



TO: TMWA Board of Directors
FROM: Michele Sullivan, Chief Financial Officer
DATE: March 7, 2016
SUBJECT: **Presentation of Financial Performance for First Half Fiscal Year 2016**

First Half Financial Results

TMWA's financial performance was very good for the six months ended December 31, 2015, with total operating revenues \$0.1 million or 0.2% less than the revised budget and operating spending \$2.2 million or 8.1% under budget. Please refer to **Attachment A-1** for budget to actual comparisons. TMWA personnel continue to do an excellent job managing operating expenses and are optimizing consolidated water utility operations on a continual basis. The revised budget does reflect lower water demands as a result of community response to drought conditions. The original final adopted budget assumed greater water demands and was based on the combined historical use of the consolidated entities. A portion of water use did not materialize due to conservation, so revisions were made to amend water sales presented in the original final adopted budget as communicated to the board in February.

Comparative information with last year is not presented because for fiscal year 2016 TMWA is now operating as a consolidated water system post-merger which was not the case in the previous comparable period of last fiscal year making a comparative presentation uninformative.

Total operating revenues were \$0.1 million or 0.1% less than the revised budget. Water sales were essentially on budget after amending for reduced water sales. If water sales were not amended then this revenue stream would be \$5.1 million or nearly 10% under the original final budget. Hydroelectric power sales were non-existent due to insufficient river flows for generation. Other operating sales were \$0.1 million or 4.8% less than budget which was due to less than expected turn on/off connection charges.

Total spending on operations was \$2.2 million, or 8.1% below budget. Spending on wages and salaries was \$0.1 million or 0.9% less than budget due to few sporadic position vacancies, offset by significant overtime devoted to repairing water system leaks. Lower spending on employee benefits by \$0.4 million or 9.2% less than budget, is reflective of lower than expected spending on health care benefits (although health insurance premiums have now increased by approximately 20% as of January 1) as well as the effect of sporadic position vacancies. Services and supplies spending was \$1.8 million or \$11.8% less than budget, a notable achievement with control over power expenses of \$0.9 million being the greatest contributor to this positive spending variance. Anticipated use of granulated activated carbon to control taste and odor issues resulting from lower and warmer river flows dematerialized and contributed significantly to reduced treatment chemical expenses by \$0.7 million. In addition less use of other water

treatment plant chemicals due to greater reliance on groundwater added to the positive spending variance on treatment chemicals.

Investment income was slightly above budget. Investment returns continue to be at historically low levels. As investments mature they are being invested at slightly higher rates due to an increasing interest rate environment on the shorter end of the investment yield curve. With respect to TMWA's fixed rate debt, TMWA transfers \$2.5 million on monthly basis to the bond trustee which is invested in a manner to meet annual principal and semi annual interest payments. Secure investments in the six month and one year range of the yield curve have almost non-existent yields. TMWA's other investment returns range from 0.4% to 5.5% and are laddered in maturities in a manner to meet future cash flow requirements.

Interest expense on TMWA's outstanding debt was \$0.7 million or 6.6% less than budget. TMWA continues to experience very low interest rates with TMWA's Tax-Exempt Commercial Paper Program (TECP). Recent remarketing of outstanding notes continue to be at very low interest rates of 0.05%. The budget anticipated much higher interest rates on variable rate debt which did not materialize even after the Federal Reserve moved on the discount rate. The TECP program continues to be a natural hedge against lower investment returns and significantly reduces risk associated with changes in interest rates.

In total, developer contributions are significantly ahead of budget by \$1.2 million. Development has been concentrated in residential activity and small commercial activities. It is difficult to project the level of developer fee contributions since entitled developments and shadow inventories cannot be accurately determined. Regardless, as a matter of policy, TMWA is not reliant on growth for financial stability. TMWA received the first \$3.5 million installment on the sale of water rights to the Pyramid Lake Paiute Tribe (PLPT). The remaining \$3.5 million was paid to TMWA after December 31, 2015 pursuant to the agreement.

Spending on capital outlays and construction projects as of December 31, 2015, was approximately \$13.6 million. Construction spending in the first half of the fiscal year was primarily focused on the drilling and equipping of new production wells as well as various distribution system improvements. Capital spending is expected to increase during the remainder of the year with the construction of the North Valleys Integration Project which will tie in the Fish Springs Ranch importation infrastructure with TMWA's North Valley's water system infrastructure. Please refer to **Attachment A-2** which contains TMWA's Statement of Cash Flows that presents total capital spending and other cash flow information for the first half of the fiscal year.

Also reflected in **Attachment A-2**, TMWA redeemed \$1.2 million in TECP in December of 2015 as a result of savings on the defeasance of former Washoe County water utility debt with TECP in the water utility consolidation. The principal on the original Washoe County water utility debt was not to be paid down until July of 2023. This TECP redemption has effectively accelerated the principal reduction on this outstanding debt.

