



To: Board of Directors
From: Michele Sullivan, Chief Financial Officer
Date: September 21, 2016
Subject: Presentation of TMWA Unaudited FY2016 Financial Performance

Recommendation

The TMWA Board accepts the unaudited financial report for the fiscal year ended June 30, 2016.

Summary

Consolidated water utility financial performance for the fiscal year ended June 30, 2016 was excellent. Total change in net position before special items was \$17.5 million, which was \$20.8 million greater than an expected decrease in net position of \$3.3 million per the revised budget. Higher than anticipated developer contributions of \$11.6 million, higher than anticipated investment earnings of \$3.7 million and lower than anticipated operating expenses for services and supplies of \$3.2 million were the main contributing factors to these positive results.

Cash balances decreased \$8.0 million or \$27.8 million less than an anticipated decrease of \$35.9 million in the revised budget. The main drivers contributing to higher than expected cash balances were lower than anticipated capital spending of \$20.1 million, additional cash received from higher developer contributions of \$6.2 million, additional cash received as investment income of \$4.4 million, and higher operating cash flow of \$1.2 million, offset by lower than anticipated draws on the DWSRF loan related to the North Valley's project by \$3.8 million.

Discussion

The purpose of this report is to provide a brief overview of TMWA's financial performance for the fiscal year 2016. This report is being presented in advance of the annual audited financial statements to bring timely information to the board. Referenced in this report are the fiscal year 2016 Statement of Revenues, Expenses and Changes in Net Position Actual to Budget, **Attachment A-1**, Statement of Net Position Year over Year FY16 and FY15 Actuals, **Attachment A-2**, and Statement of Cash Flows Actual to Budget, **Attachment A-3**. Comparative Statements of Revenues, Expenses and Changes in Net Position Year over Year FY16 and FY15 are not presented as the consolidation of the water utility occurred midyear FY15, making any comparatives irrelevant. The same is true for the Statement of Cash Flows.

Total operating revenues were approximately \$91.9 million, 0.08% higher than the revised operating revenue budget. Water sales revenues were \$0.8 million or 0.90% less than the revised consolidated water sales budget. Water sale revenues for FY16 reflected demand shaving which resulted from 2015 conservation efforts. Hydroelectric revenues were \$0.2 million or 24.29% higher than budget. The revised budget anticipated river flows picking up in late March 2016, but there were sufficient river flows to operate hydroelectric facilities by early February 2016. Other miscellaneous water sales were \$0.6 million or 24.83% higher than budget, mainly due to increases in inspection fees for new business activities as residential building activity becomes more robust in the consolidated service area.

Total operating expenses before depreciation were approximately \$48.4 million, \$4.0 million or 7.67% less than the revised consolidated budget. This was an excellent result since the water utility consolidation brings a number of spending uncertainties. Spending on wages and salaries was \$0.1 million or 0.60% less than budget. Lower spending on employee benefits expenses was \$0.7 million or 9.08% lower due to lower than expected benefit spending on retirement plans. Spending on service and supplies was \$3.2 million or 11.50% less than revised budget. Power costs were \$1.9 million less than anticipated. TMWA as a consolidated water utility continues to aggressively manage power expenses. Savings on chemicals was \$0.5 million due to fewer than anticipated issues with water taste and odor. Claims for domestic well mitigation were also lower than anticipated by \$0.4 million. Depreciation expense was \$31.6 million, \$1.6 million or 4.93% less than revised budget.

Net non-operating revenue and expenses were favorable \$3.1 million or 14.85% as compared to the revised budget. As part of the 2016 bond refunding, there was a partial release of a forward delivery agreement with Bank of America. Bank of America will no longer have to provide a 5.5% interest rate on a portion of our debt reserves balance, so they paid TMWA \$4.4 million dollars for the release of this commitment. This settlement was negotiated by our financial advisors at PFM. Offsetting were higher interest expenses of \$0.8 million due to interest expense on 2016 refunding bonds for the last two months of FY16 which was not in the revised budget.

