

TRUCKEE MEADOWS WATER AUTHORITY
DRAFT MINUTES OF THE OCTOBER 19, 2011
MEETING OF THE BOARD OF DIRECTORS

The Board of Directors met on Wednesday, October 19, 2011, at Truckee Meadows Water Authority, Independence Room, 1355 Capital Blvd., Reno, Nevada. Chairman Carrigan called the meeting to order at 10:02 a.m.

1. ROLL CALL

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

2. PLEDGE OF ALLEGIANCE

Led by Member Larkin.

3. PUBLIC COMMENT

There was no public comment.

4. APPROVAL OF THE AGENDA

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

5. APPROVAL OF THE SEPTEMBER 21, 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 September 21, 2011 minutes.

Member Cashell arrived at 10:03 a.m.

6. PRESENTATION OF PROPOSED PROJECTS AND REQUEST FOR BOARD ADOPTION OF RESOLUTION NO. 178 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 AND ANNUAL REPORT ON THE ACTIVITIES OF THE TRUCKEE RIVER FUND

Ron Penrose presented this item to the Board. On October 7, 2011, the Truckee River Fund (Fund) Advisors reviewed eleven projects/proposals and recommended eight of those projects for approval by the Board. The total funding request for those recommended projects was

\$724,427 with a match amount of \$393,092. The projects involved:

- Cleanup of the Truckee River corridor
- Continuation of best management practice training by the University of Nevada, Reno for those involved in construction on how to set up controls to prevent erosion and contamination to the river from construction sites
- Educational initiative relative to watershed training for K through 12 classroom instruction
- Continuation of the Desert Research Institute cloud seeding program which has benefitted TMWA from a drought resource perspective
- Support of the Nature Conservancy program at Independence Lake to prevent invasion of the Quagga mussel
- Final development and implementation of a mandatory watercraft inspection program at Donner Lake, Independence Lake, Boca Reservoir and Prosser Creek Reservoir.

The Truckee River Fund was established in 2005 and is used exclusively for projects that protect and enhance water quality or water resources of the Truckee River and its watershed. The Fund maximizes TMWA dollars by requiring a minimum 25 percent match from requesting organizations. Since inception, the Board has authorized 75 projects with a grant total of \$7,156,475 and a total grantee match of \$5,882,250. The Fund has reduced TMWA's financial burden in regards to protecting the community's water source. The Fund has also been instrumental in initiating and completing multi-jurisdictional projects that enhance the watershed.

Chairman Carrigan commented that these are the types of stories and programs that need to be shared with the public and communicated to and by the media.

Upon motion by Member Breternitz, second by Member Cashell, which motion duly carried by unanimous consent of the members present, the Board adopted Resolution No. 178 approving funding for projects recommended by the Truckee River Fund Advisory Committee and authorizing The Community Foundation to fund such projects from fund proceeds; and accepted the annual report on the activities of the Truckee River Fund.

7. TMWA'S FISCAL YEAR 2011 CUSTOMER SATISFACTION STUDY PRESENTATION

Sara Hart, Director of Research for InfoSearch International, presented the results of the 2011 Customer Satisfaction Survey. InfoSearch has surveyed TMWA customers for the past ten years, assessing customers' overall level of satisfaction and attitudes toward water-related issues, including water supply, safety, service and quality.

In 2011, 89 percent of residential respondents provided favorable ratings in overall satisfaction. This is the highest rating to date with customers commenting "the water is a bargain" and "I'm

very satisfied all the way around.” There has also been an increase in overall satisfaction from commercial customers to 88 percent from 83 percent.

When compared to the national benchmarks, TMWA’s score was comparable to the national benchmark for providing affordable/reasonably priced water. TMWA’s score is higher than the national average in maintaining an adequate water supply, providing water that is safe to drink, providing water that looks and tastes good, keeping people informed about water, responding to service problems quickly, caring about customers and using public input in decisions.

Ms. Hart commented that in terms of communication initiatives, there may be opportunities to raise customer awareness of three-day a week watering, of value for price, and of TMWA’s not-for-profit status.

No action was taken.

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

Jeff Tissier and Mark Foree presented this update to the Board. The report included some recent merger activity including the completion of TMWA’s and Washoe County Department of Water Resources (DWR)’s detailed five-year financial forecast that has been received by Public Financial Management (PFM), the financial advisor to both entities. PFM is currently reviewing the report and working on their final report and recommendations.