First Half Cash Position

Referring to TMWA's Statement of Net Assets in **Attachment A-3**, total cash on hand was \$205.4 million as of December 31, 2015 which is approximately \$10 million higher than at the beginning of the fiscal year. Of this total, \$119.3 million was unrestricted to be used to acquire the Donner Lake interests of the Truckee Carson Irrigation District, to meet upcoming and future operating/maintenance expenses, principal/interest payments, and construction project payments. Unrestricted cash increased since the beginning of the year because of the final transfer of \$9.7 million from the Washoe County water utility treasury and a \$3.5 million first installment on the \$7.0 million sale of water rights to the PLPT to implement the Truckee River Operating Agreement (TROA).

The remaining \$86.0 million was restricted to pay for scheduled bond principal and interest payments as well as maintaining required reserves as stipulated in TMWA's bond indentures. In addition, the treasury reserve transferred from the dissolved South Truckee Meadows General Improvement District (STMGID) is included in restricted reserves for use on capital improvements in the former STMGID service area.

TRUCKEE MEADOWS WATER AUTHORITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - BUDGET TO ACTUAL
FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

	<u>REVISED</u> <u>Budget</u>	<u>UNAUDITED</u> <u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Charges for water sales	\$ 52,562,738	\$ 52,516,763	\$ (45,975)
Hydroelectric sales	-	-	-
Other operating sales	1,339,867	1,275,266	(64,601)
Total Operating Revenues	<u>53,902,605</u>	<u>53,792,029</u>	<u>(110,576)</u>
OPERATING EXPENSES			
Salaries and wages	8,357,584	8,281,428	76,156
Employee benefits	4,082,118	3,708,242	373,876
Services and supplies	14,807,876	13,053,997	1,753,879
Total Operating Expenses before Depreciation	<u>27,247,578</u>	<u>25,043,667</u>	<u>2,203,911</u>
Depreciation	16,603,656	16,603,656	-
Total Operating Expenses	<u>43,851,234</u>	<u>41,647,323</u>	<u>2,203,911</u>
Operating Income	<u>10,051,371</u>	<u>12,144,706</u>	<u>2,093,335</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	1,177,788	1,230,557	52,769
Gain (Loss) on disposal of assets	(625,000)	(520,798)	104,202
Amortization of bond/note issuance costs	(250,896)	(212,809)	38,087
Interest expense	(10,595,634)	(9,892,339)	703,295
Other non-operating revenue	-	-	-
Other non operating expense	-	-	-
Total Nonoperating Revenues (Expenses)	<u>(10,293,742)</u>	<u>(9,395,389)</u>	<u>898,353</u>
Income (Loss) before Capital Contributions	<u>(242,371)</u>	<u>2,749,317</u>	<u>2,991,688</u>
CAPITAL CONTRIBUTIONS			
Grants	138,288	138,288	-
Water meter retrofit program	270,342	85,773	(184,569)
Developer infrastructure contributions	-	-	-
Developer will-serve contributions (net of refunds)	576,144	1,310,137	733,993
Developer capital contributions-other	453,306	811,688	358,382
Developer facility charges (net of refunds)	752,826	1,047,305	294,479
Contributions from others	3,500,000	3,493,309	(6,691)
Net Capital Contributions	<u>5,690,906</u>	<u>6,886,500</u>	<u>1,195,594</u>
Change in Net Position	<u>5,448,535</u>	<u>9,635,817</u>	<u>4,187,282</u>
NET POSITION , BEGINNING OF YEAR	<u>563,874,134</u>	<u>563,874,134</u>	
NET POSITON , END OF DECEMBER	<u>\$569,322,669</u>	<u>\$ 573,509,951</u>	

**TRUCKEE MEADOWS WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2015**

	<u>2015</u>
INCREASE IN CASH AND CASH EQUIVALENTS	
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 56,896,901
Cash paid to employees	(12,591,283)
Cash paid to suppliers	<u>(16,475,825)</u>
Net Cash Provided by Operating Activities	<u>27,829,793</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets -	(13,628,367)
Interest paid on financing	(8,952,302)
Principal paid on financing	(11,839,494)
Proceeds from refunding bonds	-
Issuance of commercial paper notes	-
Redemption of commercial paper notes	(1,200,000)
Proceeds transferred to refunding escrow	-
Proceeds from capital debt issuance	-
Net cash used for capital asset disposal	(520,798)
Contributions for water meter retrofit program	85,773
Contributions from developers-will-serve letters	1,310,137
Contributions from developers-other	811,688
Contributions from developers-facility charges	1,047,305
Contributions from others	3,493,309
Grants	112,644
Bond/Note issuance costs	<u>(212,809)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(29,492,914)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received in connection with WCWU transfer of operations	9,678,076
Verdi Business Park receivable	-
Payments received on Verdi Business Park receivable	11,810
Interest received	<u>1,870,768</u>
Net Cash (Used) by Investing Activities	11,560,654
Net Increase (Decrease) in Cash and Cash Equivalents	9,897,533
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$90,054,542 in restricted accounts for the year ended June 30, 2015)	<u>195,302,369</u>
Cash received in connection with STMGID merger	162,770
CASH AND CASH EQUIVALENTS, As of December 31, 2014 (including \$86,828,322 in restricted accounts as of December 31, 2014)	<u>\$ 205,362,672</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	<u>\$ 12,144,706</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	16,603,656
Other nonoperating revenues	-
Other nonoperating expenses	-
Pension expense	-
Pension contributions	-
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable, net	2,768,198
Due from others	19,566
Due from other governments	132,406
Prepaid assets	(241,349)
Increase (decrease) in:	
Accounts payable	(2,822,497)
Accrued liabilities	(602,322)
Due to customers and developers	184,702
Due to other governments	<u>(357,272)</u>
Total Adjustments	<u>15,685,087</u>
Net Cash Provided by Operating Activities	<u>\$ 27,829,793</u>

