

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

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The Board of Directors met on Wednesday, November 16, 2016, at Sparks Council Chambers, 745 4<sup>th</sup> Street, Sparks, Nevada. Vice Chair Hartung called the meeting to order at 9:09 a.m.

1. ROLL CALL

**Members Present:** Jenny Brekhus, Naomi Duerr, Vaughn Hartung, Neoma Jardon and Ron Smith\*.

**Members Absent:** Jeanne Herman and Geno Martini

A quorum was present.

*\*Member Smith arrived at 9:18 a.m.*

2. PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was led by Jessica Atkinson, TMWA Human Resources Manager.

3. PUBLIC COMMENT

There was no public comment.

4. APPROVAL OF THE AGENDA

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

5. APPROVAL OF THE MINUTES OF THE OCTOBER 19, 2016 MINUTES

**Upon motion by Member Duerr, second by Member Brekhus, which motion duly carried by unanimous consent of the members present, the Board approved the October 19, 2016 minutes.**

6. DISCUSSION AND ACTION CONFIRMING GENERAL MANAGER'S APPOINTMENT OF FOUR TRUSTEES TO THE 501.C-9 POST-RETIREMENT MEDICAL PLAN & TRUST FOR A TWO-YEAR TERM FROM JANUARY 1, 2017 THROUGH DECEMBER 31, 2018 FROM THE FOLLOWING LIST OF INDIVIDUALS: MICHELE SULLIVAN, JUAN ESPARZA, MICHAEL NEVAREZ AND STEVE ENOS

Jessica Atkinson, TMWA Human Resources Manager, presented the staff report for Board consideration. Discussion followed to ensure proper succession planning for future trustees to be appointed to the 501.C-9 Post-Retirement Medical Plan & Trust (PRMT).

**Upon motion by Member Duerr, second by Member Brekhus, which motion duly carried by unanimous consent of the members present, the Board confirmed General Manager's Appointment of Michele Sullivan, Juan Esparza, Michael Nevarez and Steve Enos as trustees to the 501.C-9 Post-Retirement Medical Plan & Trust for a two-year term from January 1, 2017 through December 31, 2018.**

7. DISCUSSION AND ACTION CONFIRMING GENERAL MANAGER'S APPOINTMENT OF ONE TRUSTEE TO FILL THE REMAINING TERM OF LEONIDA POULIOT AND FOUR TRUSTEES TO THE § 115 POST-RETIREMENT MEDICAL PLAN & TRUST FOR A TWO-YEAR TERM FROM JANUARY 1, 2017 THROUGH DECEMBER 31, 2018 FROM THE FOLLOWING LIST OF INDIVIDUALS: MICHELE SULLIVAN, SANDRA TOZI, CHARLES ATKINSON AND GEORGE GAYNOR

Ms. Atkinson presented the staff report for Board approval of the General Manager's appointments of four trustees to the § 115 PRMT.

**Upon motion by Member Brekhus, second by Member Jardon, which motion duly carried by unanimous consent of the members present, the Board confirmed General Manager's appointment of Sandra Tozi to fill the remaining term of Leonida Pouliot and Michele Sullivan, Sandra Tozi, Charles Atkinson and George Gaynor as trustees to the § 115 Post-Retirement Medical Plan & Trust for a two-year term from January 1, 2017 through December 31, 2018.**

8. REPORT REGARDING OMBUDSMAN ACTIVITIES FROM DECEMBER 2015 THROUGH OCTOBER 2016 AND REQUEST FOR BOARD DIRECTION AND POSSIBLE AUTHORIZATION FOR THE GENERAL MANAGER TO RENEW THE OMBUDSMAN CONTRACT WITH JOANNE STRALLA FOR CALENDAR YEAR 2017

Andy Gebhardt, TMWA Customer Relations Director, presented the ombudsman report and contract renewal for Joanne Stralla for calendar year 2017. Mr. Gebhardt related TMWA staff enjoys a good professional relationship with Ms. Stralla and TMWA customers are very happy with her services.

