

TRUCKEE MEADOWS WATER AUTHORITY
MINUTES OF THE OCTOBER 18, 2017
MEETING OF THE BOARD OF DIRECTORS

The Board of Directors met on Wednesday, October 18, 2017, at Truckee Meadows Water Authority, 1355 Capital Blvd, Reno, Nevada. Vice Chair Hartung called the meeting to order at 10:19 a.m.

1. ROLL CALL

Members Present: Jenny Brekhus, Alternate Kristopher Dahir, Naomi Duerr, Vaughn Hartung, *Jeanne Herman, Neoma Jardon, and *Ron Smith.

Members Absent: Geno Martini

A quorum was present.

**Members Herman and Smith left at 2:14 p.m.*

2. PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was led by Mr. Gene Gardella.

3. PUBLIC COMMENT

Mr. Gardella, Verdi resident, spoke in support of TMWA being the water purveyor for the residents in the Verdi area.

4. APPROVAL OF THE AGENDA

Vice Chair Hartung recommended to hear agenda item #14 after agenda item #7.

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

5. APPROVAL OF THE MINUTES OF THE SEPTEMBER 20, 2017 MEETING

Upon motion by Member Brekhus, second by Member Dahir, which motion duly carried by unanimous consent of the members present, the Board approved the September 20, 2017 minutes.

6. PRESENTATION ON THE SMART ABOUT WATER DAY EVENT

Andy Gebhardt, TMWA Water Operations & Quality Director, informed the Board of the Smart About Water day event to be held on Saturday, October 21, 2017 from 10:00 a.m. – 2:00 p.m. at the Lazy 5 Regional Park in Sparks. This is the first event of its kind that TMWA has organized, which is meant to educate and engage the public in all aspects of TMWA’s operations, financial status, TROA, etc.

7. PRESENTATION OF TMWA’S FISCAL YEAR 2017 CUSTOMER SATISFACTION STUDY

Sara Hart, InfoSearch International Research Director, stated InfoSearch has held TMWA’s customer satisfaction survey since 2002. Ms. Hart reported the study is conducted via a telephone survey throughout the year for a total random sample size of 500 customers polled: 400 residential and 100 commercial customers. The survey has consistently measured the overall level of customer satisfaction and attitudes toward water related issues including, but not limited to, water quality and supply, public outreach, and customer service. Ms. Hart said TMWA’s overall customer satisfaction for FY17 was 92% and has remained stable at 92-93% for the last five years, which is extremely high and remarkable considering the extreme drought conditions experienced in the last few years and the rate increase this past May. Ms. Hart stated the highest correlation she has observed is water quality awareness. In FY17, TMWA’s rating improved significantly with regards to maintaining adequate water supply and maintaining the region’s water supply.

Discussion followed regarding whether the study identified where respondents live within TMWA’s service area, age of infrastructure, and to potentially include a question about where customers live so staff can better understand related issues and concerns; customer response to “never” having problems with taste increased 19% between 2014 and 2016; the rating for the level of concern regarding drought and sufficient water supply improved significantly, and customers who were most concerned about the rate increase were commercial customers and amongst the residential customers, those who were age 65+, have lived in Reno for 20+ years and live alone.

Public Comment

Neil McGuire, TMWA Standing Advisory Committee Chair, stated that TMWA has done a great job listening to its customers, the Board and SAC members and have continued with its strong messaging, but the public get comfortable and it then becomes difficult to convince them that it is necessary for a rate increase. TMWA needs to continue to be a strong water company that can be compared nationally.

14. DISCUSSION AND POSSIBLE DIRECTION TO STAFF REGARDING WATER SERVICE OPTIONS TO THE VERDI AREA INCLUDING A POSSIBLE WHOLESALE AGREEMENT WITH THE WEST RENO WATER COMPANY, OR POSSIBLE ACQUISITION OF THE WEST RENO WATER SYSTEM

John Enloe, TMWA Natural Resources Director, reminded the Board this agenda item was deferred at the August meeting where the Board directed staff to develop alternative options to the proposed wholesale

agreement. Mr. Enloe referred to the staff report and briefly described four options for the Board to consider. He noted that staff recommends the Board consider option 3: The Board authorize staff to enter into negotiations to develop a draft acquisition agreement for the West Reno water system, whereby TMWA would become the retail service provider in the short term (i.e. 6-9 months). Mr. Enloe also clarified that Boomtown would also like to see TMWA acquire their system sooner rather than later so that Boomtown would not spend any further finances to continue legal filings with the Public Utilities Commission (PUC).

