



## STANDING ADVISORY COMMITTEE AGENDA

**Tuesday, September 4, 2018 at 3:00 p.m.**  
**Truckee Meadows Water Authority**  
**Independence Meeting Room**  
**1355 Capital Boulevard, Reno, NV 89502**

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### NOTES:

1. The announcement of this meeting has been posted at the following locations: Truckee Meadows Water Authority (1355 Capital Blvd., Reno), Reno City Hall (1 E. First St., Reno), Sparks City Hall (431 Prater Way, Sparks), Sparks Justice Court (1675 E. Prater Way, Sparks), Washoe County Courthouse (75 Court St., Reno), Washoe County Central Library (301 South Center St., Reno), Washoe County Administration (1001 East Ninth St., Reno), at <http://www.tmwa.com>, and State of Nevada Public Notice Website, <https://notice.nv.gov/>.
2. In accordance with NRS 241.020, this agenda closes three working days prior to the meeting. We are pleased to make reasonable accommodations for persons who are disabled and wish to attend meetings. If you require special arrangements for the meeting, please call 834-8002 at least 24 hours before the meeting date.
3. Staff reports and supporting material for the meeting are available at TMWA and on the TMWA website at <http://www.tmwa.com/meeting/> or you can contact Sonia Folsom at (775) 835-8002. Supporting material is made available to the general public in accordance with NRS 241.020(6).
4. The Committee may elect to combine agenda items, consider agenda items out of order, remove agenda items, or delay discussion on agenda items. Arrive at the meeting at the posted time to hear item(s) of interest.
5. Asterisks (\*) denote non-action items.
6. Public comment is limited to three minutes and is allowed during the public comment periods. The public may sign-up to speak during the public comment period or on a specific agenda item by completing a "Request to Speak" card and submitting it to the clerk. In addition to the public comment periods, the Chairman has the discretion to allow public comment on any agenda item, including any item on which action is to be taken.
7. In the event the Chairman and Vice-Chairman are absent, the remaining SAC members may elect a temporary presiding officer to preside over the meeting until the Chairman or Vice-Chairman are present (**Standing Item of Possible Action**).

1. Roll call\*
2. Public comment — limited to no more than three minutes per speaker\*
3. Approval of the agenda (**For Possible Action**)
4. Approval of the minutes of June 5, 2018 meeting (**For Possible Action**)
5. Water supply update — Bill Hauck\*
6. Presentation of preliminary fiscal year 2018 unaudited financial performance — Matt Bowman\*
7. Discussion and recommendation to Board regarding the update to TMWA Financial Management and Reserve Policy, and the rate stabilization fund — Michele Sullivan (**For Possible Action**)

8. Update on the acquisition of the West Reno Water System and due diligence process — John Enloe and John Zimmerman\*
9. Discussion and possible direction to staff regarding agenda items for future meetings (**For Possible Action**)
10. Staff Items\* (Unless otherwise listed with a topic description, this portion of the agenda is limited to announcements)
11. Committee Items\* (Unless otherwise listed with a topic description, this portion of the agenda is limited to announcements)
12. Public Comment — limited to no more than three minutes per speaker\*
13. Adjournment (**For Possible Action**)



## STANDING ADVISORY COMMITTEE

### **DRAFT** MINUTES

June 5, 2018

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The Standing Advisory Committee (SAC) met at Truckee Meadows Water Authority (TMWA) in the Independence Room, 1355 Capital Blvd., Reno, Nevada. Chair McGuire called the meeting to order at 3:01 p.m.

#### 1. ROLL CALL

**Primary Members and Voting Alternates Present:** Fred Arndt, Bruce Gescheider, Colin Hayes, Karl Katt, Carol Litster, Neil McGuire, Ken McNeil, Mike Pidlypchak, Mike Schulewitch, Fred Schmidt\* and Jerry Wager.

**Alternates Present:** Jordan Hastings, Dale Sanderson, and Jim Smith.

**Primary Members and Alternates Absent:** Ken Becker, Bob Chambers, Harry Culbert, Kevin Haddock, Bill Hughes, Don Kowitz, Scot Munns, and Jonnie Pullman.

*\*Member Schmidt arrived at 3:03 p.m.*

**Staff Present:** Matt Bowman, Robert Charpentier, John Enloe, Scott Estes, Sonia Folsom, Mark Foree, Andy Gebhardt, Joe Petrelli, Danny Rotter, Shawn Stoddard, Michele Sullivan, Sandra Tozi, John Zimmerman, and Legal Counsel Debbie Leonard.

#### 2. PUBLIC COMMENT

There was no public comment.

#### 3. APPROVAL OF THE AGENDA

**Upon motion duly made by Member Gescheider and seconded by Member Litster, and carried by unanimous consent of the members present, the Committee approved the agenda.**

#### 4. APPROVAL OF THE MINUTES OF THE APRIL 3, 2018 MEETING

**Upon motion duly made by Member Schulewitch and seconded by Member Litster, and carried by unanimous consent of the members present, the Committee approved the April 3, 2018 meeting minutes.**

5. PRESENTATION ON THE MOUNT ROSE WATER TREATMENT PLANT

John Enloe, TMWA Director of Natural Resources and Planning, informed the Committee that TMWA is in the final design phase for the Mount Rose Water Treatment Plant (MRWTP) and is in final review at the Washoe County Health District. It will be approximately a 20-month construction schedule, beginning in September 2018, and staff anticipates it will be operational by spring 2020.

6. PRESENTATION OF THE TMWA FINAL BUDGET FOR FISCAL YEAR ENDING JUNE 30, 2019 AND CAPITAL IMPROVEMENT PLAN FOR FISCAL YEARS 2019 THROUGH 2023

Michele Sullivan, TMWA Chief Financial Officer (CFO), informed the Committee there was an increase of \$1.3 million in net position from the tentative budget due to projects approved by the Federal Emergency Management Agency (FEMA) for funding and a small adjustment related to the bond refunding.

Joe Petrelli, TMWA Principal Financial Analyst, presented the final 2019-2023 capital improvement plan (CIP). Mr. Petrelli stated the current CIP spending for FY19 is \$48.4 million, a net increase of \$1.8 million, and for 2019-2023 spending increased from \$191.6M to \$195.8M, or \$4.2M due to delays in projects due to be completed in 2018, as well as higher costs related to several projects.

Member Schmidt noted March was a record month for precipitation resulting in increased hydro revenue sales. Ms. Sullivan stated it may be a record year, staff anticipates good river flows and budgeted \$2.8 million for the year.

7. PRESENTATION ON THE RESULTS ON TMWA'S 2018 REFUNDING BOND ISSUE AND FINANCIAL UPDATE

Ms. Sullivan reported there was \$74.2 million in the commercial paper program, and \$30 million was left in the program, which will be paid off over 5-years through the anticipated \$35 million of sales of will-serve commitments. The letter of credit for the commercial paper program expired in May and due to lower long-term interest rates increasing, there was an opportunity to fix \$44.2 million of the commercial paper in bonds. On the day of the bond pricing, April 25, 2018, there was great interest, but only in the 2035-39 series bonds, and not the 2040-42 term. Ms. Sullivan presented the idea of restructuring the deal to sell all the bonds in the 2035-39 timeframe. As a result, it was successful as the bonds were 2.4x oversold and TMWA's debt service coverage ratio remained within the debt covenant 1.25x with a 1.45x ratio, and priced for total proceeds of \$44.6 million, which paid down outstanding commercial paper by \$44.2 million and covered the expenses of the bond issuance.

Members Schmidt and McNeil congratulated Ms. Sullivan on a successful strategy and expressed the trust they have in the CFO and staff of doing a good job and ensuring TMWA's successful financial future.

Mark Foree, TMWA General Manager, commended Ms. Sullivan in presenting the idea to restructure the bond to our financial advisors and bankers, which resulted in a very successful bond issuance on a very volatile day in the market.

#### 8. PRESENTATION OF FINANCIAL PERFORMANCE OF THIRD QUARTER FISCAL YEAR 2018

Matt Bowman, TMWA Financial Controller, presented the financial performance for the quarter ended March 31, 2018 and stated TMWA is in good financial position: operating revenues slightly better than, and operating expenses slightly lower than, budget; less interest costs than budget; higher development contributions. He noted that subsequent to the third quarter financial statements, there have been lower water sales revenues in Apr/May due to increased precipitation (saw \$1.3 million less than budget in these months with lower demand), and if June water sales revenue is in line with budget, water sales revenue will be within 1% of budget. Cash position is \$8.8 million higher than in the beginning of the fiscal year, but \$6.3 million less than the second quarter due to low water sales; and operating expenses is 10% under budget.

Discussion followed regarding: the \$1 million decrease in employee benefits (employee post-retirement trust was adjusted based on the actuarial analysis); due to the decrease in water sales revenue, if the hydro generation revenue could cover the difference (no, because hydro sales are expected be on track as budgeted); new business projects have decreased, but the rate is consistent with the 5-year funding plan; rate of development and affordability is the issue, not the workforce; and SAC members agreed that the new format for Mr. Bowman's staff report is easy to follow and understand.

#### 9. PRESENTATION OF THE 2018 SUMMER COMMUNICATION CAMPAIGN

Andy Gebhardt, TMWA Operations & Water Quality Director, stated there was positive response to last years' plan. Staff is building on the success of the Smart About Water campaign in the community.