At this point, there was discussion regarding the necessity of having an ombudsman on staff, to consider the duration of the contract, and when it may be prudent to send out a request for proposals. However, the strong customer satisfaction results TMWA has maintained is a good testament to a job well done by Ms. Stralla and it may be prudent not to disrupt a good working relationship.

Member Brekhus requested a copy of her resume to review her qualifications. Mr. Gebhardt replied Ms. Stralla's background is in customer service.

**Upon motion by Member Duerr, second by Member Jardon, which motion duly carried by unanimous consent of the members present, the Board accepted the report of Ombudsman activities from December 2015 through October 2016 and authorized the General Manager to renew the Ombudsman Contract with Joanne Stralla for Calendar Year 2017.**

9. DISCUSSION AND ACTION, AND POSSIBLE DIRECTION TO STAFF REGARDING PROPOSED RATE ADJUSTMENT PROCESS AND SCHEDULE

Michele Sullivan, TMWA Chief Financial Officer, presented two rate adjustments proposals for Board consideration. Proposal #1 details an annual 3% rate adjustment for years 1 and 2, and an annual 2.5% rate adjustment for years 3, 4 and 5 in order to close the funding gap by 2022. Proposal #2 is to replace the 2.5% rate adjustment with a consumer price index (CPI) in years 3, 4 and 5. Ms. Sullivan informed the Board the proposals were presented to the TMWA Standing Advisory Committee at their November 1 meeting and their recommendation is to proceed with implementing Proposal #1 with the flexibility in place to reevaluate in years 3 through 5 whether to lower the rate adjustment or defer it entirely. She referred to the attachment in the staff report representing the average residential customer water bill with the respective rate adjustments.

Member Hartung inquired what the average monthly water usage is for the residential customer class. Mark Foree, TMWA General Manager, replied approximately 11,000 – 12,000 gallons per month.

Member Duerr requested to see a comparison between Proposals #1 and #2 for the average monthly residential customer bill, asked what the average CPI is and if the rate adjustments would apply to the base rate and not the water rate. Ms. Sullivan replied the CPI was 1.8% in the prior year and Mr. Foree added the rate adjustment would apply to both the monthly customer charge and all tiers of water usage.

Member Brekhus pointed out customers were asked to conserve during the drought, and now, they may not appreciate being presented with a proposed rate adjustment. She mentioned the \$45 million of water rights TMWA has in reserve and suggested to add a similar percent increase to the cost of water rights that is being proposed to customers. Ms. Sullivan replied the price of water rights is based on Rule 7 and is calculated as a weighted average of the cost to buy them in addition to the cost of carry. Mr. Foree added TMWA does not hold all available water rights in the community and plenty are available on the open market which is very competitive. Over the last few years TMWA's will-serves sales have been competitive with the outside market however if TMWA were to raise the price of water rights too much, it could bring the price of TMWA owned water rights out of balance with the market. Also, in order to change the price of the water rights in this manner, Rule 7 would need to be changed following the open public process. Michael Pagni, TMWA General Counsel, confirmed that is correct.

Member Brekhus continued she would like to see messaging that stipulates water conserved does not go towards growth and TMWA is taking steps to offset growth related costs of operations. She asked why there was not a higher rate increase being applied to the upper tiers. Ms. Sullivan noted a 3% increase in the higher tiers results in a bigger increase than the same 3% increase in the lower tiers.

Member Hartung noted that TMWA can only sell water rights at the price that the market will bear, and TMWA owning this commodity is essential to the management of the organization and future growth in the region. He did not think TMWA's water rights assets should be sold now to offset higher rates because they are needed for the future. Mr. Gebhardt noted the selling of TMWA's water rights is a temporary solution, and the long-term solution is to pay down commercial paper and existing debt, which benefits customers.

Member Hartung thanked Member Brekhus for her observations recognizing that customers had conserved as they were asked, and questioned if there should be a higher increase for customers that use more water in upper tiers. Ms. Sullivan replied she did not run the numbers, but expect the upper tiers would have to increase substantially for even a minor financial impact. Member Hartung also asked if TMWA adds more customers and has sufficient revenues would we revisit the rate increases. Ms. Sullivan confirmed that the Board will have the opportunity to reevaluate rate increases in years 3, 4, and 5. Mr. Gebhardt added the Board has deferred and eliminated rate adjustments in the past based on changing conditions.

