

Popular Annual Financial Report 2023





This Popular Annual Financial Report is based on accounting standards and audited information that is fully represented in TMWA's Annual Comprehensive Financial Report, which can be found at tmwa.com/financial-information.



TO OUR CUSTOMERS

Water delivery is a 24/7 business. Supported by a massive system of pipes, tanks, filters, pumps, wells, and pressure regulating stations, Truckee Meadows Water Authority's (TMWA's) infrastructure undergoes consistent analysis to optimize what exists, replace what's needed, or incorporate new solutions.

This report offers a glimpse into the financial underpinning of this complex operation for fiscal year 2023. It is a summary of the more detailed Annual Comprehensive Financial Report (ACFR) that is required of TMWA as a governmental entity. The ACFR is reviewed by an external auditing firm and submitted to the State of Nevada every year. It is also posted online for customers to view.

Like many of our customers, TMWA experienced the impact of inflation in 2023 — particularly with the cost of electricity and water treatment chemicals. These external factors contributed to expenses exceeding revenues for the past fiscal year. When all other workforce and operational efficiencies are high (see page 16), rates must be adjusted to address rising costs.

Yet strategies are in play to offset this impact on customers. For example, to address future unknowns that might impact water rates, TMWA's Board of Directors created the Rate Stabilization Fund in 2018 (see page 9) to help mitigate rate increases.

Additionally, TMWA is further developing its hydroelectric capacity with the Orr Ditch Hydroelectric Plant, using existing flumes and assets to turn water into electricity at the Chalk Bluff Water Treatment Plant. This plant will offset the cost of powering TMWA's primary water production facility. Read more about this and other active projects on page 8.

Each year TMWA's Finance Department looks forward to sharing the information contained in this report. By managing our revenues and expenses responsibly, we are honored to play a role in providing high quality water to you and your family.

Thank you for your interest in this report. If you have any questions about the contents, feel free to reach out to community@tmwa.com.

Sincerely,



Matt Bowman
Chief Financial Officer
Truckee Meadows Water Authority

TRUCKEE MEADOWS WATER AUTHORITY'S BOARD OF DIRECTORS: MULTI-JURISDICTIONAL GOVERNING BOARD

TMWA is a nonprofit, community-owned water utility. Its Board of Directors is comprised of seven elected officials and citizen appointees from Reno, Sparks, and Washoe County. TMWA has no financial interdependence with any of its governing municipalities.

While representing each jurisdiction, board members collectively make policy decisions and issue directives with a regional perspective. This leadership body oversees TMWA's ongoing mission to provide exceptional, high-quality drinking water to residents throughout the Truckee Meadows.



KRISTOPHER DAHIR
Chair
City of Sparks
Council Member



NAOMI DUERR
Vice Chair
City of Reno
Council Member



PAUL ANDERSON
Director
City of Sparks
Council Member



CLARA ANDRIOLA
Director
Washoe County
Commissioner



JENNY BREKHUIS
Director
City of Reno
Council Member



ALEXIS HILL
Director
Washoe County
Commissioner



DEVON REESE
Director
City of Reno
Council Member

SENIOR MANAGEMENT

JOHN ZIMMERMAN
General Manager

MATT BOWMAN
Chief Financial Officer

ANDY GEBHARDT
Director of Distribution,
Maintenance, and Generation

JOHN ENLOE
Director of Natural Resources
Planning and Management

WILL RAYMOND
Director of Operations
and Water Quality

DANNY ROTTER
Director of Engineering

JESSICA ATKINSON
Director of Human Resources

YOUR WATER AUTHORITY

TMWA provides drinking water to over 440,000 residents in Reno, Sparks, and Washoe County. It is a service area covering 171 square miles. The primary source of water is the Truckee River, which flows from Lake Tahoe and other tributaries upstream of the Truckee Meadows.

WATER DELIVERY

4

Number of water
treatment facilities

242

Million Gallons per Day (MGD)
Maximum drinking water
production capacity

100%

Safe Drinking Water
Act compliance

WHO WE SERVE

138,412

Customer accounts

440,000+

Residents

171 sq.mi.

