



STAFF REPORT

TO: Chairman and Board Members
FROM: Jeff Tissier, Chief Financial Officer
DATE: March 13, 2012
SUBJECT: **Presentation of Augmented and Amended Budget for Fiscal Year 2012 and Request for Adoption of Resolution No. 183: A Resolution to Augment and Amend the Budget for Fiscal Year 2012**

RECOMMENDATION

Staff recommends that the Board of Directors of the Truckee Meadows Water Authority approve the resolution adopting the proposed budget augmentation/revisions, and direct staff to forward the approved resolution and attachment to the Department of Taxation for the State of Nevada pursuant to NRS 354.615; and, record these changes in the minutes of the board meeting.

BACKGROUND

Budget augmentations/revisions must be adopted by resolution and information forwarded to the Nevada Department of Taxation after board approval. Since Truckee Meadows Water Authority does not have taxing authority, separate public notice is not required. The board approved final budget was submitted to the State of Nevada in May 2011 and is being adjusted for a number of changes as discussed further in this report. Please refer to *Attachments A-1 and A-2*.

EXPLANATION OF AUGMENTATIONS AND ADJUSTMENTS

Statement of Revenues, Expenses, and Changes in Net Assets

Item A The Final Budget for Fiscal Year 2012 was presented without any water rate increase. The revised budget for water sales reflects the approved rate increase that went into effect in February 2012 for approximately \$1.2 million in increased sales and warmer than expected fall weather increasing sales by approximately \$0.8 million for the fiscal year. Hydroelectric sales are expected to be \$0.5 million greater than planned due to greater river flows and deferral of a generator rewind. Slightly greater inspection fees are increasing other operating sales.

Item B TMWA's operating expenses have been reduced by nearly \$1.5 million due to continued power and treatment chemical cost controls.

Item C Investment income is expected to be slightly less since maturing investments are reinvested at lower than planned rates of return.

Item D Interest expense is expected to be less due to continued record low interest rates on TMWA's outstanding tax-exempt commercial paper.

Item E This item reflects reimbursement from the Western Regional Water Commission (WRWC) for merger related expenses. The budget is being augmented for some limited merger related expenses because at the time of the budget preparation TMWA did not have any scope for merger work. TMWA is now preparing the addendums to the Interlocal Agreement (ILA) which requires significant detail for real property transfers.

Item F This item reflects NV Energy's award for TMWA's past Highland Canal reconstruction that produced significant power cost savings.

Statement of Cash Flows

Item A This item reflects the cash flow effects of the combination of the three changes in operating revenues as mentioned in Item A, in the Statement of Revenues, Expenses, and Changes in Net Assets section.

Item B This item reflects the cash flow effects of reduced operating expenses as discussed in Item B in the Statement of Revenues, Expenses, and Changes in Net Assets.

Item C This item reflects the cash flow effect of the discussion in Item E, in the Statement of Revenues, Expenses, and Changes in Net Assets section.

Item D This item is an augmentation to TMWA's capital expenditures. TMWA recommends increasing other expenditures for merger related expenses and reducing the cash flow effect of the Voluntary Separation Plan (VSP) since those expenses occurred in the prior fiscal year.

Item E This item reflects the cash flow reduction for capital expenditures due to the deferral of Plumb Lane Main replacement because of a change in the Regional Transportation Commission (RTC) reconstruction schedule. In addition, TMWA deferred the final phases of the Highland Canal Reconstruction Project due to permitting delays. These construction projects are expected to commence in fiscal year 2013.

Item F This item reflects slightly less cash for interest expenses due to lower than planned interest expenses on TMWA's tax exempt commercial paper.

Item G Proceeds from the Drinking Water State Revolving Fund (DWSRF) will not be collected due to the deferral of the Highland Canal reconstruction. Proceeds are expected to be collected next year when reconstruction commences.

Item H TMWA issued the commercial paper proceeds of which were used to call the remaining outstanding 2001-A bonds and realize interest expense savings. This transaction was finalized in the prior fiscal year.

Item I This item reflects the cash flow effects from Item F, in the Statement of Revenues, Expenses, and Changes in Net Assets section.

Item J This item reflects the cash flow effects from Item C, in the Statement of Revenues, Expenses, and Changes in Net Assets section.

Truckee Meadows Water Authority
Schedules of Revenues, Expenses and Changes in Net Assets
Adopted Final Budget Compared to Revised Budget