Discussion followed regarding the potential water system acquisition costs and improvements to increase the level of service; the current connection TMWA has in place ends at West Meadows; a \$1.5 million pump station and main extension will be required to connect TMWA's system with the Boomtown system; how new development will be responsible for the construction of subsequent water system improvements and facility costs; funding options such as connection fees, assessment districts and/or grants to cover the approximately \$14M cost associated with facility improvements to extend retail water service to Boomtown; communication between TMWA staff and City of Reno staff with regards to review of proposed developments; there is sufficient water in the existing system to serve the area today which allows time as projects develop to build the necessary infrastructure; and there are several uncertainties with the system which TMWA staff will need time to assess and evaluate.

Member Jardon appreciated staff's efforts and reinforced the concerns of Verdi residents with relation to the quantity and quality of water by a water service company other than TMWA.

Member Brekhus asked if facility improvements to extend retail water service to Boomtown were being calculated into connection fees. Mr. Enloe replied, yes.

Member Herman commented that she is very pleased to hear this discussion and is pleased with the direction it is going. She stated she wished it had occurred two years ago so that it may have helped with the fire situation in Verdi this past fall.

Member Duerr agreed that TMWA could provide stability with adding fire hydrants for fire response and asked what was included in the \$14M. Mr. Enloe replied the \$4-\$5 million short-term cost would be to acquire the water system assets, build a pump station and pipeline, plus other nominal improvements of wells and tanks to improve the level of service. The \$14 million is for backbone facilities, mains and pump station improvements, to connect to the systems.

There was no representative from West Reno Water Company, but Member Brekhus stated she had spoken with a representative from the company and they stated interest in being acquired.

Public Comment

Mr. McGuire stated the SAC discussed this issue at great length and came to a unanimous decision to support TMWA entering into an agreement with West Reno which does not negatively impact TMWA customer rates in the future. He strongly feels as a committee the members are concerned and take the time to consider options, look at the facts and do not allow for politics to enter into their decision making. The committee is made up of accountants, bankers, business people whom the Board has entrusted them to represent TMWA's customers and discourage any cross-subsidization.

Mr. Gardella reiterated that Verdi residents prefer TMWA to acquire West Reno sooner rather than later and suggested the Board form a special assessment district which would require all owners to enter into a contract requiring everyone to pay their fair share; i.e. as houses are built and sold, the capital portion of the sales goes to pay down the bond.

Dawne Rice, Verdi resident, stated she feels relieved after hearing the discussion and expressed her concerns regarding her well going dry again and suggested that the new development be required to xeriscape their properties as it is developed.

Alice House, Verdi resident, also expressed her concern about her own well going dry for a third time and it is better that TMWA manages the wells in the area.

Chip Bowlby, Reno Land president, thanked TMWA staff for working together to move this forward, he is in support of connection fees being part of the solution and TMWA is the solution for the community and residents in Verdi.

Closed Public Comment

At this point discussion ensued regarding the factors of a special assessment district to ensure as many citizens as possible are on board so that TMWA can manage the resources in this area efficiently.

Upon motion by Member Duerr, second by Member Brekhus, which motion duly carried by unanimous consent of the members present, the Board approved to authorize staff to move forward with Option 3; enter into negotiations to develop a draft acquisition agreement for the West Reno Water System for future Board action. The draft acquisition agreement would include: terms and conditions for the acquisition of the water system facilities, assets and obligations; a summary of facility improvements, implementation schedule and estimated costs to connect the system to TMWA; and a plan identifying how the acquisition and improvement costs would ultimately be paid for.

Upon motion by Member Duerr, second by Member Jardon, which motion duly carried by unanimous consent of the members present, the Board additionally authorized TMWA staff to coordinate with the City of Reno and Washoe County to develop several possible funding strategies for implementation of the Verdi Area Water Facility Plan improvements.

