



STAFF REPORT

TO: Chairman and Board Members
FROM: Mark Foree, General Manager and Kim Mazerer, Director of Customer Relations
DATE: January 12, 2012
SUBJECT: Discussion and possible action regarding special rates or donation subsidy programs for low income and senior customers

DISCUSSION AND RECOMMENDATION

At the December 2011 meeting, Vice Chairman Aiazzi asked for an agenda item regarding the possibility of instituting special rates for low income or senior customers.

The Board and the Standing Advisory Committee have considered this topic and similar requests in the past. In those prior discussions, it was recognized that creating special rates for low income or senior customers would require increases in costs for other customer classes and result in costs being transferred from one group of customers to other groups of customers. Because of issues with cross subsidization, the Board was not previously inclined to pursue these special rate classes and because of these issues, staff would recommend that special rates not be pursued. I have attached the Board's Financial Guidelines Policy (Resolution No. 19) (*Attachment D1*) along with previous staff reports and minutes (*Attachments D2, D3 and D4*) for your information.

Alternatively, a customer donation program (much like NV Energy's SAFE program) could be considered. This program allows TMWA to accept third party donations to help reduce costs to qualifying low income or senior customers. While there would be initial costs associated with setting up a program such as this, TMWA could work with an existing social service agency that is already set up to administer such programs and in doing so, TMWA staff time could be minimized.

Staff also notes that if the Board desired to include a special rate class as part of the pending rate adjustment proposal, such action would require a modification of the proposed rate adjustments to the level that no action could be taken on adoption at the January 18, 2012 meeting, and additional rate modeling and public hearings would be required before such proposal could be brought back to the Board. Given current fiscal pressures, if the Board desires to consider pursuing either of these options, staff recommends that such action be considered separate from the pending rate proposal, so as to avoid a delay in the implementation of any action on the rate adjustment scheduled for second reading at the January 18, 2012 meeting.

**TRUCKEE MEADOWS WATER AUTHORITY
FINANCIAL GUIDELINES**

Policies that Guide the Establishment of Reserves and Cost Recovery of TMWA

1. The ultimate goal of water rates, associated fees, and other charges is to provide sufficient cash flow to (1) meet the cash operating expenses of Truckee Meadows Water Authority (TMWA), (2) provide for maintenance of certain reserve and fund balances, (3) satisfy debt service payment requirements and associated financial covenants, and (4) fund a portion of new capital for new capacity and existing capacity. All recommendations are consistent with the Flow of Funds section of the legal documents governing the 2001 Series A and 2001 Series B Bonds.
 - A. Operating revenues shall be sufficient to cover the expenses of TMWA including, but not limited to, payroll and operating and maintenance expenses. Revenues should be sufficient to meet scheduled and unscheduled repair and replacement demands (funded depreciation and emergency repairs). Funds for depreciation will be available by maintaining adequate and reasonable reserve funds to maintain stability and flexibility to the utility's financial position. A sixty-day working capital reserve of approximately \$4,600,000 for cash operating and maintenance expenses should be maintained to mitigate seasonal revenue and expense fluctuations. Additional amounts, if any, required to fund the working capital reserve shall be included in the annual budget.
 - B. An emergency repair and replacement reserve should be established to finance the cost of unscheduled repairs and/or major replacements. The minimum target emergency reserve should be \$10,000,000 in accordance with the Authority's bond documents and is consistent with American Water Works Association's guidelines. Additional amounts, if any, required to fund the emergency reserve shall be included in the annual budget. The annual review ensures that the reserve level keeps pace with inflation, and is adequate in light of the Authority's capital improvements program and the condition of its water system. This reserve allows for the funding of major replacement projects without necessarily relying on debt financing.
 - C. The TMWA shall maintain a debt coverage ratio **consistent with bond covenants**. The actual debt service coverage level should not fall below the minimum level required by bond financing documents. All revenues and fees shall be sufficient to meet operating and maintenance expenses in addition to each year's principal and interest payments on outstanding debt, pay-as-you-go capital requirements, and necessary reserve deposit and replenishments. Revenues need to be forecasted based on the most reliable information available and adjusted based upon collection experience.
2. In light of the aforementioned financial reserve requirements, attention must be directed to the recovery of the cost of service. In any equitable water rate structure, consideration must be given to cross-subsidization between customer groups, between customer classes and within customer classes. Any cross subsidization between customer groups, between customer classes and within customer classes should be mitigated as much as possible. Price signals should be developed to address consumption that may stress design criteria of the water system or cause the need for peak production facilities. Also, attention should be directed to address consumption that exceeds water right dedications for a particular service connection.

