

TRUCKEE MEADOWS WATER AUTHORITY
DRAFT MINUTES OF THE MARCH 16, 2011
MEETING OF THE BOARD OF DIRECTORS

The Board of Directors met on Wednesday, March 16, 2011, at Sparks Council Chambers, Legislative Building, 745 Fourth Street, Sparks, Nevada. Chairman Carrigan called the meeting to order at 10:02 a.m.

1. ROLL CALL

Members Present: Dave Aiazzi, John Breternitz, Mike Carrigan, Mike Cate, Bob Larkin* and Geno Martini. Member Absent: Bob Cashell. A quorum was present.

2. PLEDGE OF ALLEGIANCE

Led by Member Martini.

3. APPROVAL OF THE AGENDA

Chairman Carrigan stated that the Board would meet for a labor briefing with management representatives in a closed door session immediately following the Board meeting.

Upon motion by Member Martini, second by Member Larkin, which motion duly carried by unanimous consent of the members present, the Board approved the agenda, noting the addition of the closed door session for a labor briefing with management representatives immediately following the Board meeting.

4. PUBLIC COMMENT

There was no public comment.

5. APPROVAL OF THE JANUARY 19, 2011 MINUTES

Upon motion by Member Breternitz, second by Member Larkin, which motion duly carried by unanimous consent of the members present, the Board approved the January 19, 2011 minutes.

6. RECOGNITION OF KEEP TRUCKEE MEADOWS BEAUTIFUL AND SIERRA GUARDIANS FOR THEIR TRUCKEE RIVER CLEANUP EFFORTS

Kim Mazeres presented certificates of appreciation and t-shirts to Keep Truckee Meadows Beautiful (KTMB) and Sierra Guardians to recognize their efforts to keep the Truckee River clean and protect its water quality. She stated that last year the two groups pulled hundreds, if not thousands, of pounds of trash from the river. Christi Cakiroglu, Executive Director of KTMB, thanked TMWA for its support of their organization and said that in 2011, KTMB will focus on

cleaning up invasive weeds in the river. Paul Talagia, CEO of Sierra Guardians, said their goal is to have a clean and safe river for everyone to enjoy. He said last year they concentrated on a five-mile stretch from Mayberry Park to Barbara Bennett Park, and this year they'd like to continue their efforts from Barbara Bennett Park to Rock Park. Chairman Carrigan thanked both organizations on behalf of the Board.

7. DISCUSSION AND POSSIBLE DIRECTION TO STAFF REGARDING 2011
LEGISLATIVE ACTIVITIES AND CURRENT BILLS

Mark Foree reported that he and Chairman Carrigan gave presentations to the Assembly Natural Resources Committee, the Assembly Government Affairs Committee and the Senate Natural Resources Committee during the past month. These presentations focused on TMWA's background, board make-up, facilities, water rights dedication requirements, water resource and drought planning, TROA, and current financial picture. Mr. Foree and Chairman Carrigan answered many questions about water quality, conversion of water rights from agricultural to municipal use, and hydroelectric generation.

John Erwin referred to the spreadsheet listing the current bills of interest to TMWA. He called the Board's attention to the actions taken on February 25, 2011 by the Legislative Subcommittee. Mr. Erwin and Steve Walker, Contract Lobbyist, discussed the status on following bills:

AB73 authorizes the State Engineer to cancel a permit to appropriate water for a beneficial use if the holder of the permit fails to file certain information within a certain period after the date of the notice to file that information; revises provisions relating to the forfeiture of certain water rights. Staff Recommendation: Neutral, but Support if amended. TMWA has submitted amendments.

AB114 revises the amount of the fee for issuing and recording a permit to change the point of diversion or place of use only of an existing water right for irrigational purposes. Staff Recommendation: Neutral

AB115 revises provisions governing the approval or rejection by the State Engineer of an application to appropriate water for beneficial use. Staff Recommendation: Support if amended. TMWA has submitted amendments.

AB144 Makes various changes relating to bidder preferences on state and local public works projects. Staff Recommendation: Watch. Member Cate wanted to know who would police the requirements if this bill passed; if it was TMWA, what would be the impact. Mr. Pagni said staff recommended a watch position because they are concerned it may have an impact on administrative costs although bid preference rarely becomes an issue on TMWA projects. Vice Chairman Aiazzi expressed concern on what would happen if the project is awarded to a bidder and then that contractor does not continue to meet the requirements. There are a number of problems with the language of this bill, and it could prove very onerous to public agencies. Member Cate agreed and said that is the problem with some of these bills: The intent is good and could put Nevada people to work but it is always the unintended consequences that present a

problem. Chairman Carrigan agreed with the “Watch” position as long as TMWA had the ability to testify on these bills. He suggested a different position could be taken at a later date if the bill turns into something that would affect TMWA.