Service area

ASSETS

\$832M

Capital asset investment
since 2001

2,817

Miles of pressurized
mainline

\$1.083B

Total capital assets

FY 2023 PERFORMANCE

\$113M

Operating revenue

\$114M

Operating expenses

\$12M

Interest expense

FINANCIAL RATINGS

Aa2

Moody's

AA+

S&P

AAA

Fitch



Chalk Bluff Water Treatment Plant

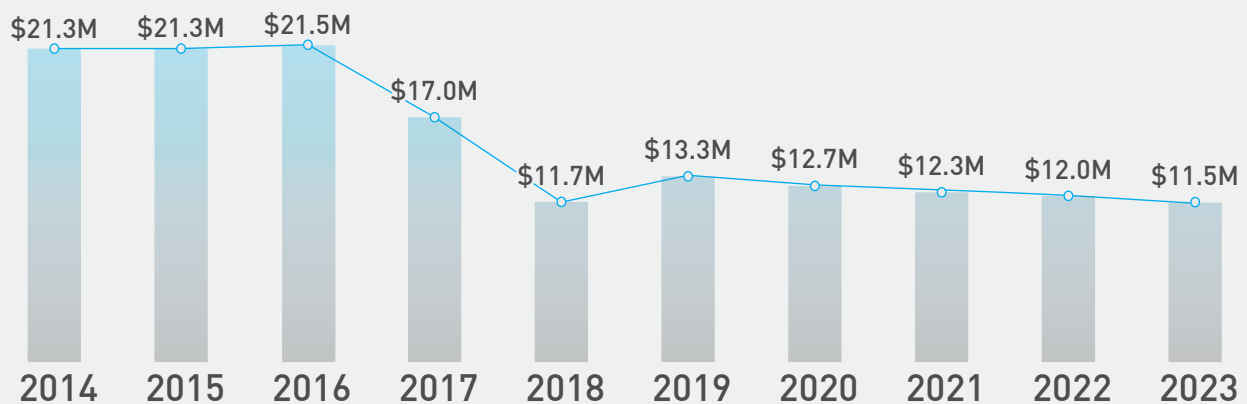
MEETING OUR OBLIGATIONS

By issuing bonds to purchase Sierra Pacific Power Company's water business in 2001, TMWA became responsible for a debt repayment of \$452 million. This important investment secured permanent local control of our water resources. Since its founding, TMWA's strategic management of its financial obligations is one of the primary reasons why Moody's, S&P, and Fitch have upgraded TMWA's ratings over the years.

This disciplined approach has clearly been successful. As of June 30, 2023, TMWA's total outstanding debt was \$351 million. Over the past decade, TMWA has reduced interest expense by 47% and has paid down \$156 million of its principal debt.

This pay-down strategy has been accomplished by refunding older bonds and issuing newer ones with a lower interest rate, when favorable market conditions exist. Proactive approaches like this have helped strengthen TMWA's financial ratings, while also paying off debt faster.

TMWA'S REDUCED INTEREST EXPENSE OVER THE PAST 10 YEARS

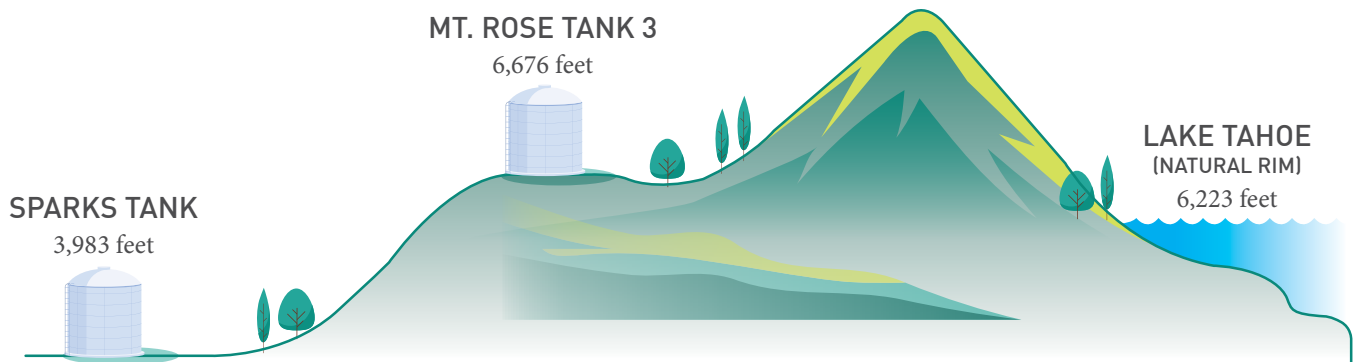


DELIVERING WATER TO YOU: AN INFRASTRUCTURE PERSPECTIVE

TMWA delivers high-quality drinking water across a complex topography. From the Mt. Rose foothills to the North Valleys, and from Verdi to east of Sparks, the elevation differences are stark. For example, the Mt. Rose 3 tank sits at an altitude of 6,676 feet: This is higher than Lake Tahoe's natural rim by 453 feet, while our lowest elevation point in Sparks is at 3,983 feet. That's a 2,693-foot difference.

Delivering water across this type of service area requires managing nearly 280 separate pressure zones. Pressure zones are areas within TMWA's distribution system where the pressure is allowed to vary only within certain limits, generally dictated by the elevation of the water tank serving that area. Continuous water service across these zones requires numerous pressure regulator stations (380), booster pump stations (118), water tanks (95), wells (86), and treatment plants (4) to meet peak customer water demand and fire-flow requirements.

All of these regulator stations, pumps, tanks, wells, and treatment plants require continuous preventative maintenance to ensure delivery of water to TMWA customers. Even with the most diligent approach to maintenance, these assets inevitably require restoration. Rehabilitative capital expenses accounted for 25% of the spending allocations in fiscal year 2023.



TMWA'S ASSIGNED-DAY WATERING: VALUE BEYOND CONSERVATION

Assigned-day watering has been a successful outdoor irrigation program since the mid-1980s. It provides guidance for sprinkler use for customers and also benefits TMWA's infrastructure as a load management program.

If everyone were to water their landscapes at the same time, TMWA's service lines would have to be replaced with larger pipes. Additionally, the spike in power needed to run a broader array of pumps, boosters, and treatment facilities would be incredibly expensive.

TMWA also schedules its energy-intensive activities on Mondays during off-peak hours, which is when customers are asked to turn off sprinklers. This helps manage TMWA's electricity rates, which factors into keeping operational costs as low as possible.

ASSIGNED-DAY WATERING

<p>ODD ADDRESSES:</p> <ul style="list-style-type: none"> ✓ WEDNESDAYS ✓ FRIDAYS ✓ SUNDAYS 	<p>EVEN ADDRESSES:</p> <ul style="list-style-type: none"> ✓ TUESDAYS ✓ THURSDAYS ✓ SATURDAYS
---	--

NO WATERING ON MONDAYS. DO NOT WATER BETWEEN NOON AND 6 P.M.

