Nevada Irrigation District

Staff Report

TO: Board of Directors

FROM: Jennifer Hanson, General Manager

DATE: September 23, 2026

SUBJECT: **Revised Board Policy #3040 - Reserves**

ADMINISTRATION

RECOMMENDATION:
Conduct a workshop to provide input on proposed changes to Board Policy #3040 - Reserves.

BACKGROUND:
The Nevada Irrigation District maintains a comprehensive Reserve Policy to ensure sufficient funds are available to meet operating expenses, capital needs, and debt service obligations. The revised Reserve Policy #3040 updates reserve categories, target balances, and funding procedures based on current operational, capital, and financial requirements.

Reserves are particularly important to the District because a single failure of a treatment plant, pipeline, canal, pump station, dam, or other critical facility can require substantial expenditures with little advance notice. Revenues can also fluctuate because of drought, conservation mandates, weather, changes in water demand, or economic conditions, while much of the utility's cost structure remains fixed.

Reserves also support the District’s creditworthiness and borrowing capacity. Bond investors and rating agencies generally evaluate liquidity, debt-service coverage, financial policies, and available reserves when assessing an agency. Strong financial reserves can therefore contribute to better credit ratings and potentially lower borrowing costs, ultimately benefiting customers

Summary of Reserve Categories:
The District has three types of reserve categories that are summarized below:

- Legally Restricted Reserves include Capacity Fee Reserve, Debt Service Reserve, and Bond/Loan/Fiduciary Proceeds Reserve.

- Unrestricted Designated Reserves include Operating Reserves, Capital Reserves, Insurance and Catastrophic Occurrence Reserve, and Accrued Leave Reserve. Each one of these reserves is described below:

  - Operating Reserve**:** Provides working capital and liquidity for normal operations and unexpected short-term events. The District cannot immediately increase rates or revenues when costs rise or an emergency occurs. Operating reserves allow an agency to continue providing essential services when revenues fall below projections, expenditures exceed the budget, or unforeseen events occur. They can also address timing differences between when revenues are collected and when expenses such as payroll, energy, chemicals, maintenance, and contractual obligations must be paid. Appropriate operating reserves reduce the likelihood that an agency will need emergency rate increases, short-term borrowing, or abrupt service reductions.

  - Capital Reserve**:** Serves a different purpose. The District must continually rehabilitate, replace, and improve assets that may have useful lives measured in decades. Capital reserves allow the District to accumulate funds over time so that the customers receiving the benefit of existing infrastructure contribute toward its eventual rehabilitation or replacement. They also provide resources for major projects, emergency repairs, cost overruns, and required local matching funds for grants. The previous capital reserves were set at specific amounts. The proposed reserve modification ties each reserve to depreciation. Depreciation measures how quickly the District's infrastructure, vehicles, and equipment are wearing out. Requiring the reserve to track depreciation ensures funding scales naturally with asset usage.

    - Fund 15, Water Capital: The target reserve level for water capital is proposed to be set at 50% of the total five-year depreciation cost of water assets based on audited financials. The proposed reserve for Fund 15 is lower than the proposed reserve for Fund 55 Hydroelectric Capital because the long-term financial plan includes debt service to fund water capital.

    - Fund 35, Recreation Capital: The target reserve level for recreation capital is proposed to be set at 50% of the total five-year depreciation cost of water assets based on audited financials. Please note that the District is currently considering hiring a concessionaire to operate the recreational facilities.

Even if this occurs, the District will still be required to fund some capital improvements.

    - Fund 55, Hydroelectric Capital: Fund 55 reserves are proposed to have three components: 1. The general capital reserve target is proposed to be set at 50% of the total combined five-year depreciation expense from audited financials, plus the five-year average cost of capital program that exceeds 50% of the total combined five-year depreciation expense. The additional reserved monies reflect not issuing debt to pay for hydroelectric capital. The District's debt ratio would be compromised if additional debt were issued beyond what is already planned for the water fund. 2. The FERC reserve target is proposed to remain the same as in the current policy at $35 million. For the first ten years of the FERC license, the District has an annual average of $7 million in implementation requirements. The new FERC license will likely be issued within the next five years, coinciding with the expiration of the large power purchase agreement the District has with PG&E. Therefore, the District must set aside funds to pay for these initial commitments. 3. Power Purchase Agreement Expiration is a new reserve that is being proposed and is intended to offset costs associated with infrastructure modifications that will be required if the District does not enter into a new agreement with PG&E. The reserve can also be used to complete infrastructure modifications that will be required to connect to the grid and meter power transmission if the District sells power to a different entity.

