

Revenue
New Issue

Truckee Meadows Water Authority, Nevada

Ratings

New Issue

Water Revenue Refunding Bonds,
Series 2007 A

Outstanding Debt

Water Revenue Refunding Bonds,
Series 2006 A

Water Revenue Bonds,
Series 2005A A

Water Revenue Bonds,
Series 2001A A

Rating Outlook Stable

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New Issue Details

Approximately \$218,490,000 Water Revenue Refunding Bonds, Series 2007, are expected to sell competitively on or about Jan. 17, with Hobbs, Ong & Associates and Public Financial Management acting as financial advisers.

Purpose: Bond proceeds will be used to advance refund about \$212.3 million in certain maturities of the authority's outstanding 2001 bonds.

Outlook

The rating is based on the Truckee Meadows Water Authority's good financial performance since its inception in May 2001, strong management practices as evidenced by healthy operational reserves, and long-term capital planning. The rating also reflects the high per capita debt levels resulting from the purchase of the system assets from a private company, potentially sizable capital needs due to the continuing development in the area, and ongoing disputes regarding certain Truckee River water rights. Bond proceeds will advance refund up to \$212.3 million of the authority's outstanding \$293.0 million series 2001A revenue bonds.

Ratings Considerations

The authority is a joint-powers authority formed in 2000 among the cities of Reno and Sparks and Washoe County. The authority purchased the water assets of private Sierra Pacific Power Company (SPPCo) and undertook water utility operations beginning June 2001, primarily in the Reno and Sparks areas. The service area is a rapidly growing residential region and the same area previously served by SPPCo. The vast majority of the authority's customer base is retail residential but also includes some resale and wholesale customers located within Washoe County.

The authority benefits from a secure supply source and a service area with stable economic underpinnings. Retail service is provided to more than 88,000 accounts, representing a residential population of over 295,000. About 70% of total water revenue is residential, lending stability to the revenue base. Customer concentration is limited, with the top 10 largest customers (mostly government agencies) accounting for just under 10% of total revenue from water sale. Most of the source supply is surface water, with groundwater providing close to 9% of supply in fiscal 2006.

The authority maintains prudent capital planning, integrating water resources planning with long-term facility maintenance and expansion planning. Almost 75% of the authority's \$757 million 10-year capital improvement program is focused on expansion needs, including acquisition of water rights. As such, the need for these improvements as well as funding for it will be provided by developers. The remaining capital needs, mostly improvements to existing facilities, will be largely funded through customer rates and operational reserves as well as about \$40 million in revenue bonds projected to be issued in fiscal 2010.

Financial liquidity has been and remains good. Debt service coverage by pledged revenues was 2.0 times (x) in fiscal 2006 and is conservatively projected to remain at about 1.4x through fiscal 2011, net of developer fees. Projections include regular rate increases of approximately

January 16, 2007

2%–3%. Liquidity is above comparable credits and should remain strong due to good reserve policies and pay-as-you-go practices. Unrestricted cash and investments levels have been at least 550 days since fiscal 2001.

Two matters involving the authority's water sources present some uncertainty. First, a negotiated settlement among the authority, federal and state entities, and the Pyramid Lake Paiute Indian Tribe continues to proceed toward adoption, although the process has been slow. Also a lawsuit filed in 2006 challenges the authority's current practice of using its Donner Lake water primarily for storage. While the authority believes its usage is legal, an adverse ruling could affect the authority's flexibility and future storage needs. Fitch will continue to monitor these concerns.

■ **Strengths**

- Provides an essential service.
- Growing service area with stable economic fundamentals.

- Experienced management team with good financial policies
- Sound legal structure with strong operating, rate stabilization, and capital reserves.

■ **Risks**

- Above-average debt levels due to acquisition of system.
- Ongoing litigation about Truckee River/Donner Lake resources.
- Above-average rates relative to income and peers with further increases forecast.

