

TRUCKEE MEADOWS WATER AUTHORITY
DRAFT MINUTES OF THE DECEMBER 12, 2012
MEETING OF THE BOARD OF DIRECTORS

The Board of Directors met on Wednesday, December 12, 2012, at Sparks Council Chambers, 745 Fourth Street, Sparks, Nevada. Chairman Carrigan called the meeting to order at 10:01 a.m.

1. ROLL CALL

Chairman Carrigan welcomed new members Neoma Jardon and Sharon Zadra. Members Present: Mike Cate, Mike Carrigan, Neoma Jardon, Kitty Jung, Bob Larkin, Geno Martini and Sharon Zadra*. Members Absent: None. A quorum was present.

2. PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was led by Member Larkin.

3. PUBLIC COMMENT

There was no public comment.

4. APPROVAL OF THE AGENDA

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

5. APPROVAL OF THE OCTOBER 17, 2012 MINUTES

**Upon motion by Vice Chairman Cate, second by Member
Larkin, which motion duly carried by unanimous consent of
the members present, the Board approved the October 17,
2012 minutes.**

*Sharon Zadra arrived at 10:06 a.m.

6. DISCUSSION AND ACTION ON ADOPTION OF RESOLUTION NO. 189
APPROVING THE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR
FISCAL YEAR 2012

Jeff Tissier introduced Kristen Burgess, Shareholder, and Cindy Vance, Project Manager, with Kafoury Armstrong and Company (Kafoury) and invited them to present the required communications regarding the Comprehensive Annual Financial Report for FY 2012. Ms. Burgess said that Kafoury had issued a clean, unqualified opinion on the financial statements with no findings, 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 prior years.

She noted that TMWA had no material weaknesses in connection with internal controls. Kafoury also performed a single audit of the one major federal award program and issued an unqualified opinion that TMWA was in compliance with federal requirements.

Mr. Tissier said that TMWA had an excellent year in FY2012. Operating revenues exceeded budget and operating expenses were under budget. All other non-operating revenue and expenses were essentially on budget. Capital spending was under budget. The increase in cash reserves was due to defeasance of the remaining outstanding 2001A Bonds. The unrestricted cash reserves will be used for future operating expenses, capital spending, and to redeem outstanding commercial paper debt. He discussed ongoing debt management, outlining how the careful administration of TMWA's short-term note program, known as Tax-Exempt Commercial Paper has allowed preservation of needed unrestricted cash resources during the economic downturn over the past four years. If it wasn't for this short-term variable rate program TMWA would have been conceivably out of unrestricted cash resources which would have serious ramifications on customer water rates. The unrestricted cash will be very important with respect to future debt management activities.

Upon motion by Member Martini, second by Member Jung, which motion duly carried by unanimous consent of the members present, the Board adopted Resolution No. 189 approving the Comprehensive Annual Financial Report for Fiscal Year 2012.

7. PRESENTATION OF FIRST QUARTER FISCAL YEAR 2013 FINANCIAL REPORT

Mr. Tissier reported TMWA had very positive first quarter financial results. TMWA had record operating revenues and water sales during the first quarter of FY2013, primarily due to the unusually warm weather. Spending was slightly over budget; however interest and other non-operating expenses were essentially on target and developer fees were minimal. TMWA is on solid financial ground, with healthy cash reserves that can be committed to periodically buy down commercial paper over the next few years.

There were no questions from the Board.

8. REVIEW OF TMWA'S REVENUES IN REGARD TO IMPLEMENTATION OF THE PREVIOUSLY APPROVED SECOND YEAR RATE ADJUSTMENT CURRENTLY SCHEDULED TO BE EFFECTIVE THE FIRST BILLING CYCLE IN FEBRUARY 2013

Mark Foree began by stating that in January 2012, the Board adopted a three-phase rate adjustment with the first phase being implemented in February 2012. Prior to the implementation of the second and third phases of the rate adjustment, the Standing Advisory Committee and the Board were to review TMWA's financial position to ascertain if any changes have affected the timing or necessity to implement Phases 2 and 3.