  - Insurance and Catastrophic Occurrence Reserve: This reserve is intended to be used in the event of a catastrophic emergency such as a wildfire or intense precipitation event. Although the District carries insurance for catastrophic events, policy coverages are limited, and insurance payouts may be delayed. The Insurance and Catastrophic Occurrence Reserve can be used to pay for immediate repairs or offset reductions in revenue due to service interruption or hydropower revenue reduction.

  - Accrued Leave Reserve: This reserve is proposed to be set for each operating fund in an amount equal to 30% of the current portion liability associated with employees in that Department.

- Unrestricted Undesignated Reserves consist of remaining fund balances available for appropriation by Board action.

Summary of Removed Language:

- The Watershed Reserve is proposed to be removed. The District relies on grants and/or pay-as-you-go to fund watershed-related projects and activities.
- The Community Stabilization Reserve is proposed to be removed. Hydropower monies offset rate reductions; therefore, this reserve is not necessary. Legacy funding formulas that conflicted with current budget practices.
- The Capacity Fee Reserve is proposed to be removed from the policy. This fund receives revenue from connection fees and is intended to be spent down on new capacity projects.

BUDGETARY IMPACT:
The budget impact will be determined if the Board modifies the Reserve Policy

Attachments: (2)

- Board Policy #3040 – Reserves (redlined and clean draft versions)

Nevada Irrigation District

POLICY MANUAL

POLICY TITLE: **Reserves**
POLICY NUMBER: **3040**

3040.1 PURPOSE OF RESERVES

3040.1.1 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 to allow 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.

Reserves also support the District's creditworthiness and borrowing capacity. Bond investors and rating agencies generally evaluate liquidity, debt-service coverage, financial policies, and available reserves when assessing an agency. Strong financial reserves can therefore contribute to better credit ratings and potentially lower borrowing costs, ultimately benefiting customers. The Reserves Policy covers all reserve funds of the District, unless specifically required by external statute and loan covenants.
~~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 . Unless specifically required by external statute and loan covenants.~~

~~On a quarterly basis, reserves shall be reported and analyzed, along with the District's adopted budget, investment portfolio investment, short-term forecasting, and budget vs~~Two times per year, reserves shall be reported, analyzed, and presented to the Board of Directors during the annual budget process and the mid-year budget adjustment.~~ actual reports in sufficient detail to understand balance movement.~~ Any reserve balances below the levels stated in this policy must be approved by the Board and identified in the adopting resolution for the annual budget.

3040.2 ~~PURPOSE~~TYPES OF RESERVES

3040.2.1 There are three major types of reserves: Legally Restricted Reserves, Unrestricted Designated Reserves, and Unrestricted Undesignated Reserves (also referred to as available fund balance). ~~There are three major types of reserves: Legally Restricted Reserves, Unrestricted Designated Reserves, and Unrestricted Undesignated Reserves.~~ Legally Restricted Reserves have restrictions imposed by law, bond covenants, or other contractual obligations. Unrestricted Designated Reserves are set aside for a specific purpose as determined by the Board of Directors. Unrestricted Undesignated Reserves are the remaining cash balances and can be utilized if appropriated by the Board of Directors. Staff calculates reserve balances and presents them to the Board of Directors during the annual budget cycle.

3040.3 RESTRICTED RESERVES

~~**3040.3.1** The Capacity Fee Reserve is established to provide funds for qualifying new projects and expansion of existing District facilities in compliance with Government Code Section 66013. All capacity fees received shall be accounted for in Fund 12. The District shall maintain a target balance of $1,000,000 in this reserve for expansion-related capital needs of the water system. Interest earned on these reserves remains in the Capacity Fee Fund.~~

3040.3.1~~2~~ The Debt Service Reserve is governed by debt covenants for the District's debt. The trustee holds these reserves during the term of the debt and uses them if the District cannot 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.

3040.3.2~~3~~ Bond/Loan/Fiduciary Proceeds Reserve shall be established when the 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 debt issuance obligations.

