



TO: TMWA Board Members
FROM: Mark Foree, General Manager
Jeff Tissier, Chief Financial Officer
DATE: April 6, 2015
SUBJECT: Presentation, discussion and possible action on the TMWA Tentative Budget for Fiscal Year 2016, and Draft Capital Improvement Plan for Fiscal Years 2016 through 2020

Recommendation

TMWA Board reviews the tentative budget report for fiscal year ending June 30, 2016 and preliminary Five Year Capital Improvement Plan for Fiscal Years 2016 through 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 for Fiscal Year 2016 and the 2016 – 2020 CIP was presented to the SAC at their April 7 meeting. The SAC voted to forward a recommendation to the TMWA Board to approve the tentative budget for FY2016 and the 2016 – 2020 CIP as presented, but also recommends that the Board convert all flat-rate billed services to metered billing on June 1, 2015 as opposed to October 1, 2015. The reason given for the June 1, 2015 implementation date was to: 1) save water this summer, and 2) to minimize adverse revenue impacts to TMWA.

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 but adjusted for demand shaving for conservation and conversion of flat rate customers to metered billing. Hydroelectric revenues are expected to be at historical lows as a result of much

lower river flows due to persistently dry weather conditions. Investment income is expected 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 collection developer fee projections.

TMWA operating expenses are reported on a consolidated water utility 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 as well as pumping costs associated with brining a limited amount of Fish Springs Ranch water to the North Valleys Area. Wage and salary costs are expected to increase a modest 2% as a result of labor negotiations. Staffing levels are projected to be at 199 full time equivalents (FTEs). The budget anticipates continued support of the *Truckee River Fund* and the *Desert Research Institutes' (DRI's)* cloud seeding activities. Historical annual conservation expense averages approximately \$515,000 per year over the past five years. TMWA's tentative budget plans to increase this level of spending to \$730,000 in fiscal year 2016 to fund increased messaging about impacts of the drought and extend TMWA's conservation efforts into the former Washoe County and South Truckee Meadows General Improvement District (STMGID) service territories.

The drought has presented significant fiscal impacts to TMWA in water sales, hydroelectric revenues and specific increased operating expenses. In total the estimated negative impact on TMWA's tentative budget is expected to be approximately \$5.9 million. Water sales revenue has been reduced by nearly \$2.5 million as a result of water demand reduction related to the conservation plan while hydroelectric revenues have been nearly halved by \$1.5 million as a result of reduced river flows. Power has been projected to increase by \$0.5 to \$0.6 million in the fiscal year due to drought. Treatment chemical expenses are expected to be increased by \$0.6 million to add activated carbon for the surface water treatment plants while \$0.2 million has been devoted to increased conservation efforts. Although not directly related to drought, the conversion of flat rate customers to metered billing is expected to reduce water sales for fiscal year 2016 by over \$0.5 million with the timing of the conversion creating a potentially greater impact which is being investigated at the time of writing this report.

Interest expense is expected to increase modestly due to tax-exempt commercial paper interest rates increasing. These interest rates are expected to range between 0.75% to 1.25% for the fiscal year but hinge on Federal Reserve policy which may continue to be accommodative. Recent press releases indicate some interest in increasing short term interest rates to some degree. At this time at the \$95.0 million in outstanding tax-exempt commercial paper (TECP) is carrying a 0.10% interest rate.

In summary, financial performance is expected to be 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. TMWA also anticipates approximately \$1.2 million in TECP

redemptions as a result of interest savings on the defeasance of the \$26.1 million in former Washoe County water obligations.

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 as well as a current estimate of a \$0.5 million reduction in water sales revenue when flat rate customers are converted to metered billing on October 1, 2015.

Hydroelectric revenue for fiscal year 2015 is currently expected to be \$1.4 million and will potentially 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 extremely poor precipitation results at this time. In the prior fiscal year hydroelectric generation stopped in the first week in August and historically has averaged just below \$3.0 million per year.

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. If residential/commercial construction activity picks up substantially, there will be more construction water sales and inspection fees than projected.

