



TO: TMWA Board Members
FROM: Mark Foree, General Manager
Jeff Tissier, Chief Financial Officer
DATE: March 10, 2015
SUBJECT: **Presentation of the TMWA Tentative Budget for Fiscal Year 2015, and Draft Capital Improvement Plan for Fiscal Years 2016 through 2020 and possible direction to staff**

Recommendation

TMWA Board reviews the tentative budget report for fiscal year ending June 30, 2016 and preliminary Five Year Capital Improvement Plan 2016-2020 (CIP) to provide input and direction to TMWA management in advance of the public hearing on the budget and CIP scheduled for Thursday, May 21, 2015.

Executive Summary

TMWA has prepared the tentative budget for the fiscal year ending June 30, 2016 and the 2016-2020 CIP for review by the board. Once input is received, TMWA staff will incorporate board comments that have a fiscal impact, and make those adjustments for the final budget presentation scheduled for May 21, 2015. The tentative budget will be filed with the Nevada Department of Taxation by April 15, 2015 in compliance with statutory requirements. The tentative budget and CIP will also be presented to the Standing Advisory Committee (SAC) at their scheduled meeting in April.

Water demands have been projected based on average demands between the coolest weather pattern experienced in fiscal year 2010 and the hottest weather pattern experienced in fiscal year 2013. Hydroelectric revenues are expected to be muted as a result of much lower river flows due to persistently dry weather conditions. Investment income will continue to be at historic lows due to very low rates of return on reinvestments but there are indications that interest rates may pick up in the last half of fiscal year 2016. The community is experiencing more growth which is reflected in greater developer fee collections than experienced in the past. TMWA is not reliant on these fees so staff is always conservative with projections of developer fee collections.

TMWA operating expenses are reported on a consolidated basis which is not comparable to prior periods. Drought conditions will put more reliance on groundwater well pumping. As a result, electric power costs are expected to increase by 7 to 8% year over year due to this reliance on more groundwater water supply. Wages and salaries costs are expected to increase a modest 2% as a result of labor negotiations. Staffing levels are projected to be at 198 full time equivalents (FTEs). The budget anticipates continued support of the *Truckee River Fund* and the *Desert Research Institutes' (DRI's)* cloud seeding activities. Interest expense is expected to increase modestly due to tax-exempt commercial paper interest rates increasing. These interest rates are expected to remain range between 0.75% to 1.25% for the fiscal year but these rates hinge on Federal Reserve policy which may continue to be accommodative. At this time at least \$34.0 million in outstanding tax-exempt commercial paper is carrying 0.09% interest into early August.

Financial performance is expected to be very good for fiscal year 2016. The tentative budget presented with this report is very close to the financial projections used in the consolidation financial projections. TMWA plans to apply for a Drinking Water State Revolving Fund Loan of \$15.0 million to fund the North Valleys Integration Project that is found in the first year of the 2016-2020 CIP.

Operating Revenues

TMWA expects total operating revenues of approximately \$100.2 million for fiscal year 2016. Please refer to ***Attachment A***. Water consumption patterns, especially with the commercial and residential classes, have been very volatile in the past three to four years due to varying weather patterns. But as mentioned previously TMWA had forecasted 2016 water sales on average demands during this period but also includes a 10% reduction in customer consumption during the summer months.

Hydroelectric revenue for fiscal year 2015 is currently expected to be \$1.4 million and will materialize in the second half of the fiscal year. No hydroelectric generation is expected in the first half of the fiscal year. Reservoir storage is at minimum levels with poor precipitation results at this time. Hydroelectric generation ceased in the first week of August in fiscal year 2015.

Other miscellaneous operating revenues are considered to be at minimal levels. Other miscellaneous revenue are made up of late payment fees, turn-on and turn-off fees, Washoe County Remediation District reimbursement for power/chemical consumption, construction water sales, cell phone tower rents, inspection services on new business and interruptible water sales.

Operating Expenses

Cash operating expenses (total operating expenses excluding depreciation) are estimated to be at \$51.4 million in fiscal year 2016. As in the past TMWA personnel will continue to work diligently on controlling operating expenses.

Total operating wages and salaries are expected to be \$16.5 million for fiscal year 2016. Full time equivalent (FTE) head count is expected to be at 198 FTEs. Also a 2% wage increase was negotiated with *International Brotherhood of Electrical Workers Local 1245 (IBEW 1245)* for fiscal year 2016 and the same for fiscal year 2017. TMWA has forecasted greater overtime compensation expense due to significant unscheduled maintenance on leak repairs in the distribution system for the past several years. If leaks abate somewhat then the need for overtime can be reduced.