- A. One example of cross-subsidization between major customer groups is existing customers subsidizing construction of new facilities to serve new development. This subsidization shifts the financial responsibility of construction of new capacity to existing customers, in effect allowing the last customers to connect on the water system at the expense of all prior existing customers. To the extent practicable, new development should fund the capital costs required to accommodate growth, including the possible reimbursement of funding advances made by existing customers.
 - B. Cross-subsidization between customer classes means that certain customer classes subsidize other customer classes. Specifically, residential customers are not allowed to subsidize commercial customers and other major consumers of water. Additionally, metered customers do not subsidize flat rate customers or vice-versa. A well-designed rate structure will allocate the cost of service among these major customer classes of customers based upon a rational and defensible methodology.
 - C. Of particular importance is cross-subsidization within a customer class. A water rate structure should be designed so that the "lifeline customer" does not subsidize the water user that puts a greater demand on the water system. A "lifeline customer" is defined as that customer that uses water only to meet indoor purposes. This class of customer is generally the multi-tenant dweller or individuals with a lifestyle that puts the least per-connection impact on the water system throughout the year. This class of customer is also typical of individuals of less economic means.
 - D. In a well-designed water rate structure, price signals are developed to address consumption patterns that exceed the design criteria of the water system, cause the need for peak production facilities, and/or exceed the total annual water duty allowed through water right dedications. These consumption patterns are indicative of wasteful water use such as not repairing leaks controllable by the customer or wasteful irrigation practices. These price signals are established in such a way to respect lifestyle requirements consistent with water right dedications but also addresses efficient use of the water system.
3. At least annually, the Authority shall conduct a rate review and adjust rates and charges as required to meet all of its financial obligations, whether established by governing bond documents or Authority policy.



STAFF REPORT

TO: Chairman and Board Members
FROM: Kim Mazeres, Director, Customer Relations
John Erwin, Manager, Water Resources
DATE: October 22, 2003
SUBJECT: RATEMAKING IDEAS

At the September 17 Board meeting during the discussion on TMWA rates, Board members asked for the following topics to be considered by TMWA staff: park rates, low income/senior citizen rates, budget billing, and a credit for customers who use our RapidPay program (electronic funds transfer) to pay their bills. Discussion on each of these ideas follows below.

Park Rates

Outside irrigation is the reason that drives TMWA's production costs and its water rates. The ratio of residential summer use to winter use is approximately 4:1. Irrigation customers' water use is also highest during the summer. The development of any water rate charges by TMWA should reflect the cost to deliver the requested service, in this case irrigation service. As a result of such a large investment in production facilities to meet the combined summer peak water use of all its customers, all usage for irrigation is charged at the highest rates.

If a rate were adopted that allows any irrigation customer, including city parks, to pay a lower rate for their water use than indicated for the cost of such service, the costs would have to be borne by other customers. The resulting inequity runs counter to the Board's non-cross-subsidization policy adopted by the Board in September 2002. Staff would recommend against the development of rate schedules like this that create cross-subsidization between customer classes.

In 2002, the Board modified its Rate Schedules that expanded the use of non-potable water for irrigation purposes. Where appropriate, staff has aggressively pursued the use of non-potable water at city parks and schools such as the projects currently underway at Idlewild Park and Reno High School. The rate for non-potable water is \$.86 per thousand gallons as compared to \$2.90 per thousand gallons for treated water. There are still several sites that are being investigated that will achieve the Board's goal under this directive without creating potential cross-subsidization issues.

