SECTION 9

FINANCIAL POLICIES

SOUTHERN NEVADA WATER AUTHORITY®

FISCAL YEAR 2016-17

OPERATING AND CAPITAL BUDGET

Financial Policy

As operating agent for the Southern Nevada Water Authority, the Las Vegas Valley Water District (LVVWD) conducts a process to update and improve its operating policies and procedures on an ongoing basis. The attached financial policies represent a portion of the approved operating policies of the LVVWD.

LAS VEGAS VALLEY WATER DISTRICT DEPARTMENT POLICY	SUBJECT: FINANCIAL POLICY	NUMBER: 1
		ISSUE: 1
	APPROVED BY: Gina Neilson	
ISSUING DEPARTMENT: FINANCE	DIRECTOR OF FINANCE June 1, 2015	PAGE: 1 OF 3

I. PURPOSE

The purpose of this policy is to establish guidelines for the planning and monitoring of financial activities in a responsible manner.

II. SCOPE

This policy applies to the Las Vegas Valley Water District (LVVWD) and other entities for which the LVVWD has fiduciary responsibility i.e., Southern Nevada Water Authority (SNWA).

III. FINANCIAL PLANNING

A. BALANCED BUDGET – Under normal circumstances, the organization shall strive to prepare and adhere to a balanced operating budget, meaning sources of funds are greater than or equal to the uses of funds.

B. LONG-TERM PLANNING – A long-term, entity-wide Strategic Plan shall be adopted and maintained to guide the decisions of the organization. Preparation of operating and capital budgets, as well as other financial planning activities, shall consider their long-term financial implications and reflect the Strategic Plan. Also, the organization shall strive to obtain the highest credit ratings.

C. ASSET INVENTORY – The organization shall maintain an inventory of major capital assets and periodically assess the condition of those assets to plan for ongoing financial commitments necessary to ensure services in support of the Strategic Plan.

IV. REVENUE

A. REVENUE DIVERSIFICATION – To the extent reasonable, revenues shall be diversified in order to improve the ability to handle fluctuations in individual sources.

B. FEES AND CHARGES – Fees and charges are set to cover the cost of the services provided. For example:

- Water Rates pay for current water system operation and maintenance.
- Connection Fees pay for water system infrastructure expansion to support population growth.
- Fees pay for the annual inspection and maintenance of system facilities.
- Fees pay for any additional administrative or operating cost burden generated by certain customer activities.
- Deposits assure customer payment of financial obligations.

C. USE OF ONE-TIME REVENUES – One-time revenues shall generally be matched to one-time expenditures. Ongoing financial commitments shall not be dependent upon anticipated one-time revenues.

D. USE OF UNPREDICTABLE REVENUES – Ongoing programs or expenditure commitments shall not be dependent upon revenues that cannot be reasonably predicted. Reasonable prediction involves the use of historical data, projected data, and prudent judgment.

V. EXPENDITURES

A. DEBT CAPACITY – The organization has no fixed aggregate monetary debt limit. The ability to issue debt is governed by state law allowing for the pledge of revenues and the assessment of ad valorem taxes with the requirement that the Board of Directors establish reasonable rates and charges for the products and services provided. The assessment of ad valorem taxes shall be avoided and emphasis shall be placed on the reliance of revenues to pay debt obligations.

B. DEBT ISSUANCE AND MANAGEMENT – Debt shall be issued by either negotiated or competitive sale in accordance with Nevada law. Competitive sale awards shall be made to the underwriter(s) presenting bids resulting in the lowest interest rate. Negotiated sales may be utilized and underwriters will be selected in accordance with specific criteria specified in the Debt Management Policy. The Debt term shall not exceed the useful life of the project or equipment being financed and bond insurance may be utilized.

C. RESERVES – The organization shall maintain sufficient reserves to protect against the need to reduce service levels or raise rates and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. 'Sufficient reserve' is defined as 180 days of operating expenditures. A reserve study shall be conducted at least once every five years to determine if 180 days remains sufficient.