A tremendous amount of other work has been done this year by both TMWA and DWR on joint operating plans, joint capital improvement plans, land and easement assessments, water rights assessments and Post-Retirement Medical Benefit issues. There has been work with select bank underwriters regarding potential future bond sales to defease Washoe County DWR publicly issued debt, and also work with Washoe County personnel and legislators on Legislative Bill AB238, the county bond bank bill.

The Board asked for some clarification from Rosemary Menard, Director of DWR, who was present, regarding when the county manager will provide direction regarding bringing forth the County Bond Bank Ordinance, which would allow refinancing of DWR publicly issued debt (necessary for the merger) with more favorable terms. Ms. Menard indicated that it could be on the County agenda as early as November.

Once the final PFM report is submitted and some other items have been completed by DWR/Washoe County, a joint meeting will be scheduled with both boards. The Board also asked for an update from Ms. Menard regarding decisions related to the South Truckee Meadows General Improvement District (STMGID). Ms. Menard indicated that upcoming meetings with the STMGID Local Managing Board and then the Board of County Commissioners would lead to those decisions.

In answer to a question about Verdi, Mr. Foree replied that some preliminary planning is being discussed with DWR personnel regarding systems in the Verdi area. There is also a court-ordered settlement agreement between TMWA and DWR on service to a certain area in Verdi which will have to be reviewed.

Mr. Foree stated that the merger will be good for the community for a number of reasons and that he believed that with a merged entity, there would be opportunities to drive long-term savings for our customers.

There are still many steps and activities that will need to be completed prior to merger, most of which need to be completed by DWR and Washoe County.

No action was taken.

9. PRESENTATION OF TMWA GOALS AND OBJECTIVES RESULTS FOR FISCAL YEAR 2011

Mark Foree presented the goals and objectives results for FY2011. He stated that overall the results were very good and complimented staff on their hard work and dedication in achieving these results.

He highlighted the following goals and objectives:

- Customer Satisfaction had an “outstanding” overall satisfaction rating of 89 percent for residential customers and an “excellent” overall rating of 88 percent for commercial customers.
- The call center goal requiring 80 percent of all calls to be answered within 35 seconds was exceeded with the call center answering 82.56 percent within 35 seconds. The average call handle time goal of 5 minutes was met with a result of 4 minutes 46 seconds.
- The Efficiency goals track the number of accounts per employee and million gallons per day (MGD) delivered per employee compared to national benchmarks. TMWA’s scores were between the median and the top quartile for the customer accounts per employee (559.3) benchmark and in the top quartile for the MGD delivered per employee (0.37) benchmark.
- TMWA’s medical safety incident rate was in the “excellent” rating with the low at 2.32 incidents per 200,000 hours worked; however, the preventable vehicle accident goal was not met.
- For the Financial goals, all bond covenants were met. Capital spending was \$2.6 million **less** than budgeted and Operating and Maintenance was \$3.6 million **less** than budgeted. The five-year funding plan was updated ahead of Fitch ratings review. Fitch reaffirmed TMWA’s AA- rating and kept the negative watch from last year. Fitch explained that

they very seldom remove a negative watch in just one year but with continued good financial performance, this could be removed during the next review. Mr. Tissier explained that TMWA received the negative watch in the first place because the senior lien debt coverage ratio went to 1.25 but that has been corrected.

- The treatment cost per million gallons (MG) was met (\$286/MG vs. a goal of \$359/MG). The treatment staff maintained effluent turbidity 100 percent of the time at less than 0.10 which is outstanding. For the tenth consecutive year, there were no Maximum Contaminant Levels (MCL) violations.
- In the Distribution area, the goal in hydroelectric generation plant availability was exceeded (99 percent vs. a goal of 95 percent). Water distribution system reliability was tracked by calculating outage hours per 1000 customers and compared to national benchmarks. TMWA was between the top and median quartile in unplanned outages less than 4 hours with 1.64; near the median for unplanned outages between 4 and 12 hours with 1.19 and in the top quartile with no unplanned outages exceeding 12 hours.
- Customer Service far exceeded the monthly average of 80 non-weather estimates on meter reads with 14 for the entire year. Met the goals of disconnect for nonpayment service orders to active accounts (0.25 percent vs. goal of 0.4 percent), to resolve 99 percent of conservation and high bill customer complaints without management intervention, to perform backflow retrofits (84 vs. goal of 50), to test 100 percent compliance for backflow testing, and to implement a field service automation system and mobile dispatch solution by fiscal year end. The write off to revenue goal of 0.30 percent or less was exceeded by an actual 0.35 percent. Ms. Mazerres noted this was approximately 2,500 accounts.
- Engineering and New Business markers continue to reflect capital projects completed on time and on budget, as well as meeting new business application goals.
- Natural Resources met all its goals, including the completion of filing applications on all “old” non-permitted water rights. All new business projects were completed in less than 2 days. No new water rights were purchased due to market conditions and an already large Rule 7 inventory.

