



STAFF REPORT

TO: TMWA Board Members
FROM: Mark Foree, General Manager
Jeff Tissier, Chief Financial Officer
DATE: April 8, 2013
SUBJECT: **Tentative Budget for the Fiscal Year Ending June 30, 2014 and Preliminary Five Year Capital Improvement Plan 2014-2018.**

Recommendation

TMWA Board reviews the tentative budget report for fiscal year ending June 30, 2014 and preliminary Five Year Capital Improvement Plan 2014-2018 (CIP) to provide input and direction to TMWA management in advance of the public hearing on the budget and CIP on May 16, 2013.

Executive Summary

TMWA has prepared the tentative budget for the fiscal year ending June 30, 2014 and 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 in May. The tentative budget was filed with the Nevada Department of Taxation by April 15, 2013. The tentative budget and CIP will also be presented to the Standing Advisory Committee (SAC) at the next scheduled meeting on May 7, 2013.

With respect to overall revenues the tentative budget reflects the deferred overall general water rate increase of 3.4% with implementation deferred to the first billing cycle in February 2014. Financial performance in fiscal year 2013 was very good which allowed the board to defer the second proposed water rate increase by one year. Water demands have improved due to warm weather patterns and the modest pace of filling vacant homes. Hydroelectric generation is expected to be much less than fiscal year 2013 as a result of much lower river flows. Investment income will continue to be at historic lows due to very low rates of return on reinvestments. TMWA does not expect any significant increase in development activity in fiscal year 2014 so only a modest amount of developer fee collections have been placed into the budget.

With respect to overall expenses TMWA operating expenses are expected to be slightly higher than fiscal year 2013. Although TMWA staff works diligently to control expenses, power costs are expected to increase by 7 to 8% year over year while contribution to employees benefits are expected to increase 8-9%. TMWA wages and salaries costs are expected to increase a modest 2% as a result of labor negotiations. Three additional personnel will be required in fiscal year 2014 to receive training for positions that have declared retirements within the next year. These positions are temporarily duplicative and total workforce counts will be reduced once retirements have occurred. The budget anticipates continued support of the *Truckee River Fund* and the *Desert Research Institutes' (DRI's)* cloud seeding activities. Interest expenses are expected to increase modestly due to tax-exempt commercial paper interest rates increasing modestly, but still expected to remain under 1% for the fiscal year.

Financial performance is expected to be good for fiscal year 2014. The absence of development activity does not pose any operational or financial risk to TMWA.

Operating Revenues

TMWA expects total operating revenues of approximately \$78.8 million for fiscal year 2014. Please refer to *Attachment A-1*. 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. Currently in fiscal year 2013 water demands have been slightly above the fiscal year 2012 levels, but cooler weather patterns can return and this is assumed for fiscal year 2014 water sale projections. For financial planning purposes TMWA uses consumption statistics reflective of cooler weather patterns to project annual water sale revenues.

Hydroelectric revenue for fiscal year 2014 is expected to be \$2.7 million - much lower than in fiscal years 2013 and 2012. Reservoir storage will be helpful in sustaining river flows in light of two back-to-back very dry winters through the November/December timeframe. There is an expectation that Lake Tahoe, TMWA's primary water reservoir, will be at or near its natural rim by December which will decrease river flows and negatively impact hydroelectric revenues through the winter months.

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, remediation district reimbursement for power/chemical consumption, construction water sales, cell phone tower rents, and interruptible water sales.

Operating Expenses

Cash operating expenses (total operating expenses excluding depreciation) are estimated to be at \$38.0 million in fiscal year 2014. TMWA personnel will continue to work diligently on controlling operating expenses.

Total operating wages and salaries are expected to be \$12.7 million for fiscal year 2014. Full time equivalent (FTE) head count is expected to increase temporarily from 155 FTEs positions to 158 FTEs. The temporary increase is due to pending declared retirements which require some over strength positions to allow for training. Also a 2% wage increase was negotiated with *International Brotherhood of Electrical Workers Local 1245 (IBEW 1245)* for fiscal year 2014.