MAINTAINING RELIABILITY AND BOOSTING RESILIENCY

ORR DITCH HYDROELECTRIC PLANT AT CHALK BLUFF

Currently under construction, the Orr Ditch Hydroelectric Plant will generate renewable hydropower at the Chalk Bluff Water Treatment Plant (CBWTP). When complete, this hydroelectric asset will both reduce annual energy costs and serve as a clean renewable energy source for the plant.

The project does not require any new in-river structures; instead, it leverages the unused canal capacity between the CBWTP intake flume and the Orr Ditch. This gravity-driven flow will provide electricity to two generators and offset CBWTP's annual power costs by about 42%.

With an estimated cost of \$7.5 million, the project is not being funded by water sales revenue. Costs are instead being covered through an insurance settlement from the irreparable damage of Farad Hydroelectric Plant during the 1997 Truckee River flood. (The Farad plant has since been decommissioned and sold.)



7TH STREET BOOSTER PUMP STATION

A major retrofit is underway in northwest Reno along 7th Street. With completion expected toward the end of 2024, this \$7.8 million project replaces two 1950s below-ground pump stations and one above-ground unit.

The above-ground pump station will be converted into a pressure-regulating station, allowing for a better connection to nearby pressure zones. During construction, three water mains from the 1940s will be replaced with two new mains.

Short-term benefits include increased water distribution reliability.

Long-term benefits include increased distribution efficiency, reduced operational costs, and reduced maintenance requirements that would otherwise be required for these mid-century facilities.

ADVANCED METER INFRASTRUCTURE

Over half of TMWA's customers are equipped with advanced meter infrastructure (AMI) technology. Unlike old meters, AMI technology offers a more direct and accurate way to read meters. With over 138,000 customer connections to read each month, substantial operational savings will be gained by eliminating the need to manually record every meter.

The meters will also provide added insight for customers into their water usage. For example, with AMI technology hourly water usage data is available to customers on TMWA's online customer portal, usually within a 24-hour window. When fully implemented, all of TMWA's customers will be able to sign up for leak or high-usage alerts to find issues before they become problems. This meter upgrade is expected not only to reduce unexpected bill charges but also to save water.



WHERE TMWA STANDS

TMWA stands tall within the hierarchy of credit ratings categories. The table below illustrates TMWA's financial position, according to the top three rating agencies in the United States.

Bond Rating			Rating Category
FITCH	MOODY'S	S&P	
✓ AAA	Aaa	AAA	✓ PRIME
AA+	Aa1	✓ AA+	✓ HIGH GRADE
AA	✓ Aa2	AA	
AA-	Aa3	AA-	
A+	A1	A+	UPPER MEDIUM GRADE
A	A2	A	
A-	A3	B	
B +/-	Baa 1 2 3	BBB +/-	LOWER MEDIUM GRADE

Bond ratings are expressed as letters ranging from "AAA" or "Aaa" which is the highest grade, to "D" ("junk"), which is the lowest grade. Different rating services use the same letter grades with various combinations of uppercase and lowercase letters to differentiate themselves.

FACTORS THAT LED TO TMWA'S AAA BOND DESIGNATION FROM FITCH RATINGS INCLUDE:

Very Low Operating Cost Burden and Manageable Capital Needs

With a "very low and quite stable"¹ operational cost burden, TMWA's projected infrastructure investments are expected to outpace the depreciation of existing assets. This helps ensure planned improvements to appropriately maintain TMWA's water system infrastructure (refer to page 8).

Affordable Rates and Strong Local Economy

TMWA is able to make rates affordable for the vast majority of customers. Additionally, the economy within the Truckee Meadows is stable, as evidenced by steady growth, diversification, and low unemployment over the last decade.

Financial Performance with Reductions in Debt

TMWA's financial profile is considered "exceptionally strong"¹ with performance that has historically exceeded market expectations. Reductions in TMWA's outstanding debt have ensured financial flexibility and strong liquidity (see page 6).

¹Source: [Fitch Upgrades Truckee Meadows Water Authority to "AAA"](#)



STRENGTHENING RATE FLEXIBILITY THROUGH TMWA'S RATE STABILIZATION FUND

While the bond market has assessed water rates as affordable, in fall of 2018 TMWA's Board of Directors took additional action to help offset rate increases for customers by creating a Rate Stabilization Fund. Used at the discretion of the board, the fund is managed much like a rainy-day account. Approved uses of the fund includes offsetting operating costs, capital improvements, and other necessary expenses related to serving customers.

DIVERSIFYING THE SUPPLY IN THE DESERT

Over the past several decades, water treatment science and technology has mastered the ability to purify wastewater. With processes proven to meet clean and safe drinking water standards, this has ushered in a new wave of water resource management opportunities.

Until recently, treating wastewater to drinking water quality standards has largely relied on energy-intensive reverse osmosis technology. Mostly used in coastal regions, this approach is expensive and creates a by-product that has traditionally been released into the ocean.

TMWA, in partnership with multiple local organizations and municipalities, has been piloting a new inland-friendly treatment process for several years. This innovative approach not only meets all Environmental Protection Agency (EPA) and State of Nevada drinking water standards, but also effectively removes emerging contaminants not yet regulated, such as pharmaceuticals and PFAS chemicals, (commonly found in waterproof clothing, Teflon cookware, and as linings for food packaging).

It is a water treatment breakthrough that creates a unique opportunity to develop another dependable water resource for our region: A+ Advanced Purified Water.

Funding to develop this new resource has been formalized through an interlocal agreement between TMWA and the City of Reno. The agreement establishes a 70/30 cost split to build the Advanced Purified Water Facility (APWF) at American Flat, north of Stead. In this arrangement, the City of Reno will reimburse TMWA 70% of the costs to build the facility, which is currently projected to be a \$221 million investment.

