance and Catastrophic	Pay claims excess of insurance Provide immediate funds after incident	Min of \$5,000,000 Max of \$10,000,000	Operating Income	Yes, remains in reserve
3040.4.6 Watershed Stewardship	Maintain District's watersheds	Min of \$500,000	100% Sales of timber & biomass 100% Mineral mining revenue 10% Annual investment earnings 2% Contract bulk water .5% Hydroelectric sales	Yes, remains in reserve
3040.4.7 Accrued Leave	Cover anticipated annual payouts	100% of annual liability	Operating Income	Yes, to Working Capital
<b>3050.5 Unrestricted Reserves</b>				
3040.5.1 Working Capital	Sustain annual operations	\$0	Operating Income	No

**Nevada Irrigation District  
Proposed Reserve Policy 3040**

<b>Reserve Policy</b>	<b>Purpose</b>	<b>Min, Max \$</b>	<b>Source of Funds</b>	<b>Earns Interest on Principal</b>
3040.2 Definitions	Define cash types	See Below	See Below	N/A
<b>3040.3 Restricted Reserves</b>				
3040.3.1 Capacity Fee	Compliance with GC Section 66013	\$4,000,000	Capacity Fees	Yes, remains in reserve
3040.3.2 Debt Service	Final debt service payment	Covenant driven	Covenant driven	Yes, remains in reserve
3040.3.3 Bond/Loan/Fiduciary	Contract compliance	Contract compliance	Contract driven	Yes, remains in reserve
<b>3040.4 Unrestricted Designated Reserves</b>				
3040.4.1 Operating/Rate Stabilization	Fund anticipated deficits in operations and maintenance	6 months annual operating costs using 3 year average	Operating Income	N/A
3040.4.2 Community Investment Stabilization	Community Investment Program (CIP) projects	Max of \$1,500,000	Unused annual CIP budget	N/A
3040.4.3 Capital Improvement/Replacement	Maintain District capital assets	\$0	Property tax (Water) and operating income	N/A
3040.4.4 Insurance and Catastrophic	Pay claims excess of insurance Provide immediate funds after incident	Min of \$5,000,000 Max of \$10,000,000	Operating Income	N/A
3040.4.5 Watershed Stewardship	Maintain District's watersheds	Min of \$500,000	100% Sales of timber & biomass 100% Mineral mining revenue 10% Annual investment earnings 2% Contract bulk water .5% Hydroelectric sales	N/A
3040.4.6 Accrued Leave	Cover anticipated annual payouts	25% of annual liability	Operating Income	N/A
<b>3050.5 Unrestricted Undesignated Reserves</b>				
3040.5.1 Operating/Working Capital Cash	Sustain annual operations	\$0	Operating Income	Yes, remains in reserve



**RESOLUTION No.** 2018-06

OF THE BOARD OF DIRECTORS OF THE NEVADA IRRIGATION DISTRICT

**UPDATING ADMINISTRATIVE POLICY - RESERVES**

**WHEREAS**, the Nevada Irrigation District (the "District") intends to establish, and revise from time to time, administrative policies to guide the operations and management of the District; and

**WHEREAS**, the District's insurance carrier provided sample guidelines for personnel and administrative policies for consideration by the District; and

**WHEREAS**, over the past few years, the District has adopted several administrative policies using the sample guidelines, in an effort to assemble a comprehensive policy manual; and

**WHEREAS**, certain District policies are outdated, and should be revised and formatted in the same manner as the sample guidelines; and

**WHEREAS**, such draft policies have been reviewed by the District's Legal Counsel and found to be in accordance with law.

**NOW, THEREFORE, BE IT RESOLVED**, the Board of Directors of the Nevada Irrigation District hereby adopts the following policies as attached, and shall be incorporated herein:

#3040 Reserves

**BE IT FURTHER RESOLVED**, that the attached policies shall be incorporated into the District Policy Manual, and the Board Secretary is hereby authorized to assign and revise policy numbers, and format and reformat the attached, as needed for an organized, comprehensive, policy manual.