Employee benefits are expected to be \$5.9 million for fiscal year 2014. The *Public Employees Retirement System (PERS)* imposed an 8.4% increase on the regular member's contribution rate which raised the regular member's contribution rate from 23.75% to 25.75% of eligible wages. This increase resulted in the annual PERS contribution increasing by over \$0.2 million per year. Health care premiums are expected 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)* which is very well 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 funding status of the trust.

Service and supplies are expected to be \$19.3 million which is very close to fiscal year 2013 spending. It is expected that power expenses will rise at least 7% to 8% year over year or \$0.5 to \$0.6 million over past experience. This is due to exhaustion of the *Deferred Energy Adjustment Account (DEAA)*, a fuel and energy balancing account in NV Energy rates, which have previously provided credits on TMWA monthly power bills, coupled with increasing power plant fuel costs going forward. Most other expenses are expected to increase by an inflation rate of approximately 2.5%. Recall that TMWA had numerous unscheduled one-time expenses in fiscal year 2013 which may or may not occur in fiscal year 2014, so this budget may be amended in the future.

Funding for cloud seeding has been incorporated directly into TMWA's budget with a comparable reduction in the contribution to the Truckee River Fund (TRF).

Capital Improvement Plan for Fiscal Years 2014-2018

TMWA plans to spend \$106.3 million over the next five years on a variety of construction projects and capital outlays of which \$20.0 million is expected to be spent in fiscal year 2014. ***Please refer to Attachments C-1 through C-4.*** Ninety-two percent of planned CIP spending is focused primarily on water system rehabilitation. Approximately \$15.9 million of the \$106.2 million in planned spending over the next five years is considered contingency spending which may or may not occur. TMWA management will review and justify each project prior to construction.

Of the total \$20.0 million in capital spending in fiscal year 2013, \$18.8 million (94%), will be for the purposes of rehabilitating of the water system while \$1.2 million will be for water system expansion, some limited water right purchases, and water meter retrofit activities which are all developer funded. Projects that are for expansion of water system capacity are the construction spending related to oversizing a developer installed water main to serve Verdi and new business

meter installations. TMWA's rehabilitation activities focuses on well improvements and capacity preservation for \$1.8 million, treatment plant and telemetry upgrades for \$2.9 million, pump station reconstruction for \$2.7 million, various main replacements for \$7.3 million, and meter replacements for \$1.0 million.

For the following four years (2015-2018) TMWA will continue with CIP projects much in the same manner as in fiscal year 2014. After board input TMWA staff will 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 2014 with approximately \$52.6 million in unrestricted cash and investments, and end the fiscal year with \$40.1 million based upon planned spending levels. ***Please refer to Attachment B.*** These financial resources will be necessary to assist with funding operations and capital spending over the next several years. More than average capital spending and slight increases in interest expense as well as reduced hydroelectric production are expected to contribute to the reduction in unrestricted cash.

TMWA's senior lien debt coverage ratio (excluding system development charges), is estimated to be 1.40x by the end of fiscal year 2014. 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. This projected coverage ratio is reflective of water sales under cool weather patterns but also underpins the need to implement the second water rate adjustment. Standard & Poors completed a credit review of TMWA in April of 2013 reaffirming TMWA's AA- investment grade rating with a stable outlook. This preserves the ability to access senior lien capital markets under favorable terms if necessary. TMWA's credit ratings were instrumental in developing the tax-exempt commercial paper (TECP) program. 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, 2014