Chair McGuire asked what was the budget. Mr. Gebhardt replied the conservation budget is approximately \$400,000-450,000.

#### 10. DISCUSSION AND POSSIBLE RECOMMENDATION TO THE TMWA BOARD OF DIRECTORS REGARDING THE POTENTIAL REPURPOSING OF THE METER RETROFIT FUND PROGRAM

John Zimmerman, TMWA Water Resources Manager, reported the Board of Directors, at the March meeting, received both the staff and Committee recommendation. As such, the Board directed staff to reserve the current fund for future retrofits and continue collecting the fee until there is an official change of the fee. Currently, there are \$24 million in projects over the next 5-years described in TMWA's 2019-2023 Capital Improvement Plan (CIP) that will improve drought resiliency and water sustainability in TMWA's system and are the type of projects for which the changed fee could be used.

Staff will also reassess the current fee of \$1830/acre-foot fee if directed by the Board to change the fee and evaluate what would be an appropriate fee amount.

Member Schmidt expressed concern with the cost of housing and pressure from developers to get rid of the fee entirely.

Member Hayes asked staff to consider the impact on housing affordability and that the fee not be set at an arbitrary amount.

Discussion continued around the \$24 million of projects that came out of the CIP. Rather than allocating the costs between developer fees and customer rates, staff would also allocate some costs to the new fee, which would be applied similarly to how TMWA currently allocates costs.

Member Schmidt expressed approval of the water resiliency fee, which originally promoted conservation, and the current fee is not sustainable going forward.

Mr. Zimmerman explained there is \$3.9 million in the existing fund, which will be reserved for future meter retrofits over the next 10 years. Andy Gebhardt, TMWA Operations & Water Quality Director, added no one would be forced into obtaining a meter, but TMWA would take advantage of any modifications being made to a building or street repairs; and there will be properties that will not be retrofitted because of the difficulty and extreme cost.

Member Pidlypchak asked if any of the customers who still need to be retrofitted are in the Virginia Hills area. Mr. Zimmerman replied no.

Member McNeil stated he liked the proposed changes to Rule 7.

Member Gescheider inquired about the fee amount. Mr. Zimmerman said next steps would be to seek direction from the Board on a formal rule change to implement the fee and during that process staff would determine at what amount to set the fee.

**No action taken.**

#### **11. DISCUSSION AND POSSIBLE DIRECTION TO STAFF REGARDING AGENDA ITEMS FOR FUTURE MEETINGS**

##### **September / October meetings:**

1. Water supply update
2. Presentation of the unaudited financial performance for FY 2018
3. Update on the meter retrofit fund program and resource sustainability fee
4. Update on the West Reno water system
5. Presentation on water usage

**Upon motion duly made by Member Gescheider and seconded by Member Wager, and carried by unanimous consent of the members present, the Committee approved to cancel the August 7, 2018 meeting.**

**Upon motion duly made by Member Hayes and seconded by Member Arndt, and carried by unanimous consent of the members present, the Committee approved the agenda items for future meetings.**

**12. STAFF ITEMS**

Sonia Folsom, TMWA SAC Liaison reminded the Committee of TMWA's annual BBQ to be held on Saturday, July 14<sup>th</sup>, 2018 from 11am-3pm.

Mr. Zimmerman informed the Committee of the Board's direction to staff on the Farad property: to obtain the cost of an appraisal; to publish in newspapers outside of the region; to consult with Nevada County planning staff; and the possibility of obtaining a conservation easement.

**13. COMMITTEE ITEMS**

There were no committee items.

**14. PUBLIC COMMENT**

There was no public comment.

**15. ADJOURNMENT**

With no further items for discussion, Chair McGuire adjourned the meeting at 4:13 p.m.

Approved by the Standing Advisory Committee in session on \_\_\_\_\_.

