



STAFF REPORT

TO: Chairman and Board Members
THRU: Mark Foree, General Manager
FROM: Jeff Tissier, Chief Financial Officer
DATE: January 12, 2016
SUBJECT: **Discussion and action on adoption of Resolution No. 236, a resolution to approve the First Budget Augmentation and amendment to the FY 2015/2016 Final Adopted Budget**

RECOMMENDATION

Staff recommends that the Board of Directors of the Truckee Meadows Water Authority (TMWA) approve the resolution adopting the proposed budget augmentation/revisions, and direct staff to forward the approved resolution and attachment to the Department of Taxation for the State of Nevada pursuant to NRS 354.615; and, record these changes in the minutes of the board meeting.

BACKGROUND

Budget augmentations/revisions must be adopted by resolution and information forwarded to the *Nevada Department of Taxation* after board approval. Since TMWA does not have taxing authority, separate public notice is not required. The Board approved final budget was submitted to the State of Nevada in June 2015 and is being adjusted for changes as discussed further in this report. This first augmentation focuses on certain spending augmentations and adjustments to certain revenues streams. The major spending augmentations are for acquisition of Truckee Carson Irrigation District's (TCID) interest in the Donner Lake assets, purchase of vehicles for the City of Reno fire hydrant maintenance program, and estimated expenses relating to the upcoming refunding of the Series 2006 Revenue Refunding Bonds. Adjustment to revenues includes reduction of various operating revenues due to the persistent drought, decrease to investment income due to lower investment rates of return and increases in capital contributions due to the sale of water rights in relation to the implementation of the Truckee River Operating Agreement (TROA). Also included are further redemptions of outstanding tax-exempt commercial paper (TECP).

EXPLANATION OF THE AUGMENTATION

A number of budget augmentations and budget revisions can be found in *Attachments A-1* that affect the Statement of Revenues Expenses and Changes in Net Position and in *Attachment A-2* that affect the Statement of Cash Flows. The augmentation and revisions are as follows and are noted in those attachments.

Budget augmentations and revisions relating to the Statement of Revenues, Expenses and Changes in Net Position Attachment A-1:

Item-A) A budget revision to reduce water sales for the fiscal year by \$7.8 million. The reduction is two pronged, the first one related to greater than expected reduction of water demands as a result of the customer response to the TMWA conservation plan. The other component of the decrease was due to the timing of converting flat rate customers to metered billing. Since the conversion occurred in October 2015 all flat rate revenue is converted to lower metered billing because of winter/spring water demands. The amount of water sales loss is approximately \$5.3 million for conservation and \$2.5 million for conversion of flat rate customers to metered billing.

Item-B) A budget revision to hydroelectric sales for \$0.5 million due to river flows to produce generation not arriving until March of 2016. The budget anticipated some modest river flows in January of 2016

Item-C) A budget revision to reduce other miscellaneous operating sales by \$0.1 million for less than expected Remediation District reimbursement and slightly lower than planned late fees.

Item-D) A budget revision to reduce investment income by \$0.1 million due to lower rates of return on invested assets. TMWA expected slightly higher rates of return which did not materialize due to a lower interest rate environment.

Item-E) Budget augmentation for cash spent on the demolition of portions of the Fleisch Flume that was replaced by the Fleisch Tunnel Project. This project removed flume that was positioned in the river and restored this portion of the Truckee River to its natural state.

Item-F) Budget augmentation to add for spending related to the defeasance of the Series 2006 Revenue Refunding Bonds of TMWA. At this time savings are expected to be significant but may change due to fluctuations in interest rates which have remained low.

Item-G) Budget revision for reduction in interest expense as a result of much lower than anticipated interest rates charged on tax-exempt commercial paper remarketings which currently are still 5 to 6 basis point (bps) (1 bps= one hundredth of one percent). The budget anticipated 0.50 to 1.25% for the fiscal year. These savings was offset for the amortization of a valuation allowance related to the defeasance of the Washoe County 2005 G.O. Revenue Bonds which is a non-cash item and only an accounting entry.

Item-H) The budget revision is for the sale of dormant water rights to the Pyramid Lake Paiute Tribe to settle obligation owed by Washoe County, the City of Sparks and the City of Reno and effect the implementation of TROA. The sale was for \$7.0 million less nominal closing expenses.