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Staff will continue to work with eligible customers on an individual basis to assist where possible in implementing non-potable solutions.

Low Income/Senior Citizen Rates

Similar to the park rate issue, creating special rates for low income/seniors transfer costs from one group of customers to another. If TMWA were to adopt lower rates for this type of customer, the additional costs to serve these customers would have to be borne by other customers – another case of cross-subsidization. In addition, additional administrative resources would be needed to determine whether or not a customer was qualified to receive this rate. Staff would recommend against the pursuit of rate structures that would have one group of customers bearing the cost for another group.

In the alternative, staff will (1) continue to work with customers on an individual basis to assist where possible with efficient use of water and to identify leaks and waste, and (2) propose working with other agencies such as the Regional Water Planning Commission to utilize the Regional Water Management Fee to assist low income and/or senior citizens to reduce their water usage by replacing leaking yard lines, repairing leaking fixtures, and even replacing landscaping. This reduced usage would, in turn, reduce their water bills for customers on meters or who chose to move to meters and pay for only their actual use.

Budget Billing

TMWA currently offers a budget billing under its Equal Payment Program to our residential metered customers set forth in its Rule 4.D. This plan is available to any residential metered customer who inquires about it and asks to be placed on the plan. The plan provides for twelve (12) equal payments of the customer's estimated annual water bill based upon their prior twelve (12) month's usage. There are 96 customers who are currently on budget billing. Although the participation in the plan is small and provides level billing for the customer and a level revenue stream for TMWA, there is the potential that a large level of participation could have negative impacts for TMWA. Budget billing, just like any flat-rate billing system, tends to make customers non-attentive to their *actual* water bill and therefore their water use, and therefore they do not receive the price signal that tells them they are using too much water, including over watering, possible leaks, etc. The result is the less attention a customer pays to their water bill/use the more likely water use will increase and costs will go up. Also, every 12 months when the bill is "trued-up," a customer can be very surprised at the amount they *actually* owe TMWA.

RapidPay

There are currently 4,233 customers who pay their water bill via electronic funds transfer. These customers save TMWA time and money. Customers who pay via check cost \$.21 to process. Approximately 60,000 customers a month pay via check. Customers who choose to come into TMWA's office to pay (in many cases those choosing to pay in cash and usually in danger of being disconnected for non-payment) cost, at a minimum, \$1.00 per transaction. About 6,000

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customers choose to pay at TMWA's office every month. All of these costs are currently rolled into the customer charge that each customer receives in their monthly bill. With the upcoming third-party payment agent (i.e., grocery store) program, the customer will bear a \$.75 Western Union service charge for the convenience of paying at the store. Staff is currently negotiating with credit card vendors to be able to offer a similar service to customers wishing to pay their water bills via credit card. Those customers will bear the merchant fee cost – likely to be in the neighborhood of \$4 - \$5 per transaction. The customer is asked to bear these costs so they are not subsidized by customers who choose to pay in less expensive ways.

Staff is currently working with ORCOM's systems analysts to determine the expense of automating the adjustment of a customer's account who pays via RapidPay. As soon as we have this information, we can provide the Board with the cost of crediting RapidPay customers as a reward for using this payment method. However, these costs – both implementation and the credit – would need to be absorbed through the customer charge that *all* customers pay every month.

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Staff will solicit for vacant membership participants during the month of November, bringing the potential candidates to the Board for selection at the December 10 Board meeting.

Ms. Williams noted that a proposal was made at the September Board meeting to hire a rate consultant and the Board made it very clear that TMWA would not pay for the consultant. Staff is recommending that the committee determine if a rate-making consultant is to be hired, determine funding of the expenses for this person, and make the selection. The committee would have a timeline to follow and report back to the Board by June or July of next year.