	Proposed		Increase (Decrease)
	Tentative Budget	Estimate	
	Fiscal Year 2014 Total	to Complete Fiscal Year 2013 Total	
OPERATING REVENUES			
Charges for water sales	\$ 74,515,839	\$ 76,817,704	\$ (2,301,865)
Hydroelectric sales	2,667,008	3,378,720	(711,712)
Other operating sales	1,585,000	1,611,000	(26,000)
Total Operating Revenues	78,767,847	81,807,424	(3,039,577)
OPERATING EXPENSES			
Salaries and wages	12,733,440	12,452,162	281,278
Employee benefits	5,937,372	5,444,204	493,168
Services and supplies	19,299,007	19,739,865	(440,858)
Total Operating Expenses before Depr	37,969,819	37,636,231	333,588
Depreciation	23,678,184	23,156,208	521,976
Total Operating Expenses	61,648,003	60,792,439	855,564
Operating Income	17,119,844	21,014,985	(3,895,141)
NONOPERATING REVENUES (EXPENSES)			
Grants	-	-	-
Investment earnings	2,169,169	2,203,490	(34,321)
Unrealized gain on investments	-	-	-
Gain (Loss) on disposal of assets	-	-	-
Amortization of bond/note issuance costs	(845,058)	(3,145,200)	2,300,142
Interest expense	(21,341,922)	(21,850,518)	508,596
Other non-operating revenue	150,000	150,000	-
Other non-operating expenses	(240,000)	(240,000)	-
Total Nonoperating Revenues (Expens	(20,107,811)	(22,882,228)	2,774,417
Income (Loss) before Capital Contribu	(2,987,967)	(1,867,243)	(1,120,724)
CAPITAL CONTRIBUTIONS			
Water meter retrofit program	145,980	72,984	72,996
Developer infrastructure contributions	264,264	132,132	132,132
Developer will-serve contributions (net of	114,696	57,348	57,348
Developer capital contributions-other	138,216	69,108	69,108
Developer facility charges (net of refunds	247,548	123,780	123,768
Contributions from others	-	-	-
Contributions from other governments	-	-	-
Net Capital Contributions	910,704	455,352	455,352
Change in Net Assets	(2,077,263)	(1,411,891)	(665,372)
NET ASSETS , BEGINNING OF YEAR	294,362,552	295,445,455	(1,082,903)
NET ASSETS , END OF YEAR	\$ 292,285,289	\$ 294,033,564	\$ (1,748,275)

**TRUCKEE MEADOWS WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

	Proposed Tentative Budget 2014 Total	Estimate to Complete 2013 Total	Increase (Decrease)
	INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 78,767,847	\$ 81,807,424	\$ (3,039,577)
Cash paid to employees	(18,670,812)	(17,848,030)	(822,782)
Cash paid to suppliers	(19,299,007)	(19,459,213)	160,206
Net Cash Provided by Operating Activities	40,798,028	44,500,181	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Grants	-	-	-
Other Revenues	150,000	150,000	-
Other Expenses	(240,000)	(240,000)	-
Net Cash Provided (used) by Noncapital Financing Activities	(90,000)	(90,000)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(19,950,996)	(18,312,000)	1,638,996
Interest paid on financing	(20,043,729)	(20,425,016)	(381,287)
Principal paid on financing	(10,538,740)	(13,328,012)	(2,789,272)
Proceeds from capital debt issuance	-	-	-
Proceeds from commercial paper note issuances	-	-	-
Proceeds from refunding bonds	-	-	-
Proceeds transferred to refunding/redemption escrow	-	-	-
Proceeds from capital asset disposal	-	-	-
Contributions for water meter retrofit program	145,980	72,984	(72,996)
Contributions from developers-will-serve letters	114,696	57,348	(57,348)
Contributions from developers-other	138,216	69,108	(69,108)
Contributions from developers-facility charges	247,548	123,780	(123,768)
Contributions from other governments	-	-	-
Grants	-	-	-
Bond/Note issuance costs	(787,314)	(787,314)	-
Net Cash (Used) by Capital and Related Financing Activities	(50,674,339)	(52,529,122)	(1,854,783)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	2,410,187	2,451,081	
Net Increase (Decrease) in Cash and Cash Equivalents	(7,556,124)	(5,667,860)	1,888,264
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	121,474,053	127,141,913	5,667,860
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 113,917,929</u>	<u>\$ 121,474,053</u>	<u>\$ (7,556,124)</u>

Attachment B-1

TRUCKEE MEADOWS WATER AUTHORITY
CAPITAL IMPROVEMENT PLAN
FOR FISCAL YEAR ENDING JUNE 30, 2014 THROUGH JUNE 30, 2018
(Amounts in thousands of dollars)