The Board of Directors recessed at 12:21 p.m.

The Board of Directors reconvened at 12:34 p.m.

8. PRESENTATION OF TMWA'S POPULATION PROJECTION AND PROJECTED GROWTH IN WATER DEMANDS

Shawn Stoddard, TMWA Senior Resource Economist, presented the staff report. He stated spring weather patterns have a huge impact on water usage, the projections are a moving average of the last three years and are updated every six months. Currently, peak projections have held at approximately 600k residents. Member Brekhus inquired if the rate increase was included in these projections. Mr. Stoddard replied, no.

9. PRESENTATION OF TMWA GOALS AND OBJECTIVES RESULTS FOR FISCAL YEAR 2017

Mark Foree, TMWA General Manager, provided an overview of the results for TMWA's FY2017 goals and objectives. Overall the results were very good, most having met or exceeded their benchmarking or industry standards; most notably, meeting both Safety goals which have been elusive in meeting in past years.

Michele Sullivan, TMWA Chief Financial Officer, reported that all financial goals were met but one, and TMWA received an improved S&P rating of AA+. TMWA did not meet the median target of 32% for maintaining a low debt ratio, rather had a result of 45% but that was anticipated as TMWA still has a very high debt load compared to other utilities.

Alternate Member Dahir inquired if TMWA will be able to attain the next level in credit rating. Ms. Sullivan replied yes, within the AA ratings, but not AAA. Mr. Foree reminded the Board when TMWA was formed in 2001, it was 100% debt leveraged and Ms. Sullivan added that in the last two years the debt has been reduced by 20%.

Discussion occurred regarding holding cash reserves instead of paying down debt would improve debt ratio coverage, but currently the high cash reserve is also a result of the Farad insurance settlement which has already been earmarked so it appears as if there is more; commercial paper is paid down with the selling of will-serve commitments; and recently paid \$7.2M to pay down commercial paper.

Mr. Gebhardt explained the reason for not meeting the treatment costs this year was due to flooding and high river turbidities for an extended period of time requiring significantly more chemicals than normal.

Pat Nielson, TMWA Distribution, Maintenance & Generation Director, explained the goals for planned and unplanned disruptions taking 4-12 hours to fix were not met due to the 4th Street and Prater Way road construction and continued Mueller meter pits failing, which TMWA continues to replace and requires extended time. Mr. Foree added TMWA's crew are very professional and do a great job under pressure, in extreme weather and are very efficient.

Mr. Nielson stated the American Water Works Association (AWWA) benchmarks are reported nationally and do not accurately reflect the time it takes to complete these projects in this region, but still feels it is crucial to keep track of the statistics. The causes for the leaks and main breaks are due to soil, seismic activity, and the freeze/thaw cycles are more frequent than in the east coast.

Mr. Gebhardt explained TMWA did not meet the AWWA benchmark of maintaining a high level of billing accuracy. It was the first-year staff tracked this goal and what is considered an 'error' needs to be refined.

Vice Chair Hartung inquired about the possibility of obtaining smart meters much like NV Energy. Mr. Gebhardt replied yes, in the future and they are currently looking at industry standards.

Mr. Enloe reported all goals in Natural Resources were met except for the number of presentations (six versus 10) given regarding Truckee River Operating Agreement (TROA). He reported that the permitting process for Mt Rose Water Treatment plant has been completed and bidding will occur in December with construction anticipated to begin in spring 2018.

Scott Estes, TMWA Engineering Director, reported all goals were met in Engineering and New Business except for the new business turnaround for subdivisions within 30 days, 71% actual versus the 75% goal.

Member Brekhus inquired if this had to do with the health department issues. Mr. Estes replied yes, but he is proud of his staff for working diligently and attaining good results despite the issues. Mr. Foree added that the statistics have already improved this year.

10. DISCUSSION AND ACTION, AND POSSIBLE DIRECTION TO STAFF ON THE PROPOSED TMWA GOALS AND OBJECTIVES FOR FISCAL YEAR 2018

Mr. Foree reported that all goals with AWWA benchmarking or industry standards were updated to reflect current data.