Sonia Folsom, Recording Secretary

***\*Member Schmidt was present for agenda items 4 thru 15 only.***



# Water Supply Outlook

Standing Advisory Committee

Bill Hauck, Senior Hydrologist

September 04, 2018

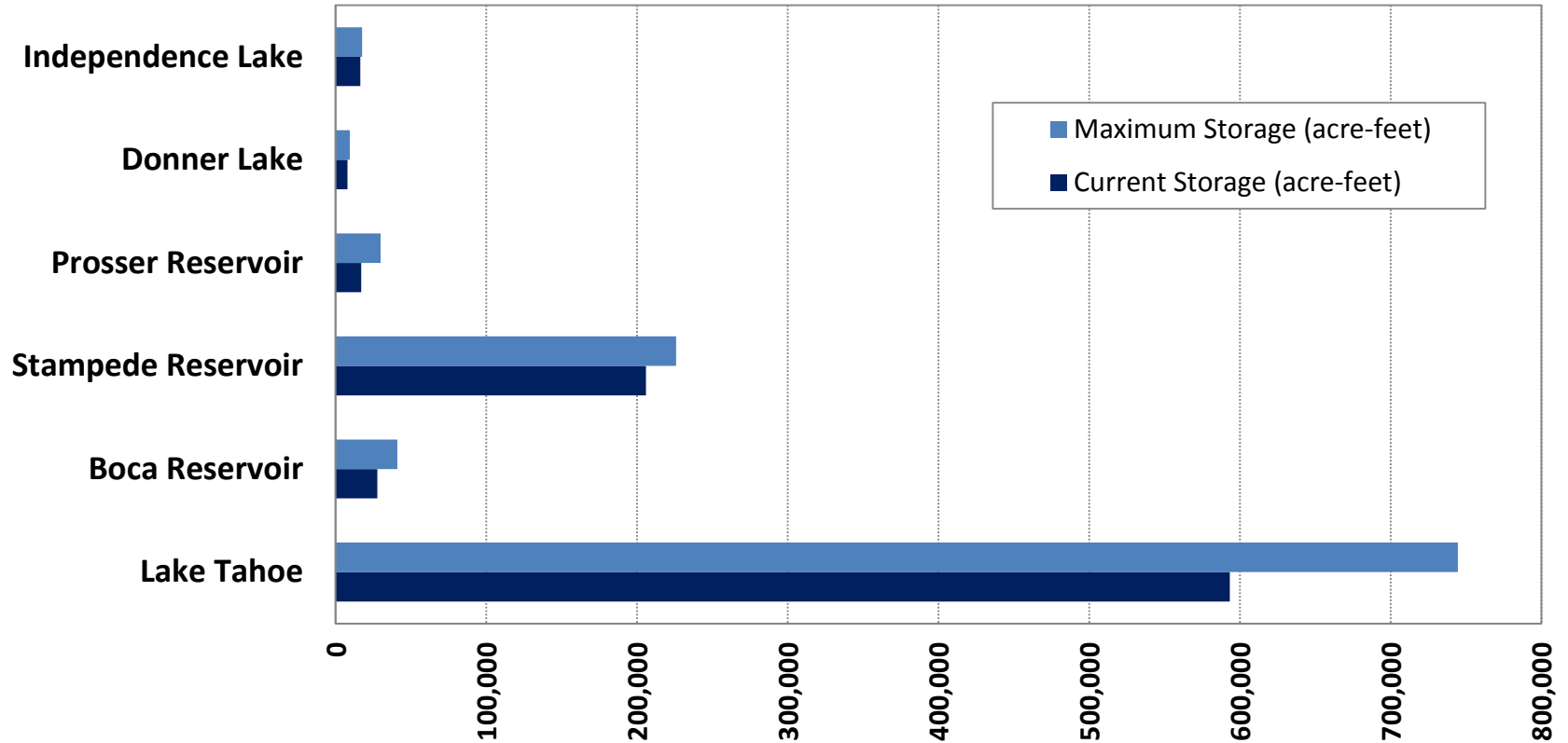


# The Truckee & Carson River Systems

09-04-18 SAC Agenda Item 5

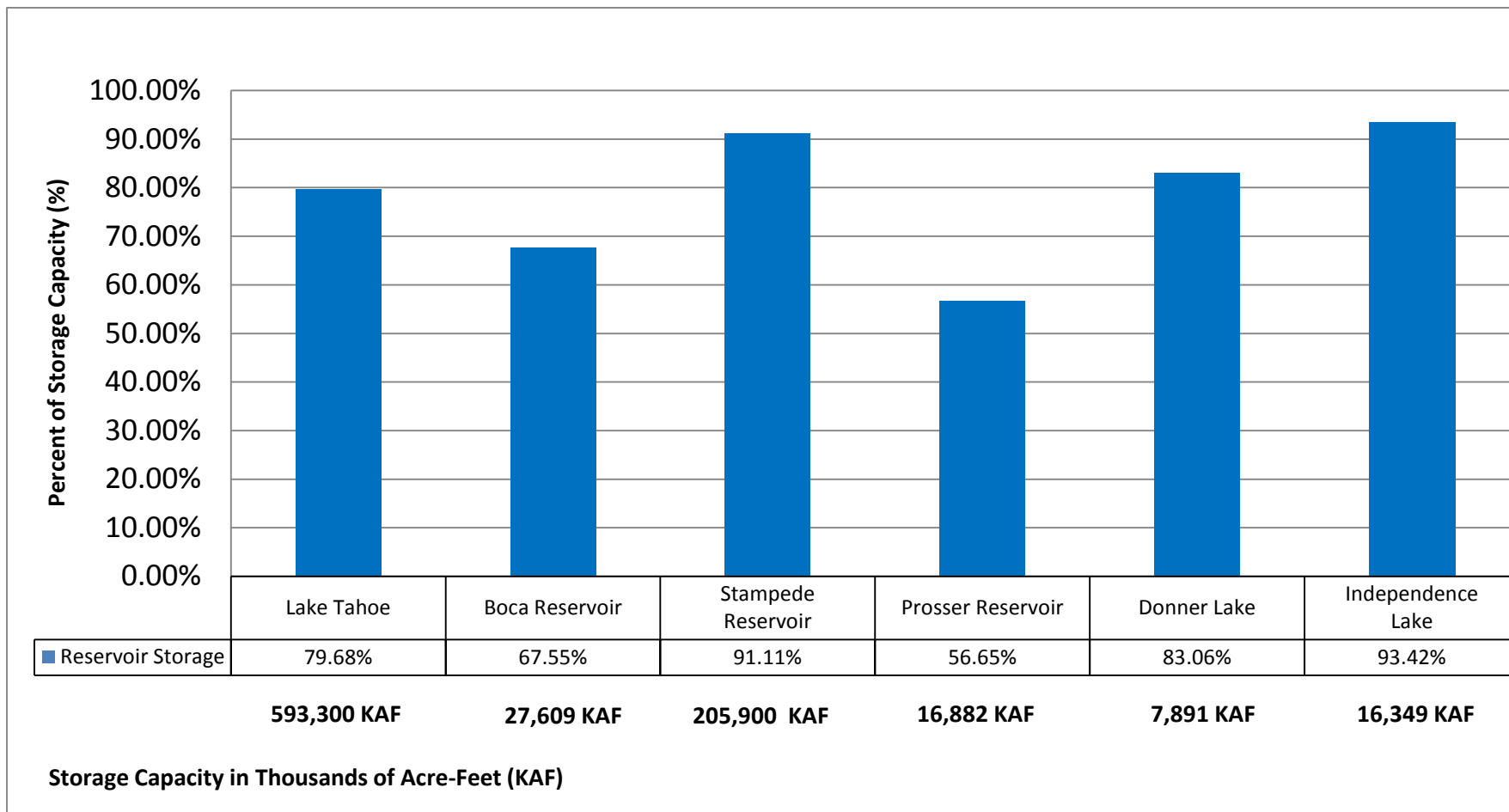


## Truckee River Reservoir Storage (acre-feet as of 9/4/2018)



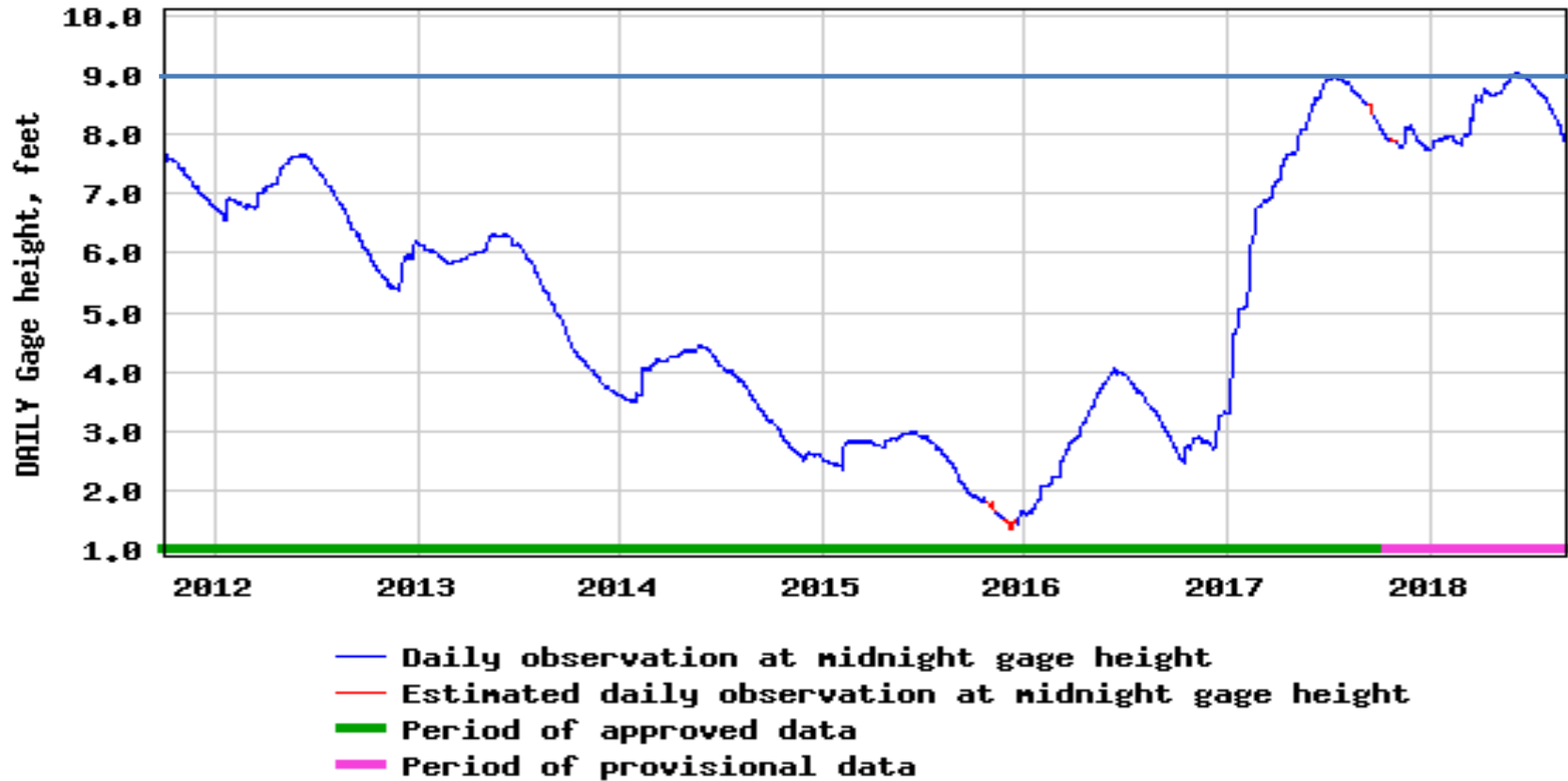
(81% capacity overall)