Member Duerr thanked Member Brekhus for her thoughts and it is important to note the discussion is relevant to policy implementation and proper messaging to the public. She requested information related to a differential rate increase, with upper tiers increasing more than lower tiers. She noted that she agreed that TMWA should not sell off its water rights. She also said she would like to see higher prices for water rights and connection fees implemented so that new development is paying more. Mr. Foree replied TMWA has constraints with the tiers due to the agreement with South Truckee Meadows General Improvement District (STMGID), which prohibits STMGID's rates to increase more than TMWA's rates. STMGID has six tiers, TMWA has three tiers and former Washoe County has five tiers. In 2010, when TMWA implemented a rate increase, it only affected the tiers and not the customer charges, which had a minor financial impact. Also, staff believes the same proposed rate increase across the tiers may diminish demand hardening.

Member Duerr asked if staff is considering an increase in connection fees. Mr. Foree replied no, currently the facility charges are based on cost plus carry and it would require a change in the rules.

Member Smith commented that the discussion thus far has been to apply a higher rate to customers who use more, essentially a subsidization of customers who use less, which he does not support; the rates need to be increased equally across the board. People will continue to conserve water. He was also concerned that if there is another drought, people will ignore requests to conserve because their rates increased after they supported conservation efforts. Mr. Gebhardt noted that increasing all tiers equally is the most equitable approach.

Member Jardon pointed out that it may be beneficial to customers long-term to use CPI and inquired if that may be a more stable and consistent rate adjustment over the years, instead of how it has been done in the past. Ms. Sullivan replied using CPIs is difficult, because there are many to choose from, but in Proposal #2 staff used the same CPI as the City of Reno Sewer. However, long-term the CPI could be lower than what we need to provide water; the CPI does not follow what the utility really needs. If customers conserve 10%, costs do not decrease by the same amount.

Member Jardon stated it is important for the customer to understand why there were no rate increases for a length of time and now we propose 3% increase; it is important to have a more normalized stable process related to rate increases. Her concern is focused on senior citizens on a fixed income who need more predictability. Mr. Gebhardt agreed with Member Jardon and staff would like to be more stable going forward; 2.5% can be lowered in years 3, 4, and 5 at which time staff can assess the rate of the CPI which may be lower than the 2.5%.

Member Smith confirmed this five-year plan gives that stability. Mr. Gebhardt replied yes, that is correct.

Member Jardon agreed, but reaffirmed her position that going from 0% to 3% is drastic, and why it is more understandable to use the CPI. Mr. Foree noted had TMWA used CPI in the last few years where there has not been an increase, her suggestion would be valid, but there has not been an increase in 3 years, partly due to the merger and to assess TMWA's position once it was finalized. As a final note, all water utilities in the west are increasing their rates, the good news is, even with the drastic drought, TMWA's proposed rate adjustments are still low-single digit increases and the Board has the flexibility to assess in the outer 3-years whether to have an adjustment, to lower the planned increase or to defer.

Member Brekhus appreciated the CPI discussion, but noted it would be a mistake to present the 3% increase to the public and not show complimentary rate structure changes without growth. She requested staff return with a comparison of similar utilities with different rate structures to assess if TMWA's rate structure is fair. She is no longer advocating to sell water rights, but wants to understand how they are priced. Ms. Sullivan replied the water rights revenues are not included in the funding gap calculations because they are not a recurring revenue stream.

Mr. Gebhardt provided an overview of the proposed rate adjustment schedule. At the January 18<sup>th</sup> meeting the Board will be presented with the public open house schedule for the last two weeks in February with rate adjustment implementation effective in May.

Mr. Foree pointed out the Board can have further discussion at the December meeting, but it would delay implementation by one month.

Mr. Pagni commented that the Board is not making a decision on what the rates will be either today or at the December meeting, only to decide on the process and schedule in order to get the workshops scheduled and get public input. The decision for the rate adjustment will be made at the first and second readings.

