

TRUCKEE MEADOWS WATER AUTHORITY
MINUTES OF THE MARCH 16, 2016
MEETING OF THE BOARD OF DIRECTORS

The Board of Directors met on Wednesday, March 16, 2016, at Sparks Council Chambers, 745 4th Street, Sparks, Nevada. Chair Martini called the meeting to order at 9:09 a.m.

1. ROLL CALL

Members Present: Jenny Brekhus, Naomi Duerr, Vaughn Hartung, Jeanne Herman, Neoma Jardon*
Geno Martini, and Ron Smith.

A quorum was present.

**Member Jardon left at 9:56 a.m.*

2. PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was led by Member Jardon.

3. PUBLIC COMMENT

Fred Schmidt introduced himself as a member of the TMWA Standing Advisory Committee (SAC) who has been on the SAC for over ten years, is one of the original members, and has served as Vice-Chair. Mr. Schmidt explained the SAC members have spent a lot of time vetting, and questioning staff on, the 2016-2035 WRP (2035WRP), which is an improved document. He has come before the Board on behalf of the SAC, which the Board appointed to represent the customer classes, to express to them that staff has produced a great plan which has been unanimously endorsed and approved by the SAC.

Member Duerr asked if he thought the public input sessions assisted in the development of an excellent plan. Mr. Schmidt replied yes, several members have a utility background that went to a number of sessions and provided comments; staff took their feedback and provided the summary report to the SAC.

Chair Martini thanked Mr. Schmidt and the rest of the SAC members for their efforts.

4. APPROVAL OF THE AGENDA

**Upon motion by Member Hartung, second by Member Duerr, which
motion duly carried by unanimous consent of the members present, the
Board approved the agenda.**

5. APPROVAL OF THE FEBRUARY 5, 2016 STRATEGIC PLANNING WORKSHOP MINUTES

Upon motion by Member Jardon, second by Member Smith, which motion duly carried by unanimous consent of the members present, the Board approved the February 5, 2016 minutes.

6. APPROVAL OF THE MINUTES OF THE FEBRUARY 17, 2016 MINUTES

Upon motion by Member Hartung, second by Member Smith, which motion duly carried by unanimous consent of the members present, the Board approved the February 17, 2016 minutes.

7. DISCUSSION AND ACTION CONFIRMING GENERAL MANAGER'S APPOINTMENT OF ONE TRUSTEE TO THE § 115 AND 501.C-9 POST-RETIREMENT MEDICAL PLANS & TRUSTS TO FILL THE REMAINING TERM OF THE CHIEF FINANCIAL OFFICER JEFF TISSIER

Jessica Atkinson, TMWA Human Resources Manager, provided a brief overview of the staff report. She requested confirmation of the General Manager's new appointment of Michele Sullivan, TMWA's incoming Chief Financial Officer, as the successor to Jeff Tissier to serve on both trusts.

Upon motion by Member Hartung, second by Member Jardon, which motion duly carried by unanimous consent of the members present, the Board approved the General Manager's Appointment of one Trustee to the § 115 and 501.C-9 Post-Retirement Medical Plans & Trusts to fill the remaining term of the Chief Financial Officer Jeff Tissier.

8. DISCUSSION AND ACTION ON THE 2016-2035 WATER RESOURCE PLAN

John Erwin, TMWA Director of Natural Resources, provided a brief overview of the current snowpack levels, water supply conditions, and projected river flows which are currently expected to run at normal levels through September 2016. Mr. Erwin reported we expect Donner and Independence Lakes and Prosser and Boca Reservoirs to fill, and water levels to rise in Stampede Reservoir.

Mr. Erwin presented the 2016-2035 Water Resource Plan (2035WRP) and explained how staff created three volumes: Volume I-Abstract, Volume II-Chapters 1-6, and Volume III-Appendices. He referred to the two presentations last month by Bill Hauck, TMWA Senior Hydrologist, and Shane Coors, RiverWare Consultant, the information of which is included in the 2035WRP, the various public meetings held which are provided in the public comment summary report, and the red-lined version highlighting the substantive changes.