Employee benefits are expected to be \$8.1 million for fiscal year 2016. The *Public Employees Retirement System (PERS)* rate was increased to 28% from 25.75% of eligible wages raising this cost by \$375,000 in fiscal year 2016. New pension accounting rules will be changing the manner in which pension expense is calculated, and this impact has yet to be determined for fiscal year 2016 which is the first fiscal year for adoption of these new accounting standards. Once the impact is determined a budget augmentation/adjustment will be brought back to the TMWA Board for consideration. Health care premiums are planned to increase 5% or \$0.1 million year over year. All other benefit rates are expected to be similar to last year's levels. TMWA continues to fund its *Post-Retirement Health and Life Trust (PRMT-OPEB §501-c-9 Trust)* which is very well funded (110% funded) to meet post-retirement benefit obligations approved in TMWA Board Resolution 6. The funding of the PRMT-OPEB is based upon a bi-annual actuarial analysis and the annual contribution has not increased much for many years due to the excellent funding status of the trust. TMWA formed another Post-Retirement Health and Life Trust for Washoe County employees who transferred to TMWA as a result of the water utility consolidation. This trust is 43% funded and an actuarial analysis for funding this trust has yet to be completed. Only 22 personnel participate in this closed trust.

Service and supplies are expected to be \$26.7 million. It is expected that power expenses will rise at least 7% to 8% year over year or \$0.5 to \$0.6 million over previous experience. Although electric power rates are stable TMWA will be more reliant on groundwater wells due to the drought. Most other expenses are expected to increase by an inflation rate of approximately 2.5%.

Funding for cloud seeding of \$210,000 has been incorporated directly into TMWA's budget as well as an \$850,000 contribution to the Truckee River Fund (TRF).

Capital Improvement Plan for Fiscal Years 2015-2019

TMWA plans to spend \$167.5 million over the next five years on a variety of construction projects and capital outlays of which \$52.1 million is expected to be spent in fiscal year 2016. *Please refer to Attachments C.* Due to the early presentation of the five year 2016-2020 CIP TMWA staff still needs to review prioritization of projects, timing of construction, as well as solidify funding sources. These efforts will be completed by the time of the final budget hearing in May.

Of the total \$52.1 million in capital spending in fiscal year 2016, \$17.8 million (34%), will be for the North Valleys Integration Project which ties in the Fish Springs Ranch Infrastructure (Vidler Importation Project) into TMWA's North Valleys service area and provides access to the

additional groundwater resources. If the current drought persists into fiscal year 2017 then this groundwater resource will be very valuable to TMWA. TMWA is also pursuing the drilling and equipping of three wells in the South Truckee Meadows to bring to bear additional groundwater resources during the drought. TMWA's rehabilitation activities focuses on well improvements and capacity preservation for \$0.9 million, treatment plant and telemetry upgrades for \$1.0 million, pressure improvement/pump station reconstruction for \$3.8 million, various main replacements for \$9.5 million

For the following four years (2017-2020) TMWA will continue with CIP projects at much more reduced scale and will be a blend of rehabilitation construction projects and construction to expand of the water system capacity to accommodate growth in the community. After board input TMWA staff will prepare and finalize a very detailed description of each project in a final comprehensive CIP report.

Cash Position and Coverage Ratios

TMWA expects to begin fiscal year 2016 with approximately \$165.0 million in total cash and investments, and end the fiscal year with \$150.4 million of total cash based upon planned spending levels. These projections can be found in *Attachment B*. These financial resources will be necessary to fund operations and capital spending over the ensuing several years. Greater capital spending and slight increases in interest expense as well as reduced hydroelectric production are expected to contribute to the reduction in unrestricted cash. Of this total ending cash and investments \$77.9 will be restricted for debt service payments and requirements under TMWA's bond indentures and \$72.5 will be unrestricted to be used for future operating expenses capital improvements and any other necessary outlays.

TMWA's senior lien debt coverage ratio (excluding system development charges), is estimated to be 1.67x by the end of fiscal year 2016. This level of debt service coverage preserves the ability to access senior lien capital markets, if necessary, under favorable terms. TMWA's senior lien bond covenants require a minimum coverage ratio of 1.25x. TMWA's financial goals adopted in August 2003 established a debt coverage goal of approximately 1.50x (excluding developer fees) to maintain mid-level to higher level investment grade credit ratings. TMWA will be under credit review by the three major credit rating agencies Moodys, Fitch Ratings, and Standard & Poors, in front of the upcoming refunding opportunity. Savings from this refunding opportunity have yet to be incorporated in the tentative budget but the refunding will price at the end of April and with that the savings will be known at that time and the tentative budget will be adjusted accordingly. TMWA's credit ratings were instrumental in developing the tax-exempt commercial paper (TECP) program. In the next two years TMWA is well positioned to take advantage of other refinancing/restructuring opportunities if and when these opportunities are presented.