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**PASSED AND ADOPTED** by the Board of Directors of the Nevada Irrigation District at a regular meeting held on the 28th day of February 2018, by the following vote:

<b>AYES:</b>	Directors:
<b>NOES:</b>	Directors:
<b>ABSENT:</b>	Directors:
<b>ABSTAINS:</b>	Directors:

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President of the Board of Directors

**Attest:**

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Secretary to the Board of Directors

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# Nevada Irrigation District

## POLICY MANUAL

POLICY TITLE: Reserves  
POLICY NUMBER: 3040

3040.1 The purpose of the Nevada Irrigation District's (District) Reserve Policy is to ensure that the District will, at all times, have sufficient funding available to meet its operating, capital and debt service cost obligations. Reserves will be managed in a manner that allows the District to fund ongoing operations and maintenance as well as costs consistent with the annually updated Capital Improvement Program and other long-term plans while avoiding significant rate fluctuations due to changes in cash flow requirements.

Adequate reserves and sound financial policies promote the District's bond ratings in the capital markets; provide financing flexibility; avoid potential restrictive debt covenants; and stabilize rates. The Reserve Policy covers all reserve funds of the District. ~~Unless specifically required by external statute and loan covenants, interest earnings on Hydroelectric, Recreation and other pooled monies is credited to Water Working Capital cash reserve for administrative support provided by Water staff.~~

~~On a quarterly basis~~ ~~At the end of each fiscal year compliance~~, reserves shall be reported and analyzed, along with the District's adopted budget, portfolio investment, short-term forecasting and budget vs actual reports in sufficient detail to understand balance movement. ~~with the Reserve Policy will be reported to the District's Board of Directors as part of each Fiscal Year-End Financial Report.~~

3040.2 There are three major types of reserves ~~funds~~: Legally Restricted Reserves, ~~Board Unrestricted~~ Designated Reserves and Unrestricted ~~Undesignated~~ Reserves~~-~~. Legally Restricted Reserves have restrictions imposed by law, bond covenants, or other contractual obligations. ~~Board Unrestricted~~ Designated Reserves are set aside for a specific purpose as determined by the Board of Directors~~-~~. ~~Unrestricted Undesignated Reserves is the remaining cash balances and referred to as operating/working capital cash.~~ ~~The Board of Directors has the authority to redirect the use of these reserves as the needs of the District change.~~ ~~Unrestricted~~ Reserves ~~balances are considered~~ ~~are planned for use~~ in each update to the ~~fiscal plan, Capital Improvement Program and Long-Term Financial Forecast~~ ~~Capital Improvement Program and Ten-Year Financial Plan~~ during the annual budget cycle ~~to assist in providing for minimal orderly rate increases at or below inflation~~, consistent with the Board's rate setting goal.

3040.3 RESTRICTED RESERVES

3040.3.1 The Capacity Fee ~~System Expansion~~ Reserve is established to provide funds for qualifying new projects and expansion of existing District facilities in compliance with Government Code Section 66013. ~~Amounts authorized for expenditure shall be transferred to the Working Capital Fund. The reserve shall consist of the following components:~~ All capacity fees received shall be deposited to this water reserve together with all interest earned on this balance. A target balance of \$2,000,000 shall be maintained in this reserve for expansion related capital needs of the water system.