Chair Martini requested comments and questions begin with Member Jardon and go in order, and after everyone has asked their questions, they can ask any follow-up questions at that time,

Member Jardon requested for Mr. Erwin to highlight the significant differences between the draft and final 2035WRP. Mr. Erwin replied the utmost significance was the implementation of the Truckee River Operating Agreement (TROA) and previous versions, including the draft, always planned two scenarios, one with TROA and without TROA. Next items included the acquisition of the other half of the Donner Lake storage right from the Truckee Carson Irrigation District, updated information on climate change reports from IPCC December conference and California Department of Water Resources, expanded analyses of the resiliency of TROA, and the scope of TMWA's role in water resource management as a consolidated utility.

Member Brekhus inquired if the 2035WRP details how drawdowns and injections impact aquifers. Mr. Erwin replied yes, in Appendix 2 there is a basin survey of each of the groundwater basins where TMWA has facilities. He added prior to the merger, TMWA's primary concern was focused in Basin 87. Because of the merger we have now expanded the studies into all the other basins. As a result, there is a component of regional planning embedded in the eight hydrographic basins where TMWA has facilities; the analysis examined any significant impacts in each basin, as a result of historic pumping, to the aquifer. In those basins where impacts exist, TMWA is very active in developing plans for more use of surface water and injecting treated surface water in the winter months.

Member Smith had no questions.

Member Hartung noted the major concerns addressed at the public meetings were climate change and water supply and stated staff did a very good job overall.

Member Duerr commented on Volume I-Abstract, the public comments summary report, and the Key Findings and Recommendations in the Abstract regarding the continued research on climate change with various local, state and federal agencies. She asked what it would mean to staff if the Board approved the plan. Mr. Erwin replied the 2035WRP is a 5-year snapshot, which can be updated if staff has new information to add. Member Duerr noted the response given to the many comments on climate change was "there is no data"; she requested staff provide answers for the next plan. Mr. Erwin replied no answer was provided because data or research results do not exist on the impacts of climate change for this region right now, but the continued research will hopefully yield some conclusions which would be included in future plans.

Member Duerr recommended shifting charges to the monthly fixed rate (customer charge) to mitigate changes in demand to improve our financial resiliency and to consider demand management. Mr. Erwin replied it will be addressed as part of the Water Facility Plan and then these two plans feed into the last component in the Funding Plan where determination of collection of revenues through customer rates or new development fees is analyzed.

Member Herman thanked staff for a success story and setting the path forward.

Chair Martini agreed and believed it a very thorough plan, and thanked Mr. Schmidt for the recommendations from the SAC.

Mr. Erwin thanked the Board and referred to Chapter 2 in the 2035WRP and the appendices where it sets the foundation for TMWA as a regional water provider.

Member Duerr asked about the population projections in reference to the Washoe County Ballot #3 (WC-3). Mr. Erwin replied TMWA staff works closely with the State Demographers office, but our projections are based on a constrained model which is included in the regional consensus forecast. Mr. Erwin provided a brief description of prior forecasts compared to current forecasts.

Member Hartung remarked as a region we need to grow smarter because of our limited resources.

Upon motion by Member Smith, second by Member Herman, which motion duly carried by unanimous consent of the members present, the Board approved the 2016-2035 Water Resource Plan.

9. PRESENTATION OF FINANCIAL PERFORMANCE FOR FIRST HALF FISCAL YEAR 2016

Michele Sullivan, TMWA's new Chief Financial Officer, reported TMWA's financials in the first six months of FY 2016 were very good. Revenues were only \$100,000 below the revised budget. Revenue from water sales were adjusted for conservation, and hydro sales were eliminated in a budget augmentation that the board approved in February. Without that change to the original budget, water sales revenue would have been \$5.1 million under the original budget. Operating expenses were 2.2 percent under with the main areas of savings in power costs at \$0.9 million and \$0.7 million on chemical costs which was expected to be used to combat taste and odor due to low river water levels, but less was needed. In the non-operating revenues, there were savings of \$0.7 million in interest due to historically low interest rates in the Commercial Paper Program. The main increase in non-operating revenue was \$1.2 million in developer contributions. Overall we were \$4 million favorable to budget. The Cash Flow Statement showed \$205.4 million in cash, \$119.3 million was unrestricted which was up from \$105 million in June 2015; this was mainly due to the transfer of the last of the treasury from Washoe County (the County) of \$9.7 million, and the payment of \$3.5 million from the Pyramid Paiute Lake Tribe for the purchase of water rights for TROA.

