

Staff Report

for the Regular Meeting of the Board of Directors of August 24, 2016

TO: Board of Directors

FROM: Remleh Scherzinger, MBA, PE, General Manager
Marvin Davis, MBA, CPA, Finance Manager

DATE: August 18, 2016

SUBJECT: Policy – Reserves

FINANCE

RECOMMENDATION:

Adopt Resolution No 2016-31 (Establishing Administrative Policy - Reserves) as recommended by the Water and Hydroelectric Operations Committee.

BACKGROUND:

The District’s current practice of funding the Watershed Stewardship Reserve is from the sale of timber and aggregate mining activities. This practice has not been set as policy and has been ad hoc in nature for many years.

The past practice should be memorialized in the existing Reserves Policy No. 3040 to memorialize the revenue sources for this critical activity. Staff proposes that timber and biomass sales, aggregate and mining sales, 10% of annual investments, 2% of contract bulk water sales and .5% of hydroelectric sales be committed to the Watershed Program as its sources of revenue.

It is estimated that these revenue sources will generate annually approximately \$244,000.

- 100% Timber and Biomass \$0
- 100% Aggregate & mineral mining \$56,000
- 10% of annual investments \$68,000
- 2% of contract bulk water \$20,000
- .5% of Hydroelectric Sales \$100,000

BUDGETARY IMPACT:

N/A

**ESTABLISHING POLICY FOR ADMINISTRATION –
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WHEREAS, certain District policies are outdated, and should be revised and formatted in the same manner as the sample guidelines; and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 policy as attached, and such policy shall replace and supersede Policy No. 3040 of the Policy Manual, and shall be incorporated herein:

#3040 Reserves

BE IT FURTHER RESOLVED, that the attached policy 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 24th day of August, 2016, by the following vote:

AYES:	Directors:
NOES:	Directors:
ABSENT:	Directors:
ABSTAINS:	Directors:

President of the Board of Directors

Attest:

Secretary to the Board of Directors

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. At the end of each fiscal year compliance 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 reserve funds: Legally Restricted Reserves, Board Designated Reserves and Unrestricted Reserves. Legally Restricted Reserves have restrictions imposed by law, bond covenants, or other contractual obligations. Board Designated Reserves are set aside for a specific purpose as determined by the Board of Directors. The Board of Directors has the authority to redirect the use of these reserves as the needs of the District change. Unrestricted Reserves are planned for use in each update to the Capital Improvement Program and Ten-Year Financial Plan 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 System Expansion Reserve is established to provide funds for qualifying new projects and expansion of existing District facilities. Amounts authorized for expenditure shall be transferred to the Working Capital Fund. The reserve shall consist of the following components:

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 bond covenants for the District's bonded debt. These funds are held by the bond trustee during the term of the bonds and are to be used in the event that the District is unable to meet its required debt service obligation.

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 DESIGNATED RESERVES

3040.4.1 Operating Reserve 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 Reserves will be maintained at a minimum level of six months of annual budgeted operating costs using a three-year running average 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.

- 3040.4.3** 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 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.
- 3040.4.5** Insurance and Catastrophic Occurrence Reserve is established to help: a) pay for claims in excess of insurance coverage limits, and b) provide mediate 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. Any events that require the use of reserve funds shall be replenished by the specific Division responsible for use of these funds.
- 3040.4.6** 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 from the sale of timber and biomass extraction (100%), as well as aggregate and mineral mining revenues (100%), annual investments (10%), contract bulk water (2%), and hydroelectric sales (.5%). The minimum reserve balance is \$500,000.
- 3040.4.7** Accrued Leave Reserve shall be adjusted by the change in 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 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 RESERVES

- 3040.5.1** Working Capital 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.

DRAFT

Adopted: June 26, 2013 via Resolution No. 2013-24
Revised: March 11, 2015 via Resolution No. 2015-06