

TRUCKEE MEADOWS WATER AUTHORITY
DRAFT MINUTES OF THE DECEMBER 21, 2011
MEETING OF THE BOARD OF DIRECTORS

The Board of Directors met on Wednesday, December 21, 2011, at Sparks Council Chambers, Legislative Building, 745 Fourth Street, Sparks, Nevada. Chairman Carrigan called the meeting to order at 10:00 a.m.

1. ROLL CALL

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

2. PLEDGE OF ALLEGIANCE

Led by Member Martini.

3. PUBLIC COMMENT

There was no public comment.

4. APPROVAL OF THE AGENDA

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

5. APPROVAL OF THE NOVEMBER 16, 2011 MINUTES

Upon motion by Member Martini, second by Member Cate, which motion duly carried by unanimous consent of the members present, the Board approved the November 16, 2011 minutes.

6. DISCUSSION AND ACTION ON ADOPTION OF RESOLUTION NO. 179 APPROVING THE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR 2011 AND DISCUSSION OF FINANCIAL PERFORMANCE

Jeff Tissier referred to the Comprehensive Annual Financial Report (CAFR) as presented in the agenda packet stating that water sales were slightly over budget and operating expenses had been reduced to FY2005 levels.

He introduced Kristen Burgess, Partner, and Cindy Vance, Project Manager, with Kafoury Armstrong and Company (Kafoury) and invited them to present the CAFR. Ms. Vance said that Kafoury had issued an unqualified opinion which is the highest opinion that the profession allows. No material illegal acts were noted and the application of existing accounting policies was consistent with the prior year. Kafoury concluded that the key factors used by management in making significant estimates and judgments regarding depreciation, which is based on the useful life of assets, the valuation of any developer dedications or other donated assets, and the actuarial accrued liability for other post-employment benefits appeared reasonable. One auditor adjustment was proposed to correct a timing difference on the defeasance of the 2001A Bonds.

Management disclosed a violation regarding unclaimed property and had already implemented procedures to address and rectify that violation.

Ms. Burgess reported that Kafoury also performed a single audit of the major federal award programs to determine compliance. They issued an unqualified opinion that TMWA was in compliance with federal requirements. They reviewed the internal controls of the grant programs and identified three internal control and compliance findings: 1) a recommendation to enhance controls for the tracking and accounting of multiple grants; 2) a recommendation with respect to timely submission of certified payrolls under the Davis Bacon Act, the contractors and subcontractors are required to submit certified payrolls and while those appear to have been submitted, they weren't necessarily submitted timely and we're suggesting that TMWA implement procedures to monitor timely submission of certified payrolls under the Davis Bacon Act,; and 3) a recommendation to implement controls to ensure the accuracy of the schedule of expenditures of federal awards so as to not include any state pass-through monies, and only reflect the federal portion of the grant monies. Mr. Tissier introduced the accounting staff, Anne Hanson, Senior Accountant, Mary Bennett, Senior Analyst, and Justice Chambers, Purchasing and Contractors Administrator and explained the issues and corrections that were put in place to prevent any further occurrences of those issues.

Vice Chairman Aiazzi asked for a clarification on how depreciation is determined. Ms. Burgess said that depreciation is a method of allocating the cost of a tangible asset over its useful life. This policy decision is determined by the Board. The policy must be realistic in terms of the actual use and that policy can be reviewed and adjusted if necessary. She said she believed that TMWA's useful life is in line with what other local governments are utilizing with respect to useful lives taking into consideration what is actually happening.

Mr. Tissier said that TMWA does use industry standards, and monitors comparable water utilities to verify TMWA is within the norm. Staff is evaluating the lives of existing assets and because they are well maintained, could possibly request some policy changes in the future.

Member Breternitz suggested future contracts contain a clause stipulating that contractors would receive payment of their monthly pay request only if all previous month's certified payroll from subcontractors or the contractor was received.

Upon motion by Vice Chairman Aiazzi, second by Member Cate, which motion duly carried by unanimous consent of the members present, the Board adopted Resolution No. 179 approving the Comprehensive Annual Financial Report for FY2011.

7. DISCUSSION AND ACTION ON FIRST QUARTER FY2012 FINANCIAL REPORT

Mr. Tissier presented this item stating the first quarter financials for FY2012 are mirroring the first quarter for FY2011. Operating revenues are 1.2% ahead of budget and operating spending is 4.7% under budget. He referred to *Attachment A-1: Budget to Actual Comparison* saying it appears the forecasting tools are in line with actual results. Water sales seem to reflect a flattening of water demand after four years and as the Board requested, staff continues to manage and reduce operating expenses.