Member Hartung confirmed the capital outlays for the North Valleys Integration Project will be offset by connection fees and inquired about the vacancies and overtime costs for the year. Ms. Sullivan replied yes. She also added we anticipate staying within budget for the salaries and are currently filling some vacancies.

10. DISCUSSION AND ACTION ON THE TMWA TENTATIVE BUDGET FOR THE FISCAL YEAR ENDING JUNE 30, 2017 AND DRAFT CAPITAL IMPROVEMENT PLAN FOR FISCAL YEARS 2017 THROUGH 2021

Jeff Tissier, TMWA's outgoing Chief Financial Officer, presented the tentative budget. Mr. Tissier reported water sales projections were centered on CY 2015 water demands based on customer class, and hydroelectric generation is potentially expected through October and to restart in spring 2017. Operating

expenses are expected to be slightly above \$54 million which includes 206 full-time employee positions, and reflects the assumption of City of Reno fire hydrant maintenance activities. The County may also want to enter into a similar agreement for which we have already budgeted.

Member Brekhus inquired what TMWA's staffing levels were in years of growth. Mr. Tissier replied it was at 180 employees and that was also prior to the merger with the County.

Member Brekhus asked for confirmation that we had adequate new business personnel to process development applications. Mr. Tissier replied we have excellent planning engineers and we do have an additional full-time employee position budgeted for the business development application process. Scott Estes, TMWA Director of Engineering, provided an overview of the process.

Member Duerr asked if the TMWA Board or staff can advise developers to not sell their water rights. Mr. Estes noted preliminary discussions with Boomtown a few years ago as an example of where staff offered suggestions to developers to not sell their Truckee River water rights, but ultimately that decision is up to the developer and in that case they sold their water rights anyway.

Member Duerr asked for updated information on the number of staff TMWA acquired with the merger as well as an organizational chart with job functions.

Ms. Sullivan provided an overview of the 2017-2021 Capital Improvement Plan (CIP). Spending is anticipated at \$149.9 million with \$124.2 million allocated for system rehabilitation projects. In the next year we plan to spend \$40.9 on projects part of which is for the Stead Water Main replacement, a 70 year old pipeline, and the Mt. Rose Water Treatment Plant.

Member Brekhus confirmed TMWA does not have any lead pipes in our distribution system. Ms. Sullivan replied that is correct but noted TMWA could not say whether any individual home had lead pipes downstream of the TMWA meter.

Discussion ensued regarding the California/Marsh 24 inch main pipeline project and the need to coordinate planning with local entities due to the significant vehicle traffic through the Booth-California-Keystone intersection area.

Member Hartung expressed his concerns with the Bedell flat water bank importation project. Mr. Tissier replied it is preliminary discovery work. Mark Foree, TMWA General Manager, added this is preliminary planning and engineering to determine the suitability and whether it is a good site to store water, which could be supplied from Fish Springs Ranch or effluent from North Valley plants, underground; an example of working with other agencies for long range solutions.

Upon motion by Member Brekhus, second by Member Duerr, which motion duly carried by unanimous consent of the members present, the Board approved the TMWA Tentative Budget for the Fiscal Year ending June 30, 2017 and Draft Capital Improvement Plan for Fiscal Years 2017 through 2021.