Member Carrigan asked if a written report could be submitted at each Board meeting on the committee's progress instead of having a representative present, and Chairman Armstrong suggested that the committee have an odd number of members instead of an even number. Ms. Mazeres responded that both suggestions would be accommodated.

Diana Langs, Sun Valley General Improvement District, asked the Board to consider Fred Schmidt as their representative on the committee. Member Carrigan asked her if her Board wanted an elected representative on the committee. Ms. Langs will take that suggestion back to her Board, but that they had directed her to appoint Fred Schmidt at their last meeting. Member Aiazzi indicated that he would prefer an elected representative on the committee for Sun Valley General Improvement District.

On motion by Member Cashell, second by Member Panicari, which motion duly carried by unanimous vote, the Board approved staff's recommendations to form a rate-making committee. In addition, the committee will be comprised of an odd number of members and a written report on the committee's progress will be submitted at each Board meeting.

#15 DISCUSSION AND DIRECTION TO STAFF ON THE FOLLOWING ITEMS RELATED TO RATEMAKING: SENIOR AND LOW INCOME RATES, SPECIAL RATES FOR PARKS, BUDGET BILLING, AND CREDIT FOR CUSTOMERS WHO USE ELECTRONIC FUND TRANSFER AS MEANS OF PAYMENT

Kim Mazeres and John Erwin began the discussion on rate-making issues such as special irrigation rates for parks, low income/senior citizen rates, budget billing, and a RapidPay program credit as suggested by the Board at their September 17 Board meeting.

Staff recommends against the development of special rate schedules for parks and low income/senior citizens, as it would create cross-subsidization between customer classes. TMWA currently offers budget billing under its Equal Payment Program to residential metered customers. This plan is available to any residential metered customer who inquires about it and asks to be placed on the plan. Staff is currently working with ORCOM's systems analysts to determine the expense of automating the adjustment of a customer's account who pays via RapidPay. Staff will provide the Board with the cost of crediting RapidPay customers as a reward for using this payment method as soon as the information becomes available. However, these costs – both implementation and the credit – would need to be absorbed through the customer charge that all customers pay every month.

On motion by Member Sferrazza, second by Member Aiazzi, which motion duly carried by unanimous vote, the Board accepted staff's recommendations and directed staff to consider alternatives to crediting RapidPay customers – \$.21 per bill or a one time payment for switching over – and bring the issue back to the Board explaining the benefits of each.

The Board confirmed that staff was not to pursue the other rate items discussed.

Lunch break at 12:25 p.m./back in session at 1:00 p.m.

#16 CLOSED SESSION REGARDING PERFORMANCE EVALUATION OF GENERAL MANAGER

Adjourned to Closed Session at 1:00 p.m./public meeting reconvened at 1:50 p.m.

#17 DISCUSSION/ACTION REGARDING PERFORMANCE EVALUATION OF GENERAL MANAGER

There was discussion about Ms. Williams' performance. Member Aiazzi stated that Ms. Williams has done a marvelous job in taking over the reins at TMWA and he is in favor of a raise and wants to be consistent with what other employees received. Member Sferrazza commented that Washoe County employees received a 2.5% increase. He hopes that TMWA would try and keep more in line with what the other local entities received, and agree to a percentage that would be consistent across the board. Mr. Tissier stated that TMWA's percentage includes a cost of living increase and a merit increase. Member Sferrazza agrees with the Board that Ms. Williams has done an excellent job, but he cannot support bonuses for public officials.

First Motion

On motion by Member Aiazzi, second by Member Carrigan, which motion duly carried by unanimous vote, the Board approved a 3.2% salary increase for the General Manager.

Second Motion

On motion by Member Aiazzi, second by Member Cashell, which motion duly carried with Member Sferrazza opposed, the Board approved an 8.5% bonus for the General Manager.

#18 APPROVAL OF SETTLEMENT AGREEMENT IN PERSONNEL MATTER

On motion by Member Aiazzi, second by Member Cashell, which motion duly carried with Members Sferrazza and Carrigan opposed, the Board approved staff's recommendation and approved the personnel settlement agreement.