Budget augmentations and revisions relating to the Statement of Cash Flows Attachment A-2:

Items-A, B & C) The cash flow effects of the aforementioned revisions to operating revenues.

Item-D) Cash flow effect of aforementioned reduction in investment income.

Item-E) Cash flow effects of disposal costs related to the Fleisch flume demolition as previously mentioned.

Item-F) Cash flow effects of additional bond issuance expenses related to the refunding of TMWA's Series 2006 Revenue Refunding Bonds.

Item-G) This revision reflects the cash flow reduction in tax-exempt commercial paper remarketing rates which are substantially less than forecasted.

Item-H) This revision reflects the cash flow effect of selling water rights to implement TROA.

Item-I) Capital spending budget augmentation for the acquisition of TCID's interest in the Donner Lake Assets for \$17,650,000 which includes transfer taxes and \$450,000 for light crew vehicles for the City of Reno fire hydrant maintenance program.

Item-J) Budget augmentation for further redemptions of TMWA's outstanding tax-exempt commercial paper notes. This augmentation is for further redemptions of outstanding TECP that were used to purchase water rights for Rule 7. TMWA issued \$43.0 million in TECP to purchase water rights. Since those purchases TMWA has issued \$5.2 million in will-serve commitments from fiscal year 2008 to the end of fiscal year 2015. These proceeds were held in unrestricted treasury until such time it was deemed that the local economy had improved to the extent that it would be prudent to begin redeeming notes related to the aforementioned water right transactions. It is expected that by the end of fiscal year 2016 that the \$5.2 million in cumulative will serve sales will increase to \$6.0 million. TECP must be redeemed in \$100,000 increments split evenly between the two short term dealers JP Morgan and Goldman Sachs.

Item-K) This budget revision reflects greater than anticipated cash balance transfers to TMWA as a result of the water utility consolidation and transfer of remaining treasuries from the former utilities in October 2015.

TRUCKEE MEADOWS WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

	Estimate to Complete Fiscal Year 2016 Total	Presented Final Budget Fiscal Year 2016 Total	Increase (Decrease)	
OPERATING REVENUES				
Charges for water sales	\$ 88,328,024	\$ 96,095,877	\$ (7,767,853)	A
Hydroelectric sales	945,552	1,423,806	(478,254)	B
Other operating sales	2,580,867	2,708,000	(127,133)	C
Total Operating Revenues	91,854,443	100,227,683	(8,373,240)	
OPERATING EXPENSES				
Salaries and wages	16,609,056	16,609,056	-	
Employee benefits	8,164,236	8,164,236	-	
Services and supplies	27,666,431	27,666,431	-	
Total Operating Expenses before Depreciation	52,439,723	52,439,723	-	
Depreciation	33,207,312	33,207,312	-	
Total Operating Expenses	85,647,035	85,647,035	-	
Operating Income	6,207,408	14,580,648	(8,373,240)	
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	2,357,604	2,502,840	(145,236)	D
Unrealized gain on investments	-	-	-	
Gain (Loss) on disposal of assets	(625,000)	(550,000)	(75,000)	E
Amortization of bond/note issuance costs	(1,105,128)	(502,128)	(603,000)	F
Interest expense	(21,191,268)	(21,501,504)	310,236	G
Other non-operating revenue	-	-	-	
Other non-operating expenses	-	-	-	
Total Nonoperating Revenues (Expenses)	(20,563,792)	(20,050,792)	(513,000)	
Income (Loss) before Capital Contributions	(14,356,384)	(5,470,144)	(8,886,240)	
CAPITAL CONTRIBUTIONS				
Grants	-	-	-	
Water meter retrofit program	540,684	540,684	-	
Developer infrastructure contributions	-	-	-	
Developer will-serve contributions (net of refunds)	1,152,288	1,152,288	-	
Developer capital contributions-other	906,612	906,612	-	
Developer facility charges (net of refunds)	1,505,652	1,505,652	-	
Contributions from others	6,995,000	-	6,995,000	H
Contributions from other governments	-	-	-	
Net Capital Contributions	11,100,236	4,105,236	6,995,000	
Change in Net Position	(3,256,148)	(1,364,908)	(1,891,240)	
NET POSITION, BEGINNING OF YEAR	\$ 563,874,134	\$ 542,000,000	\$ 21,874,134	
NET POSITION, END OF YEAR	\$ 560,617,986	\$ 540,635,092	\$ 19,982,894	

