



TO: Standing Advisory Committee
THRU: Mark Foree, General Manager
FROM: Michele Sullivan, Chief Financial Officer
DATE: June 2, 2016
SUBJECT: **Presentation of the Third Quarter Fiscal Year 2016 Financial Report**

Summary

TMWA's financial performance was very positive for the nine months ended March 31, 2016, with total operating revenues \$0.8M million or 1.2% greater than budget and operational spending \$3.0 million or 4.6% less than budget. Developer contributions were \$3.5 million greater than budget. Please refer to **Attachment A-1** for budget to actual financial results comparisons. When referring to the "budget," staff is referring to the augmented budget approved by the TMWA Board in January 2016.

Cash on hand was \$183.7 million, of which \$98.2 million was unrestricted. Please refer to **Attachment A-2** for more detail related to cash and investment balances.

Discussion

Total operating revenues were \$0.8 million or 1.2% greater than the budget. Water sales were \$2 thousand or less than .01% lower than budget, and continue to reflect 2015 conservation levels. Hydroelectric power sales were \$0.3 million greater than budget. This favorable variance is due to better than expected river flows in February and March, offset by loss of capacity at Fleish due to issues with the penstock. Other operating sales were \$0.5 million or 26.3% greater than budget due to increased construction inspection fees from new business activities.

Total spending on operations was \$3.0 million, or 4.6% below budget. TMWA personnel have done an excellent job managing operating expenses. Spending on wages and salaries was \$0.1 million or 1.0% less than budget. Less spending on employee benefits of \$0.5 million or 7.9%, is reflective of lower than expected spending on health care benefits. Services and supplies spending was \$2.4 million or 11.4% 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 \$0.6 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. The majority of TMWA's investment returns range from 0.006% to 5.5% and are laddered in maturities in a manner to meet future cash flow requirements.

Interest expense on TMWA's outstanding debt is virtually on budget. TMWA continues to experience very low interest rates with TMWA's Tax-Exempt Commercial Paper Program (TECP). Recent remarketing of outstanding notes have been at slightly higher interest rates compared to the first half of FY 2016 increasing from .05% to .48%. The budget anticipated higher interest rates on variable rate debt which is beginning to occur after the Federal Reserve moved on the discount rate last in December, 2015. 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 a total of \$3.5 million. Development has been concentrated on limited residential activity and on small commercial activities. Construction activity is improving which is very positive since TMWA was never reliant on developer fees to meet day to day obligations.

Spending on capital outlays and construction projects was approximately \$40.4 million which is significantly under the budget of \$47.4 million for the first nine months of the fiscal year. Purchase of half of Donner Lake from Truckee Carson Irrigation District for \$17.4 million was the main capital outlay which closed in March, 2016. Other capital spending through the third quarter of the fiscal year included \$7.0 million for the North Valleys Integration Project which will tie in the Fish Springs Ranch importation infrastructure with TMWA's North Valley's water system infrastructure. \$3.6 million was spent on the Arrowcreek/Mt. Rose conjunctive use project. Other construction projects in FY 2016 include drilling and equipping of new production wells as well as various distribution system improvements.

Referring to TMWA's Statement of Net Assets in **Attachment A-2**, total cash on hand was \$183.7 million as of March 31, 2016 which is \$11.3 million lower than at the beginning of the fiscal year. Of this total, \$98.2 million was unrestricted to be used for future operating/maintenance expenses, principal/interest payments, and for upcoming construction projects. TMWA forecasts that the unrestricted treasury at June 30, 2016 to be somewhat lower than March 31, 2016 due to a \$6 million pay down of commercial paper in May.

The remaining \$85.5 million is restricted to pay for scheduled bond principal and interest payments, maintaining required reserves as stipulated in TMWA's bond indentures as well as cash reserved for capital improvements to former STMGID infrastructure.

TRUCKEE MEADOWS WATER AUTHORITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - BUDGET TO ACTUAL
FOR THE NINE MONTHS ENDED MARCH 31, 2016