Mr. Foree expressed to the Board that these achievements would not have been possible had it not been for the hard work and dedication of every employee.

Mr. Foree outlined the cost-cutting measures that were achieved during the year. In the past two years, operating expenses have been reduced by \$7.2 million, or 18. Spending for FY2011 is now at the FY2005 level. He then gave some of the specifics on how this was achieved. Electrical costs have been reduced by almost \$3 million over the past two years and hydroelectric plants produced more power than TMWA consumed. This is a fantastic accomplishment thanks to the hydrogeneration and distribution teams who help fight ice in the winter to keep the plants on-line, and the water treatment and distribution operations and

maintenance teams along with the engineering staff who have taken energy management and time-of-use pumping to a whole new level.

Mr. Tissier reported on the savings garnered from refinancing TMWA's debt which has saved TMWA customers over \$6 million to date. The total of all refinancings will save TMWA customers \$30 million over the life of the bonds. These savings help retain TMWA treasury which is an important component in maintaining TMWA's credit rating and in restructuring TMWA's debt. The Board was also updated on Automated Dispatch, which was implemented in January 2011 and paid for itself within six months. Four positions were eliminated as was the after-hour answering service. Our annual net savings from this program are \$230,000 and as we continue to streamline this process, we expect even more savings.

Chairman Mike Carrigan extended his appreciation to the TMWA team for working together regarding these great results.

10 PRESENTATION OF PROPOSED TMWA GOALS AND OBJECTIVES FOR FISCAL YEAR 2012, DISCUSSION AND POSSIBLE DIRECTION TO STAFF

Mr. Foree presented the proposed goals and objectives for FY2012, highlighting the changes from FY2011.

- In **Corporate Financial**, a goal was added to "Renew liquidity facility that supports TMWA's Tax Exempt Commercial paper program within market parameters with the result of extending with existing or substitute liquidity provider." Liquidity facilities (or Letter of Credit) act as a cost-effective tool to reduce interest costs on the commercial paper program. The letter of credit expires in August 2012 and staff will be working with TMWA's current provider and/or other providers. Member Larkin suggested a measurement be added to the goal. Mr. Foree suggested a measurement such as the current cost vs. the new cost in line with the current market." Mr. Tissier responded that that TMWA uses their independent financial advisor, Public Financial Management, to help ensure this will occur.

The merger-related goal was changed to read "continue to work toward merger with Washoe County DWR's water utility as directed by Board. Measure actual financial performance against forecast prepared for the purposes of the merger."

The Board suggested that the wording in the goal "meet or underspend the Capital and O&M budget commitments" be changed to "Meet the Capital and O&M budget commitments with a variance of plus or minus 5 percent."

- In **Departmental Customer Service**, lower the "average call handle" goal from 5 minutes to 4 minutes, 45 seconds.

Lower the "non-weather related monthly average estimates on all meter reads" goal from 80 to 25.

Replace the “resolution of conservation/high bill complaints without management intervention” to “hold a minimum of 12 public workshops and/or tours with a primary focus on responsible water use and education.”

Increase the “backflow retrofit” goal from 50 to 65.

- In **Departmental Natural Resources**, a TROA goal was changed to “begin hearings in Orr Ditch Court on pending application to amend the Orr Ditch Decree and appeal of Nevada State Engineer Order 6035.”

A new goal was added to “deploy Computerized Maintenance Management System to Distribution and Operations Maintenance personnel.”

Upon motion by Member Larkin, second by Member Cashell, which motion duly carried by unanimous consent of the members present, the Board modified Corporate Financial Goal #2 to read “meet the Capital and O&M budget commitments with a variance of plus or minus 5 percent” and Corporate Financial Goal #5 by adding a measurement metric such as “new cost be within reasonable market terms” and accepted all other goals.

Member Martini arrived at 10:45 a.m.