Source water for the APWF will come from Reno Stead Water Reclamation Facility (RSWRF). Following extensive treatment at RSWRF, the water will undergo further advanced treatment processes to meet EPA and Nevada drinking water standards. With rigorous monitoring and testing, water produced at the APWF will be recharged and stored in the American Flat aquifer. Initially the water will be used for irrigation at the American Flat Farm, but eventually it will be used to serve homes and business with a drought-proof supply of extremely high quality water.

This project furthers regional efforts of [OneWater Nevada](#), which is dedicated to extending the resiliency and sustainability of local water resources for future generations.

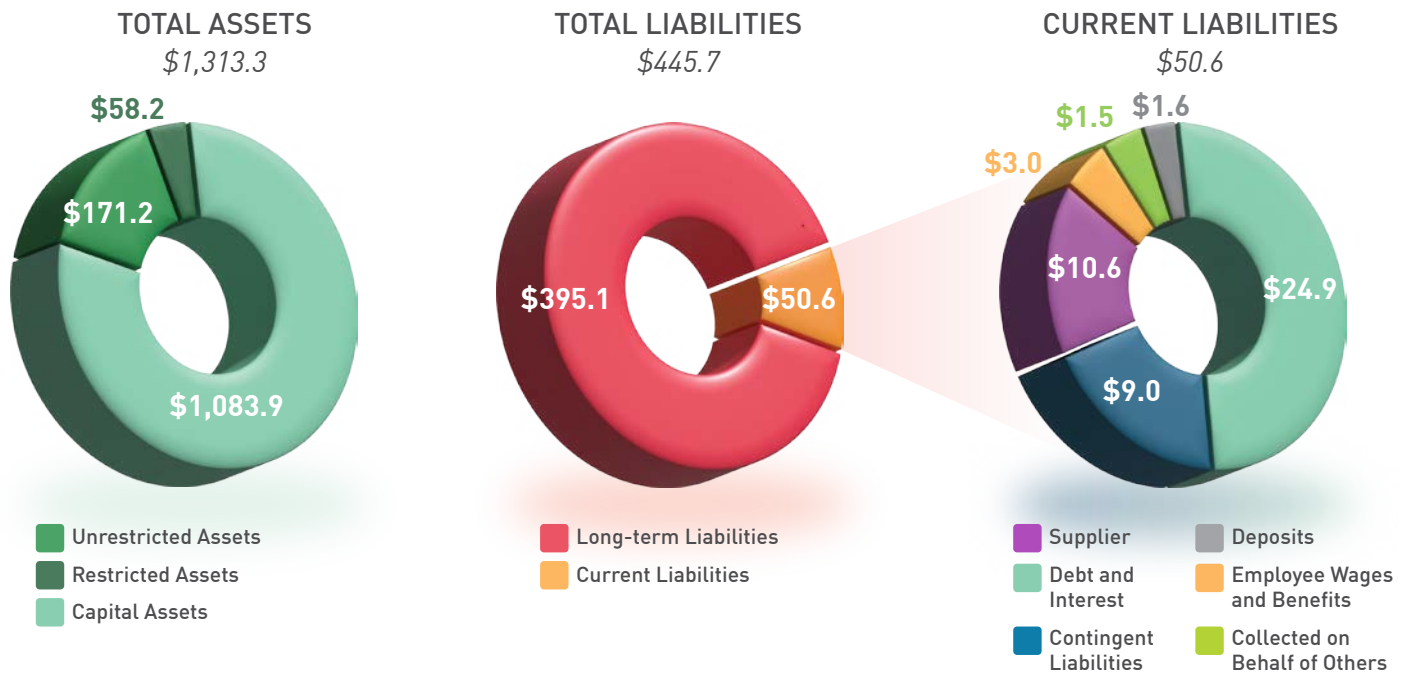


Drilling at American Flat

THE BIG PICTURE ON TMWA'S FINANCIAL POSITION

Net Position (formally, the Statement of Net Position) provides a point-in-time "snapshot" of the financial status for governmental organizations. Much like a balance sheet, Net Position provides insight into what government agencies own (assets) and what they owe (liabilities) at the end of each fiscal year. The charts below show TMWA's assets and liabilities as of June 30, 2023.

AT-A-GLANCE *(in millions)*



STATEMENT OF NET POSITION *(in millions)*

	2023	2022	2021	2020
Unrestricted Current Assets	\$170.1	\$189.4	\$192.8	\$168.7
Restricted Current Assets	28.7	33.3	31.1	27.7
Long-Term Restricted and Other Assets	27.5	26.1	27.3	29.8
Net Other Post Employment Benefits Asset	3.1	6.0	3.4	2.3
Capital Assets, net	1,083.9	1,052.0	1,027.0	1,007.7
Total Assets	1,313.3	1,300.8	1,276.9	1,236.2
Deferred Outflow of Resources	25.5	22.4	12.8	14.9
Total Assets and Deferred Outflow of Resources	1,338.8	1,323.3	1,289.2	1,251.1
Total Current Liabilities	50.6	46.8	47.2	47.9
Long Term Debt Outstanding	333.9	355.4	376.3	383.3
Net Pension and Other Noncurrent Liabilities	61.2	28.6	42.2	43.5
Total Liabilities	445.7	433.9	469.2	474.7
Deferred Inflow of Resources	2.6	29.1	6.4	6.7
Total Liabilities and Deferred Inflow of Resources	448.3	463.0	475.6	481.4
Net Investment in Capital Assets	749.2	693.0	649.1	617.5
Restricted	50.4	52.4	50.7	50.0
Unrestricted	90.9	114.8	114.4	102.2
Total Net Position	\$890.5	\$860.3	\$814.2	\$769.7

CHANGE IN NET POSITION

Change in Net Position (formally, the Statement of Revenues, Expenses and Changes in Net Position) is a financial statement focusing on a particular time period. This statement (as shown below) covers TMWA's fiscal year from July 1 to June 30. Much like an income statement, it describes four key items: revenue, expenses, nonoperating items, and contributions.