**TRUCKEE MEADOWS WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Proposed Tentative Fiscal Year 2016 Total
OPERATING REVENUES	
Charges for water sales	\$ 96,095,877
Hydroelectric sales	1,423,806
Other operating sales	2,708,000
Total Operating Revenues	<u>100,227,683</u>
OPERATING EXPENSES	
Salaries and wages	16,479,012
Employee benefits	8,102,652
Services and supplies	26,777,150
Total Operating Expenses before Depreciation	<u>51,358,814</u>
Depreciation	<u>33,205,644</u>
Total Operating Expenses	<u>84,564,458</u>
Operating Income	<u>15,663,225</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	2,502,840
Unrealized gain on investments	-
Gain (Loss) on disposal of assets	(650,000)
Amortization of bond/note issuance costs	(502,128)
Interest expense	(21,718,776)
Other non-operating revenue	-
Other non-operating expenses	-
Total Nonoperating Revenues (Expenses)	<u>(20,368,064)</u>
Income (Loss) before Capital Contributions	<u>(4,704,839)</u>
CAPITAL CONTRIBUTIONS	
Grants	-
Water meter retrofit program	540,684
Developer infrastructure contributions	-
Developer will-serve contributions (net of refunds)	1,152,288
Developer capital contributions-other	906,612
Developer facility charges (net of refunds)	1,505,652
Contributions from others	-
Contributions from other governments	-
Net Capital Contributions	<u>4,105,236</u>
Change in Net Assets	<u>(599,603)</u>
NET POSITION , BEGINNING OF YEAR	<u>\$ 542,000,000</u>
NET POSITION, END OF YEAR	<u><u>\$ 541,400,397</u></u>

**TRUCKEE MEADOWS WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

	Proposed Tentative Budget 2016 Total
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 100,227,683
Cash paid to employees	(24,581,664)
Cash paid to suppliers	(26,777,150)
Net Cash Provided by Operating Activities	<u>48,868,869</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(52,094,004)
Interest paid on financing	(19,750,499)
Principal paid on financing	(12,568,107)
Proceeds from capital debt issuance	15,000,000
Redemptions of commercial paper notes	-
Proceeds from refunding bonds	-
Proceeds transferred to refunding/redemption escrow	-
Proceeds (spending) from (on) capital asset disposal	(650,000)
Contributions for water meter retrofit program	540,684
Contributions from developers-will-serve letters	1,152,288
Contributions from developers-other	906,612
Contributions from developers-facility charges	1,505,652
Contributions from (to) others	-
Contributions from (to) other governments	-
Grants	-
Bond/Note issuance costs	(441,576)
Net Cash (Used) by Capital and Related Financing Activities	<u>(66,398,950)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>2,894,436</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(14,635,645)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	\$ 165,000,000
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 150,364,355</u>

Current Debt Service Reserve Sr. Lien	\$ 35,641,376
Operations & Maintenance Reserve	8,559,802
R & R Reserve	10,000,000
WRS Reserve	500,000
Water Meter Retrofit	1,500,000
Current Bond Debt Service	<u>21,719,116</u>
Total Restricted Cash Requirements	77,920,294
Unrestricted Cash Available	<u>\$ 72,444,061</u>

**CAPITAL IMPROVEMENT PLAN
FOR FISCAL YEARS ENDING JUNE 30, 2016 THROUGH JUNE 30, 2020
(Amounts in thousands of dollars)**