Member Jardon requested a legal analysis of an application of rate increases differing based on the tier.

Member Smith suggested to have a policy in place to have five-year projections on a continual basis on potential rate increases in order to have continued discussions and to avoid the unexpected with the customers. Mr. Gebhardt agreed it would promote future stability.

Member Hartung stated he did not want to be in a similar situation as he experienced with the Spanish Springs Stormwater utility where rates were based on projections that were not realized and had to raise rates significantly.

Member Duerr asked staff to present how connection fees would be increased along with the base rate or tiered rates, and an analysis of differential rates across the tiers and one estimate of the CPI.

Member Smith confirmed the 3% is necessary for years 1 and 2, but alternate scenarios for years 3, 4, and 5 could be proposed with regards to Member Duerr's request. Ms. Sullivan replied yes.

Member Hartung agreed with Member Jardon to set 3% and 2.5% so the customers know what they are and can adjust them lower to reflect the CPI rate. Ms. Sullivan agreed, which is why staff presented the funding plan which showed these assumptions.

Member Hartung suggested narrowing the assumptions. Ms. Sullivan replied that it is necessary for the funding plan to have multiple assumptions, but she tried to be conservative.

Member Brekhus asked for a study of parallel utilities with set tiers on residential and commercial customers, and staff to explain the different philosophies between connection fees, water rights sales and price versus rate structures. Mr. Foree reiterated that TMWA is bound by agreement with STMGID not to raise their rates more than TMWA's, therefore a legal opinion on changing the tier structure is appropriate.

Member Jardon asked staff to evaluate the water usage for a one-acre lot and a one acre lot divided into four smaller lots. Mr. Foree replied water demand is calculated in Rule 5 based on lot size, and we can answer that question in the Rule 5 discussion at the next meeting.

Member Hartung requested staff to consider the projected growth, increased customer base over the next 5-years, and its impact on the structured rates. Ms. Sullivan replied the growth projection in the funding plan is 2,400 units as detailed in the 2016-2035 Water Resource Plan which is only an increase in revenue of couple of percent, and even if it doubles or triples, that is still not going to close the \$13M funding gap. Member Hartung asked how the additional revenue from growth was being applied. Ms. Sullivan replied that it is not ear marked for any special purpose and is just included in the funding plan as water sales revenue.

Member Smith cautioned the Board not to delay this process much like the Board delayed their decision on the flat rate conversion 10 years ago; a rate adjustment is necessary now.

**Upon motion by Member Duerr, second by Member Smith, which motion duly carried by unanimous consent of the members present, the Board approved the proposed rate adjustment process and schedule.**

**10. DISCUSSION AND ACTION ON SCHEDULING REGULAR BOARD MEETING DATES AND TIMES FOR THE CALENDAR YEAR 2017**

Member Duerr requested the TMWA Board of Directors meetings begin at 9:00 a.m. for the July and November meetings due to the fact the City of Reno Council meetings are scheduled for the same day.

**Upon motion by Member Duerr, second by Member Smith, which motion duly carried by unanimous consent of the members present, the Board approved the regular Board meeting dates and times for Calendar Year 2017 with the changed start time of 9:00 a.m. for the July and November meetings.**

**11. GENERAL MANAGER'S REPORT**

Mr. Foree reported that in light of the Board's comments that TMWA is now the regional water purveyor, TMWA staff has provided watershed management expertise to Washoe County to assist with addressing erosion control, sedimentation, ditch blockage and runoff water quality issues in the Little Valley burn area.

Also, due to the high amount of precipitation in October, the Verdi Hydroelectric power plant is running again.

**12. PUBLIC COMMENT**

There was no public comment.

**13. BOARD COMMENTS AND REQUESTS FOR FUTURE AGENDA ITEMS**

There was no Board comment.

**14. ADJOURNMENT**

With no further discussion, Vice Chair Hartung adjourned the meeting at 10:17 a.m.

Approved by the TMWA Board of Directors in session on December 21, 2016.

Sonia Folsom, Recording Secretary

***\*Member Smith was present for agenda items 8 thru 14 only.***