CHANGE IN NET POSITION *(in millions)*

	2023	2022	2021	2020
Operating Revenues	\$113.1	\$114.6	\$115.4	\$108.1
Operating Expenses	114.4	98.6	98.2	94.1
Operating Income (Loss)	(1.3)	16.0	17.2	14.0
Nonoperating Revenues (Expenses), Net	(10.8)	(21.5)	(14.1)	(6.6)
Income (Loss) before Capital Contributions	(12.1)	(5.5)	3.1	7.4
Capital Contributions, Net	42.3	51.6	41.4	44.2
Change in Net Position	30.2	46.1	44.4	51.6
Net Position — Beginning of Year	860.3	814.2	769.7	718.1
Net Position — End of Year	\$890.5	\$860.3	\$814.2	\$769.7

See full financial statements in TMWA's Annual Comprehensive Financial Report at tmwa.com/financial-information.

EXPLANATION OF TERMS

UNRESTRICTED ASSETS: Assets such as cash, accounts receivable, deposits, and prepaid expenses that can be used and managed with flexibility.

RESTRICTED ASSETS: Assets that must be used for specific purposes, primarily the repayment of debt.

CAPITAL ASSETS: Fixed physical assets, such as water mains, treatment plants, pump and pressure regulating stations, water tanks, vehicles, etc.

DEFERRED FLOW OF RESOURCES: Accounting for revenue or expenses that will occur in the future.

TOTAL NET POSITION: Balance of a governmental organization's assets against its liabilities.

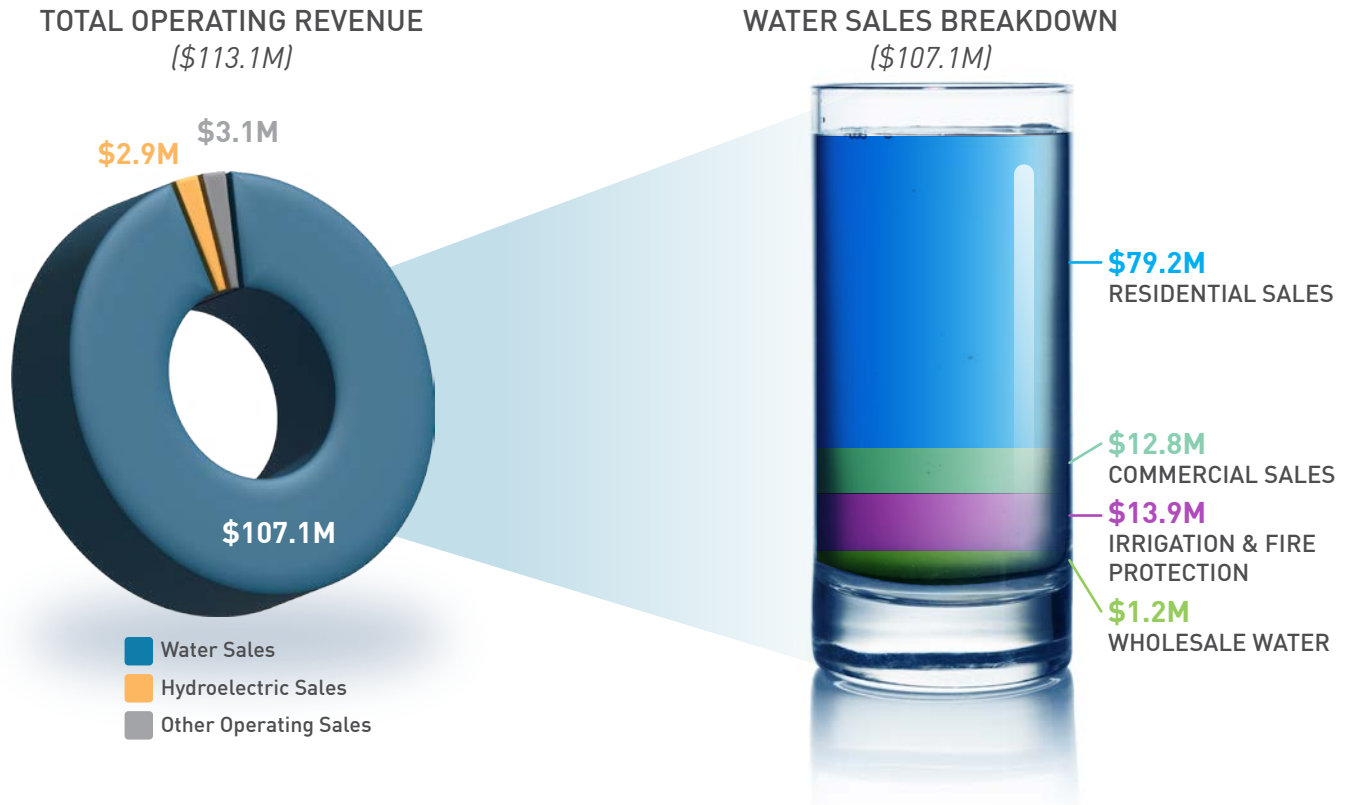
OPERATING REVENUES: Money generated from water, hydroelectric, and other operating sales. From this amount, operating expenses are subtracted to determine operating income or loss.

