**STANDING ADVISORY COMMITTEE**

MINUTES

November 1, 2016

The Standing Advisory Committee (SAC) met at Truckee Meadows Water Authority (TMWA) in the Independence Room, 1355 Capital Blvd., Reno, Nevada. Acting Chair Gescheider called the meeting to order at 3:07 p.m.

In Chair Neil McGuire's absence, Bruce Gescheider was nominated as acting Chair.

## 1. ROLL CALL

**Members and Voting Alternates Present:** Bob Chambers, Harry Culbert, Bruce Gescheider, Kevin Haddock, Colin Hayes, Mike Heffner, Ken McNeil, Jonnie Pullman, and Ron Turner.

**Alternates Present:** Bill Hughes, Karl Katt, Carol Litster, Mike Schulewitch, and Jim Smith.

**Members Absent:** Lee Leighton, Pat Martinez, Neil McGuire, Mike Pidlypchak, Fred Schmidt, and Jerry Wager.

**Staff Present:** Jack Byrom, Tabitha Carlisle, Robert Charpentier, Laine Christman, John Enloe, Scott Estes, Sonia Folsom, Mark Foree, Bill Hauk, Pat Nielson, Joe Petrelli, Shawn Stoddard, Michele Sullivan, Sandra Tozi, John Zimmerman, and Legal Counsel Debbie Leonard.

## 2. PUBLIC COMMENT

There was no public comment.

## 3. APPROVAL OF THE AGENDA

**Upon motion by Member Pullman and second by Member Chambers, and carried by unanimous consent of the members present, the Committee approved the agenda.**

## 4. APPROVAL OF THE MINUTES OF THE OCTOBER 4, 2016 MEETING

**Upon motion by Member McNeil and second by Member Heffner, carried by unanimous consent of the members present, the Committee approved the minutes of the October 4, 2016 meeting.**

## 5. WATER SUPPLY UPDATE

Bill Hauck, TMWA Senior Hydrologist, reported that, due to recent rains, the actual Truckee River flow is about 900 cubic feet per second (cfs) versus the required rate of flow of 400 cfs; Lake Tahoe rose three inches last month due to the weather; approximately 10% of TMWA's privately owned stored water was used to meet customer demands in September and early October but we will still go into the 2017 summer season with more storage reserves than ever before; the region has experienced two – three times above normal precipitation in October; and customer demand was approximately 102% of 2015.

## 6. PRESENTATION ON 2016 SUMMER WATER USAGE

Shawn Stoddard, TMWA Senior Economist, reported that the retail water usage in 2016 increased by 2.5% as compared to 2015, however the average use per water service increased less than 1% between 2015 and 2016; summer temperatures were similar in 2013, 2015 and 2016; and precipitation in all three years was similar to the average summer precipitation.

Acting Chair Gescheider asked if the increase of water usage was due to new hook-ups (customers). Mr. Stoddard replied that is a safe assumption.

## 7. PRESENTATION OF PRELIMINARY FUNDING PLAN FOR FISCAL YEARS 2017 THROUGH 2022, DISCUSSION AND POSSIBLE RECOMMENDATION TO THE BOARD

Michele Sullivan, TMWA Chief Financial Officer, reported that water sales revenue from the combined service area was $97 million in FY2013 – 2014 versus $87.5 million in FY2016. This equates to 10% less revenue, which is a significant decrease and is mainly due to conservation. Ms. Sullivan explained it is critical to align cost of service to recurring revenue in order to close the funding gap and maintain critical financial metrics that will ensure continued favorable credit ratings for TMWA. Ms. Sullivan presented the draft funding plan for FY 2017 – 2022 with two scenarios: the first scenario details a 3% water demand increase from 2015 demand. Ms. Sullivan explained financial metrics without a rate increase and with rate increases that close the funding gap by 2022. The second scenario is the same but includes an expected successful 2017 bond refunding. She reminded the SAC that TMWA was able to defer $39.1 million in principle from 2017-2019 to the end of the refunding period (2035-2037), which allowed TMWA to maintain its debt service coverage ratio in FY 2017-2019. However, when principal reductions resume in 2020, debt service coverage ratios and other financial metrics suffer.