11. COST OF SERVICE AND REVENUE SUFFICIENCY, DISCUSSION AND POSSIBLE DIRECTION TO STAFF

John Erwin, Jeff Tissier and Mark Foree presented this item. Revenues have been flat over the last four fiscal years and there has been a 20 percent reduction in water use over the same period of time. Due to cooler springs and summers, the economic downturn, and the increase in home vacancies, the last two rate increases did not generate the expected revenue. Revenue breaks down into the following: approximately 61 percent of revenue comes from variable water tier consumption and the balance, approximately 39 percent, comes from fixed rate and monthly customer charges. However, on the cost of service side, about 9 percent of expenses are variable and 91 percent are fixed. In other words, if people were not to use any water, we would be able to reduce costs by about \$8 million, but could lose 61 percent of our revenue that is derived from customers using water. This is a major disconnect and is an issue that traditionally has been haunting not only this utility in particular, but the entire water industry, for a long time. The massive investment in infrastructure compared to the relatively small amount of variable costs related to actually treating and delivering water account for the disparity in revenue-source to cost structure dilemma.

Mr. Tissier answered one comment by saying that TMWA has always had a conservation program. The fact that water sales are declining is more reflective of weather conditions and the economic conditions than of conservation. Chairman Carrigan said this was the message that

needed to be communicated to the public.

Staff has been very aggressive in controlling costs over the past few years including a 15 percent reduction in staff, thereby reducing expenses significantly to FY2005 levels. The largest fixed expense is the \$31.8 million annual principal and interest payments on debt from the acquisition of TMWA. It is important to manage that part of the costs to derive significant benefit for our customers thereby maintaining our credit ratings and hopefully improving them because if the credit ratings or the senior lien debt coverage ratio start to erode, opportunities to restructure the debt will be missed. With a \$580 - \$600 million investment in infrastructure, that infrastructure must be maintained. From a financial point of view, as an organization, we must look forward to preserving cash, to maintain or even improve our credit rating, and position ourselves to take advantage of every opportunity as it arises to refinance or restructure that debt.

Mr. Tissier stated the overarching theme is revenue sufficiency and how to attain revenue sufficiency is to manage revenues but also control costs. TMWA personnel have done an excellent job in reducing the operating costs side of the cost of service. Staff is continuing to move forward with other initiatives and so there is a commitment on the part of the employees to manage the expenses but the annual debt service is very significant and it is important to begin to prepare for the goal to restructure debt service costs in 2015.

The Board discussed various ways to close the gap of \$8.9 million between the revenue required from rates of approximately \$80.6 million per year and revenues from rates of \$71.7 million as projected for fiscal year 2014. The Board suggested staff take a hard look at increasing the monthly customer charge (the fixed part of the bill) instead of increasing commodity rates to help bring fixed revenues more in line with fixed expenses.

The monthly customer charges haven't changed since 2005. This will make for a more stable revenue stream for TMWA. With the fixed costs being what they are, the fixed customer charge must be changed. This also addresses any potential questions about encouraging conservation because commodity rates will not be increasing.

In answer to the question of what the proposed increase might be, Mr. Foree said that an overall increase of 3 percent - 3 ½ percent per year over a three-year period is what staff is anticipating at this time. This would hopefully close the revenue gap by FY2014.

Mr. Foree explained to the Board that staff will take this input from the Board and will develop the rate adjustment proposal to present to the Standing Advisory Committee (SAC) on November 1. Staff will then incorporate the SAC's recommendations and present it to the public at a Public Workshop on November 9. The final proposal, SAC's recommendations and customer comments will then be presented at the first reading of the rate proposal at the November 16 Board meeting. The second reading of the rate proposal will be at the January 18 Board meeting which will be held at 6:00 pm at the Sparks Council Chambers.

No action was taken by the Board.

12. GENERAL MANAGER PERFORMANCE AND COMPENSATION REVIEW FOR CONTRACT YEAR 2010/2011

Mr. Foree opened the discussion by recommending that as the Board-approved budget for FY2012 did not include any general wage increase for TMWA employees, an increase in compensation for the General Manager should not be considered this year. He said that the accomplishments would not have materialized without the outstanding work of TMWA's great management team and dedicated hard-working employees.