OPERATING EXPENSES: Costs that are directly associated with day-to-day operation, such as wages, benefits, and services or supplies.

NONOPERATING REVENUE OR EXPENSES: Income or costs that are not directly attributable to core business operations (i.e., interest expense and investment income).

CAPITAL CONTRIBUTIONS: Grant proceeds or funds that are invested into TMWA's infrastructure.

INCOMING: WATER SALES PROVIDE 95% OF TMWA'S OPERATING REVENUE



GROWTH PAYING FOR GROWTH

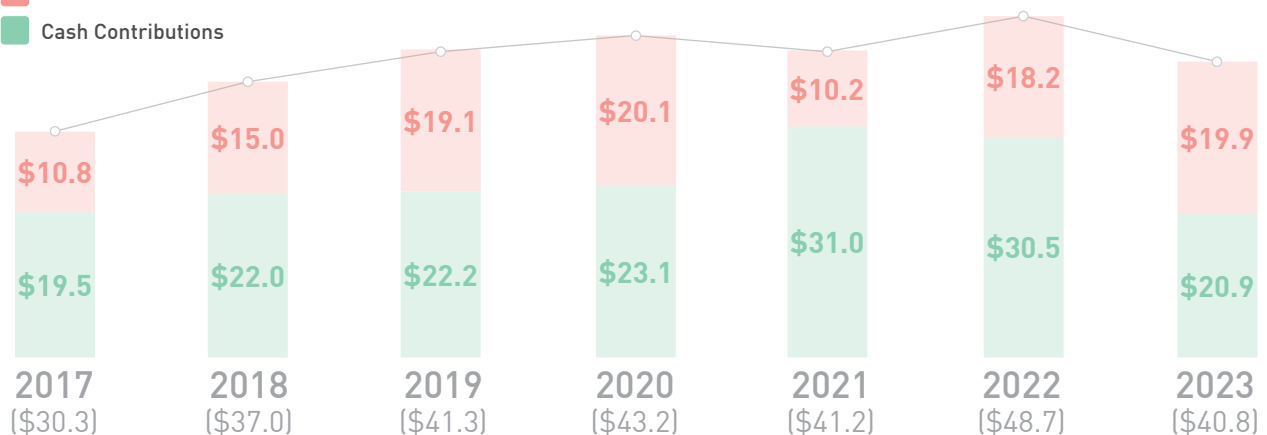
Neither TMWA nor its customers underwrite or pay for new infrastructure needed for residential or commercial development. To protect ratepayers from the short and long-term costs of service-area expansion, fees and infrastructure contributions from developers are required. Over the past seven years, total developer contributions for new growth have exceeded \$282 million.

New development projects are approved by the county and cities. Water rights must be dedicated to TMWA before building can begin for any new project. For every gallon of surface water needed to serve new development, an additional 11% of water rights are required and must be dedicated to TMWA for drought storage.

DEVELOPERS FUND GROWTH (in millions)

- Infrastructure Funded
- Cash Contributions

Total over seven years: \$282.5



OUTGOING: HOW TMWA SPENDS BY THE DOLLAR

TMWA'S SPENDING ALLOCATIONS, REPRESENTED AS CENTS ON THE DOLLAR



EXPLANATION OF EXPENSES

SALARIES, WAGES & EMPLOYEE BENEFITS

Compensation paid to our workforce in performing TMWA's day-to-day operations.

SERVICES & SUPPLIES

Non-payroll related expenses of day-to-day operations, (e.g., treatment supplies, infrastructure maintenance, distribution, customer service).

PRINCIPAL & INTEREST ON CUSTOMER RELATED DEBT

Principal and interest payments on all loans outstanding except those associated with service territory expansion.

REHABILITATIVE CAPITAL SPENDING

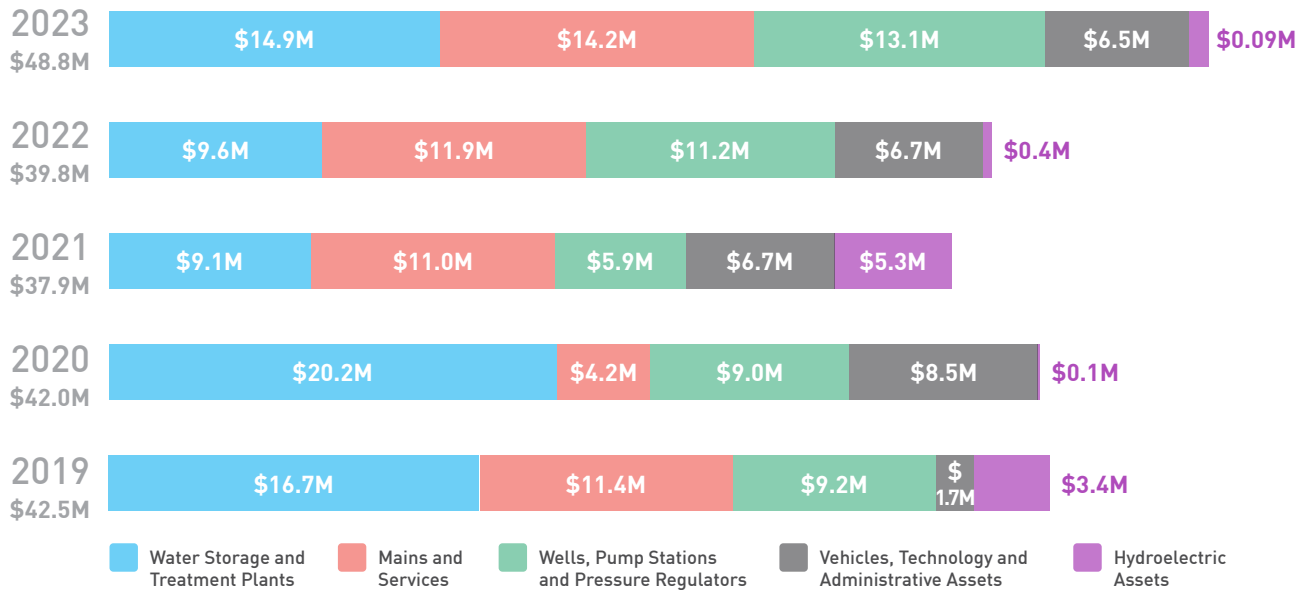
The cost of replacing and maintaining existing capital assets, (e.g., water treatment plants, infrastructure replacements, storage tanks).

