



**TO:** Chairman and Board Members  
**FROM:** Michael Pagni, Legal Counsel  
Jeff Tissier, Chief Financial Officer  
**DATE:** December 12, 2012  
**SUBJECT:** Discussion and possible direction to staff regarding proposal by the South Truckee Meadows General Improvement District (STMGID) to merge directly into TMWA concurrently with TMWA/DWR merger or other options in relation to operation of STMGID system upon the merger of the Washoe County Department of Water Resources water utility into TMWA

---

### **Recommendation**

Staff recommends that the Board direct staff to analyze the STMGID direct merger proposal and work with STMGID representatives on modifications or refinements to the terms of the proposed direct merger and bring a report and recommendation back to the TMWA Board in January.

### **Discussion**

On October 10, 2012, staff provided to the Board a report on the status of i) the merger/integration project between the Truckee Meadows Water Authority (TMWA) and the Washoe County Department of Water Resources Water Division (DWR) and ii) Washoe County's feasibility review of merging or segregating the South Truckee Meadows General Improvement District (STMGID) system prior to the TMWA/DWR merger. As discussed in that report, one of the outstanding conditions that must be resolved for the TMWA/DWR merger to proceed is a resolution of issues created by the interdependence of the STMGID system in a manner that would not impede or negatively impact the merger of DWR water operations with TMWA. At the time of the TMWA meeting in October, Washoe County and STMGID were exploring the feasibility of segregating STMGID as a stand alone utility or merging STMGID into DWR.

In November, STMGID began to explore a new option involving a direct merger of STMGID into TMWA. General concepts of the direct merger alternative were discussed with the STMGID Local Managing Board and STMGID Board of Trustees in November. STMGID's legal counsel also met with TMWA's legal counsel to discuss the alternative and issues that STMGID would hope could be addressed through a direct merger into TMWA. It was suggested that STMGID prepare a term sheet summarizing the key terms that STMGID would propose in direct merger which could be brought to the TMWA Board for consideration.

Attached is a copy of the term sheet proposed by STMGID for a potential direct merger into TMWA. Under the proposal, STMGID would merge directly into TMWA at the same time as the DWR/TMWA merger transaction is completed. As with the TMWA/DWR merger, TMWA would acquire the STMGID water utility assets (other than some non-essential assets which STMGID proposes to retain) and assume obligations to serve the STMGID customers. STMGID has proposed that TMWA charge STMGID customers under the existing STMGID rates post-merger, which rates would be subject to adjustment in same percentage amount as any rate adjustment approved by the TMWA Board for corresponding TMWA rates. The underlying rationale for the special STMGID Rate is that unlike the TMWA system, the STMGID system is not encumbered by debt and STMGID rates do not include a debt component. The special STMGID Rate would expire, and STMGID Customers convert to TMWA rates, on the earlier of i) a conveyance of their property or ii) the first billing cycle in 2035. Under the proposal, STMGID would transfer its cash funds to TMWA but those funds would be held by TMWA in segregated accounts. STMGID restricted funds would be used for the purpose intended by the legal restriction, and STMGID unrestricted funds would be used to pay contingent liabilities of the STMGID system, to construct facilities to move surface water into the STMGID system, and to repair or rehabilitate the STMGID system.

STMGID seeks input from the TMWA Board with respect to the proposed term sheet and concept of a direct TMWA/STMGID merger. TMWA understands the term sheet will be presented to the STMGID Local Managing Board on December 6, 2012 and the STMGID Board of Trustees on December 11, 2012.

November 28, 2012

## Final Term Sheet – STMGID/TMWA Merger

General intent – revenue and cost neutrality to STMGID, WC and TMWA customers

1. Rate. Debt free rate guaranteed to STMGID rate payers as of the date of merger. (a) Metered rate is STMGID pre-merger, plus or minus adjustment for the percentage change in TMWA metered rate to all other system customers. STMGID customers receive benefit of reduced rates, less acquisition debt component. (b) Flat rate remains at STMGID rate as of the date of merger, plus or minus adjustment for the percentage change in TMWA average flat rate to all other system customers. STMGID customers outside the city will not pay 5% Right of Way Toll.

2. Triggering. Rate adjusts upon the earlier of: (a) conveyance (excluding conveyance for which real property transfer tax is not paid), or (b) maturity date of existing debt (assumed to be the first billing cycle 2035).

3. Cash. (a) STMGID restricted funds. Held in restricted funds account and used for the intended purposes permitted by legal or contractual restriction. Designated funds that can be designated unrestricted, if any, added to unrestricted funds. (b) STMGID unrestricted funds. Placed in a restricted trust for three uses (i) contingent liabilities (to be defined in the final agreement) of former STMGID system, if any; (ii) constructing facilities to move surface water into system; and (iii) rehabilitation and repair of the existing system. STMGID assets that are not used in system sold and cash distributed to rate payers.