



TO: Standing Advisory Committee
FROM: Jeff Tissier, Chief Financial Officer
DATE: April 2, 2015
SUBJECT: **Presentation of the TMWA Tentative Budget for the Fiscal Year Ending June 30, 2016 and Preliminary Five Year Capital Improvement Plan 2016-2020.**

Recommendation

TMWA SAC 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 to staff and a possible recommendation to the TMWA Board of Directors 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 SAC. Once input is received, TMWA staff will incorporate B 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.

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 at historical lows 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 fees.

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. Wages and salaries 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. 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 these rates hinge on Federal Reserve policy which may continue to be accommodative but recent press releases indicate some interest in increasing short term rates. At this time the \$98.0 million in outstanding tax-exempt commercial (TECP) paper is carrying 0.10% interest rate.

Financial performance is expected to be good for fiscal year 2016 but there will be pressure on water sales due to the drought and conversion of flat rate customer to metered billing. TMWA plans to apply for a Drinking Water State Revolving Fund Loan of \$15.0 million to fund the North Valleys Integration Project which 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. Capital spending is estimated to be \$52.4 million in fiscal year 2016 of which 43% of total spending will be on two projects, the previously mentioned North Valleys Integration Project for \$17.8 million and the Stead Main Replacement Project for \$5.0 million.

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 and includes a 10% reduction in customer consumption during the irrigation season as well as a \$0.5 million reduction in water sales revenue if flat rate customers are converted to metered billing by October 1, 2015. This conversion will negatively impact water sale revenues.

Hydroelectric revenue for fiscal year 2016 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 minimal levels with extremely poor precipitation results at this time. In the prior fiscal year hydroelectric generation stopped the first week in August.

Other operating sales are expected to be approximately \$2.7 million for fiscal year 2016. Other operating sales 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. But if

residential construction activity picks up substantially then 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 year 2016 and the same for fiscal year 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 couple of years. If 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 for adding one or two FTE's for inspection services depending on workloads.

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 raising the annual 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 will be the first fiscal year for adoption of this new accounting standard. Once the impact is determined a budget augmentation/adjustment may 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 potential necessity of purchasing activated carbon to address potential taste and odor issues from algal blooms in the Truckee River which results from low flows and increasing water temperatures.

The tentative budget includes funding for cloud seeding of \$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 Attachments 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 service area and provide 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 and 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 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. Of this total ending cash and investments \$92.2 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 \$92.9 million in restricted reserves includes \$15.1 million in transferred funds from the South Truckee Meadows General Improvement District (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 is under credit review by the three major credit rating agencies -

Moodys, Fitch Ratings, and Standard & Poors, 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 price in the middle 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 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 <u>Total</u>
OPERATING REVENUES	
Charges for water sales	\$ 96,095,877
Hydroelectric sales	1,423,806
Other operating sales	<u>2,708,000</u>
Total Operating Revenues	<u>100,227,683</u>
OPERATING EXPENSES	
Salaries and wages	16,609,056
Employee benefits	8,164,236
Services and supplies	<u>27,466,431</u>
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	<u>-</u>
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	<u>-</u>
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	
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	
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	2,894,436
	<u>(16,959,046)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	\$ 170,000,000
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 153,040,954</u>

