

## Truckee Meadows Water Authority, Nevada

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**Credit Profile**

US\$218.49 mil wtr rev rfdg bnds ser 2007 due 07/01/2030

<b>Long Term Rating</b>	A+/Stable	New
Truckee Meadows Wtr Auth wtr (FSA)		
<b>Unenhanced Rating</b>	A+(SPUR)/Stable	Upgraded

**Rationale**

Standard & Poor's Ratings Services assigned its 'A+' rating to Truckee Meadows Water Authority, Nev.'s \$218.5 million series 2007 water revenue refunding bonds and raised its underlying rating (SPUR) to 'A+' from 'A' on the authority's outstanding parity bonds. The raised rating reflects the authority's consistently strong financial performance, policies, and its demonstrated willingness to adjust rates as needed.

Other credit strengths include:

- The system's good growth and broad service territory, which includes Washoe County ('AA-') and the cities of Reno and Sparks;
- Above average income levels;
- Strong financial management and practices, including maintenance good liquidity and solid debt service coverage; and
- Prudent water supply planning and management.

These strengths are offset by:

- A 10-year capital plan totaling \$357 million that, although large, is mostly supported on a pay-as-you-go basis from rates, cash and development, with limited bonding planned;
- Moderately high rates, with tentative plans for additional rate hikes of approximately 2% annually over the next 10 years to support future capital projects, which include increasing treatment and distribution capacities; and

- A high debt-to-plant ratio of 90% as of 2006, although a decline from 100% in 2005.

The bonds are secured by the net revenues of the water system. Proceeds of the bonds will be used to refund \$212.3 million of outstanding revenue bonds for an estimated net present value savings of more than \$12 million or almost 6% of refunded principal.

The authority was formed in November 2000, pursuant to an agreement among the cities of Reno and Sparks, and Washoe County. In November 2001, the authority issued \$468 million in bonds for the purpose of acquiring assets from the Sierra Pacific Power Co. and undertaking its water operations. Because of this initial large issuance, the system is highly leveraged with a 90% debt to plant ratio as of 2006, although down from 100% in 2005.

The system has 91,411 connections as of fiscal 2006, of which 80,210, or 88%, are residential. Roughly 3,000 of the residential connections remain unmetered and it is the authority's intent to transition all accounts to a metered system by fiscal 2008; a provision that was not required under the operations of a privately owned utility. The authority also provides water three resale customers through contracts, as well as four wholesale water service agreements with the county for firm water needs. The top 10 users account for a diverse 9.6% of revenues and the five largest users of the system are government entities. The leading non-governmental user is the Reno Hilton at just 0.5% of total water sales revenues.

The most current schedule of rates was implemented in March 2005 and reflects three total years of rate hikes. For metered single-family customers with three-quarter-inch meters, there is a \$15.70 monthly flat fee and a tiered commodity charge. For users of 6,000 to 28,000 gallons per month, the rate is \$2.50 per 1,000 gallons, bringing the average monthly bill based on 7,500 gallons to a moderate \$34.45. Rates are reviewed annually and the authority is planning to do a rate study in summer 2007, which is likely to result in a 2%-3% rate increase later in the year. Future rate increases are possible over the next 10 years to support capital projects.

Debt service coverage on all parity debt was 1.5x in fiscal 2006 and 2.0x inclusive of connection fees, roughly unchanged from fiscal 2005 but lower than 1.6x-1.9x in fiscals 2002-2004 without connection fees, or 1.7x-2.2x with connection fees. Projected coverage is expected to be no less than 1.4x from ongoing revenues and well over than 2.0x with connection fees. This satisfies the rate covenant, which requires 1.25x debt service coverage. Legal provisions also include a debt service reserve funded at the three-tiered test and a 1.25x maximum annual debt service coverage requirement to issue parity debt.

The board's cash policy is to maintain two months of unrestricted cash on hand. However, at year-end 2006, there was \$79.2 million, or 804 days (26 months) of unrestricted cash, up from \$56.8 million or 625 days' cash (21 months) in fiscal 2005. Management will spend down some of this cash over the next 10 years to fund its capital improvement plan. As such, the current 10-year forecast shows the unrestricted cash balance declining to four months' cash by 2013, yet rising back to seven months' worth by 2015. Current unrestricted cash balances do not include other segregated reserves on hand that total \$16 million (more than five months' cash) that could be converted to unrestricted cash by board approval, if necessary.

## Outlook

The stable outlook reflects the system's stable service area economy and revenues that are largely supported by residential users. The outlook also reflects management's ability to implement future rate increases as needed, as it has done recently, in order to pay for capital requirements, meet debt service coverage, and comply with liquidity goals.

## Economy

The authority’s service base, located in Nevada’s northwestern region, includes the cities of Reno and Sparks and portions of Washoe County—an economic base known for its gaming and tourism. Having stated this, however, in March 2006, Washoe County’s GO rating was raised to ‘AA-’ from ‘A+’ partly due to a regional economy that has become less dependent on tourism and gaming and the percentage of the workforce employed in gaming and hotels has gradually decreased every year since calendar 2000. And, despite cyclical concerns related to tourism, the county’s unemployment rates have consistently been lower than both the state and national averages, averaging 4.0% from 2000-2005, and peaking at just 4.6% in 2002 over that five-year span. The 2002 unemployment rate was indicative of the overall national economic slowdown and perhaps also indicative of the reduced economic activity at travel-destination areas following Sept. 11, 2001. The county’s per capita and household wealth and income indicators are above average at 119% and 115% of U.S. averages, respectively.

## Capital Improvement Program

The system currently has a capacity of 168 million gallons per day (mgd) from groundwater and treatment plants, sufficient to meet 138 mgd peak flow in 2006, down from a peak of 149 mg in 2005. Treatment capacity is expected to increase to 180 mgd by 2012, with one of its two Truckee River treatment plants being expanded. The system also has 110 mg of treated water storage, with 33 mg of storage to be added over the next 10 years, 19 mg of which will serve growth and 14 mg of which is considered replacement storage. Peak flow varies depending on variations in weather conditions from year to year, customer growth and conservation.

As of Dec. 1, 2006, the system has a total of 148,669 acre-feet of decreed and acquired water rights, in addition to groundwater sources. Additionally, the authority will look toward purchasing more water rights funded by a capital improvement program (CIP). Of the combined \$757 million CIP (\$400 million for water rights), roughly \$557 million is expected to be financed from development, with \$191 million funded on a pay-as-you-go basis from rates and charges. Debt financing is expected to remain minimal, with anticipated additional bonding of just \$30 million-\$40 million in fiscal 2010.

<b>Ratings Detail (As Of 12-Jan-2007)</b>		
Truckee Meadows Wtr Auth wtr rev rfdg bnds ser 2007 due 07/01/2030		
<b>Long Term Rating</b>	A+/Stable	New Rating
Truckee Meadows Wtr Auth wtr (MBIA)		
<b>Unenhanced Rating</b>	A+(SPUR)/Stable	Upgraded
Truckee Meadows Wtr Auth wtr (XL CAPITAL)		
<b>Unenhanced Rating</b>	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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