



## STAFF REPORT

**TO:** Chairman and Board Members  
**THRU:** Mark Foree, General Manager  
**FROM:** John Erwin, Natural Resources Director  
Kim Mazeres, Customer Relations Director  
Jeff Tissier, Chief Financial Officer  
**DATE:** April 6, 2015  
**SUBJECT:** **Discussion and possible direction to staff regarding consideration of special rates or programs for low-income and/or senior citizen customers**

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At its March meeting, the TMWA Board of Directors requested staff present information about potential assistance programs TMWA could offer to low-income, senior citizens who will be transitioning from the flat-rate to the metered rate.

### **BACKGROUND**

The TMWA Board and Standing Advisory Committee have heard reports and recommendations on this issue on at least five occasions since TMWA's formation. The staff reports and minutes for these are attached. To summarize:

- In September of 2001 the Board adopted by resolution a Financial Guidelines document that includes a non-cross-subsidization policy. (Attachment #1)
- In October of 2003, the Board received information from staff regarding a variety of ratemaking ideas, including low income/senior citizen rates. The staff report and minutes are Attachment #2.
- In 2003 the Board appointed a Rate-Making Review Committee. This committee met a number of times, producing a final report and recommendations. Information about the formation of the committee and the final report are Attachment #3. In particular, they discussed the avoidance of cross-subsidization, as well a potential discount for low-income customers.
- In September of 2007, the Standing Advisory Committee reviewed several requests for specialized rates and recommended the Board continue with its non-cross-subsidization policy, including "refraining from providing rate reductions or exemptions to selected customers." See Attachment #4.

- In January of 2012, the Board again heard information regarding the possibility of special rates for low income or senior customers at the request of one of the Board members. Two months later additional information was presented to the Board as a result of this agenda item. This is Attachment #5.

In addition to these Board presentations and actions, a number of years ago the Board was sent a legal memorandum regarding this issue. Legal Counsel Michael Pagni recently updated this memo. See Attachment #6. In summary, it indicates there are legal concerns with providing any group of customers special rates or discounts. Because TMWA's purpose is limited and specific to the management and delivery of water, it is not like other government agencies and does not have a legitimate governmental interest in promoting affordable housing or alleviating the financial burden of providing water service to customers based on income, age, veteran status, or other specification.

### **CURRENT SITUATION**

If the Board desires to proceed with some type of low-income or senior citizen discount or rate, the impact to revenues of this change would need to be considered via a budget augmentation. In fiscal year 2016, TMWA already has significant impacts to its budget and cash reserves. These include:

- An estimated \$2.5 million loss in water sales revenue due to drought-related water conservation.
- An additional estimated \$0.5 million loss in water sales revenue due to the switching of flat-rate customers to the metered rate. This estimate may be revised upward because of the timing of the conversion.
- \$21.8 million in capital expenditures due to drought-related construction of which \$15.0 million will be funded with a state revolving fund loan.

In addition, staff estimates revenues remain approximately \$4 million short of meeting the revenue requirement in order to meet all annual cash requirements for operations, indebtedness, repair and replacement and other capital projects.

As indicated in many of the attached reports, staff remains concerned about cross-subsidization between any customer groups, as well as which customer groups could / would be chosen to receive a subsidy. Another very large concern is the administration of this type of program, which would also need to be included in a budget augmentation. These budget augmentations would then need to be rolled in to a rate increase for all customers, in order for TMWA to receive the revenue to offset any discount(s) for specified customer group(s) further exacerbating the cross-subsidization problem.

If the Board desires to proceed with some type of low-income or senior citizen discount or rate, there is approximately a six-month calendar to do so. This is the public process calendar followed in all TMWA rate proceedings. It is necessary in order to provide all customers an opportunity to comment on the rate changes – both the increase necessary to fund low-income / senior citizen rates, as well as the discounted low-income / senior citizen rates, themselves.