John Erwin noted the following options available to the Board regarding implementation of Phase 2.

- 1) Take no action on the item, the effect of which is Phase 2 rate adjustments would occur beginning the first billing cycle in February 2013;
- 2) Modify the amount of the Phase 2 rate adjustments prior to implementation which would trigger public notification and hearing process; or
- 3) Delay the implementation date of the Phase 2 adjustments.

Mr. Erwin reviewed the staff report and presented various graphs showing water production and water revenues; sources of revenues in regard to the implementation of rate changes; and, the revenue requirements needed to operate TMWA. He said that revenue generated from to the implementation of Phase 1 was approximately \$850,000 stemming from the changes in just the monthly customer charge. He explained that TMWA's revenue requirement is \$87 million per year of which approximately \$80 million is derived from rates. As revenues are short of what is needed; revenue still needs to increase. A policy decision was made by the Board a few years ago to not ask for the increase all at one time but to incrementally increase rates over a number of years to attain the needed revenue requirement, hence the three-part phase-in of rate adjustments approved in 2012. A financial plan was established for the year beginning 2012 set targets to generate the cash flow necessary to have the cash balances, credit ratings and coverage ratios in place for major refinancing opportunities in 2015 and 2016.

The Phase 2 adjustment for a ¾" residential metered billing is 3.4 percent or \$1.42 per month. The change is only to the customer charge; not water usage rates. The flat-rate would increase \$6.53 per month for a ¾" residential service.

Another reason the phase-in approach was proposed was to provide the Board an opportunity to look at the finances, determine if the financial plan is on track and if there is a need to make some sort of adjustment along the way.

Mr. Tissier commented that TMWA has excellent cash reserves but there is a comparable amount of short-term debt. At some point, TMWA must begin to systematically pay off the short-term debt with either fixed rate debt or cash. TMWA has an AA credit rating and with the negative watch removed, TMWA is well prepared to move forward in a few years with debt management opportunities. There was a thorough discussion with the Standing Advisory Committee which unanimously voted to implement the second year rate adjustment as previously adopted by the Board and not lose the momentum that was gained by Phase 1. Staff's recommendation is consistent with the SAC but at the same time staff recognizes that the financial performance for 2012-13 is strong year to date, therefore if the Board delays implementation, it should not create a negative impact in the short term.

Member Larkin asked to clarify the split between increased revenue and reduced management of costs in Phase 1 to achieve the needed revenue to meet operating expenses. Mr. Erwin replied that TMWA has maintained an excellent cost control effort and reduced expenses by 18 percent

over the 2008 period. And by using a phase-in approach, a lower rate increase for each year has been possible. The significant factor for the revenue increase this year was the weather.

Member Larkin asked if the SAC was presented with the probability that an increase in general taxes will probably be coming in January, and did that affect their thinking or discussion. Mr. Tissier said the SAC had a thoughtful discussion and their recommendation was to implement Phase 2. He summarized the SAC's thoughts by saying they recognized that TMWA is a highly leveraged utility, that managing debt is top priority, and that they did not want to lose the momentum achieved by Phase 1.

Member Cate asked if there is any upside to delaying implementation. Mr. Tissier explained that a delay would have a neutral effect from a credit rating perspective.

Member Martini asked if it would be advisable to delay implementation for a year but revisit an earlier implementation date in six months. Legal Counsel Pagni said he did not believe the public process is required if implementation of previously approved rates is delayed as long as there is no modification to the amount of the rate. He suggested a better approach would be to delay the implementation for six months rather than delay for a year and then have to come back and implement the rate increase sooner. Delaying the implementation for six months would not trigger an additional public process hearing.

