



## STAFF REPORT

**TO:** TMWA Board of Directors  
**FROM:** Mark Foree, General Manager  
Jeff Tissier, Chief Financial Officer  
**DATE:** October 10, 2011  
**SUBJECT:** **Update regarding the merger of Washoe County Department of Water Resources (DWR) water utility into TMWA, discussion and possible direction to staff**

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### **RECOMMENDATION**

Staff recommends that the Board accept the report on the status of the merger/integration project between the Truckee Meadows Water Authority (TMWA) and the Washoe County Department of Water Resources water division (DWR) and provide direction to staff.

### **DISCUSSION**

#### **Overview of the due diligence process**

As of October 10, 2011, TMW and DWR have completed detailed five year financial forecasts that have been reviewed by Public Financial Management (PFM) the common financial advisor to TMWA and Washoe County. TMWA staff with assistance from DWR personnel has completed a very detailed financial forecast for the combined entity. PFM has provided revised interest rate assumptions for investments and for variable rate debt to be incorporated in the combined entity financial forecast and the TMWA stand-alone forecast. These forecasts were updated and sent to PFM the week of October 10, 2011. Also requested by PFM was a no growth financial forecast for the combined entity. TMWA assumed no growth in customer service connections in the TMWA financial forecast while DWR assumed some modest level of new connection growth which needs to be removed in the combined entity model as a means of stress testing the combined entity's financial forecast.

The completion of the financial forecasts is the culmination of a significant amount of effort on the part of TMWA and DWR with respect to site and operational assessments, land/easement assessments, water right assessments, the finalization of independent and combined operating plans as well as the finalization of short and long term capital improvement plans (CIPs). Bond market conditions play a significant role in the timing of the merger since the publically sold bonds of DWR will have to be refinanced (defeased).

**Final Activities to complete that will lead to Merger**

The following list is not intended to be comprehensive but does focus on the status of the most critical elements to effect the merger.

- Human Resources due diligence is complete with the exception of further limited work on the post- retirement medical (underway), move forward with union discussions, and eventually employee transfer matters once decision is made to go forward with the merger.
- Formation of the Washoe County Bond Bank (which is beneficial for a merger) requires Board of County Commissioner approval.
- Washoe County will need to meet with the Nevada State Treasurer's Office to discuss the transferability of the DWR Drinking Water State Revolving loans to TMWA.
- Additional work is necessary for TMWA and DWR personnel to review TMWA's Rules of Service and WC/DWR Ordinances for alignment and harmonization. Development of proposed changes to Rules of Service and Ordinances are underway to be completed in January 2012. Apart from the proposed merger, this work is still necessary to bring consistency to the water service processes in the region.
- DWR is continuing discussions between the South Truckee Meadows General Improvement District (STMGID) Local Managing Board (LMB) and the Board of Trustees (Washoe County Commission Board) regarding STMGID's role in a regional water management setting.
- Discussion regarding the future of the Verdi Joint Service Area will need to progress.
- Interpret and review Right of Way Tolls that would affect City of Reno and City of Sparks customers. About 550 customers in DWR's service area are in the City of Sparks. All of Double Diamond (roughly 6000 accounts) and other areas in the South Truckee Meadows are located within the City of Reno's jurisdiction. These customers currently do not pay ROW fees but potentially would under TMWA.
- TMWA has moved forward with the Glendale Building Expansion Project to house current personnel. After completion of this project TMWA will have sufficient space to house transferred employees at TMWA's Corporate Blvd. office as well as at Glendale Treatment Facility. Investments in the merger have been identified and quantified and are incorporated in the combined entity financial forecast.
- The cost to serve customers' needs to be reviewed for each independent agency- review adequacy of water rates and developer fees. Also project the water rates and developer fees on a combined basis for comparative purposes.

- Continue to monitor bond market conditions to identify opportunities to defease the outstanding publically sold water bonds issued by DWR in 2005. TMWA met with the selected investment banks chosen to underwrite the refinancing of the DWR 2005 bonds. The banks are looking at various refinancing alternatives with results still pending.
- Washoe County will need to begin negotiations to strip the water revenue pledge from the storm water bonds issued by DWR as well as sewer bonds and loans.
- Discussions are being held with Vidler on operating alternatives regarding the Fish Springs Ranch water supply system.