Summary of Capital Expenditures by Function	Five Year Total	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Raw Water Supply Improvements	\$ 4,000	\$ 1,100	\$ 1,075	\$ 775	\$ 525	\$ 525
Ground Water Supply Improvements	6,000	1,800	1,000	2,000	600	600
Treatment Plant Improvements	9,705	2,945	1,745	1,950	1,965	1,100
Distribution System Improvements	52,125	9,950	7,775	13,600	8,625	12,175
Potable Water Storage Improvements	8,100	700	2,000	2,900	400	2,100
Hydroelectric Improvements	8,160	635	475	2,400	3,775	875
Customer Service Outlays	8,950	1,150	3,000	1,550	1,600	1,650
Administrative Outlays	5,255	1,025	1,000	1,050	1,000	1,180
Sub-Total TMWA Construction Spending & Outlays	102,295	19,305	18,070	26,225	18,490	20,205
Water Meter Retrofit/ Water Right Purchases	3,989	646	675	704	880	1,084
Total Projected Capital Spending	\$ 106,284	\$ 19,951	\$ 18,745	\$ 26,929	\$ 19,370	\$ 21,289

Attachment C-1

**TRUCKEE MEADOWS WATER AUTHORITY
CAPITAL IMPROVEMENT PLAN PRELIMINARY FUNDING PLAN
FOR FISCAL YEAR ENDING JUNE 30, 2014 THROUGH JUNE 30, 2018
(Amounts in thousands of dollars)**

Summary of Funding by Customer Class/Bonding	Five Year Total	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Capital Improvements Funded by Customer Rates	\$ 97,670	\$ 18,830	\$ 17,970	\$ 23,325	\$ 17,590	\$ 19,955
Capital Improvements Funded by Development	2,625	475	100	900	900	250
Sub-Total TMWA Construction Spending & Outlays	\$ 100,295	\$ 19,305	\$ 18,070	\$ 24,225	\$ 18,490	\$ 20,205
Funded from Acquisition/DWSRF Bond Proceeds	2,000	-	-	2,000	-	
Water Meter Retrofit/ Water Right Purchases	3,989	646	675	704	880	1,084
Total Projected Capital Spending	\$ 106,284	\$ 19,951	\$ 18,745	\$ 26,929	\$ 19,370	\$ 21,289

Attachment C-2

**TRUCKEE MEADOWS WATER AUTHORITY
 CAPITAL IMPROVEMENT PLAN SPENDING PRIORITIZATION
 FOR FISCAL YEAR ENDING JUNE 30, 2014 THROUGH JUNE 30, 2018
 (Amounts in thousands of dollars)**

Summary of Funding by Priority	Five Year Total	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Priority 1----Mandatory Spending, Projects in Progress, Regulatory	\$ 63,550	15,575	12,975	11,550	13,225	10,225
Priority 2----Necessary Spending	26,799	2,866	3,185	12,999	4,090	3,659
Priority 3----Contingency Spending	15,935	1,510	2,585	2,380	2,055	7,405
	\$ 106,284	19,951	18,745	26,929	19,370	21,289

Attachment C-3

**CAPITAL IMPROVEMENT PLAN
FOR FISCAL YEAR ENDING JUNE 30, 2014 THROUGH JUNE 30, 2018
(Amounts in thousands of dollars)**