11. DISCUSSION AND ACTION ON THE TMWA DRAFT FUNDING PLAN FOR FISCAL YEARS 2017 THROUGH 2021

Mr. Tissier referred to Attachments A and B in the report which, when comparing the two analyses, confirms the decision to defer \$39.1 million from the 2017, 2018, and 2019 maturities of the Series 2006 Refunding Bond was a prudent decision. Fundamentally we have three financial metric constraints that we manage: First, Senior Lien Debt Coverage Ratio of 1.5x which was adopted by the Board of August 2003 and allows TMWA to pay for its operating expenses, principle and interest on all outstanding debt and pay as you go rehabilitative capital projects. As was previously brought up by Member Duerr it would be appropriate to revisit the Senior Lien Coverage Ratio policy now that we are a consolidated water utility. The old policy was sufficient for TMWA prior to the consolidation but may need to be revisited for the expanded standalone water utility. Second, Asset Liability Management, in light of having a variable debt program, this financial management tool nearly eliminates the risk of changing interest rates so that returns on investments move in tandem with changes in interest expense on variable rate debt. Third, ensure recurring revenues are sufficient to cover the cost of service for our customers. Referring back to the attachments, especially Attachment B, which reflects the deferral of certain bond maturities, TMWA's Senior Lien Debt Coverage Ratio is more than adequate. The funding gap between recurring funding revenues and cost to serve customers exists and would be more pronounced if we did not defer the bond maturities. Looking into the future, by fiscal year 2020, the Senior Debt Coverage Ratio would deteriorate below bond covenants, there would a serious asset liability mismatch, and the funding gap becomes exacerbated. By deferring those bond maturities, TMWA has gained some valuable time to determine how to close the projected funding gaps. One alternative would be if water demands rebound to some degree improving water sales and TMWA personnel continue to manage operating and capital spending. It will be prudent to wait until October, after the irrigation season, to see what our financial performances are in FY16 and to rework the funding plan. Finally, this plan was provided to the credit rating agencies and Moody's reaffirmed TMWA at Aa2 and we were upgraded by S&P from AA- to AA.

Member Duerr confirmed we have time but something has to be done by 2020. Ms. Sullivan replied yes, the Series 2007 Refunding Bonds will help, but we have time to figure it out. Mr. Tissier added, much like the water resource plan, this is a living document which can be updated at any time.

Member Brekhus inquired if the original documents, which established TWMA, detailed what a sustainable debt load was, when the original inception debt would be paid off, and if there is a metric for water purveyors around the country for debt ratio. Mr. Tissier replied the bonds were set to be paid off in 2034, but right now we are looking at 2037. The financial metrics proposed and adopted by the Board provides the sustainability to manage the finances of this organization, and yes, with regards to debt ratio, the credit agencies have those metrics, but because we have a robust treasury we are allowed to have a lesser Senior Lien Debt Coverage Ratio.

Upon motion by Member Hartung, second by Member Duerr, which motion duly carried by unanimous consent of the members present, the Board approved the TMWA Draft Funding Plan for Fiscal Years 2017 through 2021.

12. GENERAL MANAGER'S REPORT

Mr. Foree again recognized Mr. Erwin and his staff for their excellent work in finalizing the 2035WRP. For over 30 years, Mr. Erwin has been one of the community's unsung heroes for all his accomplishments and fantastic work he has done in water planning. Most notably Mr. Erwin's efforts, working with all the other parties involved, to expedite the implementation of TROA.

Mr. Foree informed the Board there will be a closed door legal session after they adjourn today.

Member Hartung asked about the anticipated timeframe to bring the Fleish Hydroelectric Plant online and will it be cost prohibitive to replace the pipe. Mr. Foree replied we have had an issue with a lining project for the penstock pipe, but are working with the contractor which is why it is not online and no, it will not be cost prohibitive since the replacement cost of the penstock will be offset by generation revenues within the year.

Member Hartung confirmed TMWAs efficiency in having these hydro generation plants which help offset costs.

13. PUBLIC COMMENT

There was no public comment.

14. BOARD COMMENTS AND REQUESTS FOR FUTURE AGENDA ITEMS

Chair Martini commended the Board for a good meeting and staff for their hard work.

15. ADJOURNMENT

With no further discussion, Chair Martini adjourned the meeting at 10:36 a.m.

Approved by the TMWA Board of Directors in session on Wednesday, April 20, 2016.

Sonia Folsom, Recording Secretary

**Member Jardon was present for agenda items 1 thru 8 only.*