Chairman Carrigan asked the percentage increase for Phase 3. Mr. Erwin said it would be 2.1 percent. Chairman Carrigan said the Board had made a policy decision to use a phased-in approach to rate adjustments for the benefit of the rate payers. He commented that TMWA did a very good job this year and staff should be patting themselves on the back for not having to ask for an increase. Every agency that has debt would love to increase rates every year to pay down debt but it's important to continue to think about the rate payers.

Member Larkin asked if implementing the rate increase in summer instead of in winter would cause any problems. Mr. Erwin said it shouldn't cause any problems as the change is to customer charges only; usage rates remain the same. Mr. Pagni said there is no regulatory requirement as to the time of the year that a rate adjustment is implemented, but suggested implementation be concurrent with the monthly billing cycle. Member Larkin then asked what this does to the timing of Phase 3. Does it automatically bump Phase 3 out another year? Mr. Pagni said if the Board decides to bump Phase 2 one year, then they could bump Phase 3 one year as well or leave that implementation date unchanged. If the Board decides to bump Phase 2 for six months, then Phase 3 could be left as is. As the Board is not accelerating the time of implementation or modifying rates, no separate public hearing process is needed.

Member Larkin said he'd like to make a motion to continue the item until the first of June, saying that still places Phase 3 in a timely manner and expressed his concern on pushing Phase 3 to 2015 or implementing both Phase 2 and 3 simultaneously. He thought the Board needed to assess the impact of the general tax increases on rate payers and see the summer revenues. Mr. Pagni asked for clarification of the motion as continuance suggests no action is being taken today.

Member Larkin modified his motion to delay the implementation of Phase 2 to the first billing cycle in June 2013. Member Jung seconded the motion. During the following discussion, Mr. Erwin suggested implementation be delayed until the first billing cycle in July 2013 so there could be complete data for FY2013. Chairman Carrigan commented that he would prefer a delay of one year instead of six months to return to the previously timed cycle to implement rates in the winter instead of the summer. Member Larkin did not think it would make much difference because the increase is only to the customer charge, not to usage rates. Mr. Tissier said that there is decent visibility on TMWA performance for FY2013 and water revenues should be comparable to FY2012. Hydro revenue should decrease but that would be manageable. Staff will continue to work to keep operating expenses down and not move forward with capital projects that are not absolutely necessary. He said that to delay implementation either to the fall or for one year is not a big issue.

Member Larkin modified his motion to delay implementation of Phase 2 for one year, saying by definition that would bump out phase 3 for another year. Member Jung seconded the motion. During the discussion, Chairman Carrigan said that because implementation of Phase 2 is delayed for one year doesn't mean that Phase 3 cannot be implemented at the same time. Mr. Pagni agreed. Mr. Larkin clarified that the motion was to "delay implementation of the previously approved second phase rate adjustment until the first billing cycle in February 2014", but that the Phase 3 implementation would remain as originally adopted and Member Jung agreed this was the motion.

Upon motion by Member Larkin, second by Member Jung, which motion duly carried by unanimous consent of the members present, the Board delayed implementation of the previously approved second phase rate adjustment until the first billing cycle in February, 2014.

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 2013

Mr. Erwin requested the Board authorize the General Manager to execute a contract with Susan Oldham for the ongoing legal services related to the Truckee River Operating Agreement (TROA). He noted there is a 50 percent reduction in the contract from the previous year because the major components of TROA implementation are at or near completion in 2013.

Upon motion by Member Larkin, second by Member Martini, 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 2013.

10. REPORT REGARDING OMBUDSMAN ACTIVITIES FROM DECEMBER 2011 THROUGH NOVEMBER 2012 AND REQUEST FOR BOARD DIRECTION AND POSSIBLE AUTHORIZATION FOR THE GENERAL MANAGER TO RENEW THE OMBUDSMAN CONTRACT WITH JOANNE STRALLA FOR CALENDAR YEAR 2013

Kim Mazeres presented the report of ombudsman activities for the last year and requested the Board authorize the general manager to renew the Ombudsman contract with Joanne Stralla for calendar year 2013.