Upon motion by Member Breternitz, second by Member Martini, which motion duly carried by unanimous consent of the members present, the Board accepted the First Quarter FY2012 Financial Report.

8. APPOINTMENT OF TMWA'S EXTERNAL AUDITORS FOR THE FISCAL YEARS 2012-2014 FINANCIAL STATEMENT AUDITS

Mr. Tissier recommended the audit relationship with Kafoury, Armstrong & Co. be continued through FY2014. They do an excellent job, they know the business, and provide thoughtful suggestions for improvement.

Upon motion by Vice Chairman Aiazzi, second by Member Cashell, which motion duly carried by unanimous consent of the members present, the Board appointed Kafoury, Armstrong and Company as TMWA's external auditors for the Fiscal Years 2012 through 2014 financial statement audits.

9. REQUEST FOR BOARD AUTHORIZATION FOR THE GENERAL MANAGER TO RENEW THE LEGAL SERVICES CONTRACT FOR SUSAN L. OLDHAM FOR PROVISION OF LEGAL SERVICES RELATED TO THE TRUCKEE RIVER OPERATING AGREEMENT FOR THE CALENDAR YEAR 2012

John Erwin recommended the Board renew the contract with Ms. Oldham for a contract amount of \$120,000, a 5 percent reduction from the previous year. The Truckee River Operating Agreement (TROA) is moving forward and there is a lessening of the workload. However, there are briefings scheduled and hearings scheduled regarding the Orr Ditch activities and Ms. Oldham, together with Gordon DePaoli, is instrumental and key in the success of these issues.

Upon motion by Member Cashell, second by Vice Chairman Aiazzi, which motion duly carried by unanimous consent of the members present, the Board authorized the General Manager to renew the legal services contract for Susan L. Oldham for provision of legal services related to the Truckee River Operating Agreement for the Calendar Year 2012.

10. REPORT REGARDING OMBUDSMAN ACTIVITIES FROM DECEMBER 2010 THROUGH NOVEMBER 2011, REQUEST FOR BOARD DIRECTION AND POSSIBLE AUTHORIZATION FOR THE GENERAL MANAGER TO RENEW THE OMBUDSMAN CONTRACT WITH JOANNE STRALLA

Kim Mazeres presented staff's recommendation that Ms. Stralla continue to be retained as TMWA's ombudsman. She referred to the report that was included in the agenda packet, stating that Ms. Stralla handled approximately 40 calls of all shapes, varieties and kinds with very good results.

The Board complimented Ms. Stralla on her performance.

Upon motion by Member Martini, second by Member Cate, which motion duly carried by unanimous consent of the members present, the Board accepted the report regarding Ombudsman activities from December 2010 through November 2011 and authorized the General Manager to renew the Ombudsman contract with Joanne Stralla.

11. REQUEST FOR BOARD APPROVAL OF REAPPOINTMENTS TO THE STANDING ADVISORY COMMITTEE OF MEMBERS WHOSE TERM EXPIRES DECEMBER 31, 2011

Lora Rose Richards referred to the Standing Advisory Committee (SAC) term limit chart that was included in the agenda packet.

- The Builders Association of Northern Nevada has re-appointed Colin Hayes with Jim Smith as alternate.
- The Reno-Sparks Chamber of Commerce has reappointed Greg Vorreyer with Bruce Gescheider as alternate.
- The Consumer's Advocate Office has appointed Denise Jacobsen.

The Board has final approval to reappoint the following:

- The Senior Citizen representative, Ernest Buchner, has resigned and his alternate, Robert Chambers, has agreed to serve as the primary. The alternate position is currently vacant.
- The Wholesale seat alternates between Washoe County Department of Water Resources (DWR) and Sun Valley General Improvement District (SVGID) every two years. DWR will have the seat for the upcoming term. Their recommended appointments are Rosemary Menard and Ben Hutchins, with Fred Schmidt as the alternate.
- The Multi-family representative, Jeanne Redinger; the alternate position is vacant
- The Residential representative Ron Turner with Paul Rose as alternate.

Darrin Price, General Manager, SVIGD, requested the Board make it part of their motion to allow SVGID to have the Wholesale seat if the merger between TMWA and DWR happens during the upcoming term and while DWR has the seat. He stated this seemed logical to him because if the merger happens, then DWR would technically no longer be a wholesale customer.

Legal Counsel Mike Pagni advised that, as the item on today's agenda was to only reappoint members and Mr. Price's request concerns the composition of the SAC, his request cannot be part of the motion; however, the question can be placed on a future agenda if the merger goes forward.