## **STAFF REPORT**

**TO:** Chairman and Board Members  
**FROM:** Malyn Malquist, General Manager  
**DATE:** September 26, 2001  
**SUBJECT: FINANCIAL GUIDELINES**

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The attached Financial Guidelines document is presented to the Chairman and Board Members for consideration and adoption. The Financial Guidelines has two sections; the first is to reaffirm the operational cash reserves required by the documents governing the 2001 Series A and 2001 Series B Bonds. The second section establishes a policy that considers, in general terms, equitable water rate structures and the mitigation of cross subsidization between different customer classes.

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**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.

**EXHIBIT A**

- 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~~ ~~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.

September 26, 2001

**TRUCKEE MEADOWS WATER AUTHORITY**  
**(TMWA)**

**RESOLUTION NO. 19**

**INTRODUCED BY: Malyn Malquist, General Manager**

**A RESOLUTION ADOPTING A FINANCIAL GUIDELINES POLICY**

**WHEREAS**, the Truckee Meadows Water Authority will be establishing operational cash reserves in accordance with the documents governing the 2001 Series A and 2001 Series B Bonds and the funding of such cash reserves must be taken into consideration in future water rate cost recovery studies;

**WHEREAS**, the Truckee Meadows Water Authority is required by the documents governing the 2001 Series A and the 2001 Series B Bonds to establish the operational cash reserves; and

**WHEREAS**, the Truckee Meadows Water Authority desires to establish a policy that considers equitable water rate structures and the mitigation of cross subsidization between different customer classes;

**WHEREAS**, the Board has determined that the Financial Guidelines Policy attached hereto as Exhibit A appropriately accomplishes these objectives;

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of TMWA that the Financial Guidelines Policy attached hereto as Exhibit A is adopted.

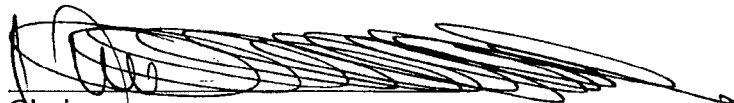
Upon motion of Alternate Member Rigdon, seconded by Alternate Member Doyle, the foregoing Resolution was passed and adopted this 26th day of September, 2001, by the following vote of the Board:

Ayes: Armstrong, Carrigan, Sferrazza-Hogan, Shaw, Doyle, and Rigdon

Nays: None

Abstain: None Absent: None

Approved this 26th day of September, 2001

  
Chairman

STATE OF NEVADA,     )  
                                      : ss.  
COUNTY OF WASHOE. )

On this 17th day of October, 2001, personally appeared before me, a Notary Public in and for said County and State, TONY ARMSTRONG, Chairman of the Truckee Meadows Water Authority, known to me to be the Chairman, who acknowledged to me that he executed the above instrument freely and voluntarily and for the purposes therein mentioned.



Jackie Lewis  
Notary Public

**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.
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  - 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.
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- 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.
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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.

**TRUCKEE MEADOWS WATER AUTHORITY  
MEETING MINUTES  
OF THE BOARD OF DIRECTORS  
September 26, 2001  
9:00 a.m.**

The Board of Directors met in the Sparks City Council Chambers, 745 Fourth Street, Sparks, Nevada. Chairman Armstrong called the meeting to order at 9:00 a.m.

#1 ROLL CALL

Sherrie Doyle, Alternate, for Dave Aiazzi; David Rigdon, Alternate, for Jeff Griffin; Tony Armstrong, Chairman; Jessica Sferrazza-Hogan\*; Mike Carrigan; and Jim Shaw.

#11 RESOLUTION NO. 19 – A RESOLUTION ADOPTING A FINANCIAL GUIDELINES POLICY

Mr. Malquist introduced Jeff Tissier, Administrative Services Principal, to brief the Board on the policy. Mr. Tissier noted that Legal Counsel Sylvia Harrison and a financial advisor who was the financial advisor to the acquisition have reviewed the policy. He distributed a document to the Board that outlines the flow of funds.