Jonnie Pullman asked what TMWA's required debt service coverage ratio was. Ms. Sullivan replied it is 1.25 based on bond covenants, and 1.5 per TMWA's Debt Management Policy approved by the Board of Directors.

Ms. Sullivan emphasized that without a rate increase, TMWA's unrestricted cash will drop to $20 million in scenario number one. In scenario 2, the 2017 bond refunding in the spring is for $202 million and has two components: 1) the current bond has a debt service requirement of $32 million in restricted cash, which will be released and can be used to pay down the bond, reducing it to $170 million; and 2) if interest rates continue to remain low TMWA can anticipate an estimated $20 million in premium, which can also be used to pay down the principle, reducing the bond from $202 million to $150 million, which would be refunded in the spring 2017.

Mike Heffner mentioned the Caughlin Ranch Homeowners Association (HOA) Board recently increased rates after a 10 year hiatus. At that meeting, the discussion was whether to have a high rate increase in the first year and a zero increase in the second year with smaller increases in the following years. Mr. Heffner asked if TMWA has considered a similar scenario. Ms. Sullivan replied no, the proposals were based on the assumption that lower increases were preferred. Mark Foree, TMWA General Manager, added that in the past, it has been the preference of the SAC, the Board and customers to have small single-digit increases. He noted that the multi-year proposal, if approved by the TMWA Board, would be reviewed after the second year's annual increase to decide whether to decrease or defer future rate increases based on TMWA's financial situation at that time. Because it is a six-month public process to implement a rate adjustment, this multi-year scenario allows for greater flexibility for staff not to have to re-open the public process, and the Board is still able to make adjustments in outer years.

Acting Chair Gescheider noted from a commercial perspective, between the merger and 2015 conservation, the proposed rate increase is a surprise. Also, staff has made many assumptions, one of them being that there will be a 3% increase in customer demand. He noted that it is realistic to believe the Truckee Meadows will continue to grow in the outer areas. He continued that operating expenses have been controlled and only increased slightly over the years. However, he expressed concern over the $66 million in spending on capital projects in the first 2-years of the draft funding plan, which is significantly higher than what has been projected in the past.

Ms. Pullman said she appreciated the work, but did not appreciate not having enough time to review the information. Ms. Sullivan noted that the staff reports with the funding plan and financial metrics were emailed in the previous week and only the formal rate proposal options were emailed the day before.

Ron Turner inquired as to the Board decision on the draft funding plan and proposed rate increases, if $53 million for operating expenses in FY 2017 was reasonable and if the Board had any comments about the assumptions. Ms. Sullivan replied that the $53 million of operating expenses in FY 2017 was based on the Board approved budget for FY 2017 and the Board requested a proposal for their next meeting, which is up for SAC's consideration and recommendation to the Board today. Mr. Foree replied yes, the operating expenses are reasonable and no, the Board did not have any comments on the assumptions.

Ken McNeil stated that no one wants to have a rate increase, but it needs to be done so that TMWA can obtain a good rate on the bond refunding. Mr. Foree agreed, and informed the committee that it is not advantageous for TMWA to go into a bond refunding with a 10% decrease in revenue, unless staff develops a plan to close the funding gap (that the SAC and Board support), which can be presented to the credit agencies at the time of refunding. Ms. Sullivan remarked the credit agencies asked for the 5-year funding plan for the 2016 bond refunding as well and a scenario for a rate increase was proposed.

Mr. McNeil asked what would happen if TMWA did not have ideal credit rating. Ms. Sullivan replied that buyers would expect a better yield for greater risk and 50 basis points could mean a difference of $10 million in principal for TMWA.