■ **Legal Provisions**

These bonds are secured by a first lien on the authority's net revenues. The authority is required to set rates and collect charges for each year such that net revenues equal the greater of 125% of aggregate debt service or any amounts payable from gross revenues and pertaining to the water system, including subordinate debts and operational reserves. Proceeds from this issuance will be used to fund a debt service reserve fund in an amount equal to at

Financial Summary

(\$000, Fiscal Years Ended June 30)

	Audited						Budget	Projected		
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Balance Sheet										
Cash and Investments	58,864	48,671	44,698	50,810	56,807	79,179	—	—	—	—
Accounts Receivable	3,459	6,347	8,733	10,492	10,609	10,790	—	—	—	—
Other Current Assets	44,046	60,349	63,953	25,483	29,046	28,310	—	—	—	—
Current Liabilities	(9,613)	(19,336)	(18,943)	(23,006)	(30,345)	(13,842)	—	—	—	—
Net Working Capital	96,757	96,030	98,440	63,779	66,117	104,437	—	—	—	—
Net Fixed Assets	—	357,769	374,062	402,077	445,193	522,051	—	—	—	—
Net Long-Term Debt Outstanding	447,608	447,754	447,899	448,045	443,381	479,417	—	—	—	—
Operating Statement										
Operating Revenues	3,931	60,438	62,247	73,908	73,223	76,085	77,016	79,735	82,766	84,702
Non-Operating Revenues	131	4,573	4,598	3,939	3,493	6,149	7,022	4,137	4,113	4,298
Gross Revenues	4,062	65,011	66,845	77,847	76,717	82,234	84,038	83,872	86,879	89,000
Operating Expenses (Excl. Depreciation)	(3,555)	(26,365)	(29,663)	(31,118)	(33,152)	(35,322)	(37,048)	(38,473)	(39,761)	(41,273)
Depreciation	(627)	(11,354)	(12,364)	(13,606)	(15,283)	(16,933)	(17,856)	—	—	—
Operating Income	(120)	27,292	24,818	33,123	28,282	29,980	29,134	45,399	47,118	47,727
Capital Contributions (Cash)	—	—	3,703	7,287	16,032	13,652	7,219	—	—	—
Net Revenues Available for Debt Service*	508	38,646	40,885	54,016	59,597	60,564	54,209	45,399	47,118	47,727
Debt Service Requirements	—	23,594	23,594	23,594	30,114	31,202	32,453	32,152	31,454	31,450
Financial Statistics										
Debt Service Coverage (x)	—	1.6	1.7	2.3	2.0	1.9	1.7	1.4	1.5	1.5
Days Cash on Hand	6,044	674	550	596	625	818	—	—	—	—
Days Operating Revenue in Accounts Receivable	321	38	51	52	53	52	—	—	—	—
Debt to Net Plant (%)	—	125	120	111	100	92	—	—	—	—
Operating Margin (%)**	10	56	52	58	55	54	52	52	52	51

*Equals gross revenues less operating expenses plus capital contributions. **Equals operating revenues less operating expenses divided by operating revenues. Note: Numbers may not add due to rounding.

least maximum annual debt service (MADS), 10% of the proceeds at issuance, or 125% of average annual debt service payments. The board is limited in the issuance of further debt by a traditional historical or projected additional bonds test. The additional bonds test requires historical revenues to be at least equal to 1.25x MADS for the most recent fiscal year or 12 of the past 18 months. Alternatively, the board can fulfill the requirement if net revenues in each of the first five years of improvements financed with bonds, or at the end of the capitalized interest period, equal 1.25x MADS.

The board has prudently structured and funded with bond proceeds an operations and maintenance reserve fund. The board is required to fund the reserve to one-sixth of total operations and maintenance expenses from the current fiscal year. Additionally, the board established a renewal and replacement

account which is fully funded at \$10 million, and a rate stabilization account to be funded at a minimum of \$500,000 (currently \$1.2 million). Fitch considers the legal provisions in the transaction strong.

■ **Finances**

The system is an independent self-sustaining operation. Revenues are generated from user charges. Historically, water utility enterprise financial operations have been strong with good results. Operating revenues have generated excess cash annually that was used to fund ongoing maintenance needs and capital improvements.

For more information, see Fitch Research on “Truckee Meadows Water Authority, Nevada” dated May 1, 2006, available on Fitch’s web site at www.fitchratings.com

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