KEEPING WATER FLOWING

Day or night, when customers turn on their taps, they expect the water to flow. This means 24/7 operations for TMWA. With a system that operates constantly, there is almost always something within our extensive infrastructure that requires maintenance, rehabilitation, or replacement.

As demonstrated below, maintenance needs and planned project expenses can shift each year. An overview of projected capital expenditures for the next five years can be found in TMWA's [Water Facilities Plan](#), which is updated every five years.

CAPITAL SPENDING BY CATEGORY



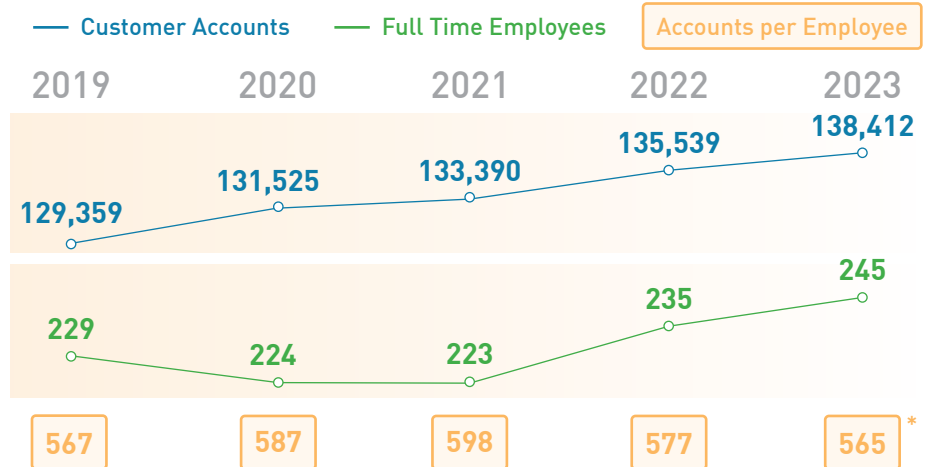
Chalk Bluff Water Treatment Plant

MEETING NATIONAL BENCHMARKS

Each year, TMWA reviews its operational performance against benchmarks defined by the American Water Works Association (AWWA), which has a membership of over 4,300 representing 80% of the water utility companies in the US. TMWA sets its performance goal targets to meet or exceed AWWA's top quartile benchmarks.

WORKFORCE EFFICIENCY

Workforce efficiency is measured by the ratio of customer accounts to employees. Workforce challenges associated with the COVID-19 pandemic can be seen in the reduction of TMWA's workforce in 2020 and 2021 due to retirements and delays in hiring; 2022 and 2023 represent a correction.



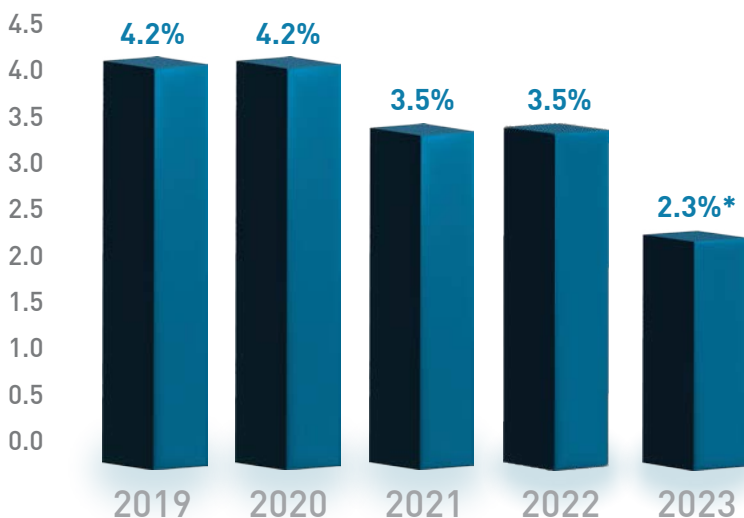
*2023 AWWA Top Quartile Benchmark for Workforce Efficiency Is 547

FINANCIAL EFFECTIVENESS

Financial effectiveness is measured by the change in net position divided by total assets. This demonstrates an organization's ability to use its assets to generate income.

In 2023, TMWA's financial effectiveness was impacted by two factors: lower revenue and higher operating expenses. Revenue was lower year-over-year due to reduced customer water use following a cool, wet spring. Operating expenses were higher due to inflation on goods and services.

Although TMWA's financial effectiveness remained a positive percentage, it did not rank within AWWA's top quartile.