Upon motion by Vice Chairman Aiazzi, second by Member Cashell, which motion duly carried by unanimous consent of the members present, the Board reappointed the following members to the Standing Advisory Committee for the term January 1, 2012 through December 31, 2013: Robert Chambers, Rosemary Menard, Ben Hutchins, Fred Schmidt, Jeanne Redinger, Ron Turner and Paul Rose.

12. PRESENTATION OF PROPOSED PROJECT AND DISCUSSION AND ACTION ON RESOLUTION NO. 180 APPROVING FUNDING FOR THE PROJECT RECOMMENDED BY THE TRUCKEE RIVER FUND ADVISORY COMMITTEE AND AN AUTHORIZATION FOR THE COMMUNITY FOUNDATION TO FUND SUCH PROJECT FROM FUND PROCEEDS

Ron Penrose introduced Kyle West, Engineering Manager for City of Reno, and Lynda Nelson, Washoe County Parks, the co-incident commanders for the Burn Area Emergency Response (BAER) team associated with the November 18, 2011 Caughlin Ranch Fire response and recovery. At a special meeting on December 12, 2011, the Committee reviewed a proposal from the Nevada Land Conservancy as overall coordinator of restoration efforts and is recommending a grant in the amount of \$220,000 with a match of \$151,000 coming from the City of Reno and Washoe County. Mr. Penrose noted that the Board had supported restoration efforts in the past, i.e., the 2007 Hawken Fire in which the support was helpful to the restoration of the watershed.

Mr. Penrose added that Ms. Nelson will retire from Washoe County at the end of 2011 and thanked her for her work with TMWA, especially for helping to obtain the necessary easements for the Mogul Bypass project. Ms. Nelson thanked the Board saying she will miss her service to the community after 29 years with Washoe County; however she hopes to continue that service in some capacity with the Nevada Land Conservancy.

Upon motion by Vice Chairman Aiazzi, second by Member Breternitz, which motion duly carried by unanimous consent of the members present, the Board adopted Resolution No. 180 approving funding for the project recommended by the Truckee River Advisory Committee and authorized the Community Foundation to fund such project from Fund proceeds.

13. GENERAL MANAGER'S REPORT

Mr. Foree talked about what TMWA's participation in the Caughlin Ranch fire. TMWA has about 20 pump stations that provide water into those areas and during the fire, power was lost to 12 of those pump stations. Water was re-routed from other pumping facilities and there were a number of generators running during the fire that had to be fueled in the midst of the fire. One generator fence enclosure caught fire. Constant communication was maintained with the Fire Department to ensure that generators were protected and NV Energy to ensure power was not

lost to additional pump stations. TMWA had no issue with providing water to the fire: there was always a very good water supply and plenty of pressure. Mr. Foree thanked the TMWA staff, including the operations and maintenance crews, engineering and the hydro and generation crews who kept things running when conditions were very difficult.

Mr. Foree wished everyone a Merry Christmas and “Let It Snow!”

Vice Chairman Aiazzi asked for clarification on the purpose of the County Bond Bank and the owner of the debt. Mr. Foree explained that Washoe County currently has a debt of \$26.1 in outstanding privately issued bonds. To pay that debt, the County has pledged not only water, but sewer and reclaim revenues. When the merger between TMWA and DWR takes place, TMWA will have to take on DWR debt, the revenue pledges will have to be split out for just water, and bonds will need to be reissued to cover that debt. The Bond Bank is the most economical vehicle for that purpose.

Mr. Tissier explained the process of refinancing bonds and advance refundings. As the current Washoe County Bonds for the \$26.1 debt are not callable (or cannot be paid) until 2015, new debt has to be issued, the proceeds from that new debt issuance goes into an escrow which must generate enough investment income to pay the interest and also pay the principal on the old debt. Through the Bond Bank, the covenants on that new debt issue can be changed so it is only a water pledge against that new debt issue. Then TMWA and Washoe County will enter into an agreement where TMWA will assume that obligation. By virtue of the County being an AA credit, which is a slightly higher rating than TMWA has, there is an interest rate advantage plus with the general obligation backing, there is no need for the debt service reserve fund. This process could result in a savings of approximately \$4 million to customers over the life of the bond. To reiterate, the sole purpose of the County Bond Bank is to provide the most cost effective way of refinancing the \$26.1 million Washoe County Debt. Washoe County will have sufficient safeguards in the indenture document between the County and TMWA to make sure payments are made from TMWA to the County. The County will then make the payments to the new County Bond Bank.

