



## STAFF REPORT

**TO:** TMWA Board of Directors  
**FROM:** Mark Foree, General Manager  
Jeff Tissier, Chief Financial Officer  
**DATE:** October 1, 2013  
**SUBJECT:** Update regarding the merger of Washoe County Community Services Water Utility (CSWU) and the South Truckee Meadows General Improvement District (STMGID) into TMWA, discussion and possible direction to staff

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### RECOMMENDATION

Staff recommends that the Board accept the report on the status of the merger/integration project between the Truckee Meadows Water Authority (TMWA), the Washoe County Community Services' Water Division (CSWU), and the South Truckee Meadows General Improvement District (STMGID) and provide any direction to staff.

### DISCUSSION

#### Overview of merger activities

Merger activities have centered on completing TMWA/CSWU due diligence efforts, moving forward with finalizing two significant projects, performing due diligence on merging STMGID into TMWA as directed by the TMWA Board and developing a transition plan to consummate the three way merger of TMWA, CSWU, and STMGID.

At the last TMWA Strategic Planning session TMWA and CSWU completed the due diligence analyses which indicated that TMWA and CSWU can merge and should continue with merger activities. Several items are now outstanding that need to be completed before TMWA and CSWU merge. These items include the harmonization of TMWA Rules of Service and Washoe County water utility ordinance so both customer groups have similar rules governing water service going forward. In addition both utilities feel it would be beneficial to have the Fish Springs Ranch (Vidler Project) infrastructure tied into CSWU and TMWA so that project can be used to bring groundwater to the Lemmon Valley service area of CSWU and to a lesser extent TMWA. Concurrent with finalizing these activities, TMWA and CSCU would work on finalizing a merger agreement which include identifying assets to be transferred and obligations to be assumed.

With respect to STMGID a term sheet for merging STMGID into TMWA was presented to the TMWA Board for consideration in December 2012. After some discussion staff was directed to perform due diligence on a TMWA/STMGID merger. Due to the interdependence of the CSWU

and STMIGD on each other's water utility infrastructure and water resources it was essential to look at the feasibility of a TMWA/STMIGD merger. TMWA staff was directed to review the term sheet items and perform operational, legal and financial due diligence on STMIGD and report back with staff conclusions to the TMWA Board. TMWA staff believes that based upon this due diligence TMWA and STMIGD can be merged without any negative impacts to either utility's customers. TMWA was invited by the STMIGD Board of Trustees to make presentations on TMWA conclusions and whether TMWA can work within the elements of the STMIGD term sheet. TMWA staff made such presentations and attended a STMIGD customer workshop to answer questions and address any concerns. In attendance were the STMIGD Board of Trustees, the Protect Our Water (POW) customer group and other interested citizens. The POW group has been very involved with the STMIGD Board of Trustees in determining the feasibility of a TMWA/STMIGD merger. These efforts have led to TMWA and STMIGD legal counsels to begin crafting a merger agreement, consistent with the STMIGD term sheet to be considered and approved by each utility's boards.

Once draft merger agreements are prepared the next step would be to calendar a joint meeting of the TMWA Board, the Board of Washoe County Commissioners and the STMIGD Board of Trustees to decide whether to merge all three utilities and direct staff to formalize and move forward with a transition plan to effect the merger. If direction to staff is to move forward with the merger, then a transition plan will be finalized quickly and it is expected that the merger would be completed by December 31, 2014 at the latest. A summary of transition plan elements are presented in this staff report which require a significant amount of preparation to complete and some elements are not entirely under the control of staff of the merging parties. These transition plan elements would be executed concurrently and requires significant internal and external personnel resources to complete.

Major elements of the transition plan are as follows:

**Operational Elements**

- Transferring Supervisory Control and Data Acquisition (SCADA) polling signals from CSWU/STMIGD water facilities into the TMWA treatment plants. (6-7 months)
- Transfer of customer billing information from the CSWU billing system to TMWA's Customer Information System (CIS) provider Vertex. (7 months)
- Expand TMWA warehousing facilities to accommodate sheltering of additional mobile equipment which is best accommodated by additional land acquisition to the immediate north of TMWA's headquarters. (9 months)
- Obtain any necessary regulatory approvals for the merger with respect to Washoe County District Health (WCDH) and Nevada Department of Environmental Protection (NDEP). (4-5 months)

**Water Resource Elements**

- Transfer all real property to TMWA, including water rights, land and easement titles. (5-6 months)
- Compile all remaining land and easement title defect that are unresolved. (2-3 months)
- Determine any State Engineer requirements or restrictions on transferred water rights. (6 months)

**Financial Elements**

- Revise Five Year Financial Forecast 2015-2020 on combined water utilities in advance of debt management activities. (2 months)
- Primary debt management activity is to defease CSWU water publically issued debt to be assumable by TMWA, preparation of Offering Memorandum, potential for Debt Management Commission approval, rating agency presentation, bond sale road show, execution of sale. This can be done with fixed rate or variable rate debt. Economics of the defeasance is very volatile due volatile changes in interest rates. (6-9 months)
- Obtain merger approval of TMWA Liquidity Providers (JP Morgan Bank and Wells Fargo Bank) (2 months)
- Proceed with working with State of Nevada Treasurer's office to transfer DWR Drinking Water State Revolving Fund (DWSRF) loan to TMWA. (4-5 months)
- Remove water pledge from DWR sewer bonds and loans. (5-6 months)
- Remove water pledge from DWR storm water private placement. (5-6 months)
- Identify and quantify financial obligations for assumed contracts and agreements prepare revised agreements. (4-5 months)
- Prepare accounting memorandum for review and concurrence by external auditors documenting the merger accounting for the three utilities GASB 69 governs merger accounting between governmental entities. (2 months)

**Legal Elements**

- Complete Schedules to the Addendum to the Interlocal Agreement (ILA). (5-6 months)
- Complete Merger Agreements with Washoe county and STMGID. (5-6 months)
- Disposition of the Verdi Joint Service Area (6 months)

- Identify all contracts and agreements and whether these agreements would transfer to TMWA or new agreements would be written. (3-4 months)
- Review again Special Assessment District (SAD) documents namely SAD 23 Arrowcreek and SAD 39 Lightning W to insure there is no violation of these agreements due to merger. (1 month)
- Right of Way Toll issues for DWR customers located in the City of Reno and the City of Sparks. (unknown)

### **Human Resource Elements**

- Evaluate staffing requirements for combined utilities and develop onboarding plan. (5 months)
- Initiate labor negotiations between International Brotherhood of Electrical Workers (IBEW) 1245 and the Washoe County Employees Association (WCEA), which involves labor and management. (Timeline difficult to determine but of highest priority)
- Impact on TMWA's Post-Retirement Medical Trust for transferred employees and funding requirements. (1-2 months)

### **Customer Relations Elements**

- Transfer of customer billing information from the CSWU billing system to TMWA's Customer Information System (CIS). Billing system can accommodate multiple rate structures. (4-5 months)
- Develop and deploy a customer communication plan. (continual to date of merger)
- Assess meter reading capabilities for transferred customer accounts, and develop interfaces to the surviving billing system. Requires significant IT support. (4-5 months)

The aforementioned items highlight the most important elements left to effect the merger between the three water utilities. Three requirements were specified by the TMWA Board for the merger to proceed. Certain agreements could not be assumed by TMWA and must be retained by Washoe County, creation of the Washoe County Bond Bank, and the potential for merging STMGID with TMWA. The Washoe County Bond Bank was established. TMWA was informed that Washoe County would retain certain agreements with the last major item being the disposition of STMGID which is in progress as of the date of writing this staff report.