Total capital contributions were \$23.1 million, \$12.0 million or 108.13% greater than planned as a result of greater residential construction activity in the service area. This includes \$5.4 million in developer dedicated infrastructure for the consolidated service area.

A Special Item on the statement of changes is an adjustment of \$3.1 million for tanks from Washoe County Water Utility (WCWU). Several tanks were not included in the asset values received from the County, and a value has been applied to these tanks based on the date they were built net of any depreciation that would have been recorded through the acquisition date of January 1, 2015. This adjusts the equity received from the WCWU transfer of operations.

Spending on capital outlays and construction projects for the fiscal year ended June 30, 2016 was approximately \$50.4 million, \$20.1 million less than \$70.5 million of capital spending projected in the revised budget. This includes the purchase of the Donnor Lake water rights for \$17.4 million. The most significant construction project was the North Valleys Intertie where construction in FY16 totaled \$9.3 million. Construction of the North Valleys Intertie was \$7 million under budget, and main replacements were \$0.3 million under budget. Other projects deferred until FY17 include Stead main replacement phase 2 for \$5.0 million, Double Diamond Well #3 equip \$1.0 million, Mesa Park drainage improvements \$0.8 million and other smaller projects.

Total cash and investments as of June 30, 2016 was approximately \$187.0 million of which approximately \$87.1 million was restricted by bond indenture requirements and conditions of the STMGID water utility consolidation. The remaining balance of \$99.9 million was available to pay for future operating and maintenance expenses, construction spending, future debt payments, and commercial paper redemptions. Unrestricted cash decreased \$8.0 million year over year. This was significantly favorable compared to an expected decrease in cash in the revised budget of \$28.1 million. As noted above, lower than anticipated capital spending of \$20.1 million, additional cash received from higher developer contributions of \$6.2 million, additional cash received as investment income of \$4.4 million, and higher operating cash flow of \$1.2 million, was offset by lower than anticipated draws on the DWSRF loan related to the North Valley's project of \$3.8M.

**TRUCKEE MEADOWS WATER AUTHORITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>REVISED</u> <u>Budget</u>	<u>UNAUDITED</u> <u>Actual</u>	<u>Variance</u>	<u>Var %</u>
OPERATING REVENUES				
Charges for water sales	\$ 88,328,024	\$ 87,532,164	\$ (795,860)	-0.90%
Hydroelectric sales	945,552	1,175,195	229,643	24.29%
Other operating sales	<u>2,580,867</u>	<u>3,221,583</u>	<u>640,716</u>	24.83%
Total Operating Revenues	<u>91,854,443</u>	<u>91,928,942</u>	<u>74,499</u>	0.08%
OPERATING EXPENSES				
Salaries and wages	16,609,056	16,510,174	98,882	0.60%
Employee benefits	8,164,236	7,423,122	741,114	9.08%
Services and supplies	<u>27,666,431</u>	<u>24,485,845</u>	<u>3,180,586</u>	11.50%
Total Operating Expenses before Depreciation	52,439,723	48,419,141	4,020,582	7.67%
Depreciation	<u>33,207,312</u>	<u>31,570,636</u>	<u>1,636,676</u>	4.93%
Total Operating Expenses	<u>85,647,035</u>	<u>79,989,777</u>	<u>5,657,258</u>	6.61%
Operating Income	<u>6,207,408</u>	<u>11,939,165</u>	<u>5,731,757</u>	92.34%
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	2,357,604	6,084,602	3,726,998	158.08%
Net increase in fair value of investments	-	80,042	-	-
Gain (Loss) on disposal of assets	(625,000)	(528,221)	96,779	15.48%
Amortization of bond/note issuance costs	(1,105,128)	(1,110,784)	(5,656)	-0.51%
Interest expense	<u>(21,191,268)</u>	<u>(22,035,865)</u>	<u>(844,597)</u>	-3.99%
Total Nonoperating Revenues (Expenses)	<u>(20,563,792)</u>	<u>(17,510,226)</u>	<u>3,053,566</u>	14.85%
Income (Loss) before Capital Contributions	<u>(14,356,384)</u>	<u>(5,571,061)</u>	<u>8,785,323</u>	61.19%
CAPITAL CONTRIBUTIONS				
Grants	-	224,138	224,138	-
Water meter retrofit program	540,684	482,081	(58,603)	-10.84%
Developer infrastructure contributions	-	5,377,904	5,377,904	-
Developer will-serve contributions (net of refunds)	1,152,288	4,363,692	3,211,404	278.70%
Developer capital contributions-other	906,612	2,473,163	1,566,551	172.79%
Developer facility charges (net of refunds)	1,505,652	2,931,940	1,426,288	94.73%
Contributions from others	<u>6,995,000</u>	<u>7,249,794</u>	<u>254,794</u>	3.64%
Net Capital Contributions	<u>11,100,236</u>	<u>23,102,712</u>	<u>12,002,476</u>	108.13%
Change in Net Position before special item	(3,256,148)	17,531,651	20,787,799	638.42%
SPECIAL ITEM				
Washoe County Water Utility Transfer of Operations	-	3,075,632	3,075,632	-
Change in Net Position	<u>(3,256,148)</u>	<u>20,607,283</u>	<u>23,863,431</u>	732.87%
NET POSITION , BEGINNING OF YEAR	<u>563,874,134</u>	<u>563,874,134</u>		
NET POSITON , END OF YEAR	<u>\$ 560,617,986</u>	<u>\$ 584,481,417</u>		