SB192 requires a local government to report the percentage of contracts for the design and construction of public works that were awarded to contractors and design professionals in this state. Staff Recommendation: Not Support. TMWA submitted an amendment which was not accepted. This bill would require TMWA to make several reports on why it is using an in-house engineer instead of contracting the project to an engineer or architect from the community.

Mr. Walker spoke about the new bills received since February 25th, and provided staff’s recommendations:

AB218 requires the Department of Taxation to construe the term “food” as excluding “bottled water” thereby excluding bottled water from the tax exemption. Staff Recommendation: Watch

AB 228 requires a public body to use a standard form construction contract which has been endorsed by national associations representing industry professionals for each contract for a public work. Staff Recommendation: Neutral, if Amended. This would prove very onerous to TMWA personnel. An amendment has been proposed that basically asks that instead of a bill moving forward on this that the concepts of the bill – the uniform contract – be presented to the State Purchasing Committee for review over the interim and then after their input a bill would be reintroduced in the 2013 session.

Mr. Walker told that board that he attends all hearings on bills with a “Watch” position. He also mentioned that the information on bills has been greatly enhanced this year on the State’s Nellis system. All the amendments are there and the public can see basically everything that is available to the legislators.

Chairman Carrigan called for a motion on AB218 and AB228.

Upon motion by Member Breternitz, second by Member Martini, which motion duly carried by unanimous consent of the members present, the Board accepted staff recommendations on AB218 and AB228.

Member Larkin left at 10:42 a.m. He did not vote on Item 8 through 11.

8. REQUEST FOR BOARD SELECTION AND APPOINTMENT OF NEW MEMBERS FOR THE STANDING ADVISORY COMMITTEE

Lora Rose Richards called the Board’s attention to the applications received to fill the vacancies on the Standing Advisory Committee (SAC) and distributed a map showing where current members and applicants reside. The vacancies and applications are as follows:

Commercial: the primary and alternate positions are vacant – there were two applicants

Irrigation: the alternate position is vacant – there was one applicant
Multi-Family: the alternate position is vacant – there was no applicant
Residential: one alternate position is vacant – there were eight applicants
Wholesale: the alternate position is vacant – there was no applicant

Ms. Richards then asked for direction on how to proceed in the selection of the new members. Chairman Carrigan said that as there was the same number of applicants as there were vacancies for Irrigation and Commercial, these presented no problem. Vice Chairman Aiazzi thanked Ms. Richards for the map and said it appeared that an applicant from Northwest Reno was needed as the other areas were covered. Mr. Richards said that Mr. Paul Rose, an applicant, was in the audience. Mr. Rose does reside in Northwest Reno. Vice Chairman Aiazzi said that made things easy for him as the applicant chose to attend the Board meeting.

Upon motion by Vice Chairman Aiazzi, second by Member Breternitz, which motion carried by unanimous consent of the members present, the Board appointed Paul Rose as Residential 1 (alternate).

Ms. Richards said one of the applicants was willing to serve as the multi-family member saying that he had lived in a multi-family complex as a kid. Chairman Carrigan said that as applicant sat on another board in the Reno area, he would rather the seat went to someone who did not sit on another board.

Chairman Carrigan called for a motion to appoint the Commercial and Irrigation members.

Upon motion by Member Martini, second by Member Breternitz, which motion carried by unanimous consent of the members present, the Board appointed Pat Martinez as Commercial (primary), Kevin Haddock as Commercial (alternate) and Mike Heffner as Irrigation (alternate).

Vice Chairman Aiazzi said, having read Mr. Rose's application, the public should know that Mr. Rose has great qualifications and experience in the water industry. He is a 25-year employee with the Truckee Donner Public Utility District, currently working as a Water Quality Tech after working 12 years as Foreman of Distribution and Operations.

9. REQUEST FOR APPOINTMENT OF THREE MEMBERS OF THE TMWA BOARD TO THE WESTERN REGIONAL WATER COMMISSION BOARD FOR A TWO-YEAR TERM BEGINNING APRIL 1, 2011

Mark Foree said that the legislation that created the WRWC requires the TMWA Board to appoint three members from the TMWA Board, one from each agency, to serve on the WRWC for two-year terms. The current TMWA appointees are Chairman Carrigan from Sparks, Commissioner Larkin from Washoe County and Mayor Cashell from Reno whose terms expire on 4/1/11.