Upon motion by Member Martini, second by Member Larkin, which motion duly carried by unanimous consent of the members present, the Board accepted the report of Ombudsman activities from December 2011 through November 2012 and authorized the General Manager to renew the Ombudsman contract with Joanne Stralla for the Calendar Year 2013.

11. REQUEST FOR BOARD APPROVAL OF REAPPOINTMENTS TO THE STANDING ADVISORY COMMITTEE OF MEMBERS WHOSE TERM EXPIRES DECEMBER 31, 2012

Amanda Duncan, TMWA Liaison to the Standing Advisory Committee, reviewed the roster of current Standing Advisory Committee members and requested the Board reappoint the following members:

- Irrigation Class – Neil McGuire, Primary and Mike Heffner, Alternate.
- Commercial Class – Kevin Haddock, Primary and Pat Martinez, Alternate.
- Senior Class – Robert Chambers, Primary. Alternate seat is vacant.
- Residential Class 2 - Harry Culbert, Primary. Alternate seat is vacant.
- Residential Class 3 - Jim Maass, Primary. Alternate seat is vacant

Ms. Duncan noted that the Northern Nevada Water Planning Commission re-appointed Barry Winzeler, Primary, and George Ball, Alternate, during their December 5, 2012 meeting.

Upon motion by Member Larkin, second by Member Jung, which motion duly carried by unanimous consent of the members present, the Board reappointed all members of the Standing Advisory Committee whose term expired December 31, 2012.

12. PRESENTATION OF TRUCKEE RIVER FUND ACTIVITIES FOR CALENDAR YEAR 2012

Ron Penrose, Truckee River Fund Advisory Committee (TRF) liaison, summarized the activities of the TRF as presented in the staff report. The TRF was established in 2005 and since that time,

it has become a critical component of TMWA's overall water quality protection program. TMWA contributes funds to the TRF on an annual basis; committee members are appointed by Reno, Sparks, and Washoe County; proposals are solicited on a semi-annual basis; and projects must be approved by the Committee and the TMWA Board prior to funding. Since its inception, 86 projects have been approved by the Board and the TRF has spent \$8.1 million, developing significant leverage against from the \$15.9 million match in cash and in-kind donations from project partners. Mr. Penrose noted that in doing these projects, TMWA would have a difficult time doing them on their own because most of the projects are multi-jurisdictional in nature.

Mr. Penrose mentioned the following notable projects related to water quality:

- Support for connecting a development at Verdi's sewer system to the Lawton-Verdi Wastewater interceptor, thereby averting possible contamination of the Truckee River
- Support for the Pioneer Ditch Dam Diversion reconstruction, lessening flood potential to TMWA's Glendale Water Treatment Plant
- Support for developing and implementing Aquatic Invasive Species programs necessary to help prevent Quagga mussel infestation of Truckee River reservoirs. This is now a self-sustaining program that the TRF no longer supports.

13. REQUEST TO APPROVE AN INCREASE IN TMWA'S PREVIOUSLY AUTHORIZED SHARE OF CONSTRUCTION COSTS TO UPGRADE THE FLEISH PEDESTRIAN BRIDGE IN ACCORDANCE WITH THE ACCESS AGREEMENT BETWEEN TAHOE PYRAMID BIKEWAY (TPB) AND TMWA

Scott Estes presented this item. In 2010, the TMWA Board approved the Access Agreement between TMWA and the Tahoe-Pyramid Bikeway (TPB) to upgrade the Fleish Pedestrian Bridge. Mr. Estes commented that the April, 2010 meeting minutes indicate that TMWA will fund up to a maximum of \$144,000 (42%) of the construction costs based on an estimate of what it *would have cost* TMWA to replace the existing bridge. The TPB committed to funding up to \$200,000 (58%) of the construction costs to improve the bridge for bike path use. He introduced Janet Phillips, President and the Tahoe-Pyramid Bikeway.