STAFF REPORT

TO: Lori Williams, General Manager
FROM: Kim Mazeres, Customer Relations Director
Debbie Leonard, McDonald Carano Wilson, Legal Advisor to the Standing Advisory Committee
DATE: September 10, 2007
SUBJECT: **Recommendations from the Standing Advisory Committee and possible direction to Staff regarding exemptions or subsidy of non-profits for water bills and fees**

At the March 21, 2007 TMWA Board meeting, the Board considered whether the Veterans' Guest House, a non-profit organization, should receive an exemption on its monthly water bill. At that time, the Board decided to refer this issue to the Standing Advisory Committee (SAC). (See *Attachment 1* the staff report from the March 21, 2007, meeting and *Attachment 2* the minutes from the March 21, 2007, meeting.)

Around the same time, the Regional Housing Task Force (RHTF) requested that the SAC consider rate waivers or reductions for low-income customers and/or fee exemptions or reductions for developers of low-income housing projects in order to help reduce barriers to the construction of affordable housing in the Truckee Meadows.

At its May, August and September meetings, the SAC considered the issue of low-income rates and fees. At the September meeting, the SAC made the following recommendations to the TMWA Board:

- Continue with TMWA's existing policy of avoiding cross subsidization among rate classes and refraining from providing rate reductions or exemptions to selected customers.
- Refrain from providing fee waivers or other direct monetary benefits to developers of low-income housing projects.
- Allow access to organizations such as the Regional Housing Task Force to the use of owner agencies' bill inserts in the TMWA bill in the same manner as that opportunity is afforded to other entities.
- Encourage potential donors of water rights to partner with individuals or entities in need of water rights for low-income development projects.

Background

At its March 6, 2007 meeting, the SAC heard a presentation from the Regional Housing Taskforce (RHTF) asking that TMWA partner with them in developing strategies and/or recommendations to assist them in solving some of the challenges involved in providing affordable housing in the Truckee Meadows. In response, staff requested a legal opinion as to whether TMWA could provide special rate exemptions to low-income customers or fee waivers to developers of low-income housing.

Debbie Leonard, of McDonald Carano Wilson, provided a legal opinion regarding both the RHTF's request and the potential rate exemption for the Veterans' Guest House. Specifically, counsel concluded that the authority to manage and provide water services to the community given to TMWA by the Joint Powers Agreement (JPA), though broad, does not allow TMWA to provide rate waivers to low-income persons or fee reductions for low-income housing projects. Both the Regional Housing Taskforce and the Veterans' Guest House requests essentially would result in unequal treatment among TMWA customers, and the equal protection laws prohibit this. A governmental entity must have a rational basis to distinguish among individuals based upon their economic status. In other words, there must be a legitimate connection between that government's disparate treatment and the governmental purpose that it is trying to accomplish.

The JPA authorizes TMWA to be a water purveyor and do whatever is necessary to provide water to customers within its service territory. There is nothing to connect those purposes to the alleviation of social problems associated with a lack of affordable housing. Because there is no nexus between managing the water supply and providing low-income housing, it is legal counsel's conclusion that there is no rational basis for TMWA to provide preferential treatment to low-income customers, non-profits, the Regional Housing Taskforce, or the developers of low-income housing.

In light of this legal opinion, staff developed a list of possible other strategies that TMWA might be able to legally employ to assist RHTF. After much debate on this item at both its August and September meetings, and consistent with the legal opinion provided by counsel, the Standing Advisory Committee voted to provide the recommendations presented above.



STAFF REPORT

TO: Chairman and Board of Directors
THRU: Lori Williams, General Manager
FROM: Kim Mazeres, Customer Relations Director
DATE: March 9, 2007
SUBJECT: Request for Exemption for the Veterans Guest House's Water Bill

Recommendation

Staff requests that the Board provide direction on this requested item.