Upon motion by Vice Chairman Aiazzi, second by Member

Martini, which motion carried by unanimous consent of the members present, the Board re-appointed Mike Carrigan from Sparks, Bob Cashell from Reno, and Bob Larkin from Washoe County to represent TMWA on the Western Regional Water Commission for a two year term beginning 4/1/11.

10. REQUEST FOR BOARD ADOPTION OF RESOLUTION NO. 171 APPROVING THE FIRST BUDGET AUGMENTATION AND BUDGET REVISION JULY 1, 2010 THROUGH FEBRUARY 28, 2011

Jeff Tissier stated that budget augmentation or increases in appropriations require Board approval. The budget approved by the Board in May 2010 for FY2011 is being recalibrated to link up historical financial performance with the next five years of financial forecasting.

Mr. Tissier highlighted the following details from the staff report:

The 4.4% general water rate increase approved by the Board in May 2010 did not generate the expected revenues because of decreasing water demands.

Offsetting decreased water sales is an increase in hydroelectric revenues due to better than expected river flows.

There has been a significant reduction in operating expenses of almost \$4 million dollars, more than offsetting the decrease in revenues by \$2 million dollars.

Reduced investment income is offset by low interest rates on the Commercial Paper Program.

Capital expenditures must be increased by \$1.4 million dollars, which reflects the carryover of the Sparks Feeder Main 4-A Project from FY2010 to FY2011.

Also incorporated in this augmentation are the expenses that were approved in January 2011 for the Voluntary Separation Program which is geared towards reducing TMWA staffing by 8% to 12%. Mr. Tissier said that TMWA experienced lower than expected costs for the Glendale Diversion, and therefore intends to request the Department of Environmental Protection to reauthorize the remaining balance of the loan that was approved in 2010 to be used for future capital projects in FY2012.

Chairman Carrigan reiterated that this augmentation results in a net increase in operating income of \$1.3 million to the FY2011 budget.

Upon motion by Member Breternitz, second by Vice Chairman Aiazzi, which motion carried by unanimous consent of the members present, the Board adopted Resolution No. 171 approving the first budget augmentation and budget revision for FY2011.

11. FINANCIAL PERFORMANCE REPORT FOR THE FIRST HALF OF FISCAL YEAR 2011

Mr. Tissier said that the financial performance for the first half of FY2011 will be measured against the augmented and approved FY2011 budget. The FY2011 budget presented in May 2010 has been amended to reflect the continued decrease in water demands and the significant decreases in operating expenses and expectations for continued decreases. Operating revenues are now in line with expectations, and Mr. Tissier feels the point has been reached in this current economic climate where forecasting water demands can be more realistic. Operating expenses are also in line with the revised budget and well below last year's expenses. Operating expenses now appear to be at FY2005 levels. TMWA is doing an extremely good job in managing both operating expenses and capital expenses. Interest expenses continue to be low due to low rates on the Commercial Paper Program. Developer contributions remain at unprecedentedly low levels but should be on budget with recent collections.

There were no questions from the Board.

Member Larkin returned at 10:54 a.m. He did vote on Item 12.

12. PRESENTATION OF PROPOSED PROJECTS AND REQUEST FOR BOARD ADOPTION OF RESOLUTION NO. 172 APPROVING FUNDING FOR PROJECTS RECOMMENDED BY THE TRUCKEE RIVER FUND ADVISORY COMMITTEE AND AN AUTHORIZATION FOR THE COMMUNITY FOUNDATION TO FUND SUCH PROJECTS FROM FUND PROCEEDS

Ron Penrose presented this item. The Truckee River Fund Advisors met on February 25. They reviewed four projects and are recommending three projects for approval. The projects are:

1) The Truckee River Watershed Education Initiative developed by Sierra Nevada Journeys, a state-approved 503c3 non-profit vendor for education. The project entails the development and implementation of a 3rd to 8th grade watershed education curriculum for approximately 350 students in the Washoe County School District. Implementation of the program will increase awareness and importance of watershed protection to impressionable students and will improve stewardship and ownership of the valuable Truckee River resource.

2) Livestock Event Center Treatment System – Phase 2 requested by City of Reno Public Works. This second phase includes the design and construction of a drainage collection system targeting the northerly livestock holding area. Completion of this project, along with the already completed Phase 1, will mitigate the long-standing problem of livestock waste entering the Truckee River via storm drains during livestock events at the Livestock Event Center Facility. These episodes in the past have impacted the normally pristine water quality of the Truckee River and required more treatment at TMWA's Glendale Water Treatment Plant.