Ms. Phillips said that due to favorable access conditions, the new north bridge anchor was constructed separately in October 2011. The remainder of the bridge design was completed in July 2012 and the construction project was bid in August 2012. The new construction cost was higher than anticipated, and she would like to use the same ratio as above to allocate the additional cost.

She expressed her opinion that the existing bridge needed to be "beefed up" anyway due to the increased public activity in the area. Rebidding the project would likely result in a higher construction cost. The bridge will allow the TPB to extend from Nevada into California. She said the TPB already has a grant pending for part of the increased TPB money, and added that TMWA getting a new bridge for half the cost was a pretty good deal.

Member Larkin asked what caused the increased costs. Ms. Phillips said although there were some delays in the engineering design, the design work was very good. The main reason was that

the north anchor of the suspension bridge is on an island and with the passage of time and real costs, the costs increased.

Chairman Carrigan asked what could be done with the existing money. Ms. Phillips said she did not feel there was any way to piece meal the construction because the main steel cables are a big part of the expense and they are a lump sum item. She didn't think there was a way to trim the costs. Member Martini asked, if by not renovating the bridge now, would TMWA be putting employees or the public in danger. Mr. Estes replied it did not. When asked when, in the future, would major work need to be done on the bridge, Mr. Estes answered the bridge would need to be replaced within the next ten years.

Vice Chairman Cate suggested the public pay a toll to use the bridge. Member Jung said that idea wasn't that far-fetched.

Upon motion by Member Jung, second by Member Larkin, which motion duly carried five to two, with Chairman Carrigan and Vice Chairman Cate dissenting, the Board approved an increase in TMWA's share of the Fleish Bridge reconstruction costs of up to \$175,612 to reflect the actual cost of construction and the cost allocations identified in the Access Agreement

Mr. Pagni asked the Chairman if the motion included authorization for the General Manager to sign an amendment to the contract. The Chairman said yes it did.

14. 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

Mr. Pagni gave a brief background on this issue. One of the outstanding conditions that needed to be resolved for the TMWA/Washoe County Department of Water Resources (DWR) merger to proceed was the disposition of the STMGID utility system which is interdependent with the DWR system. DWR and STMGID explored many options, recently completing a feasibility study on ways to segregate STMGID as a standalone utility or merge STMGID into DWR and then transferring both to TMWA. In October, TMWA was asked if it would be willing to wholesale water to STMGID if it were a standalone entity. The Board confirmed it would but the price could not be determined at that time because, like any other wholesale customer, STMGID would have to do the necessary water system planning. The Board determined that the TMWA/DWR could go forward either if STMGID were merged with DWR or stood up as an independent utility provided that if DWR and STMGID were segregated, it would not have a materially adverse impact on the assets coming over to TMWA. The TMWA Board was very clear that the decision to merge or segregate was not TMWA's to make, it was the decision of

Washoe County and STMGID. After October's TMWA's Board meeting, STMGID started to explore another option to directly merge into TMWA. After some discussions, STMGID prepared a preliminary term sheet to present to the STMGID Board of Trustees (BOT) and to TMWA. They presented the term sheet to the BOT and Washoe County Board of County Commissioners (BCC) on December 11, 2012, at which meeting the BOT approved the term sheet. Mr. Pagni introduced Rew Goodenow, legal counsel for STMGID and Mr. Cohen, member of the STMGID Local Managing Board (LMB) to discuss the terms proposed.

Member Larkin, who is also a member of the BCC, said that on December 11, 2012, the BCC took affirmative action on an ordinance that enables the LMB become the BOT. The BCC has divested itself of STMGID entirely and STMGID is now a standalone entity in terms of administration. He said there has been no alteration of the original intent or schedule of the merger between TMWA and DWR.