Operating Expenses

Cash operating expenses (total operating expenses excluding depreciation) are estimated to be at \$52.2 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 \$16.6 million for fiscal year 2016. Full time equivalent (FTE) head count is expected to be at 199 FTEs. Also a 2% wage increase was negotiated with *International Brotherhood of Electrical Workers Local 1245 (IBEW 1245)* for fiscal years 2016 and 2017, which was approved by the TMWA Board in March. TMWA has forecasted greater overtime compensation expense due to significant unscheduled maintenance on leak repairs in the distribution system which has been the situation for the past several years. If water leaks abate somewhat then the need for overtime can be reduced. If growth accelerates in the fiscal year TMWA may have to return to the TMWA Board for approval to add some limited FTE's for increased inspection services which is paid by new development through inspection fees.

Employee benefits are expected to be \$8.2 million for fiscal year 2016. The *Public Employees Retirement System (PERS)* employer contribution rate was increased to 28% from 25.75% of

eligible wages, increasing this cost by \$375,000 in fiscal year 2016. New pension accounting rules will be changing the manner in which pension expense is calculated for fiscal year 2016 and beyond, and this financial 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 funded 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 \$27.5 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 even more reliant on groundwater wells due to the persisting drought. Most other expenses are expected to increase by an inflation rate of approximately 2.5%. Treatment chemical costs have increased substantially due to the necessity of purchasing activated carbon to address potential taste and odor issues from byproducts of algae blooms in the Truckee River which results from low flows and increasing water temperatures. A breakdown of services and supplies expenses is presented in ***Attachment D***.

The Tentative Budget includes funding for cloud seeding for \$210,000 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 \$167.9 million over the next five years on a variety of construction projects and capital outlays of which \$52.4 million is expected to be spent in fiscal year 2016. ***Please refer to Attachment C.***

Of the total \$52.4 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 system and provides access to the additional groundwater resources. If the current drought persists into fiscal year 2017 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 and various main replacements for \$9.5 million. TMWA has budgeted and planned for expanding the Aquifer Storage and Recovery (ASR) program for recharge of treated surface water into additional groundwater wells over the next two fiscal years.

For the following four years (2017-2020) TMWA will continue with CIP projects at a much more reduced scale which will consist of a blend of rehabilitation construction projects and construction to expand 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 \$170.0 million in total cash and investments, and end the fiscal year with \$153.0 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. As previously mentioned the impact of the drought on operating sales and expenses is responsible for 33% of the annual reduction in unrestricted cash reserves. Of this total ending cash and investments \$92.2 million will be restricted for debt service payments and requirements under TMWA's bond indentures and \$60.8 will be unrestricted to be used for future operating expenses, capital improvements and any other necessary outlays. The \$92.2 million in restricted reserves includes \$15.1 million in transferred funds from STMGID which is earmarked for capital improvements in the former STMGID service area.

TMWA's senior lien debt coverage ratio (excluding system development charges), is estimated to be 1.64x 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. At the time of writing this report, TMWA was under credit review by the three major credit rating agencies, Moodys, Fitch Ratings, and Standard & Poors (S&P), in front of the upcoming refunding opportunity with TMWA's 2005 Revenue Bonds. Savings from this refunding opportunity have yet to be incorporated in the tentative budget, but the refunding will be priced before the April meeting and the tentative budget will then be adjusted accordingly. Results of the credit review were very favorable with all three credit rating agencies affirming TMWA's AA/AA- credit rating which is high investment grade. S&P raised their outlook for TMWA to positive from stable which is a precursor to an eventual rating upgrade. Considering the confluence of the drought with the consolidation this outcome is extremely favorable. TMWA's credit ratings were instrumental in developing the tax-exempt commercial paper (TECP) program. In the upcoming 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 POSITION
 FOR THE FISCAL YEARS 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 | 16,609,056 |
| Employee benefits | 8,164,236 |
| Services and supplies | 27,466,431 |
| Total Operating Expenses before Depreciation | <u>52,239,723</u> |
| Depreciation | <u>33,207,312</u> |
| Total Operating Expenses | <u>85,447,035</u> |
| Operating Income | <u>14,780,648</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Investment earnings | 2,502,840 |
| Unrealized gain on investments | - |
| Gain (Loss) on disposal of assets | (550,000) |
| 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>(20,268,064)</u> |
| Income (Loss) before Capital Contributions | <u>(5,487,416)</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>(1,382,180)</u> |
| NET POSITION , BEGINNING OF YEAR | <u>\$ 542,000,000</u> |
| NET POSITION, END OF YEAR | <u><u>\$ 540,617,820</u></u> |