Mr. Enloe reported two new Natural Resources organization objectives were added: #3. Work with stakeholders to develop draft return flow management agreement to address TRIC effluent; and #4. Perform cost-benefit analysis for converting remaining flat rate customers to meter. Mr. Foree added also to address how to repurpose the meter retrofit fee program.

Ms. Sullivan reported two new Financial organization objectives were added: #7. Maintain high level of utility's financial effectiveness, median goal of 1.7%; and #8. Successfully renew or replace TMWA's liquidity facility that supports Tax Exempt Commercial Paper (TECP).

Member Brekhus inquired who was the letter of credit obtained by and for how much. Ms. Sullivan replied MUFG Bank of Tokyo and it is about \$400k, but it will most likely be less this year.

Ms. Sullivan presented two new Business Information Systems (BIS) department goals: #4. Initiate BIS steering committee program; and #5. Development of TMWA IT strategic plan.

Mr. Enloe reported on two new Natural Resources department goals: #6. Remain actively involved in UNRs Nevada Water Innovation Campus projects; and #7. Respond to customer water usage audit requests within 3 days.

Vice Chair Hartung commented on the importance of using new technology to address treatment issues. Mr. Enloe agreed and it is gaining more membership.

Jessica Atkinson, TMWA Human Resources Manager, presented new Human Resources department goals: #1. Develop a system to track continuous training for full-time equivalent (FTE) employees; #2.

Track the number of annual employee FTEs departures per year, median or better goal of 6.8%; and #3. Track the number of FTEs eligible for retirement, median or better goal of 22.4%.

Ms. Sullivan presented three new Finance department goals: #3. Maintain a lean operating ratio, median goal of 56%; #4. Reduce TMWA's debt per capita based on America Metropolitan Water Association (AMWA), work toward median of \$552; and #5. Maintain ratio of capital cost to total budgeted costs, goal of 25%.

Vice Chair Hartung inquired if cost in overhead can be reduced and expressed his interest in seeing a hydro plant installed on Highland Canal to offset energy usage. Ms. Sullivan replied yes, in small ways; such as reducing AT&T bills and power, which is the biggest expense.

Upon motion by Member Jardon, second by Member Smith, which motion duly carried by unanimous consent of the members present, the Board approved the proposed TMWA Goals and Objectives for fiscal year 2018 with the addition of investigating options for other hydroelectric power plants.

11. PRESENTATION OF PRELIMINARY FUNDING PLAN FOR FISCAL YEARS 2018 THROUGH 2022, DISCUSSION AND POSSIBLE DIRECTION TO STAFF

Ms. Sullivan presented the draft funding plan for FY 2018-2022 and funding plan assumptions. She showed the last five years of water sales revenue and FY17 results, which include \$500k due to the rate increase, are much lower than FY14, and revenue came in within 2% of the funding plan.

Member Brekhus inquired about the funds from the Farad settlement. Ms. Sullivan replied those funds are already earmarked for hydro improvements.

Ms. Sullivan presented a list of liabilities which are not part of the draft funding plan and will result in a budget augmentation in the next few months; which include repairs to Donner Lake dam, Glendale diversion, and access roads – all as a result of the flooding, and the increase in power costs of 12%, which is four times the 3% projected for the next year.

Vice Chair Hartung inquired if TMWA had an insurance policy that could be used to pay for some of the repairs caused by the flooding. Ms. Sullivan replied no, but staff is applying to FEMA to get reimbursed.

Member Brekhus inquired since the Mt. Rose WTP has been pushed out and now costs \$5M, and there is enough river water, if there is an option not to expand. Mr. Enloe replied part of the problem for the delay is the bidding environment and there is more water than originally anticipated which is why the design has expanded; to build out for capacity now instead of later is more efficient and less costly.

Discussion followed regarding the land use designated in the Mt. Rose-Galena Fan area in the future and if the treatment plant expansion was still needed. But the issue remained that capacity is needed in the area now regardless of future development plans, and part of the treatment plant design is to recharge the aquifer.