D. OPERATING/CAPITAL EXPENDITURE ACCOUNTABILITY – Actual expenditures shall be periodically compared to the budget. Each department Director shall be primarily responsible for keeping their actual expenditures from exceeding their budget. Department Directors shall provide timely notification to the Director of Finance when it appears that their actual expenditures for the fiscal year will exceed their budget. Also, the Director of Finance shall monitor the actual expenditures of the entire organization and provide timely notification to the General Manager when it appears that the actual expenditures for the fiscal year may exceed the Board approved budget.

SOUTHERN NEVADA WATER AUTHORITY BOARD POLICY	SUBJECT: SOUTHERN NEVADA WATER AUTHORITY RESERVE POLICY	NUMBER: 11
		ISSUE: 1
ISSUING DEPARTMENT: FINANCE	APPROVED BY: BOARD OF DIRECTORS January 21, 2016	PAGE: 1 OF 2

Purpose

The purpose is to establish policy for maintaining adequate reserves of cash and investments. Maintaining adequate and prudent cash reserves is an important tool in mitigating the risks of significant and unexpected decreases in sources of funds and/or increases in the uses of funds. The benefits include stable services and fees. This policy applies to all unrestricted cash and investments of the Southern Nevada Water Authority (SNWA).

Authority

The Government Finance Officers Association (GFOA) recommends local governments adopt a target amount of working capital to maintain in each of their enterprise funds. Because the purposes, customers, and other characteristics of enterprise funds can vary widely, the GFOA recommends that governments develop a target amount of reserves that best fits local conditions for each fund. The following are some of the key considerations for the SNWA's reserve policy:

1. Volatility in Sources of Funds – Some of the SNWA's sources of funds have experienced significant volatility; for example, connection charges and sales tax, in periods where the local economy suffers.

2. Customer Concentration – The SNWA receives the majority of its unrestricted funds from its member agencies. Although none have ever defaulted, such a default or a significant delay could have a substantial impact on the SNWA's operations.

3. Likelihood of Successful Rate Increases – Although the SNWA has enjoyed tremendous support from its member agencies and the community, it is possible that these conditions could change in the future, thus impacting the SNWA's ability to increase rates to meet increasing costs.

4. Asset Age and Condition – As the infrastructure ages, maintenance and replacements costs will increase. Also, there is always the possibility of unexpected failures that can be quite expensive. Such failures could result from age-related causes or natural disasters.

5. Control Over Expenses – Although most of the SNWA's expenses are predictable, there remains the possibility of large, unexpected expenditures; for example, litigation, natural disasters, increases in energy and chemical costs.

Reserve Components

The following are the four components identified for the SNWA's reserves listed by funding priority:

1. Base Operating Reserve – Adequate reserves to fund 180 days of operating and maintenance expenses. This will help insulate the SNWA and its customers from volatility in operating revenues and expenses, as well as from other casual factors that could interrupt cash flow or impose unforeseen costs.

2. Debt Service Reserve – Adequate reserves to fund one year of the maximum annual debt service. For both credit rating considerations and prudent financial practices, the SNWA should strive to achieve this level of reserves to ensure access to lower cost capital in future years, help mitigate the impact of disruptions in the credit markets on the SNWA operations, and provide assurances to investors that the SNWA has the financial resources necessary to make its ongoing debt service payments.

3. Capital Related Reserve – Adequate reserves to fund a one year average of future capital needs. As a method to determine future capital needs, the capital improvement plan may be used. This reserve will fluctuate over time as projects change. This level of capital reserve will enable the SNWA to better react to capital needs as they may arise and to properly address the timing of infrastructure improvements relative to system needs. This reserve will also enable the SNWA to continue with uninterrupted critical capital improvements during times of difficulty within the capital markets.

4. Unforeseen Events Reserve – Adequate reserves to fund one percent of assets subject to depreciation. This is to mitigate one-time, unforeseen infrastructure or major capital equipment failures and other significant non-recurring impacts to operating revenues and expenses.

Reporting

The General Manager shall notify the Board of Directors of the status of reserves at least annually and more often as significant changes occur.