## Truckee River Reservoir Storage (percent capacity on 9/4/2018)



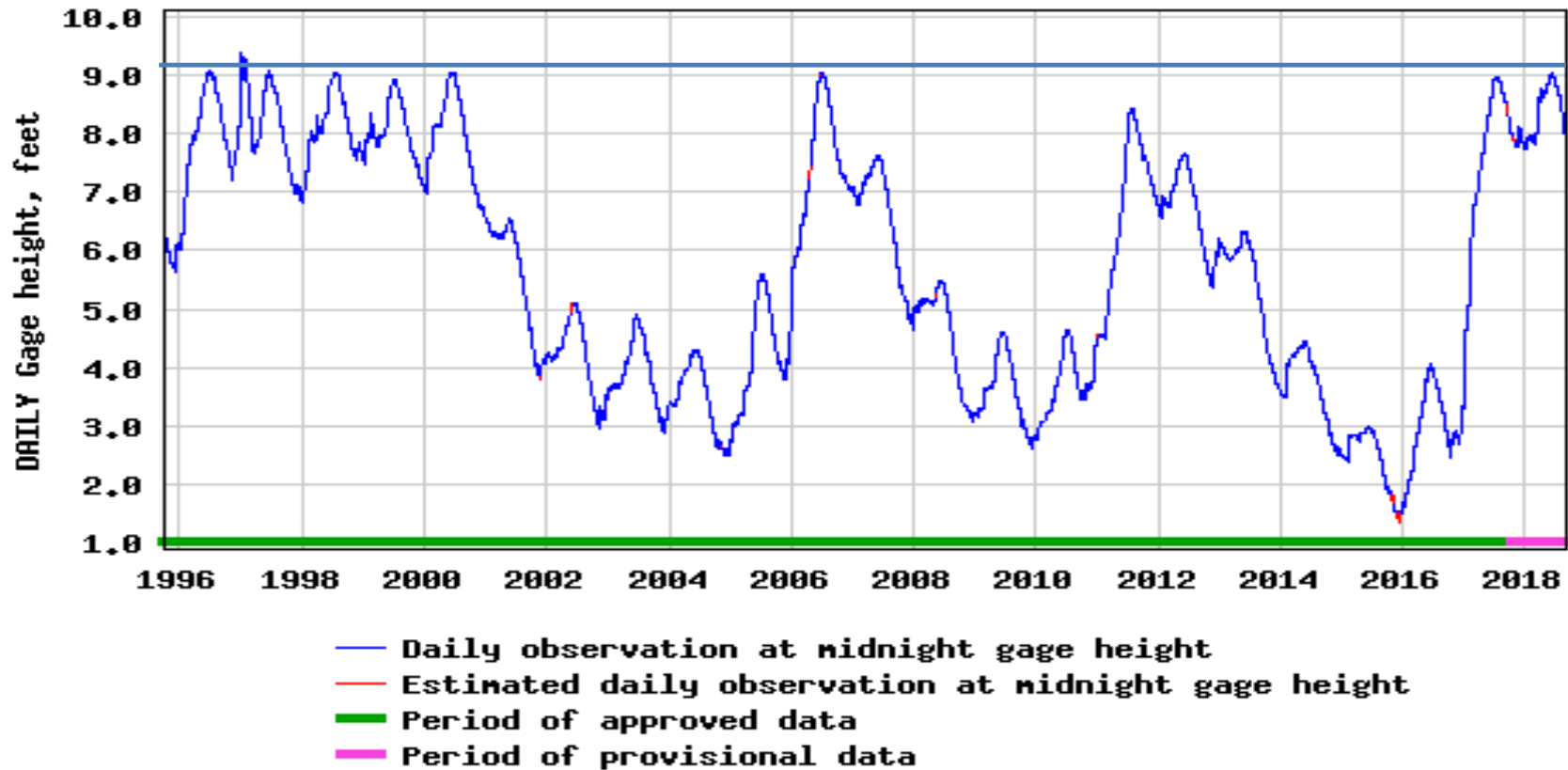


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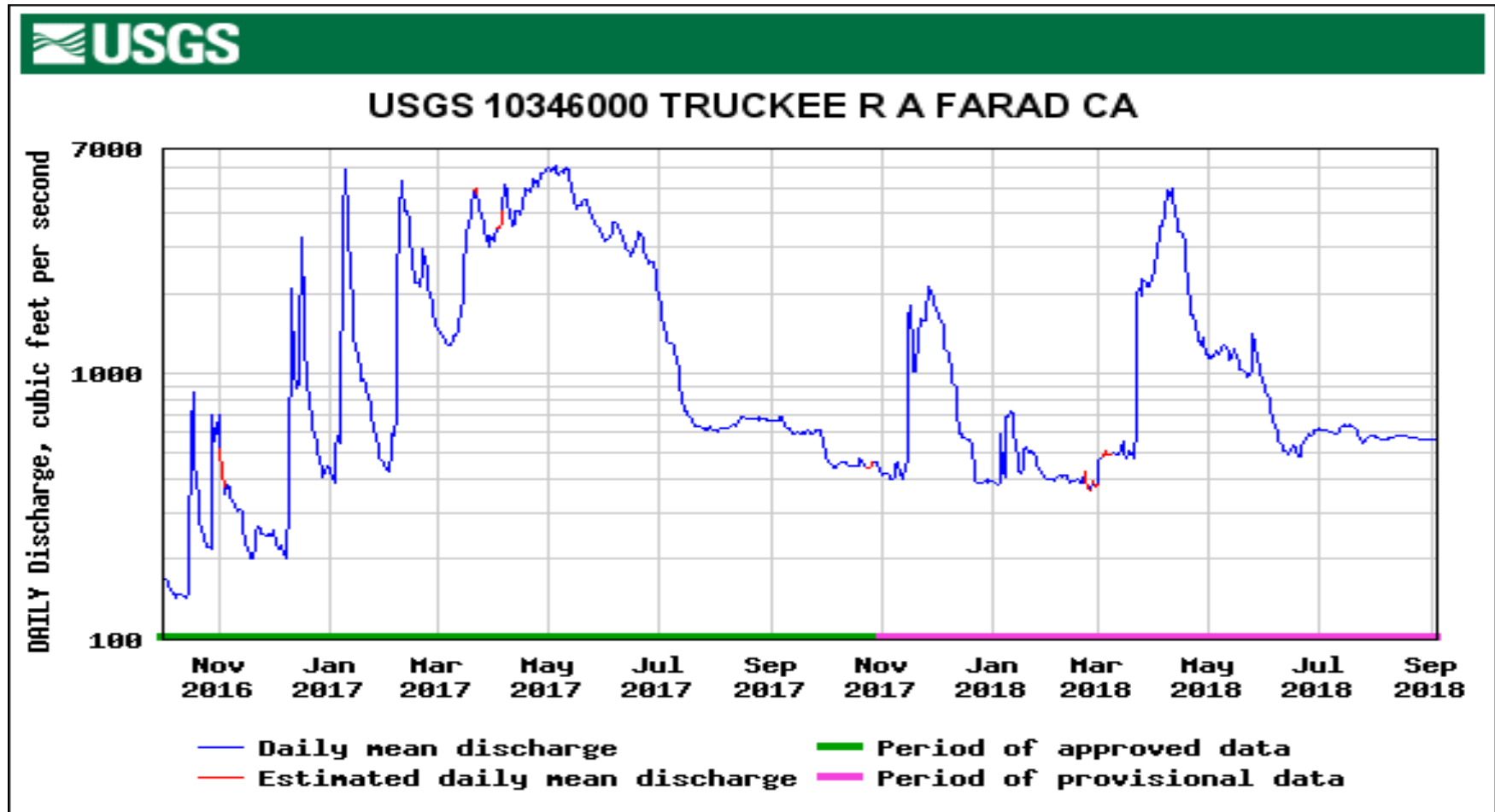


## Climate Prediction Center (acre-feet 9/4/2018)

DATE: 9/4/2018

### ACCOUNT STORAGE (acre-feet)

RESERVOIR	FirmMICred	NonFirmMICred	waPOSW	WAEDS	TOTAL STORAGE (acre-feet)
<i>Tahoe</i>	0	0	0	0	0
<i>Donner</i>	0	0	7,891	0	7,891
<i>Martis</i>	0	0	0	0	0
<i>Prosser</i>	0	0	0	0	0
<i>Boca</i>	0	770	800	0	1,570
<i>Stampede</i>	2000	797	690	7,500	10,987
<i>Independence</i>	0	0	16,349	0	16,349
Sum					36,797



# El Nino?



# Thank you!

Questions?

Bill Hauck, Senior Hydrologist

Email: [bhauck@tmwa.com](mailto:bhauck@tmwa.com)

O: (775) 834-8111 M: (775) 250-1333



**TO:** Board of Directors  
**FROM:** Michele Sullivan, Chief Financial Officer  
Matt Bowman, Financial Controller  
**DATE:** August 7, 2018  
**SUBJECT:** Presentation of preliminary Fiscal Year 2018 unaudited financial performance

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### Summary

#### Budget to Actual

	Actual YTD 2018	Budget YTD 2018	Variance \$	Variance %
<b>CHANGE IN NET POSITION</b>	38,802,368	12,391,706	26,410,662	213%

Change in net position (or overall P&L) for fiscal year 2018 (FY 2018) was \$26.4m more than budget. However, \$11.3m of this variance is due to developer contributed assets which is a non-cash capital contribution. Lower operating expenses, higher non-operating revenue and higher developer contributions led to the remaining increase of \$15.1m. Please refer to **Attachment A-1** for the full Statements of Revenues, Expenses and Changes in Net Position with budget to actual comparisons.

#### Year over Year

	Actual YTD 2018	Actual YTD 2017	Variance \$	Variance %
<b>CHANGE IN NET POSITION</b>	38,802,368	46,480,316	(7,677,948)	-17%

Year over year, change in net position was \$7.7m less in FY 2018 compared to FY 2017. This is due primarily to an insurance settlement related to the Farad Hydroelectric facility in FY 2017 of \$11.8m. This was offset by higher revenue and lower nonoperating expenses in FY 2018. Please refer to **Attachment A-2** for the full Statements of Revenues, Expenses and Changes in Net Position with year over year comparisons.

#### Cash Position

At June 30, 2018 total cash on hand was \$193.4m or approximately \$19.4m higher than at the beginning of the fiscal year. Of the total cash on hand, \$146.9m was unrestricted to be used to meet upcoming and future operating/maintenance expenses, principal/interest payments, and construction project payments. The remaining \$46.5m was restricted to pay for scheduled bond

principal and interest payments as well as maintaining required reserves as stipulated in our bond indentures.

## Revenue

### Budget to Actual

	<b>Actual YTD 2018</b>	<b>Budget YTD 2018</b>	<b>Variance \$</b>	<b>Variance %</b>
<b>OPERATING REVENUES</b>				
Charges for water sales	\$ 95,272,287	\$ 94,303,278	\$ 969,009	1%
Hydroelectric sales	3,757,043	2,990,391	766,652	26%
Other operating sales	2,893,493	3,131,500	(238,007)	-8%
Total Operating Revenues	101,922,823	100,425,169	1,497,654	1%

The principal driver in the higher-than-budgeted FY 2018 operating revenue was strong 1H 2018 Irrigation and Residential Metered sales (as discussed in the February 2018 Financial Performance Staff Report). Water sales in 4Q 2018 were down approximately \$1.1m or 5% from budget. This was due to a wet spring which delayed irrigation water use. Hydroelectric sales finished up a record year with revenues achieving \$0.8m or 26% over budget.

### Year over Year

	<b>Actual YTD 2018</b>	<b>Actual YTD 2017</b>	<b>Variance \$</b>	<b>Variance %</b>
<b>OPERATING REVENUES</b>				
Charges for water sales	\$ 95,272,287	\$ 92,687,260	\$ 2,585,027	3%
Hydroelectric sales	3,757,043	1,788,934	1,968,109	110%
Other operating sales	2,893,493	2,791,989	101,504	4%
Total Operating Revenues	101,922,823	97,268,183	4,654,640	5%

The 3% rate increase in FY 2017, coupled with consistent water use, led to a 3% increase in water sales year over year. Combined with \$2.0m in additional Hydroelectric sales, total Operating Revenues ended up \$4.7m or 5% higher in FY 2018 compared to the prior year.