TRUCKEE MEADOWS WATER AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AS COMPARED TO JUNE 30, 2015
ASSETS

	UNAUDITED December 31, 2015	AUDITED June 30, 2015
CURRENT ASSETS		
Cash and investments	\$ 119,333,378	\$ 104,979,502
Accounts receivable, net	9,848,039	12,616,237
Due from others	-	19,566
Due from other governments	100,606	10,096,844
Interest receivable	1,114,714	1,304,308
Prepaid assets	1,427,727	1,186,025
	<u>131,824,464</u>	<u>130,202,482</u>
 RESTRICTED CURRENT ASSETS		
Cash and investments:		
Water meter retrofit program	1,754,197	1,754,197
Current bond debt service	15,205,481	20,675,394
	<u>16,959,678</u>	<u>22,429,591</u>
Total Current Assets	<u>148,784,142</u>	<u>152,632,073</u>
 RESTRICTED NONCURRENT ASSETS		
Cash and investments:		
Future bond debt service	33,824,151	33,824,151
Operations and maintenance	8,739,954	7,563,710
Renewal and replacement	26,005,511	25,720,896
Water rate stabilization	500,000	500,000
	<u>69,069,616</u>	<u>67,608,757</u>
 NONCURRENT ASSETS		
Capital assets, not depreciated	135,375,249	123,234,464
Capital assets, depreciated	766,392,430	782,339,301
Deferred charges and other assets	1,410,445	1,448,867
	<u>903,178,124</u>	<u>907,022,632</u>
Total Noncurrent Assets	<u>972,247,740</u>	<u>974,631,389</u>
 DEFERRED OUTFLOW OF RESOURCES		
Deferred amount on bond refundings	3,873,510	5,470,546
Deferred amount on net pension liability	3,768,872	3,768,872
Total Deferred Outflows	<u>7,642,382</u>	<u>9,239,418</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 1,128,674,264</u>	<u>\$ 1,136,502,880</u>

Attachment A-3

LIABILITIES

CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED

CURRENT ASSETS

Accounts payable	\$ 1,607,135	\$ 4,429,632
Contracts and retention payable	3,017,977	2,492,543
Accrued liabilities	3,352,616	3,954,938
Due to other governments	1,814,459	2,866,886
Accrued interest payable	234,514	248,179
Current portion of long term debt	95,166,265	96,348,107
Customer deposits and amounts due to developers	2,990,857	2,806,156
	<u>108,183,823</u>	<u>113,146,441</u>

CURRENT LIABILITIES PAYABLE FROM RESTRICTED

CURRENT ASSETS

Current portion of long term debt	12,620,000	11,220,000
Interest payable	8,895,481	9,455,394
	<u>21,515,481</u>	<u>20,675,394</u>

Total Current Liabilities

129,699,304 133,821,835

NONCURRENT LIABILITIES

Net Pension Liability	22,293,306	22,293,306
Long-term debt, net of current portion	397,422,339	410,764,241
	<u>419,715,645</u>	<u>433,057,547</u>

Total Non-Current Liabilities

DEFERRED INFLOW OF RESOURCES

Deferred amount on net pension liability	5,749,364	5,749,364
	<u>5,749,364</u>	<u>5,749,364</u>

Total Liabilities

555,164,313 572,628,746

NET POSITION

Net investment in capital assets	451,597,760	444,402,572
Restricted for water meter retrofit program	1,754,197	1,754,197
Restricted for debt service	6,309,999	11,220,000
Restricted for operations and maintenance reserve	4,139,954	2,963,710
Restricted for renewal and replacement reserve	26,005,511	25,720,896
Restricted for water rate stabilization	500,000	500,000
Unrestricted	83,202,530	77,312,759
	<u>573,509,951</u>	<u>563,874,134</u>

Total Net Position

Total Liabilities and Net Position

\$ 1,128,674,264 \$ 1,136,502,880