Ms. Sullivan reported that the projections in the funding plan have improved slightly over last year, but the already approved 3% rate increase in May, 2018 is still necessary, and the Board will be revisiting the 2.5% increases projected in FY19, FY20 and FY21. Mr. Foree added that the financial situation has improved slightly, but not enough to reconsider the 3%.

Member Jardon inquired what was the largest electrical expense. Ms. Sullivan replied Chalk Bluff water treatment plant, but that is in one location, and the wells or pumping stations combined could possibly be more.

Upon motion by Member Smith, second by Member Dahir, which motion duly carried by unanimous consent of the members present, the Board accepted the report.

12. REQUIRED COMMUNICATION FROM EIDE BAILLY IN REGARDS TO TMWA'S ANNUAL FINANCIAL AUDIT

Ms. Sullivan informed the Board of TMWA's contract with Eide Bailly to conduct their annual financial audit. The required communication details the scope of work and the audit began on October 16.

13. DISCUSSION AND POSSIBLE DIRECTION TO STAFF ON OPTIONS FOR DEVELOPMENT OR USE OF FARAD PROPERTY, INCLUDING POSSIBLE SOLICITATION OF REQUESTS FOR PROPOSALS FOR SALE, LEASE OR OTHER DISPOSITION OF FARAD PROPERTY AND/OR EQUIPMENT

Mr. Nielson presented the staff report and proposal to send out the RFP to garner interest from the community.

Mr. Foree inquired if it was possible to modify the RFP to include the potential of purchasing the property so that parties who are interested can communicate that in their proposal. Mr. Pagni replied, yes.

Discussed followed regarding the limitations of the property and potential to develop (the property is being listed "as is"); the property has no deed restrictions; the possibility of excluding potential types of uses and including potential uses for recreation, rafting, fishing, etc.; and there are no groundwater rights tied to the property.

Mr. Pagni stated it be best to see what the parties submit to see the interest before going to the next stage in the phase so as not to restrict the potential uses. Mr. Foree added staff prefers to sell the property since the reclamation costs to tear down the flume structures are extensive and the \$21M set aside from the insurance settlement will first be used for any costs associated with Farad.

Member Brekhus noted she would like to protect the easement of the Tahoe-Pyramid bikeway and ensure it continues to be open to the public, and suggested that Nevada County be notified to work together regarding the RFP for the Farad property. She suggested to hold this item and to schedule a visit to the site to see its potential. Mr. Foree replied TMWA will own Farad within 30 days and a visit could be scheduled at that time.

Mr. Nielson suggested generalizing the RFP as more of a Statement of Interest to move forward.

Mr. Pagni stated the process would be more general and not require interested parties to respond to an RFP, rather express interest of the potential use for the property.

Upon motion by Member Jardon, second by Member Herman, which motion duly carried by unanimous consent of the members present, the Board approved the solicitation of Statement of Interest for sale, lease or other disposition of Farad property and/or equipment.

15. GENERAL MANAGER'S REPORT

Mr. Foree informed the Board of a Submission to the Board by Ken McNeil and the press release for the Smart about Water day.

Mr. Gebhardt noted that Robert Charpentier, TMWA Communications Specialist, Marlene Olsen, GoodStanding, and Cammy LoRe, Consultant, were to be commended for their efforts in organizing the Smart About Water day event.

16. PUBLIC COMMENT

There was no public comment.

17. BOARD COMMENTS AND REQUESTS FOR FUTURE AGENDA ITEMS

Member Brekhus mentioned she had toured Swan Lake, which is still flooded, and inquired if the aquifer recharge in the North Valleys was the cause, and if staff has communicated with the impacted residences. Mr. Gebhardt replied that he has sent out emails to Lemmon Valley residents and Mr. Foree replied that recharge has been suspended since January. Mr. Gebhardt stated he would attend both the Washoe County Commission and City of Reno Council meetings next week to provide information.

Mr. Nielson stated the he would schedule a tour of Farad for interested Board members.

18. ADJOURNMENT

With no further discussion, Vice Chair Hartung adjourned the meeting at 2:17 p.m.

Approved by the TMWA Board of Directors in session on December 13, 2017.

Sonia Folsom, Recording Secretary

**Members Herman and Smith were present for agenda items 1 thru 15 only.*