~~3040.3.1.1 All capacity fees received, with the exception of the source of supply component, shall be deposited to this treated water reserve together with all interest earned from this component. A target balance of \$2,000,000 shall be maintained in this reserve for unanticipated expansion related capital needs of the treated water system.~~

~~3040.3.1.2 All funds collected as the source of supply component of the capacity fees received shall be deposited to this raw water reserve together with all interest earned from this component. In addition, all funds previously collected from fees related to annexations together with interest earned on those funds shall be deposited to this reserve. A target balance of \$2,000,000 shall be maintained in this reserve for unanticipated expansion related capital needs of the raw water storage and transmission system that serves as supply for the treated water system.~~

3040.3.2 The Debt Service Reserve is governed by ~~legal debt~~~~bond~~ covenants for the District's ~~bonded~~ debt. These ~~reserves~~~~funds~~ are held by the ~~bond~~ trustee during the term of the ~~debt~~~~bonds~~ and are to be used in the event that the District is unable to meet its required debt service obligation. These reserves will be used to make the final debt service payments in accordance with debt covenants. Accrued interest earnings on this reserve balance shall be calculated according to debt covenants.

3040.3.3 Bond/Loan/Fiduciary Proceeds Reserve shall be established when District acts as fiduciary holding proceeds for specific debt/loan or improvement district. These reserves will be used for specific project purposes in accordance with contractual obligations. Any interest earnings on this reserve balance shall be calculated according to contractual obligations.

~~3040.3.2.1 Reserve funds for each bond issue will be used to make the final debt service payments for that specific bond issue. Interest earnings on bond reserve funds shall be applied toward the debt service payments.~~

~~3040.3.2.2 Reserve funds related to state revolving fund loans and improvement districts shall be treated identically to bond reserve funds as these loans are contractually defined in the loan documents.~~

~~3040.3.3 Deposits received from customers will be held in this reserve until such time that the deposit is refunded to the customer. If it is determined that the customer is not entitled to a refund of their deposit, those amounts will be transferred to the Working Capital Fund.~~

#### 3040.4 UNRESTRICTED DESIGNATED RESERVES

3040.4.1 Operating/Rate Stabilization ReserveReserve may be used to fund anticipated deficits in operations and maintenance and provide funding for unplanned and unforeseen contingency expenditures.

~~3040.4.1.1 The Operating rReserves strives to will be maintained at a minimum level of six months of annual budgeted operating costs using a three-year running average, approximately 180 days of operating cash for an individual Division (Water, Hydroelectric, Recreation). to determine the appropriate amount. This will be reviewed annually by the Board during the budget review and adoption process and adjusted accordingly.~~

~~3040.4.2 The Water Rate Stabilization Reserve may be used to provide rate stability to the District's Customers.~~

~~3040.4.2.1 The Water Rate Stabilization Reserve will be funded when annual water revenues exceed water expenditures along with interest earned and will be used on an "as needed basis"; such as when an unanticipated project is expected to immediately increase rates. The Water Rate Stabilization Reserve will be used to meet these unforeseen increases in expenses or decreases in revenues so as to buffer the amount and timing of rate increases. This will be reviewed annually by the Board during the budget review and adoption process and adjusted accordingly.~~

3040.4.2.2 Community Investment Stabilization ReserveFund shall be used for Community Investment Program projects. The reserve shall be funded from the unused annual Community Investment Program budget up to a maximum of \$1,500,000. This reserve will be adjusted annually during District audits and reviewed during the normal budgeting cycle.

3040.4.3 Capital Improvement / Replacement Reserve is established to accumulate sufficient reserve funds necessary to insure timely acquisition, replacement,



and upgrade of the District's Infrastructure and capital assets. This reserve is established for each Division (Water, Hydroelectric, Recreation). The District funds Water's capital reserves when non-operating income is positive. Hydroelectric and Recreation funding occurs when operating income is positive as these Divisions do not have non-operating income. The priority calculation of these reserves is in accordance with policy 3040.6. ~~shall be funded with property tax revenue for Water Division projects and from Hydroelectric and Recreation Division annual revenues in excess of annual expenditures for hydroelectric and recreation projects along with interest earned. The target reserve balance shall be reviewed annually as part of the capital budget preparation and adoption process.~~