Mr. Heffner reminded members this was the same debate that occurred during the last rate increase discussions. The final goal then, and now, is to protect the bond rating, which protects TMWA customers. SAC members need to vet the projections before making a decision, yes, but should keep in mind that protecting TMWA's ratings is priority.

Mike Schulewitch stated lenders consider the long-term projections, but understand that it is only good for one year and to consider the balance between increasing rates with reduced water consumption. Mr. Schulewitch suggested staff consider alternate sources of revenue such as charging a fee for the fire hydrant maintenance for equipment, personnel, and time.

Mr. Turner pointed out the public is not going to accept the assumption that since California has raised its rates 6% to 12%, now TMWA has to as well. Ms. Sullivan replied the numbers were quoted from a study conducted for the California-Nevada region, not just California.

Acting Chair Gescheider questioned why the 5-year Capital Improvement Plan (CIP) was approved a couple of months ago without consideration that the funding plan was going to fall short in revenue, and whether this set in motion a rate increase. Mr. Foree replied that staff is consistently reviewing the CIP to see where and how projects can be pushed out or costs decreased. Ms. Sullivan added the $36 million in rehabilitative capital spending in FY 2017 includes only CIP funded by customer revenue. She noted that main replacements are higher than usual, but are contingent on the road rehabilitative schedules. Mr. Foree added the rehabilitative projects are customer funded and not related to growth.

Scott Estes, TMWA Director of Engineering, added the CIP projects for FY 2017 and 2018 also include rehabilitative projects inherited from South Truckee Meadows General Improvement District (STMGID), which is being paid for from the STMGID treasury reserve and not TMWA's rate payers. Ms. Sullivan noted that only CIP funded by customer rates are included in the funding plan, and it does not include projects funded by the STMGID reserve fund.

Mr. McNeil stated capital improvement is important to any water agency to ensure reliable and safe water service, but if we start cutting back, then TMWA's reliability is called into question.

Ms. Sullivan noted that debt has been pushed out to fund CIP in the next three years, and CIP projections by FY2022 decreases to $20 million.

Mr. Turner asked how the $36 million in FY2017 for rehabilitative capital spending was agreed to in the recent budget augmentation. Ms. Sullivan replied that the $36 million is the portion of the CIP budget that is funded from customer rates. The total CIP approved of $47.8 million includes amounts funded from other sources.

Acting Chair Gescheider inquired about the capital improvement project for the Verdi extension, was it TMWA's responsibility and if TMWA says it is out of its service territory. Mr. Foree replied that the Verdi extension is similar to the Mt. Rose-Galena Fan project; groundwater levels were decreasing at a rapid rate and the situation needed to be addressed. The Board has stressed since the merger that we are now looked upon as the regional water purveyor. If we had not merged, we would not be addressing these issues and the problem would have worsened. These projects protect the groundwater basin as a whole.

Ms. Pullman asked if developers or customers are paying for these projects. Mr. Foree replied developers will eventually pay for these projects; ultimately growth will pay and we anticipate receiving a federal grant for approximately $1 million to pay for the connection.

Acting Chair Gescheider pointed out prior to the merger, the committee went on record to say if the merger occurred there would not be a rate increase; this appears to be a rate increase caused by the merger.

Mr. Turner added that the 2015 conservation efforts can also be considered the cause.

Mr. Foree replied the proposal before them has more to do with conservation, not the merger. He agreed that a significant portion of the need is a result of the 2015 conservation. All water utilities have experienced more conservation, because customers are more conscientious, but it is important to note TMWA still needs to maintain $1.1 billion in infrastructure regardless of the amount of water used.

Ms. Pullman acknowledged no matter how much water used, if customers want safe water to drink, the same amount of money is needed to maintain infrastructure, staffing levels, etc.