| | <u>Adopted Final Budget</u> | <u>Proposed Revised Budget</u> | <u>Variance</u> |
|---|---------------------------------|------------------------------------|--------------------|
| OPERATING REVENUES | | | |
| Charges for water sales | \$ 71,559,242 | \$ 73,553,190 | \$ 1,993,948 |
| Hydroelectric sales | 2,743,860 | 3,238,629 | 494,769 |
| Other operating sales | 1,611,000 | 1,676,972 | 65,972 |
| Total Operating Revenues | <u>75,914,102</u> | <u>78,468,791</u> | <u>2,554,689 A</u> |
| OPERATING EXPENSES | | | |
| Salaries and wages | 11,428,236 | 11,428,236 | - |
| Employee benefits | 5,303,088 | 5,303,088 | - |
| Services and supplies | 19,738,513 | 18,245,446 | 1,493,067 B |
| Total Operating Expenses before Depreciation | <u>36,469,837</u> | <u>34,976,770</u> | <u>1,493,067</u> |
| Depreciation | 23,062,248 | 22,880,244 | 182,004 |
| Total Operating Expenses | <u>59,532,085</u> | <u>57,857,014</u> | <u>1,675,071</u> |
| Operating Income | <u>16,382,017</u> | <u>20,611,777</u> | <u>4,229,760</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Grants | | - | |
| Investment earnings | 2,332,830 | 2,286,482 | (46,348) C |
| Amortization of bond/note issuance costs | (917,376) | (917,376) | - |
| Interest expense | (21,510,258) | (21,843,084) | 332,826 D |
| Other non-operating revenue | - | 150,000 | 150,000 E |
| Other non-operating expenses | - | (240,000) | (240,000) E |
| Total Nonoperating Revenues (Expenses) | <u>(20,094,804)</u> | <u>(20,563,978)</u> | <u>(469,174)</u> |
| Income (Loss) before Capital Contributions | <u>(3,712,787)</u> | <u>47,799</u> | <u>3,760,586</u> |
| CAPITAL CONTRIBUTIONS | | | |
| Water meter retrofit program | 72,984 | 72,984 | - |
| Developer infrastructure contributions | 132,132 | 132,132 | - |
| Developer will-serve contributions (net of refunds) | 57,348 | 57,348 | - |
| Developer capital contributions-other | 69,108 | 69,108 | - |
| Developer facility charges (net of refunds) | 123,780 | 123,780 | - |
| Contributions from others | - | 82,556 | 82,556 F |
| Net Capital Contributions | <u>455,352</u> | <u>537,908</u> | <u>82,556</u> |
| Change in Net Assets | <u>(3,257,435)</u> | <u>585,707</u> | <u>3,843,142</u> |

ATTACHMENT A-1

**Truckee Meadows Water Authority
Statement of Cash Flows
Adopted Final Budget Compared to Revised Budget**

| | <u>Adopted Final Budget</u> | <u>Proposed Revised Budget</u> | <u>Variance</u> |
|---|---------------------------------|------------------------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from customers | \$ 75,914,102 | \$ 78,468,791 | \$ 2,554,689 A |
| Cash paid to employees | (17,006,324) | (17,006,324) | - |
| Cash paid to suppliers | (19,738,513) | (18,245,446) | 1,493,067 B |
| Net Cash Provided by Operating Activities | <u>39,169,265</u> | <u>43,217,021</u> | <u>4,047,756</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Other Revenues | - | 150,000 | 150,000 C |
| Other Expenses | (850,000) | (290,000) | 560,000 D |
| Net Cash Provided (used) by Noncapital Financing Activities | <u>(850,000)</u> | <u>(140,000)</u> | <u>710,000</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Acquisition and construction of capital assets | (20,298,000) | (13,337,004) | 6,960,996 E |
| Interest paid on financing | (21,149,350) | (20,759,986) | 389,364 F |
| Principal paid on financing | (10,665,698) | (10,665,698) | - |
| Proceeds from capital debt issuance | 3,500,000 | - | (3,500,000) G |
| Proceeds transferred to refunding/redemption escrow | (9,290,000) | - | 9,290,000 H |
| Contributions for water meter retrofit program | 72,984 | 72,984 | - |
| Contributions from developers-will-serve letters | 57,348 | 57,348 | - |
| Contributions from developers-other | 69,108 | 69,108 | - |
| Contributions from developers-facility charges | 123,780 | 123,780 | - |
| Contributions from others | - | 82,556 | 82,556 I |
| Bond/Note issuance costs | (646,656) | (646,656) | - |
| Net Cash (Used) by Capital and Related Financing Activities | <u>(58,226,484)</u> | <u>(45,003,568)</u> | <u>13,222,916</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | 2,592,034 | 2,545,596 | (46,438) J |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>(17,315,185)</u> | <u>619,049</u> | <u>17,934,234</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>129,615,415</u> | <u>121,690,307</u> | <u>(7,925,108)</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 112,299,960</u> | <u>\$ 122,309,356</u> | <u>\$ 10,009,396</u> |

ATTACHMENT A-2

TRUCKEE MEADOWS WATER AUTHORITY
(TMWA)

RESOLUTION NO. 183

A RESOLUTION TO AUGMENT AND AMEND THE FINAL BUDGET FOR FISCAL YEAR ENDING JUNE 30, 2012.

WHEREAS, TMWA prepared and presented the final Budget for Fiscal Year 2011-2012 at a public hearing in May 2011;

WHEREAS, TMWA adjusted customer rates and operating revenues are higher than planned;

WHEREAS, operating expenses are expected to be lower due to power and treatment chemical cost containment;

WHEREAS, capital spending will be reduced due to deferral of certain projects;

WHEREAS, a limited amount of merger expenses will be incurred to further that project to completion;

WHEREAS, certain financing activities will not take place as previously anticipated;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Truckee Meadows Water Authority: that the augmentations and amendments to the annual budget for FY2011-2012 described in the Staff Report attached hereto and incorporated by reference herein as Exhibit 1 are hereby approved and staff is directed to submit such information as necessary and appropriate in connection with the augmentations and amendments to the Nevada Department of Taxation

Upon motion of _____, seconded by _____, the foregoing Resolution was passed and adopted this 21st day of March, 2012, by the following vote of the Board:

Ayes: _____

Nays: _____

Abstain: _____ Absent: _____

Truckee Meadows Water Authority
Resolution 183 (continued)

Approved this ____ day of _____, 2012

Mike Carrigan, Chairman

STATE OF NEVADA,)

: ss.

COUNTY OF WASHOE.)

On this 21st day of March, 2012, Mike Carrigan, Chairman of the Board of Truckee Meadows Water Authority, personally appeared before me, a Notary Public in and for said County and State, and acknowledged that he executed the above instrument freely and voluntarily and for the purposes therein mentioned.

Notary Public