3) Habitat Restoration Plan-UNR Main Station Field Laboratory Property, requested by River Partners. This project entails the development and completion of a habitat restoration plan for the University of Nevada's 1000 acre Main Station Field Property which borders the Truckee River east of McCarran Boulevard. Development and implementation of this plan will improve the

health of Truckee River watershed and will mitigate future sediment loading on the Truckee River. It is felt this is important to develop at the current time due to the pending design and construction of the Southeast Connector Project.

Upon motion by Vice Chairman Aiazzi, second by Member Martini, which motion carried by unanimous consent of the members present, the Board adopted Resolution No. 172 approving funding for the three projects recommended by the Truckee River Fund Advisory Committee and authorizing the Community Foundation to fund such projects from Fund proceeds.

13. STATUS REPORT ON THE MERGER OF WASHOE COUNTY DEPARTMENT OF WATER RESOURCES WATER UTILITY INTO TMWA, DISCUSSION AND POSSIBLE DIRECTION TO STAFF

Mr. Foree commended both staffs for working hard to meet the milestones for the various portions of the work. He recognized Jeff Tissier for leading the effort and keeping the project moving. One of TMWA's goals this year was to complete the financial analysis related to the merger by the end of March. TMWA completed its draft five-year financial forecast and Capital Improvement Plan related to the merger in February and sent the data to Public Financial Management for their analysis and review. TMWA is meeting its schedule and goal related to the merger. He asked Mr. Tissier to discuss the details.

Mr. Tissier summarized the history of the process to date: the site/facility, land/easement, water right and human resource assessments were completed last year. Combined joint operating plans for the North Valleys, Spanish Springs and the south Truckee Meadows area were developed. The cornerstone of those analyses was to determine how much surface water could be extended into those regions relieving ground water pumping in those areas and hopefully meeting perennial yields of those basins. Capital Improvement Plans (CIPs) were then finalized. Close to \$30 million of debt drops off TMWA's cost of service in 2034, so TMWA extended its CIP to 2040 to determine if there were any commitments for capital spending during the 2034 – 2040 period. That window will be important when TMWA and the investment bankers look at debt restructuring. Concurrently a CIP to 2030 was developed with DWR staff to determine if there were any significant construction commitments especially for new growth.

With those projects completed, the development of financial models incorporating critical elements of the operating plans and CIPs is now in progress. John Sherman, Washoe County Director of Finance, agreed to use the TMWA financial forecasting model for projecting the merged entity. The reason being TMWA's model is very detailed and, therefore, if any minor detail or assumption is changed, the financial statements will automatically be updated. These are the financial projections the investment bankers will need when reviewing any bond defeasance for the publically issued bonds by the Department of Water Resources. Mr. Tissier said he was about halfway through developing that combined entity financial projection model and expects to have a preliminary financial projection done by the end of March. Projected demands for the DWR service areas are also being analyzed. Once completed, an informed

decision can be made with respect to the feasibility of an integration/merger.

Concurrently this information will be sent to the investment banking underwriters, Citibank and JP Morgan, who were selected to work on a negotiated basis to potentially issue bonds for the defeasance and any incremental financing that may be required. DWR is working on their five-year forecast, basically on a cost-of-service model basis, and with Mr. Tissier on modeling their operating expenses. The next steps will be to monitor the market for cost-effective defeasance opportunities and develop a transition plan for each division for a seamless and smooth transfer. TMWA and DWR personnel are reviewing TMWA's Rules of Service and WC/DWR Ordinances for alignment and harmonization to minimize changes in service to customers when a merger is completed.

Member Larkin asked for clarification regarding the financial modeling used by DWR and TMWA. Mr. Tissier explained that both TMWA and DWR use cost-of-service for financial modeling and the two systems will be comparable when brought before the boards. Member Larkin said he hoped that some sensitivity analyses would be done and those policy results brought back so the Board can get a feel for what the mindset is as we go through this. Mr. Tissier said that is why PFM, both TMWA and DWR's financial advisory firm, is being used. PFM is reviewing the assumptions and sufficiency of revenues from both TMWA and DWR and then the policy recommendations will come out of that effort. PFM will present some of those policy recommendations to the Board.