Background

At the February 21st Board of Directors meeting, Vice Chairman Aiazzi requested an agenda item to discuss the Veterans Guest House water bill and whether or not they should receive an exemption on their monthly bill.

Veterans Guest House is a 501(c)3 non-profit organization with a stated goal to “provide U.S. military service Veterans and their families with caring support during times of medical needs.” The house is located at 880 Locust Street in Reno and has two water services, an irrigation line and a domestic line. Their annual water bill is about \$950, with the average monthly bill being \$78.11.

Considerations

As TMWA's Board of Directors considers whether or not to provide a special exemption for this organization, the following issues need to be considered:

- Creating special rates, discounts or exemptions for any customer requires the resulting costs to be absorbed by other customers. This would hold true if TMWA were to adopt reduced rates or exemptions for the Veterans Guest House. In addition, the resulting inequity runs counter to the Board's cross-subsidization policy adopted in September 2001.
- If one non-profit organization were to receive preferred rates, there are hundreds of other non-profits in the area that would look to TMWA to provide them the same exception. These non-profits range from special events, to arts and culture organizations, to environmental groups, to sports organizations, to faith-based groups. Establishing precedents such as this would likely raise questions as to why this organization and not

others. The question becomes what differentiates one non-profit from another non-profit and what rationale will be used for such rate relief. It is expected that any rationale developed will need to be consistently implemented across all customers and non-profits.

- The cost for implementing a discounted rate or exemption for Veterans Guest House will be expensive. Every time we add an additional rate code to the system, there is an attendant cost, which is dependent upon the complexity of the rate.
- Another option for the Veterans Guest House is to take advantage of our Audit program. This option has been utilized by many customers to reduce their water bills. Or, there is also the possibility that they can seek relief from other community based non-profit organizations such as the Veterans of Foreign Wars (VFW) locals to assist them with their water expenses.

TRUCKEE MEADOWS WATER AUTHORITY
ITEM 9 EXCERPT FROM MINUTES OF THE MARCH 21, 2007
MEETING OF THE BOARD OF DIRECTORS

The Board of Directors met at the Sparks Council Chambers, Legislative Building, 745 Fourth Street, Sparks, Nevada. Vice-Chairman Dave Aiazzi called the meeting to order at 10:02 a.m.

1. ROLL CALL

Members Present: Vice Chairman Dave Aiazzi; Members Mike Cate, Bob Larkin*, Geno Martini, and Ron Smith.

9. CONSIDERATION OF REQUEST FOR EXEMPTION FOR THE VETERANS GUEST HOUSE'S WATER BILL

Kim Mazeres, Director of Customer Services, presented this request at the behest of Vice Chairman Dave Aiazzi. The Board recognized the worthiness of Veterans Guest House and valued the contributions made by all veterans. However, there are over 1,200 registered non-profit agencies in Reno and Sparks which might also seek similar relief if an exemption is granted to the Veterans Guest House. Also, if granted, the resulting inequity runs counter to the Board's cross-subsidization policy adopted in September 2001. Debbie Shosteck, an attorney at McDonald Carano Wilson, is researching the feasibility and advisability of this type of subsidy for the Standing Advisory Committee because of a request from the Regional Housing Task Force to determine whether TMWA had any appetite for some sort of subsidy or help for affordable housing, possibly as an exemption from developer fees. Counsel Harrison suggested it might be prudent for the Board to see what counsel ascertains and what the SAC recommends in respect to that project. Consideration of this issue on a more global basis and at a policy level could be held in the future. Ms. Mazeres explained the Audit program offered by TMWA and suggested the Veterans Guest House take advantage of the program to possibly find ways to reduce their water bills. As TMWA partners with each of the governing entities, there may be an opportunity to solicit or ask for support through a bill insert for the Veterans Guest House or other worthy non-profits. Mr. Cate mentioned that this issue could be brought before other organizations which possibly could help the Veterans Guest House as their special charitable project.

The Board took this item off the table and determined to wait for recommendations by the Standing Advisory Committee.