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

| | Proposed Tentative Budget 2016 Total |
|---|---|
| | <u>Total</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | \$ 100,227,683 |
| Cash paid to employees | (24,773,292) |
| Cash paid to suppliers | (27,466,431) |
| | <u>47,987,960</u> |
| Net Cash Provided by Operating Activities | <u>47,987,960</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition and construction of capital assets | (52,443,996) |
| Interest paid on financing | (19,742,999) |
| Principal paid on financing | (12,568,107) |
| Proceeds from capital debt issuance | 15,000,000 |
| Redemptions of commercial paper notes | (1,200,000) |
| Proceeds from refunding bonds | - |
| Proceeds transferred to refunding/redemption escrow | - |
| Proceeds (spending) from (on) capital asset disposal | (550,000) |
| 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) |
| | <u>(67,841,442)</u> |
| Net Cash (Used) by Capital and Related Financing Activities | <u>(67,841,442)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest received | 2,894,436 |
| | <u>(16,959,046)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>(16,959,046)</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | \$ 170,000,000 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 153,040,954</u> |

Attachemnt B

Truckee Meadows Water Authority
Expense Summary All Departmental/Cost Centers
Attachment D

| | Fiscal Year 2016 Total |
|---|------------------------------|
| Total Services and Supplies Expenses breakdown | |
| Total | 27,466,432 |
| 7000 Chemicals | 2,339,581 |
| 7010 Claim Payments | 585,329 |
| 7020 Computer software maintenance | 359,336 |
| 7030 Computer spares and parts | 74,689 |
| 7040 Computer hardware maintenance | 133,189 |
| 7050 Contract Services General | 4,949,426 |
| 7051 Contract Services Construction | 189,600 |
| 7052 Contract Services Electrical | 102,000 |
| 7053 Contract Services- Equipment Maintenance and repairs | 861,221 |
| 7054 Contract Services Facilities maintenance and repairs | 609,600 |
| 7055 Contract Services | 340,090 |
| 7110 Ditch Fees | 67,200 |
| 7115 Storage Fees | 639,000 |
| 7118 River monitoring | - |
| 7120 Employee expense reimbursements non travel | 11,608 |
| 7130 Unassigned | - |
| 7140 Unassigned | - |
| 7150 Equipment rentals | 156,100 |
| 7160 Unassigned | - |
| 7170 Insurance Property/General liability/Fleet | 618,698 |
| 7180 Leases Building | - |
| 7190 Leases Land | 30,000 |
| 7200 Unassigned | - |
| 7220 Licenses/Permits/application fees | 422,355 |
| 7230 Unassigned | - |
| 7240 Miscellaneous expense | 1,119,313 |
| 7250 Unassigned | - |
| 7260 Postage & Shipping | 519,826 |
| 7265 Professional Organization dues | 72,556 |
| 7270 Professional Services Administration | 1,317,317 |
| 7271 Professional Services-Construction Management | - |
| 7272 Professional Services Easement/ROW/Appraisals | 24,000 |
| 7273 Professional Services -Engineering | 247,200 |
| 7274 Professional Services Geotechnical/environmental | 12,600 |
| 7275 Professional Services Hydrology/resource Planning/TROA | 483,000 |
| 7277 Professional Services Public Relations/Advertising | - |
| 7280 Property taxes Nevada County CA | 60,600 |
| 7281 Property taxes Sierra County CA | 378,000 |
| 7290 Public Utility electric power | 6,621,471 |
| 7300 Public Utility gas & Propane | 88,800 |
| 7301 Public Utility water/sewer/waste disposal | 179,400 |
| 7302 Public Utility networking communication | 16,200 |
| 7303 Public Utility telephone | 425,187 |
| 7310 Street Repairs-Reno | 135,000 |
| 7311 Street Repairs Regional Transportation Commission | 9,000 |
| 7312 Street Repairs Sparks | 30,000 |
| 7313 Street Repairs Washoe County | 36,000 |
| 7350 Supplies-Administrative Office | 825,190 |
| 7351 Supplies Small Tools | 166,320 |
| 7352 Supplies Mechanical Parts | 936,915 |
| 7353 Supplies Pipes & Fittings | 392,700 |
| 7354 Supplies fuel/Lube/Oil | 482,540 |
| 7355 Supplies Pumps | 119,400 |
| 7356 Supplies Motors | 93,600 |
| 7370 Training | 102,474 |
| 7380 Travel/Lodging/Meals | 82,802 |