TRUCKEE MEADOWS WATER AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2016 AS COMPARED TO JUNE 30, 2015
ASSETS

	UNAUDITED	AUDITED
	June 30, 2016	June 30, 2015
CURRENT ASSETS		
Cash and investments	\$ 99,932,180	\$ 104,979,502
Accounts receivable, net	13,580,981	12,616,237
Due from others	313,955	19,566
Due from other governments	45,969	10,096,844
Interest receivable	230,296	1,304,308
Prepaid assets	1,243,125	1,186,025
	<u>115,346,506</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	16,240,405	20,675,394
	<u>17,994,602</u>	<u>22,429,591</u>
 Total Current Assets	 <u>133,341,108</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	26,045,016	25,720,896
Water rate stabilization	500,000	500,000
	<u>69,109,121</u>	<u>67,608,757</u>
NONCURRENT ASSETS		
Capital assets, not depreciated	170,152,392	123,234,464
Capital assets, depreciated	760,589,748	782,339,301
Deferred charges and other assets	1,013,985	1,448,867
	<u>931,756,125</u>	<u>907,022,632</u>
 Total Noncurrent Assets	 <u>1,000,865,246</u>	 <u>974,631,389</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred amount on bond refundings	3,053,052	5,470,546
Deferred amount on net pension liability	3,768,872	3,768,872
 Total Deferred Outflows	 <u>6,821,924</u>	 <u>9,239,418</u>
 Total Assets and Deferred Outflow of Resources	 <u>\$ 1,141,028,278</u>	 <u>\$ 1,136,502,880</u>

Attachment A-2

TRUCKEE MEADOWS WATER AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2016 AS COMPARED TO JUNE 30, 2015
LIABILITIES