## Operating Expenses

### Budget to Actual

	Actual YTD 2018	Budget YTD 2018	Variance \$	Variance %
<b>OPERATING EXPENSES</b>				
Salaries and wages	18,473,168	19,024,704	(551,536)	-3%
Employee benefits	9,832,820	9,303,274	529,546	6%
Services and supplies	24,506,834	28,312,357	(3,805,523)	-13%
Total operating expenses before depreciation	52,812,822	56,640,335	(3,827,513)	-7%
Depreciation	33,719,279	34,061,148	(341,869)	-1%
Total operating expenses	86,532,101	90,701,483	(4,169,382)	-5%

Total operating expenses were \$4.2m or 5% less than budget in FY 2018. Of this variance, \$4.8m came in 1H 2018 due to decreased services and supplies costs and employees' salaries and wages. Salaries were slightly less than budget due primarily to delayed IBEW and MPAT raises until January 2018. Employee benefits were \$0.5m more than budget due primarily \$1.6m non-cash PERS adjustment related to the implementation of GASB 82. Finally, services and supplies costs were \$3.8m less than budget due to several factors. First, the budget was augmented in January 2018 for dredging of the outlet channel at Donner Lake for estimated costs of \$2.6m. These costs are continuing in to FY 2019, so through June 30, 2018, there was only \$1.3m in spend. This results in a variance of \$1.3m from budget. Other fluctuations from budget include lower chemical costs (\$0.6m) due to improved water quality in the Truckee River coupled with process improvements to focus on cost reductions in chemical usage, lower power costs (\$0.3m) due to less activity at Fish Springs than what was expected in FY 2018, lower distribution and vehicle maintenance costs (\$0.6m) due to process improvements and very few large maintenance expenditures during the year. The remaining \$1.0m (3%) is due to general savings from budget resulting from an overall conservative budgeting process.

Year over Year

	Actual YTD 2018	Actual YTD 2017	Variance \$	Variance %
<b>OPERATING EXPENSES</b>				
Salaries and wages	18,473,168	17,257,014	1,216,154	7%
Employee benefits	9,832,820	9,047,279	785,541	9%
Services and supplies	24,506,834	23,980,864	525,970	2%
Total operating expenses before depreciation	52,812,822	50,285,157	2,527,665	5%
Depreciation	33,719,279	32,169,578	1,549,701	5%
Total operating expenses	86,532,101	82,454,735	4,077,366	5%

Operating expenses were higher than prior year, ending \$4.0m or 5% higher in FY 2018 compared to FY 2017. Salaries and wages increase reflects increases in headcount and wages in FY 2018. Services and supplies costs are 2% higher than in prior year, including \$1.3m spent for the Donner dredging project discussed above. Without these costs in FY 2018, costs would have been roughly \$0.7m less than FY 2017.

## Non-Operating Expenses

### Budget to Actual

	Actual YTD 2018	Budget YTD 2018	Variance \$	Variance %
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	2,313,513	1,342,692	970,821	72%
Net increase (decrease) in FV of investments	(934,120)	-	(934,120)	-
Gain (loss) on disposal of assets	785,260	-	785,260	-
Amortization of bond/note issuance costs	(942,927)	(468,624)	(474,303)	101%
Interest expense	(11,559,267)	(13,394,016)	1,834,749	-14%
Other nonoperating revenue	-	-	-	-
Other nonoperating expense	-	-	-	-
Total nonoperating revenues (expenses)	(10,337,541)	(12,519,948)	2,182,407	-17%

Non-operating expenses were \$2.2m less than budget in FY 2018. Investment earnings were higher than budget due to higher principal amounts as well as an increase in interest rates. Change in fair value of investments was down (loss) due to rising interest rates which lowers the fair value of fixed rate investments (non-cash expense). Gain on disposal of assets reflects the sale of water rights for \$1.1m (sold to Pyramid Lake Paiute Tribe) offset by \$0.5m of loss due to the demolition of the Peavine Storage Tank. Interest expense is lower due to interest costs accelerated to FY 2017 as part of the Series 2017 refunding (Q4 2017) and the recognition of effective interest (accelerated) bond premium amortization in FY 2018.

### Year over Year

	Actual YTD 2018	Actual YTD 2017	Variance \$	Variance %
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	2,313,513	7,209,113	(4,895,600)	-68%
Net increase (decrease) in FV of investments	(934,120)	(342,257)	(591,863)	173%
Gain (loss) on disposal of assets	785,260	(155,722)	940,982	-604%
Amortization of bond/note issuance costs	(942,927)	(1,183,526)	240,599	-20%
Interest expense	(11,559,267)	(16,968,911)	5,409,644	-32%
Other nonoperating revenue	-	-	-	-
Other nonoperating expense	-	(243,000)	243,000	-100%
Total nonoperating revenues (expenses)	(10,337,541)	(11,684,303)	1,346,762	-12%

Non-operating expenses were less than the prior year by \$1.3m principally due to lower interest expense due to the Series 2017 bond refunding in closed in FY 2017. Other increases include the net gain on asset disposal (discussed above) offset by decreases in investment earnings due to the release of forward delivery agreements paying higher rates on some cash reserves in 2017.

## Capital Contributions

### Budget to Actual

	Actual YTD 2018	Budget YTD 2018	Variance \$	Variance %
<b>CAPITAL CONTRIBUTIONS</b>				
Grants	348,248	200,004	148,244	74%
Water meter retrofit program	2,379,206	781,488	1,597,718	204%
Developer infrastructure contributions	11,337,746	-	11,337,746	-
Developer will-serve contributions (net of refunds)	6,670,879	5,034,744	1,636,135	32%
Developer capital contributions-other	6,448,549	4,345,296	2,103,253	48%
Developer facility charges (net of refunds)	6,464,559	4,826,436	1,638,123	34%
Contributions from others	100,000	-	100,000	-
Net capital contributions	33,749,187	15,187,968	18,561,219	122%

Capital contributions were \$18.6m more than budget in FY 2018. *Preliminary* developer infrastructure contributions are non-cash and were over \$11m which is not an item that is budgeted. The remaining variance from budget is driven almost exclusively by significant development in the service area. This results in higher water rights and developer contributions.

### Year over Year

	Actual YTD 2018	Actual YTD 2017	Variance \$	Variance %
<b>CAPITAL CONTRIBUTIONS</b>				
Grants	348,248	1,226,863	(878,615)	-72%
Water meter retrofit program	2,379,206	341,074	2,038,132	598%
Developer infrastructure contributions	11,337,746	10,797,854	539,892	5%
Developer will-serve contributions (net of refunds)	6,670,879	7,950,666	(1,279,787)	-16%
Developer capital contributions-other	6,448,549	6,062,247	386,302	6%
Developer facility charges (net of refunds)	6,464,559	5,116,956	1,347,603	26%
Contributions from others	100,000	11,855,511	(11,755,511)	-99%
Net capital contributions	33,749,187	43,351,171	(9,601,984)	-22%

Capital contributions are down from prior year due mostly to the Farad settlement payment received in FY 2017 of \$11.8m. This was the final payment of the settlement. Grant funds received were down due to the wrap up of the TROA Bureau of Reclamation grant in FY 2017. This reduction was offset by higher developer and water rights payments as discussed above.

## Capital Spending

Spending on capital outlays and construction projects during FY 2018 was approximately \$33.0m. Target spending for capital in FY 2018 was \$43.0m. The primary reason for the underspend is the delay in construction of the Mt. Rose Water Treatment Plant due to delays in permitting and satisfying regulatory requirements. Through June 30, 2018, spend is approximately \$1.1m compared to the CIP budget of \$6.0m on the project. Had the budget been spent on this project total spend would have been about 88% of budget which is typical.