He referred to the staff report that related his objectives and accomplishments over the past year. He highlighted the following:

- Objective 1 – Pursue the Board adopted direction to pursue the merger of DWR into TMWA. A large amount of work was accomplished toward the merger as already discussed.
- Goals A, B, 4 and 13 are related to financial performance of the organization where operating expenses have been cut by \$3.6 million a year or \$7.2 million over the last two years.
- Goal 3 - In terms of grant funding, the results were not too good this year as only \$275,000 in federal funding was received for TROA. Funding of \$6.25 million to be shared by the four TROA parties and the federal water master's office and another \$15 million for water rights for the cities and counties 6700 acre foot commitment was placed into the Senate's energy and water appropriation bill. Unfortunately, the funding for these items has not been approved by Congress. TMWA did receive a \$150,000 reimbursement from the Western Regional Water Commission (WRWC) for merger related work and also received \$64,000 from the WRWC to go toward our cost of our Water Audit program.
- Goal 11, a *From the Source* communications was implemented to keep employees informed on TMWA projects, accomplishments and current financial conditions. This has been very successful judging from the large number of kudos received from employees.
- Goal 12, TMWA successfully completed the wage-reopener negotiations with IBEW 1245 with an agreement for no wage increase for FY2012 and a commitment to work together on the contract that expires on June 30, 2012.

Chairman Carrigan told Mr. Foree to keep up the good work and keep rolling along and pursuing the merger. He said he knows it has taken a lot from both DWR and TWMA staff so keep up the good work.

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

13. REQUEST FOR BOARD INPUT AND ACCEPTANCE OF GENERAL MANAGER PERFORMANCE OBJECTIVES FOR CONTRACT YEAR 2011/2012

Mark Foree presented his performance Objectives. Member Larkin said that for Objective 1, he would like to change the word “pursue” to a more dynamic word. After discussion, the Board suggested Mr. Foree change “pursue” to “Work toward completion of.” Objective 1 will read “Work toward completion of the merger of the water utility function of Washoe County Department of Water Resources (DWR) into TMWA as directed by the Board.”

Upon motion by Member Larkin, second by Member Martini, which motion duly carried by unanimous consent of the members present, the Board changed Objective 1 to read “Work toward completion of the merger of the water utility function of Washoe County Department of Water Resources (DWR) into TMWA as directed by the Board” and accepted all other General Manager Performance Objectives for Contract Year 2011/2012 as presented.

14. DISCUSSION AND POSSIBLE BOARD DIRECTION REGARDING MEETING TIMES AND DATES FOR 2012 INCLUDING SELECTION OF A DATE FOR THE 2012 STRATEGIC PLANNING WORKSHOP

Mr. Foree presented the proposed meeting schedule for 2012 with no changes in the schedule for the upcoming year. After discussion, the Board determined that the January meeting be changed to an evening meeting to facilitate the Public Hearing and the second reading of the proposed rate adjustment. This would afford the public a convenient opportunity to offer comments to the Board.

Member Larkin expressed some concern about staff having enough time to prepare its proposal to the Board given the Board’s change in direction from a commodity rate increase to an increase in the customer service charge. Staff assured the Board that the time was sufficient and they would have had a Standing Advisory Committee meeting on November 1 and a public workshop on November 9 so they would be able to offer those comments at the first reading on November 16.

Upon motion by Member Martini, second by Member Cashell, which motion duly carried by unanimous consent of the members present, the Board changed the January 18, 2012 to 6 p.m. and accepted the rest of the schedule as presented.

15. GENERAL MANAGER’S REPORT

Mr. Erwin gave an update on the Truckee River Operating Agreement (TROA), which is still working its way through the legal system. In 2009, a filing was made with the Orr Ditch Decree Board to amend the Orr Ditch Decree. Truckee Carson Irrigation District (TCID) filed an appeal on Nevada State Engineer Ruling 6055 and also entered a challenge to TROA as a federal regulation. To date, no decisions have been made on those filings and appeals. Mr. Pagni added

that there has been no decision from the California Water Board on hearings that were held in July 2010, and he could not say when a decision would be issued. Mr. Erwin said that periodic updates would be made to the Board as the process toward implementation continues.

16. PUBLIC COMMENT

There was no public comment.

17. BOARD COMMENTS AND REQUESTS FOR FUTURE AGENDA ITEMS

There were no Board comments.

18. ADJOURNMENT

With no further discussion, Chairman Carrigan adjourned the meeting at 11:53 a.m.

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

Respectfully submitted,

Corinne Cassell, Recording Secretary

*Member Cashell present for 6 through 18 only
**Member Martini was present for items 11 through 18 only