~~3040.4.4 Hydroelectric Loss of Revenue/Penalty Reserve is established to accumulate sufficient reserve funds to offset lost revenue and pay related penalties to the CAISO, regulatory agencies, or the power purchaser in the event of a significant and/or prolonged unscheduled outage. This fund will be in lieu of, or a supplement to, revenue replacement insurance. This reserve shall be funded with hydroelectric revenues in excess of annual expenditures along with interest earned. The target reserve balance shall be reviewed annually as part of the budget preparation and adoption process.~~

3040.4.45 Insurance and Catastrophic Occurrence Reserve is established to help: a) pay for claims in excess of insurance coverage limits, and b) provide immediate funds in case of a catastrophic occurrence. This reserve ~~\_\_\_\_\_~~ should have a minimum reserve balance of \$5,000,000 and a maximum balance of \$10,000,000. ~~Interest earned on this reserve shall remain in the reserve until the maximum balance is achieved.~~ When the balance falls below \$7,500,000, each subsequent annual budget may contain an appropriation of up to \$500,000 until the \$7,500,000 balance is achieved.

~~3040.4.5.1 This reserve shall initially be funded equally by the Water and Hydroelectric Divisions.~~ The Water and Hydroelectric Divisions shall initially fund this reserve equally. Any events that require the use of reserve funds shall be replenished by the specific Division responsible for use of these funds.

3040.4.54.6 Watershed Stewardship Reserve shall be used for any expenditure incurred in the maintenance and improvement of the District's watershed. This reserve will be funded ~~with surplus funds, should they be available,~~ from the sale of timber and biomass extraction (100%), aggregate and mineral mining revenues (100%), annual investments earnings (10%), contract bulk water (2%), and hydroelectric sales (.5%). The Board will strive to maintain a minimum reserve balance of \$500,000.

3040.4.64.7 Accrued Leave Reserve shall be adjusted by the change in estimates maximum annual payout for ~~the value of the unfunded~~ accrued vacation,

sick leave and compensatory time on record as of the last day of each budget year. This reserve shall be funded by each division (Water, Hydroelectric, Recreation) in an amount equal to 25% of the liability ~~in an amount equal to the liability~~ associated with the employees in that division. ~~Interest earned on this fund shall be deposited to the Working Capital Fund.~~

### 3040.5 UNRESTRICTED UNDESIGNATED RESERVES

3040.5.1 **Operating/Working Capital** Cash shall be the balance remaining in accordance with 3040.6. ~~pital Fund shall consist of Treasurer's Cash, Payroll Fund, Petty Cash Funds, and any other Impress Cash Funds, which may be established.~~ All receipts and expenditures shall be processed through ~~this fund.~~ operating/working capital cash accounts.

### 3040.6 ORDER OF RESERVE CALCULATION

The order used to calculate cash reserves is according to the following priority beginning with number 1) using unaudited quarterly operating results as follows:

- 1) The Finance Manager/Treasurer shall calculate the District's total cash for each division.
- 2) Restricted Cash Reserves shall be established in accordance with policy 3040.3
- 3) Accrued Leave Reserve levels shall be established in accordance with policy 3040.4.6
- 4) Operating/Rate Stabilization Reserve levels shall be established in accordance with policy 3040.4.1
- 5) Capital Improvement/Replacement Reserve levels established in accordance with policy 3040.4.3
- 6) Community Investment Reserve levels shall be established in accordance with policy 3040.4.2
- 7) Watershed Stewardship Reserve levels shall be established in accordance with policy 3040.4.5
- 8) Insurance and Catastrophic Reserve levels shall be established in accordance with policy 3040.4.4
- 9) Operating/Working Capital Cash levels shall be established in accordance with policy 3040.5.1

Adopted: June 26, 2013 via Resolution No. 2013-24

Revised: March 11, 2015 via Resolution No. 2015-06

Revised: August 24, 2016 via Resolution No. 2016-31

Revised: November 9, 2016 via Resolution No. 2016-43