Kevin Haddock pointed out that the 3% proposed is low compared to the 7%-8% rate increase on sewer services implemented by the City of Reno. People question the reason for an increase: drought, CIP, outdated equipment, customer demands, etc., but it is difficult to say not to do it, and it is a good practice to review every year to consider the need to implement another annual rate increase.

Discussion followed regarding whether to consider 2.5% for years 3 – 5 or CPI and it was decided that the CPI was too complicated and unknown, and having a ceiling of 2.5% with the flexibility of recommending less to the Board has proven beneficial in the past.

Ms. Pullman noted TMWA has a track record for not going as high as what is proposed for years 3-5. Mr. Foree agreed.

Acting Chair Gescheider inquired if the Board will vote on the proposed rate increase of 3% annually in years one and two, and 2.5% annually in years three, four and five. Mr. Foree replied yes, the Board would take action on the rate proposal considering SACs recommendation.

Mr. McNeil went on to say how fortunate we are to have TMWA water rates as low as they are.

Acting Chair Gescheider stated that is not the issue, it is more a psychological perspective; noting that it may be easier to increase by 5 or 6% than nothing for year 2 as Mr. Heffner suggested earlier.

Mr. Heffner commented that he supports TMWA staff recommendation for smaller annual increases annually.

Mr. Schulewitch confirmed the 3% rate increase is on the monthly meter (customer) charge and then each tier as well. Mr. Foree replied yes, that is correct.

Ms. Pullman inquired about the meter retrofit fund expiring after 2019. Mr. Foree replied the remaining meter retrofits are primarily to convert multi-family residences and by approximately 2019 all meter retrofits that can be done will have been completed or likely have the funds to do so and the fund will no longer be needed.

Acting Chair Gescheider confirmed that the recommendation today would be to propose a rate increase of 3% annually for FY 2018 and 2019 and dependent upon the financial situation, consider implementing the final 2.5% annually in FY 2020-2022. Mr. Foree replied yes, that is correct.

Carol Litster clarified how the 3% annual increase would be applied and why are there different rates for residential customers. Ms. Sullivan replied that the 3% is added to each tier separately as well as the monthly customer charge. Mr. Foree replied when the merger occurred, TMWA inherited two rate structures, from Washoe County and STMGID, which have to be kept in place; staff is not proposing to combine the former Washoe County customer rates and TMWA rates at this time, but may consider it in the future.

Acting Chair Gescheider confirmed the rate increase would be applied to all customer classes. Mr. Foree and Ms. Sullivan replied yes.

**Upon motion by Member Pullman and second by Member Haddock, carried by unanimous consent of the members present, the Committee recommended that the Board adopt Proposal 1 as presented in the draft funding plan to increase rates by 3.0 percent annually in Fiscal Years 2018 and 2019, and 2.5 percent annually in Fiscal Years 2020, 2021 and 2022 subject to annual review of TMWA's financial performance to determine if a rate increase can be lowered or deferred.**

## 8. DISCUSSION AND POSSIBLE DIRECTION TO STAFF REGARDING AGENDA ITEMS FOR FUTURE MEETINGS

**December meeting:**

1. Water Supply Update
2. Presentation on 2017 Legislative bill draft requests (BDRs)
3. Update on 5-year funding plan
4. Consideration of SAC appointments
5. Presentation of the comprehensive audit (if completed)

**January meeting:**

1. Election of Chair and Vice Chair for 2017
2. Informational report on the flat-rate conversion impact on revenue

## 9. STAFF ITEMS

There were no staff items.

## 10. COMMITTEE ITEMS

There were no committee items.

## 11. PUBLIC COMMENT

Ms. Pullman acknowledged again that she believes TMWA is the best managed government agency she has worked with.

## 12. ADJOURNMENT

With no further items for discussion, Acting Chair Gescheider adjourned the meeting at 4:42 p.m.

Approved by the Standing Advisory Committee in session on December 6, 2016.

Sonia Folsom, Recording Secretary