

POLICY: CAPITAL REPLACEMENT RESERVE FUNDS

Authority: The Board for Financing Water Projects 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 set aside funds each year to renew and replace its water infrastructure. This process is necessary because a utility that is severely damaged may require a large reinvestment in the system to remain operational or to make up for postponed improvements.

The state does not consider a system “viable” or a project “financially feasible” if it is financially unable or unwilling to support the system’s future. Therefore, the board requires all grant recipients to budget for system renewal.

Policy:

- The board expects all grant recipients to contribute annually to a reserve account that holds funds for capital replacement. The Division of Environmental Protection calculates this yearly investment based upon the system’s short-lived assets (15 years or less) amortized on a straight-line basis. Short-lived assets may include pumps, meters, and data collection equipment like telemetry, alarms, and SCADA units. For this purpose, short-lived assets are in conformity to capital assets generally accepted as those with a life expectancy of 15 years or less.
- Each utility must list its short-lived assets in a fiscal sustainability plan (FSP) that is updated and reviewed at least every five years. The updated replacement costs in the FSP would update the amount to fund into this account.
- Utilities may only use funds in the account for capital improvements. Importantly, these improvements are not restricted to the system’s short-lived assets. There are several expenses that qualify as capital expenditures:
 1. Bringing a new facility into service
 2. Planning or designing a new facility that will enhance the existing system
 3. Extending the life or enhancing the value of an asset with better quality materials or system upgrades
- Utilities cannot use these funds for “inventory” items or for “maintenance” or “operation” expenses. For example, utilities cannot use the funds for minor incidentals like repair clamps, small tools, service contracts, inventory parts and

fittings, spare lengths of pipe for repairs, or maintenance supplies like paint, grease, and other similar day-to-day supplies.

- Utilities cannot use the funds in the reserve account for the purpose of expanding their system; they may not finance the installation of new services or the extension of main lines to serve new areas or customers from these reserves.
- Utilities must clearly identify their annual contribution to this fund — along with the fund balance — on their financial statements.
- The required capital reserve schedule — established at the completion of a project — will become a binding condition of the grant. Utilities must notify the division, in writing, when they make a withdrawal from the reserve fund for a capital improvement and must include the amount and nature of the expenditure.
- This policy on capital replacement reserves will affect grant recipients beginning on the date it is approved by the board and will not be imposed retroactively; however, a grant recipient may request a change from the previously issued board policies on depreciation to this policy. The board will consider requests to comply with a specific policy on a case-by-case basis.