This will only happen if TMWA and DWR choose to merge. It will not be used by TMWA for any other purpose than to refinance the debt of Washoe County. It is a great avenue to effect the regionalization of water services.

Chairman Carrigan commented that the only question he had from his constituents was “are TMWA rate payers going to have to pay for this debt” and the answer was No because it is the 19,000 customers from Washoe County Water Resources who are going to have to pay for it.

Mr. Tissier said that as the Board has directed, neither the bond bank nor the merger is to impact existing TMWA customers in a negative fashion. TMWA financial projections have been developed based on that direction from the Board. The first year of those financial projections is actually the budget for FY2012 so it is possible to measure performance against those projections and hopefully increase confidence that those financial projections are reasonable. The TMWA first quarter results showed spending below budget on the operating side and operating revenue

projections are almost dead on.

Member Larkin expressed his appreciation to Mr. Tissier for his remarks at the County Commission meeting relative to the Bond Bank, for repeatedly answering the same questions correctly and successfully.

Member Larkin asked for an update on the interlocal agreement and merger process. Mr. Foree replied that work is continuing on the merger in a number of areas. Meetings continue to be held with DWR staff. DWR has some decision points relative to South Truckee Meadows General Improvement District (STMGID) that will take some time to get through. After the first of the year, staff will begin to put together components of the merger agreement, which will also take some time.

Ms. Menard added an update on the issue with South Truckee Meadows General Improvement District. A joint meeting was held between the Board of Trustees for STMGID (the Board of County Commissioners) and the Local Managing Board (LMB) on the morning of December 13. At that meeting, the direction was to begin to negotiate the terms of merging STMGID into DWR which will hopefully be accomplished by the end of this fiscal year using the process outlined in the statute on how to do that. DWR will be working with the Board of Trustees and the LMB over the next few months to get it done.

Member Larkin asked for a time frame for a joint meeting of the two governing bodies. Ms. Menard said she hoped that by the end of the fiscal year an agreement would be in place that lays out the terms and conditions under which the merger would occur, and the time frames and the criteria for when it will be possible to refinance the debt. If this doesn't happen by the end of the fiscal year, she said it will probably be very early in the next fiscal year.

Mr. Foree agreed that schedule is appropriate.

Member Larkin summarized the three major hurdles, 1) the defeasance of the \$26.1 million debt; 2) the developer agreement, on which the BCC has ruled (the County, not DWR, will maintain the agreements) and 3) the STMGID issue.

Member Cashell asked for clarification on a grant to Desert Research Institute (DRI) for cloud seeding. Ms. Menard said that the Northern Nevada Water Planning Commission authorized \$100,000 from the Water Management Fund (WMF) which needs to be approved in either January or February by the Western Regional Water Commission (WRWC). Mr. Foree said the Truckee River Fund (TRF) provided some money and it is anticipated that the WRWC will provide the rest of the funding for this year. DRI does have concerns about the certainty in their funding for the future. Member Breternitz said that some DRI representatives have expressed increasing concern over using the TRF as the main funding source and that DRI is also pursuing other avenues such as the ski resorts for permanent funding. Chairman Carrigan suggested that if the Board wanted to make TMWA the lead on this, the Board could reduce the allocation to the TRF and allocate that same amount directly to DRI for the annual cloud seeding program. Ms. Menard said that the \$100,000 from the WMF had been programmed into the 5-year cash-flow forecast; so the assumption is that that money would be allocated on an annual basis. Chairman

Carrigan said it may behoove the TMWA Board and the WRWC to take up the banner as he did not think the State would ever again give DRI money for cloud seeding and cloud seeding does benefit the water company. Ms. Menard suggested the issue be brought before the Legislative Subcommittee to Oversee the WRWC as the state used to fund the effort.

14. PUBLIC COMMENT

There was no public comment.

15. BOARD COMMENTS AND REQUESTS FOR FUTURE AGENDA ITEMS

Vice Chairman Aiazzi asked for a discussion on instituting a low-income or senior rate when reviewing rate adjustments.

Vice Chairman Aiazzi asked for a discussion on the legality and possibility of purchasing or dedicating TMWA water rights to satisfy the cities of Reno and Sparks and Washoe County's 6,700 acre feet requirement for TROA.

Member Martini asked that an item to address Mr. Price's concerns about the SAC be placed on the agenda sooner rather than later.

Chairman Carrigan wished everyone a Merry Christmas and Happy New Year.

16. ADJOURNMENT

With no further discussion, Chairman Carrigan adjourned the meeting at 10:53 a.m.

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

Respectfully submitted,

Corinne Cassell, Recording Secretary