	<u>REVISED</u> <u>Budget</u>	<u>UNAUDITED</u> <u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Charges for water sales	\$ 65,763,371	\$ 65,761,201	\$ (2,170)
Hydroelectric sales	149,373	421,119	271,746
Other operating sales	1,951,117	2,465,008	513,891
Total Operating Revenues	<u>67,863,861</u>	<u>68,647,328</u>	<u>783,467</u>
OPERATING EXPENSES			
Salaries and wages	12,430,264	12,307,022	123,242
Employee benefits	6,123,177	5,640,625	482,552
Services and supplies	20,654,196	18,293,129	2,361,067
Total Operating Expenses before Depreciation	<u>39,207,637</u>	<u>36,240,776</u>	<u>2,966,861</u>
Depreciation	24,905,484	24,905,484	-
Total Operating Expenses	<u>64,113,121</u>	<u>61,146,260</u>	<u>2,966,861</u>
Operating Income	<u>3,750,740</u>	<u>7,501,068</u>	<u>3,750,328</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	1,766,682	1,780,550	13,868
Gain (Loss) on disposal of assets	(625,000)	(539,051)	85,949
Amortization of bond/note issuance costs	(376,344)	(400,600)	(24,256)
Interest expense	(15,893,451)	(15,827,339)	66,112
Other non-operating revenue	-	6,338	6,338
Total Nonoperating Revenues (Expenses)	<u>(15,128,113)</u>	<u>(14,980,102)</u>	<u>148,011</u>
Income (Loss) before Capital Contributions	<u>(11,377,373)</u>	<u>(7,479,034)</u>	<u>3,898,339</u>
CAPITAL CONTRIBUTIONS			
Grants	-	180,539	180,539
Water meter retrofit program	405,513	114,869	(290,644)
Developer will-serve contributions (net of refunds)	864,216	2,487,317	1,623,101
Developer capital contributions-other	679,959	1,617,082	937,123
Developer facility charges (net of refunds)	1,129,239	2,090,978	961,739
Contributions from others	6,995,000	7,355,312	360,312
Net Capital Contributions	<u>10,073,927</u>	<u>13,846,097</u>	<u>3,772,170</u>
Change in Net Position	<u>(1,303,446)</u>	<u>6,367,063</u>	<u>7,670,509</u>
NET POSITION , BEGINNING OF YEAR	<u>563,874,134</u>	<u>563,874,134</u>	
NET POSITON , END OF DECEMBER	<u>\$ 562,570,688</u>	<u>\$ 570,241,197</u>	

TRUCKEE MEADOWS WATER AUTHORITY
STATEMENTS OF NET POSITION
MARCH 31, 2016 AS COMPARED TO JUNE 30, 2015
ASSETS

	UNAUDITED March 31, 2016	AUDITED June 30, 2015
CURRENT ASSETS		
Cash and investments	\$ 98,187,372	\$ 104,979,502
Accounts receivable, net	9,416,722	12,616,237
Due from others	215,168	19,566
Due from other governments	44,621	10,096,844
Interest receivable	680,541	1,304,308
Prepaid assets	1,005,369	1,186,025
	<u>109,549,793</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	14,695,575	20,675,394
	<u>16,449,772</u>	<u>22,429,591</u>
Total Current Assets	<u>125,999,565</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	26,004,350	25,720,896
Water rate stabilization	500,000	500,000
	<u>69,068,455</u>	<u>67,608,757</u>
NONCURRENT ASSETS		
Capital assets, not depreciated	160,606,594	123,234,464
Capital assets, depreciated	758,516,486	782,339,301
Deferred charges and other assets	1,391,190	1,448,867
	<u>920,514,270</u>	<u>907,022,632</u>
Total Noncurrent Assets	<u>989,582,725</u>	<u>974,631,389</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred amount on bond refundings	3,257,014	5,470,546
Deferred amount on net pension liability	3,768,872	3,768,872
Total Deferred Outflows	<u>7,025,886</u>	<u>9,239,418</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 1,122,608,176</u>	<u>\$ 1,136,502,880</u>
	LIABILITIES	
CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED		
CURRENT ASSETS		
Accounts payable	\$ 2,260,032	\$ 4,429,632
Contracts and retention payable	1,573,623	2,492,543
Accrued liabilities	3,624,220	3,954,938
Due to other governments	1,702,160	2,866,886
Accrued interest payable	114,907	248,179
Current portion of long term debt	95,184,695	96,348,107
Customer deposits and amounts due to developers	2,883,549	2,806,156
	<u>107,343,186</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	5,230,575	9,455,394
	<u>17,850,575</u>	<u>20,675,394</u>
Total Current Liabilities	<u>125,193,761</u>	<u>133,821,835</u>
NONCURRENT LIABILITIES		
Net Pension Liability	22,293,306	22,293,306
Long-term debt, net of current portion	399,130,548	410,764,241
Total Non-Current Liabilities	<u>421,423,854</u>	<u>433,057,547</u>
DEFERRED INFLOW OF RESOURCES		
Deferred amount on net pension liability	5,749,364	5,749,364
Total Liabilities	<u>552,366,979</u>	<u>572,628,746</u>
NET POSITION		
Net investment in capital assets	468,054,380	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	26,004,350	25,720,896
Restricted for water rate stabilization	500,000	500,000
Unrestricted	60,323,317	77,312,759
Total Net Position	<u>570,241,197</u>	<u>563,874,134</u>
Total Liabilities and Net Position	<u>\$ 1,122,608,176</u>	<u>\$ 1,136,502,880</u>