Member Larkin asked about the defeasance of DWR's bonds. Mr. Tissier said defeasance of the bonds is critical to make this merger work because the revenue stream cannot be taken into TMWA until the pledge is removed. There are other revenue pledges against the sewer loans from the State Revolving Fund (SRF) which will involve negotiating with the Nevada State Treasurer. There is also a water pledge against the storm water bond in Spanish Springs and Mr. Sherman is working with Sun Trust Bank to strip away that water pledge and substitute some type of credit enhancement. There are four debt issues that are particular to the Department of Water Resources water utility: 1) a 1997 state bond bank loan, 2) a 2001B medium term bond loan that will be paid off in November 2011, 3) a 2005 DWRSF loan for the Longley Plant, and 4) the 2005 publicly issued bonds. Currently, it is not cost-effective because the yield curve is unfavorable. Defeasance opportunities will present themselves as short-term rates increase and to some extent long term rates as they become more favorable. In the meantime, staff will work with the bankers to explore different structures. Expansion of the Commercial Paper Program may be a feasible way of handling the defeasance.

Vice Chairman Aiuzzi asked about the status on staffing and if the unions and employees are aware of all that has been happening. Mr. Tissier said he is working with Rosemary Menard, Executive Director of DWR on this issue. TMWA received a preliminary roster of DWR staff and it is modeled into the data. Employees and the unions are being kept aware of what's been happening.

Vice Chairman Aiuzzi asked about issues involving the System Control and Data Acquisition (SCADA) system. Mr. Foree explained that TMWA and DWR use two different supervisory control systems and part of the merger costs will be the cost to convert the DWR facilities over

to TMWA's system but that doesn't necessarily need to happen on day one. Mr. Tissier added that sewer and water signals come in at the same time and staff is trying to split off the water data points from the sewer. TMWA's SCADA engineer, Russ Norton, has done a great job in determining an interim solution before porting over that information with a certain amount of capital spending. The expected cost is approximately \$750,000. This does not have to be done immediately but eventually should be done.

Vice Chairman Aiazzi asked if TMWA had an employee who works on land issues saying that Flood Control is looking to hire someone for this job and as a member of the Flood Board, he is looking to keep his options open to see if this could be contracted to TMWA. Vice Chairman Aiazzi also mentioned that Flood Control has an early flood warning system and again, wondered if that should be folded in and financed through TMWA and then Flood Control could pay TMWA to watch over that. Mr. Foree said TMWA monitoring the flood early warning system could be an option but the one land agent TMWA has is extremely busy most of the time so adding that additional work would be challenging. Mr. Tissier said that he and John Sherman have had discussions about some help for the Flood JPA on the financial side and are exploring those opportunities.

Mr. Tissier said the other investment will be in porting over DWR customers into TMWA's billing system because it is not cost-effective for TMWA to change to Washoe County's billing system. Potential expansion of the Glendale facility is a very cost-effective solution to housing more personnel. With the myriad other smaller items, the investment in the merger will be about \$4 to \$5 million dollars.

14. GENERAL MANAGER'S REPORT

Mr. Foree reported that TMWA filed paperwork for a Bureau of Reclamation grant for \$15 million dollars to purchase water rights to help the cities and the county meet the 6,700 acre foot requirement under TROA. That funding would come from the Desert Terminal Lakes legislation sponsored by Senator Reid. The request is for \$3 million per year for 5 years. The Bureau indicates that the funding looks favorable at this time, however Congress could possibly modify or rescind the funding under this program.

TMWA received a letter from the Environmental Working Group (EWG) more than 7 months after sending them a certified letter. EWG still has not changed the incorrect data on their website and has not redone their report and didn't address those issues in the letter. Their website does state they intend to make changes to the data but Paul Miller and Mr. Foree are not very confident about them doing that any time soon or doing it correctly.

Chairman Carrigan said it behooves us to find out who they are. Mr. Foree said that it was a small organization with about 10 employees. He said he would send the Board a copy of the EWG letter and TMWA's response.

Member Larkin suggested TMWA put together and publish a confidence index on these rating agencies showing its confidence in the data of these rating agencies. Mr. Foree said that staff has discussed a number of ideas but the point is that these organizations don't answer to anybody. TMWA, of course, answers to the public, so it is frustrating.

15. PUBLIC COMMENT

There was no public comment.

16. BOARD COMMENTS AND REQUESTS FOR FUTURE AGENDA ITEMS

There were no Board comments.

17. ADJOURNMENT

With no further business to discuss, Chairman Carrigan adjourned the meeting at 11.15 a.m.

Approved by the TMWA Board of Directors in session on _____.

Respectfully submitted,

Corinne Cassell, Recording Secretary

*Member Larkin present for items 1 through 7 and items 12 through 17 only.