Page #	Priority	SUMMARY OF PROJECTS	Estimate to					Five Year CIP Total	
			Complete FY 2015	FY 2016	FY 2017	FY 2018	FY 2019		FY 2020
Raw Water Supply Improvements									
1	1	CR Highland Canal-Upgrades-Downstream		\$ 225	\$ 225	\$ 225	\$ 225	\$ 225	\$ 1,125
2	1	CR Highland Canal-Upgrades-Diversion to CB		1,000	225	100	100	100	1,525
3	1	CR Donner Dam Improvements		150	600	-	-	-	750
4	1	CR TROA Drought Storage/Implementation		175	275	225	-	-	675
Subtotal -Raw Water Supply			-	1,550	1,325	550	325	325	4,075
Ground Water Supply Improvements									
5	1	CR Well Rehabilitation Improvements		850	850	850	850	850	4,250
6	2	Reserve Well Bypass and Chlorine Room Improvements (former STMGID)		50	110	50	50	50	310
7	1	DF Double Diamond (#3 Equip)		1,000	-	-	-	-	1,000
8	1	DF Lemmon Valley #9 Electrical tie in		-	50	-	-	-	50
9	2	CR Campello Capacity Increase		-	-	150	-	-	150
10	3	DF Callamont Well Equip (Build & Dedicate)		-	-	-	-	1,000	1,000
11	2	DF Truckee Canyon Well (Equip)		-	-	-	80	-	80
12	1	CR Air Guard Well Replacement		500	900	-	-	-	1,400
13	2	CR Desert Springs Well # 4 Recharge		-	-	-	130	-	130
14	2	CR Sunrise #3 Replacement		-	750	-	-	-	750
15	2	CR Mount Rose Well #3 Replacement		-	50	1,000	-	-	1,050
16	1	CR Old Washoe #1 Replacement		350	-	-	-	-	350
17	1	DF Innovation Well (Drill & Equip)		1,000	-	-	-	-	1,000
18	1	DF Huffaker Place Well (Equip)		1,000	-	-	-	-	1,000
Subtotal-Groundwater Development			-	4,750	2,710	2,050	1,110	1,900	12,520
Treatment Plant Improvements									
19	2	CR Treatment Plants- General Fix & Finish		1,000	1,000	1,000	1,000	1,000	5,000
20	2	CR Emergency Operations Annex		-	1,200	-	-	-	1,200
21	2	CR Eagle Canyon Transmission Main Phase 2		-	100	1,800	-	-	1,900
22	2	DF Truckee Canyon Water Treatment Improvements		-	-	-	250	-	250
23	2	DF Lightening W Treatment Improvements		-	-	-	200	-	200
24	1	CR SCADA Rehab/Plant Operating Software		915	475	265	265	265	2,185
25	3	CR Glendale Cleanwell # 2 Install		-	-	-	75	75	150
26	2	CR Orr Ditch PS Improvements		500	-	-	-	-	500
27	1	DF Mt Rose Surface Water Treatment Plant		1,000	6,000	2,000	-	-	9,000
Subtotal Treatment Improvements			-	3,415	8,775	5,065	1,790	1,340	20,385
Distribution System Improvements									
Pressure Improvements									
28	1	CR Pressure Regulators Rehabilitation		500	650	500	450	450	2,550
29	1	CR Presssure Reducing Valve (Roll Seal) Removal		400	400	400	400	400	2,000
30	2	CR Land Acquisitions		500	500	500	500	500	2,500
31	1	CR Desert Springs Pressure Improvements		-	400	-	-	-	400
32	1	DF D'Andrea #3 Pump Station (developer reimbursement)		100	-	-	-	-	100
33	2	CR Paloma BPS/PRS/Main		-	-	-	750	-	750
34	2	DF Longley BPS/Double R Capacity Increase		-	-	500	-	-	500
35	1	CR Pump Station Rebuilds,Rehabilitations		1,350	1,900	1,000	1,000	1,000	6,250
36	1	Reserve NAC Deficiencies-Saddlehorn, Upper Toll Road, STMGID East		340	360	100	2,400	-	3,200
37	2	CR Standby Generator Replacements		650	650	150	150	150	1,750
Sub-Total Pressure Improvements			-	3,840	4,860	3,150	5,650	2,500	20,000
Water Main-Distribution-Service line Improvements									
38	1	CR Street & Highway Main Replacements		4,500	5,000	5,000	5,500	5,600	25,600
39	1	DF North Valleys Integration Project		17,800	-	-	-	-	17,800
40	1	CR/DF Stead Main Replacement Phase II		5,000	-	-	-	-	5,000
41	1	CR Hidden Valley Intertie Pumping Capacity		100	500	-	-	-	600
42	1	CR California-Marsh 24" Main Replacement		-	100	900	-	-	1,000
43	2	CR Booth, Sharon Way, Monroe 24" Main Replacements		-	-	-	100	3,100	3,200
44	2	CR Juniper Hill Modifications		500	-	-	-	-	500