# TRUCKEE MEADOWS WATER AUTHORITY

## Comparative Statements of Revenues, Expenses and Changes in Net Position For the twelve months ended June 30, 2018

	Actual YTD 2018	Budget YTD 2018	Variance \$	Variance %
<b>OPERATING REVENUES</b>				
Charges for water sales	\$ 95,272,287	\$ 94,303,278	\$ 969,009	1%
Hydroelectric sales	3,757,043	2,990,391	766,652	26%
Other operating sales	2,893,493	3,131,500	(238,007)	-8%
Total Operating Revenues	101,922,823	100,425,169	1,497,654	1%
<b>OPERATING EXPENSES</b>				
Salaries and wages	18,473,168	19,024,704	(551,536)	-3%
Employee benefits	9,832,820	9,303,274	529,546	6%
Services and supplies	24,506,834	28,312,357	(3,805,523)	-13%
Total operating expenses before depreciation	52,812,822	56,640,335	(3,827,513)	-7%
Depreciation	33,719,279	34,061,148	(341,869)	-1%
Total operating expenses	86,532,101	90,701,483	(4,169,382)	-5%
<b>OPERATING INCOME</b>	15,390,722	9,723,686	5,667,036	58%
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	2,313,513	1,342,692	970,821	72%
Net increase (decrease) in FV of investments	(934,120)	-	(934,120)	-
Gain (loss) on disposal of assets	785,260	-	785,260	-
Amortization of bond/note issuance costs	(942,927)	(468,624)	(474,303)	101%
Interest expense	(11,559,267)	(13,394,016)	1,834,749	-14%
Other nonoperating revenue	-	-	-	-
Other nonoperating expense	-	-	-	-
Total nonoperating revenues (expenses)	(10,337,541)	(12,519,948)	2,182,407	-17%
Gain (Loss) before capital contributions	5,053,181	(2,796,262)	7,849,443	-281%
<b>CAPITAL CONTRIBUTIONS</b>				
Grants	348,248	200,004	148,244	74%
Water meter retrofit program	2,379,206	781,488	1,597,718	204%
Developer infrastructure contributions	11,337,746	-	11,337,746	-
Developer will-serve contributions (net of refunds)	6,670,879	5,034,744	1,636,135	32%
Developer capital contributions-other	6,448,549	4,345,296	2,103,253	48%
Developer facility charges (net of refunds)	6,464,559	4,826,436	1,638,123	34%
Contributions from others	100,000	-	100,000	-
Net capital contributions	33,749,187	15,187,968	18,561,219	122%
<b>CHANGE IN NET POSITION</b>	38,802,368	12,391,706	26,410,662	213%
<b>NET POSITION, BEGINNING OF PERIOD</b>	631,462,629	605,764,318	25,698,311	4%
<b>NET POSITION, END OF PERIOD</b>	\$ 670,264,997	\$ 618,156,024	\$ 52,108,973	8%



**TRUCKEE MEADOWS WATER AUTHORITY**  
**Comparative Statements of Revenues, Expenses and Changes in Net Position**  
**For the twelve months ended June 30, 2018**

	Actual YTD 2018	Actual YTD 2017	Variance \$	Variance %
<b>OPERATING REVENUES</b>				
Charges for water sales	\$ 95,272,287	\$ 92,687,260	\$ 2,585,027	3%
Hydroelectric sales	3,757,043	1,788,934	1,968,109	110%
Other operating sales	2,893,493	2,791,989	101,504	4%
Total Operating Revenues	101,922,823	97,268,183	4,654,640	5%
<b>OPERATING EXPENSES</b>				
Salaries and wages	18,473,168	17,257,014	1,216,154	7%
Employee benefits	9,832,820	9,047,279	785,541	9%
Services and supplies	24,506,834	23,980,864	525,970	2%
Total operating expenses before depreciation	52,812,822	50,285,157	2,527,665	5%
Depreciation	33,719,279	32,169,578	1,549,701	5%
Total operating expenses	86,532,101	82,454,735	4,077,366	5%
<b>OPERATING INCOME</b>	15,390,722	14,813,448	577,274	4%
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	2,313,513	7,209,113	(4,895,600)	-68%
Net increase (decrease) in FV of investments	(934,120)	(342,257)	(591,863)	173%
Gain (loss) on disposal of assets	785,260	(155,722)	940,982	-604%
Amortization of bond/note issuance costs	(942,927)	(1,183,526)	240,599	-20%
Interest expense	(11,559,267)	(16,968,911)	5,409,644	-32%
Other nonoperating revenue	-	-	-	-
Other nonoperating expense	-	(243,000)	243,000	-100%
Total nonoperating revenues (expenses)	(10,337,541)	(11,684,303)	1,346,762	-12%
Gain (Loss) before capital contributions	5,053,181	3,129,145	1,924,036	61%
<b>CAPITAL CONTRIBUTIONS</b>				
Grants	348,248	1,226,863	(878,615)	-72%
Water meter retrofit program	2,379,206	341,074	2,038,132	598%
Developer infrastructure contributions	11,337,746	10,797,854	539,892	5%
Developer will-serve contributions (net of refunds)	6,670,879	7,950,666	(1,279,787)	-16%
Developer capital contributions-other	6,448,549	6,062,247	386,302	6%
Developer facility charges (net of refunds)	6,464,559	5,116,956	1,347,603	26%
Contributions from others	100,000	11,855,511	(11,755,511)	-99%
Net capital contributions	33,749,187	43,351,171	(9,601,984)	-22%
<b>CHANGE IN NET POSITION</b>	38,802,368	46,480,316	(7,677,948)	-17%
<b>NET POSITION, BEGINNING OF PERIOD</b>	631,462,629	584,982,314	46,480,315	8%
<b>NET POSITION, END OF PERIOD</b>	\$ 670,264,997	\$ 631,462,630	\$ 38,802,367	6%



## STAFF REPORT

**TO:** TMWA Board of Directors  
**THRU:** Mark Foree, General Manager  
**FROM:** Michele Sullivan, Chief Financial Officer  
**DATE:** August 6, 2018  
**SUBJECT:** Discussion and action, and possible direction to staff regarding the update to TMWA Financial Management and Reserve Policy, and the rate stabilization fund

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### Recommendation

That the Board approve the updated Financial Management and Reserves Policy (FMRP) and consider options to direct staff related to the balance in and use of the Rate Stabilization Fund (RSF).

### Summary

TMWA's FMRP has not been updated for several years and a draft is included that updates the policy to the most current reserve requirements required by current TMWA Senior Lien Debt. A new unrestricted cash and investment reserve policy was added to the policy which helps to establish minimum cash and investment balances. The Government Financial Officer's Association (GFOA) and the American Water Works Association (AWWA) both recommend that a policy related to unrestricted cash should be developed to address the needs of a municipality based on local conditions. TMWA's strong unrestricted cash balances have helped to retain good credit ratings, and a policy related to these balances will ensure continued attention to a solid working capital position. Discussion of appropriate balances for the RSF and methods for funding and usage of the RSF are also included for Board discussion and input.

### Discussion

#### *Financial Management and Reserves Policy*

The FMRP has three main purposes as detailed on page 1 of the document. First, to establish TMWA management's financial responsibilities. There have been no changes made to this first part of the policy. Second, to detail a funding priority for restricted and designated funds as required by TMWA Senior Lien Debt. This section has been updated and reviewed by financial advisor's Hobbs, Ong & Associates, Inc. as well as bond counsel Sherman & Howard for

accuracy. A third policy purpose was added to fulfill a recommendation from the GFOA and the AWWA that unrestricted cash and investment reserves have minimum balance guidelines established through policy. With the new policy, cash balances would be reserved as follows:

**Truckee Meadows Water Authority  
Cash Reserves**

<b>Restricted Cash</b>		
Senior Lien Bond Debt Service	\$ 9,357,746	
Subordinate Debt Service	3,286,363	
O & M Reserve	9,440,056	
Renewal and Replacement	10,000,000	
Rate Stabilization	500,000	
STMGID	9,180,630	
Water Meter Retrofit	<u>4,717,726</u>	
<b>Total Restricted Cash</b>		46,482,521
<b>Designated Reserves</b>		
Rate Stabilization	<u>1,300,000</u>	
<b>Total Designated Reserves</b>		1,300,000
<b>Unrestricted Reserves</b>		
O & M Reserve	18,880,112	
Maximum Annual Debt Service	32,629,232	
Capital Related Reserve	22,520,200	
Unforeseen Events Reserve	<u>7,649,358</u>	
<b>Total Unrestricted Reserves</b>		<u>81,678,902</u>
<b>Total Reserves per New Policy</b>		129,461,423
<b>Actual Cash Balance</b>		<u>193,372,435</u>
<b>Additional Unrestricted Cash and Investments</b>	<u>\$ 63,911,012</u>	

With this new policy, TMWA will have a way to analyze total cash reserves balances based on financial metrics.

Currently, TMWA has additional unrestricted cash and investments mainly due to the deferral of bond principal payments, lower than anticipated capital spending, and several one-time cash infusions from Farad insurance settlement received (\$21.5M) and payments from banks for release of forward delivery agreements (\$9.5M).

***Rate Stabilization Fund***

One reserve fund that board members have requested more information on is the RSF. RSF's are a type of financial reserve that can buffer the impacts of occasional revenue shortfalls. This can occur for a variety of reasons, including cool temperatures, wet weather conditions, drought restrictions, and increased conservation and efficiency.

Currently TMWA has \$1.8M in an RSF. The current policy allowing for a maximum of \$7.5 million for the fund was determined in September, 2003 based on four months of O&M expenses at that time. The reserve was to provide a financial bridge in the event TMWA suffered a significant interruption in water deliveries. This determination was made when the system was first taken over by TMWA. Since TMWA has now been operating for many years, the maximum amount to be held in an RSF should be determined based on a risk assessment to create a target based on experienced financial impacts. For TMWA the greatest impact on revenue was a request for conservation in the most recent drought in FY2016. With TROA, it is not as likely that a public request for additional conservation will be necessary, but if a call for 10% conservation was implemented, this could reduce TMWA water sales revenues by approximately \$5M based on our experience from 2015. The average drought in the service area over the last 50 years has been 2 years, and over the last 30 years has been 3 years. Given that conservation would not be requested until the second or third year of a drought, one option would be to reserve a maximum of:

<u>Conservation</u>		<u>Annual Water Sales Budget</u>		<u>Years</u>		<u>Maximum RSF</u>
5%	X	100,626,513	X	1	=	5,031,326

This amount could be altered by changing the number of years, and will fluctuate as annual water sales change, and most likely increase. Since conservation requests can affect revenues for future years, the number of years might be 1.5 or 2, \$7,546,988 or \$10,062,651 respectively.