3040.4 UNRESTRICTED DESIGNATED RESERVES

3040.4.1 Operating Reserves may be used to fund unplanned and unforeseen expenditures related to Water Fund 10, Recreation Fund 30, and Hydroelectric Fund 50. The reserve also ensures sufficient liquidity to meet cash-on-hand needs.

~~Water Fund 10, and Hydroelectric Fund 50 and Recreation Fund 30 Operating Reserve minimums~~ targets ~~are established to be 6 months of annual budgeted expenditures and . Recreation Fund 30 and Internal Services Fund 70 Operating Reserve minimums are established to be~~ Fund 10 and 50 Operating Reserve minimums are established to be 6 months of annual budgeted expenditures. Fund 30 and 70 Operating Reserve minimums are established to be 3 months of annual budgeted expenditures. ~~3 months of annual budgeted expenditures. These reserves are intended to ensure adequate cash flow during the year.~~

Operating Reserves shall be funded from revenue received by each operating fund or by budgeted transfers. Operating Reserves shall receive funding prior to all other reserves.

3040.4.2 Capital Reserves are established to accumulate sufficient reserve funds necessary to ensure timely acquisition, replacement, and upgrade of the District's infrastructure and capital assets. This reserve is established for each Capital Fund (Water Capital Fund 15, Recreation Capital Fund 35, and Hydroelectric Capital Fund 55). ~~T~~

The minimum ~~reserves~~ reserve ~~for the three Fund areas~~levels are as follows:

- Water Capital Fund 15: Target reserve set at 50% of the total combined five-year depreciation expense from audited financials.
- Hydroelectric Capital Fund 55: Capital Reserve ~~$22,000,000;~~ target set at 50% of the total combined five-year depreciation expense from audited financials, plus the five-year average cost of capital program that exceeds 50% of the total combined five-year depreciation expense. Hydroelectric Capital Fund 55 FERC Reserve is set at $35 million. Hydroelectric Capital Fund 55 Power Purchase Expiration Reserve is set at $15 million.
- ~~Hydroelectric Capital Fund 55: $15,000,000; Hydroelectric FERC Fund 55: $35,000,000;~~ Recreation Capital Fund 30: Target reserve set at 50% of the total combined five-year depreciation expense from audited financials.

~~$100,000. Capital Reserves are intended to provide adequate cash flow for construction payment obligations and to accumulate sufficient funds to construct long-term capital improvements.~~

Capital Reserves shall be funded from budgeted transfers.

3040.4.3 Insurance and Catastrophic Occurrence Reserves are 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~~ shall have a minimum reserve balance of $5,000,000 and a maximum balance of $10,000,000.

This reserve can be funded by ~~Fund 10~~ Water Fund 10 and/or Hydroelectric Fund 50. Any events that require the use of reserve funds shall be replenished by the specific Department responsible for use of these funds.

Insurance and Catastrophic Occurrence Reserves ~~Insurance and catastrophic reserves~~ shall be funded from revenue received by each operating fund or by budgeted transfers.

3040.4.4 Accrued Leave Reserve estimates the annual payout for accrued vacation, sick leave, and compensatory time on record as of the last day of each budget year. Each Department (Water, Hydroelectric, Recreation) shall include this reserve in its operating fund in an amount equal to 30% of the current portion liability associated with employees in that Department. The current portion is an estimate of the expected accrued leave expense for the fiscal year.

Accrued Leave Reserves shall be funded from revenue received by each operating fund or by budgeted transfers.

3040.5 UNRESTRICTED UNDESIGNATED RESERVES

3040.5.1 The amount of cash fund balance remaining in each fund. Use of these funds shall be appropriated by the Board of Directors.

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
Revised: February 28, 2018 via Resolution No. 2018-06
Revised: July 24, 2019 via Resolution No. 2019-24
Revised October 14, 2026, via Resolution No. 2026-X

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Two times per year, reserves shall be reported, analyzed, and presented to the Board of Directors during the annual budget process and the mid-year budget adjustment. Any reserve balances below the levels stated in this policy must be approved by the Board and identified in the adopting resolution for the annual budget.

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exceeds 50% of the total combined five-year depreciation expense. Hydroelectric Capital Fund 55 FERC Reserve is set at $35 million. Hydroelectric Capital Fund 55 Power Purchase Expiration Reserve is set at $15 million.

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