

<p>BOARD FOR FINANCING WATER PROJECTS</p> <p>POLICY</p>	<p>EFFECTIVE DATE</p> <p>June 20, 2018</p>	<p>PAGE</p> <p>Page 1 of 4</p>
<p>SUBJECT: SUFFICIENT WATER RATES</p>		

Authority:

The Board for Financing Water Projects (Board) is authorized by Nevada Revised Statutes (NRS) 349.982 to establish requirements for participation in the Capital Improvement Grants Program.

Purpose:

It is the Board’s perspective that every utility should charge a rate that ensures their financial strength, solvency, and sustainability. The Capital Improvements Grant Program is funded by the sale of state bonds which are financed by property taxes throughout the State. The Board has an obligation to see that grant recipients are receiving a sufficient amount of revenue before the State awards any grant funds.

The Division of Environmental Protection (Division) and the Board evaluate water rates and charges in communities receiving Capital Improvement Grants Program funds. The Board and the Division recognize that each system and community have their own unique needs depending on a multitude of circumstances. As a result, it is impractical to apply a single, inflexible rate to all utilities. Ultimately the Board’s goal is to make sure every community receiving a grant has a customized financial plan to pay for required maintenance, debt obligations, system rehabilitation, and administration that will sustain the system indefinitely.

Grants awarded to a community include a condition that the utility will charge and maintain a sufficient water rate and generate sufficient revenue. The State does not consider a system viable or a project financially feasible if it is financially unable or unwilling to support its own future.

The Division uses a simplified procedure to evaluate rates (described below). This procedure should not be confused with accounting relationships or audit procedures and terms which are governed by generally accepted accounting practices, etc. A good system of accounts in a utility will help its managers and directors visualize how various activities contribute to the total cost of running the system.

After evaluating a utility’s water rates and charges as a condition for receiving a State grant, the Board may require a utility to make financial changes which will enhance the viability of the utility.

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BOARD POLICY:

- The Division must determine if a grant applicant is charging a sufficient rate and generating sufficient revenue before the Board can award a grant. The Board may not approve grant funding if the water rates and charges do not meet this policy.
- A rate will not be considered sufficient if the applicant’s governing board has not conducted a rate assessment within the last three (3) years.
- This policy shall not be used to reduce current water rates a community is charging without prior review of the Division and/or board approval.
- Financial statements prepared for the Division must clearly separate the revenue and expenditure of *the utility* from other activities of *the applicant*.
- Unless there are exceptional circumstances, a “sufficient rate” is defined as the amount a water connection is charged to finance a system’s:
 - Operations and Maintenance
 - Salaries and benefits
 - Examples include (but not limited to): testing, shop inventory, security, office staff duties, and labor for required system maintenance.
 - Materials
 - Examples include (but not limited to): chemicals, small tools, equipment, and repair supplies.
 - Utilities
 - Examples include (but not limited to): power, gas, and oil.
 - Administration
 - Examples include (but not limited to): accounting, billing, payroll, board meetings, travel, training, and service contracts.
 - Regulatory
 - Examples include (but not limited to): fees, assessments and permits.
 - System Specific
 - Any other expenses that the individual utility needs to maintain their specific system for the health and safety of the public and the environment (e.g., emergency reserve fund).
 - New expenses of project

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- The anticipated annual costs of operating and maintaining the infrastructure placed in service by the proposed project.

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- Debt Service
 - An amount needed to cover annual principal and interest payments on any *currently* outstanding loans or bonds of the system.
 - An amount needed to cover annual principal and interest payments on the *future* debt requirements of the proposed project.
 - Any reserve requirements for debt service as mandated by any lender.
- Capital Replacement Reserve
 - An amount as determined by the Board's capital replacement reserve fund.
 - Any reserve requirements for asset replacement as mandated by any lender, referendum, or other governing requirements.

The Board may determine that higher or lower rates are sufficient. The Board may also consider revenue from other sources (e.g., property tax rates) impacting the financial strength of the community when determining a sufficient rate.