*2023 AWWA TOP QUARTILE BENCHMARK IS 3.7%



INTEGRATING IT ALL

This document is a high-level overview of **TMWA's Annual Comprehensive Financial Report**, which offers a detailed review of multiple financial statements and the policies that guide TMWA's approach to managing funds.

This annual financial report gives insight into the fiscal health of TMWA's operations year after year. Beyond annual financial reporting, TMWA has an integrated planning approach across three areas of focus: Funding, Facilities, and Water Resources.

TMWA's Funding Plan projects into the next five years, whereas the Facility and Water Resource Plans look 20+ years into the future. Although these are three distinct planning efforts, the implementation of the plans is integrated.

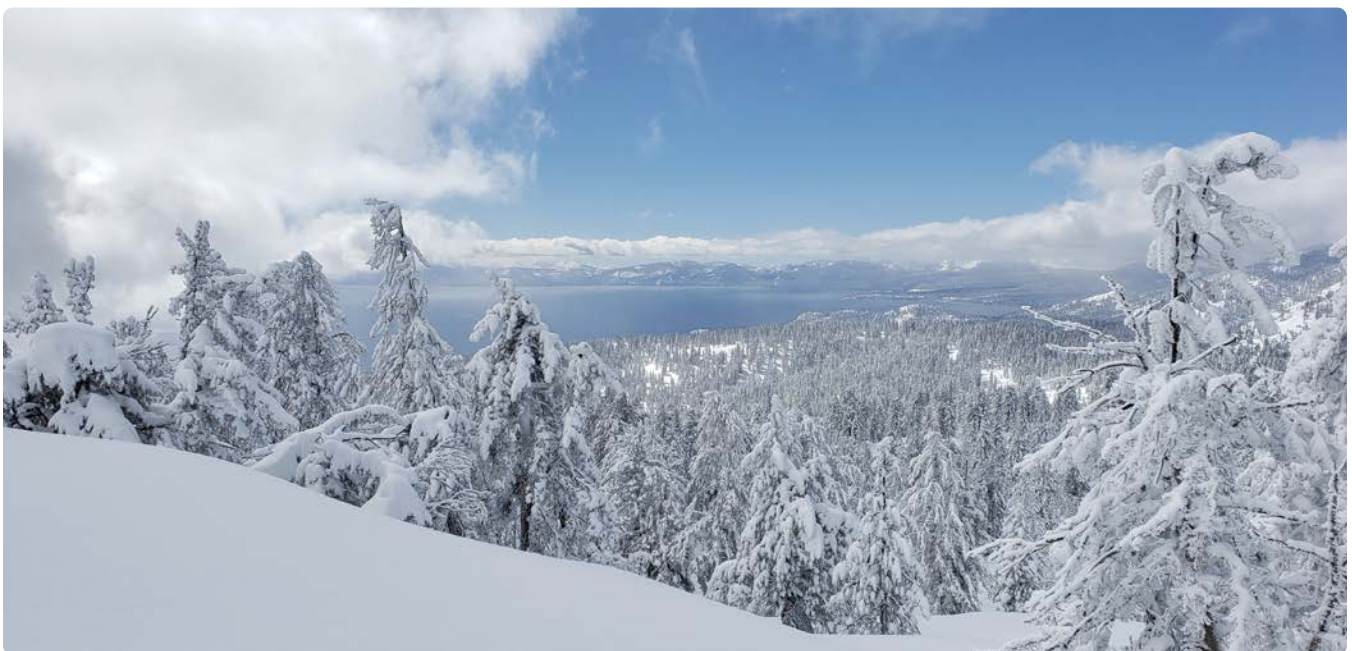
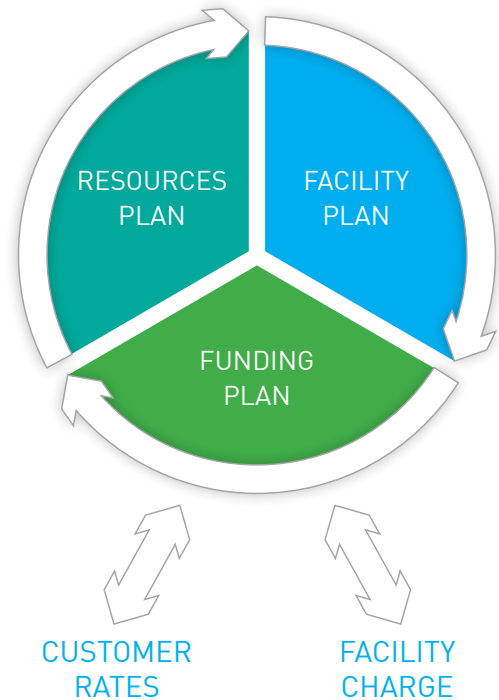
For example:

The **Water Resource Plan** estimates water supply and demand, giving insight into the facility capacity that will be needed for TMWA's future infrastructure.

The **Facility Plan** identifies the condition of TMWA's existing capital assets and project expansions needed to meet future growth, as identified in the Water Resource Plan. Facility charges are calculated based on the Facility Plan and are what builders and developers pay to connect new construction to the water system. This protects customer rates from the cost of new developments, ensuring growth pays for growth.

The **Funding Plan** is a five-year operations plan that also incorporates the Five-Year Capital Improvement Plan. It is a thorough analysis of all revenues and expenses and of any capital improvements and infrastructure needed. This plan also provides an assessment of overall spending and identification of funding options.

This integrated planning approach is how TMWA can ensure the delivery of high-quality drinking water while keeping customer rates as low as possible for years to come. To see all of TMWA's most recent plans, go to tmwa.com/planning.



Winter in the Lake Tahoe Basin