SUMMARY OF PROJECTS

Page #	Priority			Five Year Total	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Raw Water Supply Improvements									
1	1	CR	Highland Canal-Upgrades-Downstream	\$ 625	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125
2	3	CR	Highland Canal-Upgrades-US 40	500	100	100	100	100	100
3	1	CR	Donner Dam Improvements	750	250	500	-	-	-
4	1	CR	TROA Drought Storage/Implementation	2,125	625	350	550	300	300
Subtotal -Raw Water Supply				4,000	1,100	1,075	775	525	525
Ground Water Supply Improvements									
5	1	CR	Well Rehabilitation Improvements	6,000	1,800	1,000	2,000	600	600
Subtotal-Groundwater Development				6,000	1,800	1,000	2,000	600	600
Treatment Plant Improvements									
6	2	CR	Treatment Plants- General Fix & Finish	4,530	845	770	1,000	1,015	900
7	1	CR	SCADA Rehab/Plant Operating Software	2,425	1,350	475	200	200	200
8	1	CR	Glendale Projects-Control Room Reconstruct	750	750	-	-	-	-
9	3	CR	Glendale Clearwell #2 Install	1,500	-	-	750	750	-
10	2	CR	Orr Ditch PS Improvements	500	-	500	-	-	-
Subtotal Treatment Improvements				7,705	2,945	1,745	1,950	1,965	1,100
Distribution System Improvements									
Pressure Improvements									
11	1	CR	Pressure Regulators Rehabilitation	1,800	600	300	300	300	300
	3	CR	Pump Station Site Acquisitions	2,000	400	400	400	400	400
12	1	CR	Pump Station Rebuilds,Rehabilitations	5,600	1,600	1,000	1,000	1,000	1,000
13	3	CR	Standby Generator Replacements	850	75	75	500	125	75
Sub-Total Pressure Improvements				10,250	2,675	1,775	2,200	1,825	1,775
Water Mains/Service lines									
14	1	CR	Street & Highway Main Replacements	27,500	5,500	5,500	5,500	5,500	5,500
15	2	CR	Stead Main Replacement Phase II	5,500	-	-	5,500	-	-
16	1	CR	Caughlin Mayberry Intertie	900	900	-	-	-	-
17	3	CR	California-Marsh 24" Main Replacement	4,500	-	-	-	-	4,500
18	3	DF	Verdi 18" Main oversizing	375	375	-	-	-	-
19	2	CR	NE Sparks Feeder Main Relocation	900	-	-	-	900	-
20	2	CR	Galv/Poly Service Line Replacements	2,200	500	500	400	400	400
Subtotal Distribution Improvements				41,875	7,275	6,000	11,400	6,800	10,400
Potable Water Storage Improvements									
21	1	CR	Highland Reservoir Line/Cover Replacement	1,600	-	1,600	-	-	-
22	2	CR	Peavine Tank Replacement	2,500	-	-	2,500	-	-
23	3	CR	Sun Valley #2 Tank Replacement	1,700	-	-	-	-	1,700
24	1	CR	Tank/Reservoir Fix & Finish	2,300	700	400	400	400	400
Subtotal Storage Improvements				8,100	700	2,000	2,900	400	2,100
Hydroelectric Improvements									
25	2	CR	Acquisition of Farad Hydro Plant	2,000	-	-	2,000	-	-
26	1	CR	Flume Reconstruction Fleisch, Fliesch Footbridge, Verdi	4,575	375	325	75	3,400	400
27	2	CR	Hydro Plant Equipment Replacement	1,585	260	150	325	375	475
Subtotal Hydroelectric Improvements				8,160	635	475	2,400	3,775	875
Customer Service Outlays									
28	3	CR	CIS System Upgrade/ Meter Reading Equipment	1,600	50	1,500	-	50	-
29	2	DF	New Business Meters	750	100	100	150	150	250
30	1	CR	Meter Replacements	6,600	1,000	1,400	1,400	1,400	1,400
Subtotal Customer Service				8,950	1,150	3,000	1,550	1,600	1,650
Administrative Outlays									
31	2	CR	GIS System Mapping Equipment	100	20	20	20	20	20
32	2	CR	Desktop Computer Upgrades	500	100	100	100	100	100
33	2	CR	Network Server/Storage upgrades	950	175	175	175	175	250
34	2	CR	Network Security Upgrades	825	150	150	150	150	225
35	2	CR	Computer/Network Licensing	750	150	150	150	150	150
36	3	CR	Furniture -Office Equipment	50	10	10	10	10	10
37	3	CR	Backhoe Replacements	360	-	-	120	120	120
38	2	CR	Crew Trucks / Vehicles	1,170	270	245	225	200	230
39	2	CR	Security-VA/ER Projects	550	150	150	100	75	75
Subtotal Administrative-Outlays				5,255	1,025	1,000	1,050	1,000	1,180
Subtotal Construction Projects and Captial Outlays				102,295	19,305	18,070	26,225	18,490	20,205
Special Projects Funded by Development									
40	2	DF	Water Meter Retrofits	1,489	146	175	204	380	584
41	3	DF	Water Right Purchases	2,500	500	500	500	500	500
Sub Total Special Projects Funded by Development				3,989	646	675	704	880	1,084
Total Construction Expenditures and Capital Outlays				\$ 106,284	\$ 19,951	\$ 18,745	\$ 26,929	\$ 19,370	\$ 21,289