Attachemnt B

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

SUMMARY OF PROJECTS									
Page #	Priority			FY	FY	FY			
Raw Water Supply Improvements			2016	2017	2018	2019			
						Five Year			
						CIP Total			
1	1	CR ¹	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 S	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 Clearwell # 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	Pressure 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 Oversizing	250	-	-	-	-	250
36	1	CR	Pump Station Rebuilds, Rehabilitations	1,350	1,900	1,000	1,000	1,000	6,250
37	1	Reserve	NAC Deficiencies-Saddlehorn, Upper Toll Road, STMGID	340	360	100	2,400	-	3,200
38	2	CR	Standby Generator Replacements	650	650	150	150	150	1,750
Sub-Total Pressure Improvements				4,090	4,860	3,150	5,650	2,500	20,250
Water Main-Distribution-Service line Improvements									
39	1	CR	Street & Highway Main Replacements	4,500	5,000	5,000	5,500	5,600	25,600
40	1	DF	North Valleys Integration Project	17,800	-	-	-	-	17,800
41	1	CR/DF	Stead Main Replacement Phase II	5,000	-	-	-	-	5,000
42	1	CR	Hidden Valley Intertie Pumping Capacity	100	500	-	-	-	600
43	1	CR	California-Marsh 24" Main Replacement	-	100	900	-	-	1,000
44	2	CR	Booth, Sharon Way, Monroe 24" Main Replacements	-	-	-	100	3,100	3,200
45	2	CR	Juniper Hill Modifications	500	-	-	-	-	500
46	2	DF	Verdi 18" Main oversizing	375	-	-	-	-	375
47	3	DF	South Virginia 24" Main (Kumle to Peckham)	-	-	-	100	900	1,000
48	2	CR	NE Sparks Feeder Main Relocation	-	900	-	-	-	900
49	1	CR	Spanish Springs -SC south Zone Conversion	700	-	-	-	-	700
50	2	CR	West Hidden Valley, Surge St., Piping Rock Main Replace	-	1,000	-	230	500	1,730
51	2	CR	Desert Springs Water Main Rehabilitations	-	-	1,280	-	1,280	2,560
52	2	CR	Galena Cr. Xing T-Main	-	300	-	-	-	300
53	3	DF	Bonnie Ln., Snow Flower, Main Extensions	-	-	-	620	900	1,520
54	2	DF	South Truckee Meadows Capacity Improvements	-	-	400	-	-	400
55	1	Reserve	STMGID Conjunctive Use Facilities	200	1,500	2,100	-	-	3,800
56	1	DF	Arrowcreek-Mt. Rose Conjunctive Use Ph 1	2,800	-	-	-	-	2,800
57	1	DF	Arrowcreek-Mt. Rose Conjunctive Use Ph 2	-	1,200	-	-	-	1,200
58	1	CR	Arc Flash Improvements	100	100	100	-	-	300
59	3	DF	General Waterline Extensions	100	100	100	100	100	500
60	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									
61	1	DF	D,Andrea #3 Tank	100	-	-	-	-	100
62	2	CR	Peavine Tank Replacement	-	2,500	-	-	-	2,500
63	2	CR/DF	Sun Valley #2 Tank	-	-	1,750	-	-	1,750
64	2	DF	Rattlesnake Ring Addition	-	-	-	800	-	800
65	1	Reserve	Zone 11 Tank	-	3,000	-	-	-	3,000
66	3	DF	Fish Springs Ranch #2	-	-	-	-	100	100
67	1	Reserve	Former STMGID Tank Recoats	170	-	220	-	300	690
68	1	CR	Storage Tank Recoats; Access; Drainage improvements	760	780	860	800	800	4,000
Subtotal Storage Improvements				1,030	6,280	2,830	1,600	1,200	12,940
Hydroelectric Improvements									
69	1	CR	Flume, Forebay, Diversion, and Canal Improvements	365	510	560	260	400	2,095
70	2	CR	Hydro Plant Equipment Replacement/Upgrades	150	-	70	70	-	290
71	3	CR	Hydro Plant Generator Rewinds	-	-	350	350	350	1,050
Subtotal Hydroelectric Improvements				515	510	980	680	750	3,435
Customer Service Outlays									
72	3	CR	Meter Reading Equipment	60	-	60	-	60	180
73	2	DF	New Business Meters	250	250	250	250	250	1,250
74	1	CR	Mueller Pit Replacements former Washoe County	125	125	125	375	125	875
75	1	Reserve	Mueller Pit Replacements former STMGID	75	75	75	75	75	375
76	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	1,950	1,760	8,930
Administrative Outlays									
77	2	CR	GIS System Mapping Equipment	30	30	30	30	30	150
78	2	CR	Desktop Computer Upgrades	100	100	100	100	100	500
79	2	CR	Network Server/Storage upgrades	275	175	175	175	175	975
80	2	CR	Network Security Upgrades	150	150	150	150	150	750
81	2	CR	Computer/Network Licensing	150	150	150	150	150	750
82	3	CR	Furniture -Office Equipment	25	25	25	25	25	125
83	2	CR	Dump trucks/Vac Trucks/Backhoe Replacements	270	125	285	380	160	1,220
84	2	CR	Crew Trucks / Vehicles	709	690	288	190	362	2,239
85	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 Capital Outlays				51,644	38,855	28,018	21,505	23,857	163,879
Special Projects Funded by Development									
86	2	DF	Water Meter Retrofits	300	300	300	300	300	1,500
87	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				\$ 52,444	\$ 39,655	\$ 28,818	\$ 22,305	\$ 24,657	\$ 167,879

1) Funding Sources "CR" is customer rates; "DF" Developer funded; "Reserve" is the South Truckee Meadows General Improvement District transferred cash