Revenue can swing as irrigation season begins and ends depending on rainfall. If there was a significantly wet spring, followed by a significantly wet fall, revenue shortfalls could be as much as 10% in those months, or about \$3M total. TMWA budgets consider usage based on a blended average of wet and dry years. This type of revenue shortfall could also easily be offset by a hotter than usual summer. Since the climate in Reno is dry, and prolonged wet weather has not been an issue, there isn't a solid reason to plan for the financial impact of wet weather at this time.

Policies around reserve funds state how the fund should be managed. A common way to manage a rate stabilization fund is to tie the funding to the debt service coverage ratio. For example, if the debt service coverage ratio at year end is great than a certain target, 1.5 times for example, excess water sales revenue can be transferred to a rate stabilization fund up to the determined maximum amount. The rate stabilization reserve fund will be drawn down to smooth rate increases and to ensure that minimum debt service coverage of 1.50 times annual debt service is met. Specifically, they will be applied in any year where other revenues are not sufficient to meet the required debt service coverage ratio of 1.50 times. They will also be applied if meeting 1.5 times coverage levels could result in downgrades of credit ratings.

The problem with a policy like this one is that credit agencies would rather a utility maintain an acceptable DSC ratio through proper planning. They won't necessarily downgrade a utility for using an RSF, but there should be a sound financial reason related to proven fluctuations in revenues if revenue from one year is going to be set aside to adjust the DSC calculation in another year.

Another approach to funding the RSF could be funding from additional unrestricted cash and investments. When all restricted and unrestricted cash reserves are funded, excess funds could be allocated to the RSF. If it is determined that cash is needed to supplement cash flow for a year due to shortfalls in water sales revenue or higher than expected costs, that cash can be used to fund operations or construction and would move out of the RSF and into the unrestricted cash balances.

Given TMWA's solid cash and investment balances, we are basically funding shortfalls between operating revenues and cost of service with cash. The Board can request an update to the balance in the RSF and implement more policies around the RSF at this time, or elect to defer to a later time.

<b>FINANCIAL POLICIES</b>
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Effective Date: August 15, 2018
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**TRUCKEE MEADOWS WATER AUTHORITY  
FINANCIAL MANAGEMENT AND RESERVE POLICY**

**TRUCKEE MEADOWS WATER AUTHORITY ENTERPRISE FUND:**

The Truckee Meadows Water Authority ("TMWA" or "Authority") Enterprise Fund was established to account for the operations and maintenance functions and the costs of capital projects associated with the facilities. An enterprise fund is, by definition, established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including capital costs, depreciation and debt service) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges, without producing any significant amount of profit in the long run.

**POLICY:**

To determine the funding level in each of TMWA's reserve accounts and financial accounts. Capital funding needs, financial stress, and critical areas of funding flexibility will all have a bearing on the appropriate balance in each reserve fund and similar accounts.

Resources for the Truckee Meadows Water Operations Fund include user charges and surcharges which are used for the operation and maintenance of the water system necessary to support system users. Resources for the Water Capital Projects Fund include the proceeds of bond issues and charges which are used for expansion and rehabilitation of the water system to support new users of the system or to fund major system improvements. (Initial funding was provided by an allocation of bond proceeds).

**PURPOSE:**

- A. To establish the financial mechanisms required to support the operation and administration of TMWA.
- B. To provide a financial framework for identifying reserves required by debt provisions and other designated unrestricted reserves related to the operation of TMWA.
- C. Establish a policy related to unrestricted cash and investments to maintain adequate and prudent cash reserves to mitigate the risks of significant and unexpected decreases in sources of funds and/or increases in uses of funds of TMWA.

**DEFINITIONS:**

- A. The **Truckee Meadows Water Authority Board** is comprised of seven members representing the Cities of Reno and Sparks and Washoe County. The Board establishes policies regarding the operations, maintenance, and capital improvements to the Truckee Meadows Water Authority Facilities as well as the contemplation of future debt requirements.
- B. The **Truckee Meadows Water Authority Facilities** consist of water distribution infrastructure, storage reservoirs, wells, and water treatment facilities which serve the residents of Reno, Sparks, and portions of unincorporated Washoe County. A General Manager hired by the TMWA Board serves as the Chief Administrative Officer of TMWA and generally is responsible for operation of the water system.

**TMWA MANAGEMENT FINANCIAL RESPONSIBILITIES:**

- A. Oversee the operation and maintenance of the TMWA water system.
- B. Prepare the annual tentative and final budget as required by State law.
- C. Review the costs for operating and maintaining the water system at least annually and adjust rates, fees and other charges, when necessary, to maintain proportionate distribution of costs by user and user class and to meet reserve requirements as established by this policy.
- D. Insure that the revenues collected from rates, fees and other charges are used for purposes including, but not limited to, debt service requirements, and the operation, maintenance, and repair of the water system.
- E. Insure that all funds of TMWA are being reported in accordance with generally accepted accounting principles.
- F. Insure that all necessary revenue accounts are established and shall insure that all receipts are tracked in the appropriate category.
- G. Insure that all necessary expense accounts are established and shall insure that all expenditures are tracked in the appropriate category.

**RESTRICTED AND DESIGNATED FUND BALANCE RESERVE POLICY:**

- A. So long as any of the Authority's Bonds are outstanding the flow of funds from the Enterprise Fund must be applied in the following order of priority:

1. Operations and Maintenance Expenses Account – Adequate reserves in an amount to fund one month of operation and maintenance expenses. The reserves should be set aside by the last day of each month that is at least one month prior to such expenses being paid.
2. Bond Fund Account – Adequate reserves in amount to fund substantially equal monthly installments - sufficient to pay the next accruing installment of the principal and interest on outstanding senior lien debt. The monies in the bond fund shall be used solely for the purpose of paying the bond requirements of the senior lien bonds and any additional outstanding senior lien securities. This account, held by the bond trustee for the senior lien debt, includes the interest account and the principal account.
3. Bond Reserve Account – Adequate reserves in an amount established by the bond resolution or other instrument in connection with any senior lien securities.
4. Rebate Account – Adequate reserves in an amount that is required by Section 148(f) of the Internal Revenue Code, before the transfer of any net revenues to the payment of subordinate securities, such amounts required to meet the Authority's obligations in accordance with Section 148 (f) of the tax code with respect to the Authority's bonds shall be deposited into the Rebate Account. Amounts in the Rebate Account shall be used for the purpose of making payments to the United States required by such covenant and Section 148(f) of the tax code. Any amounts in the Rebate Account in excess of those required to be on deposit may be withdrawn and used for any lawful purpose.
5. Subordinate Securities Bond Fund/Reserve Account - Adequate reserve in an amount to be used for the payment of bond requirements of subordinate debt, including any reasonable reserves or related rebate requirements.
6. Operation & Maintenance Reserve Account - Adequate reserve in an amount equal to 1/6th of the fiscal year's operation and maintenance budget. If the operation and maintenance budget for a fiscal year is greater than the prior fiscal year (as is likely), additional monthly deposits are required to be made into this reserve to bring it up to the required level in 12 months.
7. Renewal and Replacement Reserve Account - Adequate reserves in the sum of \$166,000 per month, up to a maximum of



\$10,000,000. The maximum reserve can be adjusted by the TMWA Board based upon recommendation by the General Manager based on an analysis by the TMWA engineering staff, but at no event at an amount less than \$2,000,000.

8. Rate Stabilization Account - Adequate reserves in the amount of not less than \$500,000. The TMWA Board has designated an additional \$1,300,000 in unrestricted reserves to the Rate Stabilization account and has approved a maximum of \$7,500,000.
9. General Purpose Account - This account will be funded in the event that revenues remain at the end of each fiscal year. This reserve is to be used for capital costs, major maintenance costs, lawful refunds, bond requirements, lawsuit obligations or any lawful purpose.

#### **UNRESTRICTED CASH AND INVESTMENTS RESERVES POLICY:**

- A. After all required restricted and designated reserve balances are funded, remaining cash and investments should be held in unrestricted accounts to fund the following reserves listed by in the following order of priority:
  1. Base Operating Reserve - Adequate reserves to fund 2/6<sup>th</sup> of operating and maintenance expenses. With the required reserve of 1/6 above, this will bring total reserves to half a year of operating expenses, insulating TMWA and its customers from volatility in operating revenues and expenses, as well as from other 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, TMWA should strive to achieve this level of reserves to maintain or improve credit ratings.
  3. Capital Related Reserve – Adequate reserves to fund a one-year average of mandatory future capital requirements. As a method to determine future capital needs, the capital improvements plan may be used. This will enable TMWA 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 TMWA to continue with uninterrupted critical capital improvements during times of difficulty.
  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.

- B. Should this enterprise fund experience deficiencies in the balance of restricted designated or unrestricted cash and investment reserves or retained earnings, the deficiency will be corrected by increasing rates, fees and other charges.
- C. This fund is governed by Nevada Revised Statutes (NRS) Chapters 350, 351, 354, and 355; and Nevada Administrative Code (NAC) Chapters 350 and 354.