45	2	DF Verdi 18" Main oversizing		375	-	-	-	-	375
46	3	DF South Virginia 24" Main (Kumle to Peckham)		-	-	-	100	900	1,000
47	2	CR NE Sparks Feeder Main Relocation		-	900	-	-	-	900
48	1	CR Spanish Springs -SC south Zone Conversion		700	-	-	-	-	700
49	2	CR West Hidden Valley,Surge St., Piping Rock Main Replacments		-	1,000	-	230	500	1,730
50	2	CR Desert Springs Water Main Rehabilitations		-	-	1,280	-	1,280	2,560
51	2	CR Galena Cr. Xing T-Main		-	300	-	-	-	300
52	3	DF Bonnie Ln., Snow Flower, Main Extensions		-	-	-	620	900	1,520
53	2	DF South Truckee Meadows Capacity Improvments		-	-	400	-	-	400
54	1	Reserve STMGID Conjunctive Use Facilities		200	1,500	2,100	-	-	3,800
55	1	DF Arrowcreek-Mt. Rose Conjunctive Use Ph 1		2,800	-	-	-	-	2,800
56	1	DF Arrowcreek-Mt. Rose Conjunctive Use Ph 2		-	1,200	-	-	-	1,200
57	1	CR Arc Flash Improvements		100	100	100	-	-	300
58	3	DF General Waterline Extensions		100	100	100	100	100	500
59	2	CR Galv/Poly Service Line Replacements		400	400	400	400	400	2,000
Subtotal Main-Distribution Improvements			-	32,575	11,100	10,280	7,050	12,780	73,785
Potable Water Storage Improvements									
60	1	DF D,Andrea #3 Tank		100	-	-	-	-	100
61	2	CR Peavine Tank Replacement		-	2,500	-	-	-	2,500
62	2	CR/DF Sun Valley #2 Tank		-	-	1,750	-	-	1,750
63	2	DF Rattlesnake Ring Addition		-	-	-	800	-	800
64	1	Reserve Zone 11 Tank		-	3,000	-	-	-	3,000
65	3	DF Fish Springs Ranch #2		-	-	-	-	100	100
66	1	Reserve Former STMGID Tank Recoats		170	-	220	-	300	690
67	1	CR Storage Tank Recoats; Access; Drainage improvments		760	780	860	800	800	4,000
Subtotal Storage Improvements			-	1,030	6,280	2,830	1,600	1,200	12,940
Hydroelectric Improvements									
68	1	CR Flume, Forebay, Diversion, and Canal Improvments		265	510	560	260	400	1,995
69	2	CR Hydro Plant Equipment Replacement/Upgrades		150	-	70	70	-	290
70	3	CR Hydro Plant Generator Rewinds		-	-	350	350	350	1,050
Subtotal Hydroelectric Improvements			-	415	510	980	680	750	3,335
Customer Service Outlays									
71	3	CR Meter Reading Equipment		60	-	60	-	60	180
72	2	DF New Business Meters		250	250	250	250	250	1,250
73	1	CR Mueller Pit Replacements former Washoe County		125	125	125	375	125	875
74	1	Reserve Mueller Pit Replacements former STMGID		75	75	75	75	75	375
75	1	CR Meter -ERT-RTR Replacements		1,250	1,250	1,250	1,250	1,250	6,250
Subtotal Customer Service			-	1,760	1,700	1,760	1,960	1,760	8,930
Administrative Outlays									
76	2	CR GIS System Mapping Equipment		30	30	30	30	30	150
77	2	CR Desktop Computer Upgrades		100	100	100	100	100	500
78	2	CR Network Server/Storage upgrades		275	175	175	175	175	975
79	2	CR Network Security Upgrades		150	150	150	150	150	750
80	2	CR Computer/Network Licensing		150	150	150	150	150	750
81	3	CR Furniture -Office Equipment		25	25	25	25	25	125
82	2	CR Dumptrucks/Vac Trucks/Backhoe Replacements		270	125	285	380	160	1,220
83	2	CR Crew Trucks / Vehicles		709	690	288	190	362	2,239
84	2	CR Security-VA-ER Projects		250	150	150	150	150	850
Subtotal Administrative-Outlays			-	1,959	1,595	1,353	1,350	1,302	7,559
Subtotal Construction Projects and Captial Outlays			-	51,294	38,855	28,018	21,505	23,857	163,529
Special Projects Funded by Development									
85	2	DF Water Meter Retrofits		300	300	300	300	300	1,500
86	3	DF Water Right Purchases		500	500	500	500	500	2,500
Sub Total Special Projects Funded by Development			-	800	800	800	800	800	4,000
Total Construction Expenditures and Capital Outlays			\$	\$ 52,094	\$ 39,655	\$ 28,818	\$ 22,305	\$ 24,657	\$ 167,529