Mr. Goodenow, special counsel for STMGID, presented their simple one-page proposal, stating the proposed merger will help facilitate the merger between TMWA and DWR. The general intent of the proposal was the revenue and cost neutrality to STMGID, DWR and TMWA customers at the time of a merger. He then discussed the proposed three items:

- 1) Rate. Debt free rate guaranteed to STMGID rate payers as of the date of the merger, effectuated by retaining STMGID's existing rates but subject to adjustments equal to any rate adjustments imposed on TMWA customer rates going forward
- 2) Triggering. The STMGID guaranteed rate would convert to TMWA rates upon the earlier of (a) a conveyance of the property (excluding conveyance for which real property transfer tax is not paid), or (b) January 2035.
- 3) Cash. STMGID cash held in restricted funds account would be used for three basic purposes (a) contingent liabilities, (b) constructing facilities to move surface water into the system, and (c) rehabilitation and repair of the existing system. STMGID assets that are not needed in system would be sold and proceeds distributed to STMGID rate payers.

Mr. Foree stated that TMWA staff has not delved into nor analyzed any of the details of the proposal. He said it will take about two or three months to work through the issues.

Chairman Carrigan said he thought the only time constraint was the date of the merger between TMWA and DWR. Mr. Tissier said the original merger schedule anticipated a closing by July 1, 2013 but because of the work on the STMGID matter and the transitional items, the target date is now July 1, 2014. A joint meeting needs to be scheduled and financial analysis needs to be updated which could happen in the second quarter 2013. Negotiations with labor unions also need to transpire.

Member Larkin commented that Mr. Tissier was being overly conservative and with the action of the BCC, now that STMGID is a separate water system, he sees no need to slow down the merger of TMWA and DWR. It appears to him to be two different mergers happening

simultaneously. He asked Rosemary Menard, Washoe County Community Service Director, to give an update from DWR perspective.

Ms. Menard said she agrees with Mr. Tissier but thought it was possible that it could be done sooner than July 2014. She said the next major issue is to schedule a meeting to review and approve the terms of the addendum to the Interlocal Agreement Governing the Merger and to solidify the time line for the other items discussed at TMWA's October meeting. Ms. Menard said she thought it would be useful for staff to get together and get a reasonable schedule to present to all three boards in January, 2013.

Mr. Tissier said that although it may appear that he is conservative, the schedule needs to be vetted through the Letter of Credit Banks and that can take some time.

Member Larkin made a motion to authorize TMWA staff to begin discussions with STMGID to merge directly with TMWA concurrently with the TMWA/DWR merger

Upon motion by Member Larkin, second by Member Martini, which motion duly carried by unanimous consent of the members present, the Board directed staff to begin discussions with the South Truckee Meadows General Improvement District (STMGID) to merge directly into TMWA concurrently with TMWA/DWR merger

15. ESTABLISH REGULAR BOARD MEETING DATES AND TIMES FOR THE CALENDAR YEAR 2013

Mr. Foree said the current schedule was working fine and the normal date and time of the TMWA meetings will continue to be on the third Wednesday of the month at 10 a.m.

The Board agreed.

16. GENERAL MANAGER'S REPORT

Mr. Foree gave an update on the outcome of last week's rain storm, which resulted in more than a half-foot rise in Lake Tahoe. This represents a terrific beginning to the winter season and adds up to nearly as much water as TMWA uses in an entire year. He thanked Member Larkin for his six years of service to the Board, saying Member Larkin's hard work, support and dedication has been invaluable in helping guide TMWA through some rather challenging times over the last few years. Member Larkin commented that he was particularly gratified by the great work that has been done in moving to consolidate the various water systems into one regional system.

Mr. Foree and Chairman Carrigan presented Member Larkin with a plaque thanking him for his 6 years of service as a member of the Board.

17. PUBLIC COMMENT

There was no public comment.

18. BOARD COMMENTS AND REQUESTS FOR FUTURE AGENDA ITEMS

There were no board comments.

19. ADJOURNMENT

With no further discussion, Chairman Carrigan adjourned the meeting at 11:35 a.m.

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

Respectfully submitted,

Corinne Cassell, Recording Secretary

*Member Zadra was present for items 6 through 18 only.