**EXHIBIT A****FINANCIAL POLICIES**Effective Date: ~~August January 9, 2002~~ August 15, 2018**TRUCKEE MEADOWS WATER AUTHORITY****FINANCIAL FUND FINANCIAL MANAGEMENT AND RESERVE POLICY****TRUCKEE MEADOWS WATER AUTHORITY ENTERPRISE FUND:**

The Truckee Meadows Water Authority (~~("TMWA" or "Authority")~~) Enterprise Fund was established to account for the operations and maintenance functions and the costs of capital projects associated with the facilities. An enterprise fund is, by definition, established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including capital costs, depreciation and debt service) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges, without producing any significant amount of profit in the long run. ~~The Operations Fund provides for a system of user charges for the operation and maintenance of the Truckee Meadows Water Authority Board water system, including the operations of the water treatment plants. The Capital Projects Fund provides for the major repair and expansion of the water system. The two funds are combined for budgeting and financial reporting purposes.~~

**POLICY:**

To determine the funding level in each of TMWA's reserve accounts and financial accounts. Capital funding needs, financial stress, and critical areas of funding flexibility will all have a bearing on the appropriate balance in each reserve fund and similar accounts.

~~Resources for the Truckee Meadows Water Operations Fund include user charges and surcharges that are used for the operation and maintenance of the water system necessary to support system users. Resources for the Water Capital Projects Fund include the proceeds of bond issues and charges that are used for expansion and rehabilitation of the water system to support new users of the system or to fund major system improvements. (Initial funding was provided by an allocation of bond proceeds).~~

**PURPOSE:**

- A. To establish the financial mechanisms required to support the operation and administration of ~~the Funds~~ TMWA.
- B. To provide a financial framework for identifying ~~revenues and expenses~~ reserves required by debt provisions and other designated unrestricted reserves related to the operation of TMWA ~~the Funds~~.

**EXHIBIT A**

B.C. Establish a policy related to unrestricted cash and investments to maintain adequate and prudent cash reserves to mitigate the risks of significant and unexpected decreases in sources of funds and/or increases in uses of funds of TMWA.

**DEFINITIONS:**

A. The **Truckee Meadows Water Authority Board** is ~~a group of individuals comprised of seven members~~ representing the Cities of Reno and Sparks and Washoe County. The Board establishes policies regarding the operations, maintenance, and capital—\_improvements to the Truckee Meadows Water Authority Facilities as well as the contemplation of future debt requirements.

B. The **Truckee Meadows Water Authority Facilities** consist of water distribution infrastructure, storage reservoirs, wells, and ~~two~~—water treatment facilities which serve the residents of Reno, Sparks, and portions of unincorporated Washoe County. A General Manager hired by the TMWA Board serves as the Chief Administrative Officer of TMWA and generally is responsible for operation of the water system.

~~the TMWA Board operates the facility. The City of Reno contracts with the Water Authority to provide accounting, purchasing, accounts payable, investment and other financial services.~~

**TMWA RESPONSIBILITIESMANAGEMENT FINANCIAL RESPONSIBILITIES:**

- A. Oversee the operation and maintenance of the TMWA water system.
- B. ~~Cause to be prepared~~ Prepare the annual tentative and final budget as required by State law.
- C. Review the costs for operating and maintaining the water system at least annually and adjust ~~user rates, fees and other~~ charges, when necessary, to maintain proportionate distribution of costs by user and user class and to meet reserve requirements as established by this policy.
- D. Insure that the revenues collected from rates, fees and other ~~user~~ charges are used for purposes including, but not limited to, debt service requirements, and the operation, maintenance, and repair of the water system.
- E. Insure that all funds of TMWA are being reported in accordance with generally accepted accounting principles.
- F. Insure that all necessary revenue accounts are established and shall insure that all receipts are tracked in the appropriate category.
- G. Insure that all necessary expense accounts are established and shall insure that all expenditures are tracked in the appropriate category.

**RESTRICTEDFINANCIAL SPECIFICITYRESTRICTED AND DESIGNATED FUND  
BALANCE RESERVE POLICY::**

- A. ~~Fund reserves shall be established as follows~~So long as any of the Authority's Bonds are outstanding the flow of funds from the ~~revenue fund~~Enterprise Fund must be applied in the following order of priority; in the following order:
  - 1. Operations and Maintenance Expenses Account — Adequate reserves in an amount to fund one month's of operation and maintenance expenses. The reserves should be set aside ~~Bby~~ By the last day of each month ~~andthat is at least~~ and that is at least one month prior to such expenses being paid, ~~at a minimum, one month's worth of operational expense funding is to be set~~ reserved ~~set aside in this account.~~

2. Bond Fund Account ~~— Adequate reserves in amount to fund~~ ~~This account was funded out of bond proceeds. This account, held by the 2001A and 2001B Bond Trustee for the Senior Lien Debt includes the Interest Account, and the Principal Account. An and the Bond Reserve Account. At a minimum amount in substantially equal monthly installments - , amounts -~~ sufficient to pay the next accruing installment of the principal and interest on outstanding senior lien debt ~~for one year will be reserved in this fund.~~ The monies in the bond fund shall be used solely for the purpose of paying the bond requirements of the senior lien bonds and any additional outstanding parity senior lien securities. This account, held by the bond trustee for the senior lien debt, includes the interest account and the principal account.
3. Bond Reserve Account ~~— Adequate reserves in an amount established by the bond resolution or other instrument- in connection with any senior lien securities.~~
4. Rebate Account ~~— Adequate reserves in an amount that is required by Section 148(f) of the Internal Revenue Code, before the transfer of any net revenues to the payment of subordinate securities, such amounts required to meet the Authority's obligations in accordance with Section 148 (f) of the tax code with respect to the Authority's bonds shall be deposited into the Rebate Account. Amounts in the Rebate Account shall be used for the purpose of making payments to the United States required by such covenant and Section 148(f) of the tax code. Any amounts in the Rebate Account in excess of those required to be on deposit may be withdrawn and used for any lawful purpose.~~

~~Rebate Reserve Account - If amounts are required by Section 148 (f) of the Internal Revenue Code, before the transfer of any Net Revenues to the payment of subordinate securities, amounts required to meet the Authority's obligations under Section 148 (f) of the Tax Code with respect to the 2001A TMWA Bonds shall be deposited into the Rebate Reserve Account. Amounts in the Rebate Reserve Account shall be used for the purpose of making payments to the United States required by such covenant and Section 148 (f) of the Tax Code. Any amounts in the Rebate Reserve Account in excess of those required to be on deposit may be withdrawn and used for any lawful purpose.~~

5. Subordinate Securities Bond Fund/Reserve Account - This Adequate reserve is an amount to be used for the payment of bBond RrequirementsBond Requirements of subordinate debt, including any reasonable reserves or related rebate requirements.
6. Operation & Maintenance Reserve Account - This Adequate reserve was funded out of bond proceeds. It is to contain in an amount equal to 1/6th6 of the fiscal year's operation and maintenance budget. If the operation and maintenance budget for a fiscal year is greater than the prior fiscal year (as is likely), additional monthly deposits are required to be made into this reserve to bring it up to the required level in 12 months.
7. Renewal and Replacement Reserve Account - This Adequate reserves reserve is to be funded on a monthly basis in the sum amount of \$166,000 per month, up to a maximum of is to be funded at until the reserve reaches an initialat \$10,000,000. The maximum reserve can be adjusted by the TMWA Board based upon recommendation by the General Manager based on an analysis by the TMWA engineering staff, but at no event at an amountthe reserve cannot be set at a level less than below \$2,000,000.
8. Rate Stabilization Account - At a minimum, this Adequate reservesreserve will be funded at in the amount of not less thanwith monthly payments until it reachesat \$500,000. Theor aThe greater amount subsequently determined by the TMWA Board has designated an additional \$1,300,000 in unrestricted reserves to the Rate Stabilization account and has approved a maximum of \$7,500,000.
- 4.9. General Purpose Account - This account will be funded in the event that revenues remain at the end of each fiscal year. This reserve is to be used for capital costs, major maintenance costs, lawful refunds, bond requirements, lawsuit obligations or any lawful purpose.

#### UNRESTRICTED CASH AND INVESTMENTS RESERVES POLICY:

- A. After all required restricted and designated reserve balances are

funded, remaining cash and investments should be held in unrestricted accounts to fund the following reserves listed by in the following order of priority:

1. Base Operating Reserve - Adequate reserves to fund 2/6<sup>th</sup> of operating and maintenance expenses. With the required reserve of 1/6 above, this will bring total reserves to half a year of operating expenses, insulating TMWA and its customers from volatility in operating revenues and expenses, as well as from other 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, TMWA should strive to achieve this level of reserves to maintain or improve credit ratings.
  3. Capital Related Reserve – Adequate reserves to fund a one-year average of mandatory future capital requirements. As a method to determine future capital needs, the capital improvements plan may be used. This will enable TMWA 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 TMWA to continue with uninterrupted critical capital improvements during times of difficulty.
  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.
- B. Should this enterprise fund experience deficiencies in the balance, of restricted designated or unrestricted cash and investment reserves or retained earnings, the deficiency will be corrected by increasing rates, fees and other charges.
- C. This fund is governed by Nevada Revised Statutes (NRS) Chapters 350, 351, 354, and 355; and Nevada Administrative Code (NAC) Chapters 350 and 354.