TRUCKEE MEADOWS WATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDING JUNE 30, 2016

	Estimate to Complete Fiscal Year 2016 Total	Presented Final Budget Fiscal Year 2016 Total	Increase (Decrease)	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 91,854,443	\$ 100,227,683	\$ (8,373,240)	A,B,C
Cash paid to employees	(24,773,292)	(24,773,292)	-	
Cash paid to suppliers	(27,666,431)	(27,666,431)	-	
Net Cash Provided by Operating Activities	<u>39,414,720</u>	<u>47,787,960</u>	<u>(8,373,240)</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(70,543,996)	(52,443,996)	(18,100,000)	I
Interest paid on financing	(18,888,977)	(19,525,727)	636,750	G
Principal paid on financing	(12,568,107)	(12,568,107)	-	
Proceeds from capital debt issuance	15,000,000	15,000,000	-	
Redemptions of commercial paper notes	(7,200,000)	(1,200,000)	(6,000,000)	J
Proceeds from refunding bonds	-	-	-	
Proceeds transferred to refunding/redemption escrow	-	-	-	
Proceeds (spending) from (on) capital asset disposal	(625,000)	(550,000)	(75,000)	E
Contributions for water meter retrofit program	540,684	540,684	-	
Contributions from developers-will-serve letters	1,152,288	1,152,288	-	
Contributions from developers-other	906,612	906,612	-	
Contributions from developers-facility charges	1,505,652	1,505,652	-	
Contributions from (to) others	6,995,000	-	6,995,000	H
Contributions from (to) other governments	-	-	-	
Grants	-	-	-	
Bond/Note issuance costs	(1,044,576)	(441,576)	(603,000)	F
Net Cash (Used) by Capital and Related Financing Activities	<u>(84,770,420)</u>	<u>(67,624,170)</u>	<u>(17,146,250)</u>	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	<u>2,749,212</u>	<u>2,894,436</u>	<u>(145,224)</u>	D
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(42,606,488)</u>	<u>(16,941,774)</u>	<u>(25,664,714)</u>	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>\$ 201,535,850</u>	<u>\$ 178,894,977</u>	<u>\$ 22,640,873</u>	K
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 158,929,362</u>	<u>\$ 161,953,203</u>	<u>\$ (3,023,841)</u>	

Attachemnt A-2

TRUCKEE MEADOWS WATER AUTHORITY
(TMWA)

RESOLUTION NO. 236

A RESOLUTION TO AMEND THE FINAL BUDGET FOR FISCAL YEAR ENDING JUNE 30, 2016.

WHEREAS, TMWA prepared and presented the final budget for fiscal year 2016 at a public hearing in May 2015;

WHEREAS, there are augmentations and adjustments to that final budget that require board approval and the revised final budget be used for filing in fiscal year 2017 state budget documents;

WHEREAS, TMWA will need to increase spending related to the acquisition of TCID's interest in the Donner Lake assets, vehicle equipment purchases for City of Reno fire hydrant maintenance and for bond issuance expenses related to the Series 2006 Revenue Bond Refunding;

WHEREAS, TMWA needs to revise budgetary estimates for operating revenues, investment income, interest expense, and certain capital contributions and allow for further redemptions of tax-exempt commercial paper;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Truckee Meadows Water Authority: that the augmentations and revisions to the annual budget described in the Staff Report attached as Exhibit 1 are hereby approved and staff is directed to submit such information as necessary and appropriate in connection with the augmentations and revisions to the Nevada Department of Taxation

Upon motion of _____, seconded by _____, the foregoing Resolution was passed and adopted this 20th day of January, 2016, by the following vote of the Board:

Ayes: _____
Nays: _____
Abstain: _____ Absent: _____

Approved this 20th day of January, 2016

Geno Martini, Chairman

Truckee Meadows Water Authority
Resolution 236 (continued)

STATE OF NEVADA,)
 : ss.
COUNTY OF WASHOE.)

On this 20th day of January, 2016, Geno Martini, Chairman of the Board of Truckee Meadows Water Authority, personally appeared before me, a Notary Public in and for said County and State, and acknowledged that he executed the above instrument freely and voluntarily and for the purposes therein mentioned.

Notary Public