	UNAUDITED June 30, 2016	AUDITED June 30, 2015
CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED		
CURRENT ASSETS		
Accounts payable	\$ 3,257,599	\$ 4,429,632
Contracts and retention payable	899,647	2,492,543
Accrued liabilities	4,000,137	3,954,938
Due to other governments	1,633,125	2,866,886
Accrued interest payable	315,707	248,179
Current portion of long term debt	89,414,845	96,348,107
Customer deposits and amounts due to developers	2,757,239	2,806,156
	<u>102,278,299</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	6,775,405	9,455,394
	<u>19,395,405</u>	<u>20,675,394</u>
Total Current Liabilities	<u>121,673,704</u>	<u>133,821,835</u>
NONCURRENT LIABILITIES		
Net Pension Liability	22,293,306	22,293,306
Long-term debt, net of current portion	406,696,538	410,764,241
Total Non-Current Liabilities	<u>428,989,844</u>	<u>433,057,547</u>
DEFERRED INFLOW OF RESOURCES		
Deferred amount on net pension liability	5,749,364	5,749,364
Deferred amount on bond refundings	133,948	-
Total Liabilities	<u>556,546,860</u>	<u>572,628,746</u>
NET POSITION		
Net investment in capital assets	478,687,473	444,402,572
Restricted for water meter retrofit program	1,754,197	1,754,197
Restricted for debt service	9,464,999	11,220,000
Restricted for operations and maintenance reserve	4,139,954	2,963,710
Restricted for renewal and replacement reserve	26,045,016	25,720,896
Restricted for water rate stabilization	500,000	500,000
Unrestricted	63,889,779	77,312,759
Total Net Position	<u>584,481,418</u>	<u>563,874,134</u>
Total Liabilities and Net Position	<u>\$ 1,141,028,278</u>	<u>\$ 1,136,502,880</u>

Attachment A-2

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

	UNAUDITED Actual	REVISED Budget	Variance
INCREASE IN CASH AND CASH EQUIVALENTS			
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 90,753,299	\$ 91,854,443	\$ (1,101,144)
Cash paid to employees	(24,084,500)	(24,773,292)	688,792
Cash paid to suppliers	(26,047,846)	(27,666,431)	1,618,585
Net Cash Provided by Operating Activities	<u>40,620,953</u>	<u>39,414,720</u>	<u>1,206,233</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(50,411,281)	(70,544,004)	20,132,723
Interest paid on financing	(18,416,450)	(18,888,977)	472,527
Principal paid on financing	(12,568,107)	(12,568,107)	-
Proceeds from refunding bonds	8,239,034	12,000,000	(3,760,966)
Redemption of commercial paper notes	(7,200,000)	(7,200,000)	-
Proceeds transferred to refunding escrow	149,354,337	-	149,354,337
Proceeds from capital debt issuance	(151,026,620)	-	(151,026,620)
Net cash used for capital asset disposal	(528,221)	(625,000)	96,779
Contributions for water meter retrofit program	482,081	540,684	(58,603)
Contributions from developers-will-serve letters	4,363,692	1,152,288	3,211,404
Contributions from developers-other	2,473,163	906,612	1,566,551
Contributions from developers-facility charges	2,931,940	1,505,652	1,426,288
Contributions from others	7,249,794	6,995,000	254,794
Grants	253,131	-	253,131
Bond/Note issuance costs	(821,098)	(1,044,576)	223,478
Net Cash (Used) by Capital and Related Financing Activities	<u>(65,624,605)</u>	<u>(87,770,428)</u>	<u>22,145,823</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received in connection with WCWU transfer of operations	9,678,076	9,700,000	(21,924)
Verdi Business Park receivable	-	-	-
Payments received on Verdi Business Park receivable	22,244	-	22,244
Interest received	7,158,614	2,749,212	4,409,402
Net Cash Provided by Investing Activities	<u>16,858,935</u>	<u>12,449,212</u>	<u>4,409,723</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(8,144,717)</u>	<u>(35,906,496)</u>	<u>27,761,779</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$90,038,348 in restricted accounts for the year ended June 30, 2015)			
	<u>195,017,850</u>	<u>194,835,850</u>	<u>182,000</u>
Cash received in connection with STMGID merger	162,770	-	162,770
CASH AND CASH EQUIVALENTS, END OF YEAR (including \$87,103,723 in restricted accounts for the year ended June 30,2016)			
	<u>\$ 187,035,903</u>	<u>\$ 158,929,354</u>	<u>\$ 28,106,549</u>