



STAFF REPORT

TO: Chairman and Board Members
THRU: Mark Foree, General Manager
FROM: John Erwin/Jeff Tissier
DATE: December 6, 2012
SUBJECT: **Review of TMWA’s revenues in regard to implementation of the previously approved second year rate adjustment currently scheduled to be effective the first billing cycle in February 2013**

Recommendation

Staff and TMWA’s Standing Advisory Committee (“SAC”) find that the previously adopted schedule to phase-in rate adjustments in 2012, 2013 and 2014 is appropriate to maintain and achieve TMWA’s long-term financial goals and should proceed as adopted. Unless the Board desires to alter, modify or delay its previously adopted schedule, no further action is required at this time.

Discussion

At its January 18, 2012 meeting the Board approved and adopted rate adjustments to be implemented as follows:

- i) Phase 1 Rates - commencing for the first billing cycle for February 2012;
- ii) Phase 2 Rates - commencing for the first billing cycle for February 2013;
- iii) Phase 3 Rates - commencing for the first billing cycle for February 2014.

Phase 1 was implemented by Staff in February 2012. The Board directed a review of TMWA’s finances occur in late 2012 and again in late 2013 to decide whether the timing or implementation of Phase 2 or Phase 3 rates remain appropriate to achieve the intended effect based on the Authority’s financial position at those times. At the October 17, 2012 Board meeting, staff presented its preliminary FY2012 revenue and expense findings which are summarized here:

- FY2012 revenues from all sources (water sales, hydroelectric generation, investment income, and other charges/rents) of \$84.1 million exceeded FY2011 revenues of \$78.6 million by \$5.5 million.
 - FY2012 hydroelectric generation sales were approximately \$0.5 million over FY2011.

- Monthly customer rates, adjusted in February 2012, added approximately \$0.85 million to FY2012 revenues.
- FY2012 earned, but unbilled, water sales revenues are approximately \$1.2 million greater than FY 2011.
- The unexpectedly warm and dry condition during the winter and spring of 2011/2012 resulted in approximately \$3.3 million in additional water sales revenue.¹

TMWA's certified audited for FY2012 was completed in November 2012 and the results for FY2012 did not change from the initial October 2012 Board presentation.

First quarter FY2013 revenues are approximately \$2.7 million over budget and expenses for the same period are approximately \$0.3 million over budget, for a net of \$2.4 million revenues-over-expenses thus far in FY2013. Projected revenues for FY2013 are based on historic revenues driven by typical spring weather patterns. TMWA's first quarter operating expenses are \$0.9 million greater than the previous year's first quarter.

At its December 2, 2012 meeting, SAC discussed the final FY2012 results and those for Q1 of FY2013, as mentioned above. The discussion centered on proceeding with implementing Phase 2 rate adjustments or delaying the adjustments as much as a year. SAC conclusions on the matter are summarized as follows:

- The Phase 2 rate adjustments are part of the long-term plan to achieve substantial debt reduction within the next few years.
- TMWA continues to play "catch-up" in closing the gap between its revenues and annual revenue requirement. Extra cash in any year can be used to buy-down debt to reduce the annual revenue requirement thereby closing the gap sooner rather-than-later.
- The unexpected weather in 2012 should not be considered a trend away from historic weather patterns.
- The extra cash derived from unexpected revenues is a one-time event, and to use the proceeds to delay rate adjustments rather than buy-down debt may result in the need for higher rate increases in the future.
- The Phase 2 rate adjustments, which apply to the monthly customer charge, are reasonable with minimal impact on customers' rates.

The unanimous decision of the SAC members was to proceed with the plan adopted in 2011: implement Phase 2 rate adjustments in February 2013 and analyze TMWA's finances and the timing of Phase 3 rate adjustments in fall of 2013.

Outside of delaying the rate adjustments, any desire by the Board to change or modify its previously-adopted rate adjustments would trigger the requirements for conducting additional public workshops otherwise applicable to new rate adjustment proposals.

¹ About \$2.8 million of the \$3.3 million is estimated from April to June 2012 billings, the balance of about \$0.5 million is from the fall and winter of 2011 billings.

Summary

Staff's rate adjustment proposals were based on the projected costs summarized in TMWA's 2012-2016 Funding Plan. As of this writing, that plan is still active. While approaching the first of several major refinancing/debt restructuring opportunities, it is critical TWMA continue to rigorously monitor its financial performance and maintain its flexibility to adapt as its performance changes. The proposed Phase 2 and Phase 3 rate adjustments along with TMWA's continued diligence in managing operating expenses are designed to collect sufficient revenues to cover projected expenses through FY2014 and maintain TMWA's financial integrity in preparation for potentially significant debt management opportunities beginning in 2015 and extending through 2017.

Staff, with SAC concurrence, finds that the previously adopted schedule to phase-in rate adjustments in 2012, 2013 and 2014 is appropriate to maintain and achieve TMWA's long-term financial goals and should proceed as adopted.