Chairman Armstrong expressed concern about rates being raised just so that TMWA can remain "fat." He also wanted to know how soon the financial statements would be ready. Mr. Tissier indicated that TMWA is in the process of preparing a very detailed budget that should be available in approximately 45 days. The Board will be provided a copy when it is ready.

Member Carrigan wanted to know what is going to be done with excess revenue. Mr. Tissier noted that decisions would come out of the budget and the Five Year Plan. Chairman Armstrong stated that if TMWA makes money, it would be possible to keep the rates the same, or even reduce them, in the future.

Alternate Member Rigdon wanted to know if TWMA has anything in the works in regards to giving seniors a rebate on water rates to reflect lower usage. Mr. Tissier stated that he is not aware of anything being done in that area. Mr. Malquist noted that TMWA would look into anything the Board would like them to. A commitment has been made to keep rates frozen for two years, or perhaps even more, and staff has been working in that direction.

Alternate Members Rigdon and Doyle and Member Sferrazza-Hogan wanted to note their support for incentives for senior housing.

On motion by Alternate Member Rigdon, second by Alternate Member Doyle, which motion duly carried by unanimous vote, the Board approved Resolution No. 19 – A Resolution Adopting a Financial Guidelines Policy, and authorized the Chairman to sign.



## STAFF REPORT

**TO:** Chairman and Board Members  
**FROM:** Kim Mazeres, Director, Customer Relations  
 John Erwin, Manager, Water Resources  
**DATE:** October 22, 2003  
**SUBJECT:** RATE-MAKING REVIEW COMMITTEE

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### RECOMMENDATION

Staff recommends that the Board approve the proposed make-up of the Rate-Making Review Committee (RMRC) including acceptance of the already seated members, direct staff to begin the selection process for the vacant committee participants, and approve the committee's deliverables. Upon receipt of applications from potential committee members, staff would seek Board appointment of the members of the RMRC at the December Board meeting.

### BACKGROUND

At the September 2003 Board meeting, staff was directed to form a committee subject to the Board's approval representing customers, including a representative from Washoe County Water Resources and from Sun Valley GID, and with the possibility of including an independent expert in water rate modeling subject to the condition that the costs and expenses of such expert shall not be borne by TMWA. The committee would be directed to examine issues with respect to cost classifications, cost of service allocation methods, and rate designs for water utilities including TMWA's rate model, and report to the Board. The intent is for the Committee to provide an additional perspective regarding staff's rate model.

Staff recommends utilizing customers previously involved in the Rate Review Customer Outreach Group if they are interested in participating. This group met several times earlier this year with the stated goals of helping identify customer issues related to rates and formulating appropriate responses to those issues. This group has already spent many hours educating themselves on the rate-making process, and the complexities of the TMWA water rates. This group includes the following individuals:

Sandy Bengtson, residential flat-rate customer  
 Ed Pace, residential flat-rate customer  
 Lou Rossi, residential flat-rate customer  
 Neil McGuire, owner of Irish Green Lawns and residential metered customer (converted 9/5/03 from a flat rate)  
 Lillian Baca-James, residential metered customer  
 Brian Bass, residential metered customer

**RATE-MAKING REVIEW COMMITTEE**

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Michael Drinkwater, residential metered customer  
Dave Grebner, residential metered customer  
Gerri McCaroll, residential metered customer  
Diana Langs, Sun Valley General Improvement District

In addition, the following representatives would need to be added in order to have representation from all customer groups:

- 1 representative from Washoe County Water Resources
- 1 medium commercial water customer (could be a Chamber of Commerce representative)
- 1 large commercial water customer (could be a Chamber of Commerce representative)
- 1 flat-rate multi-tenant water customer
- 1 metered multi-tenant water customer

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

Staff recommends the Board adopt the following deliverables for the RMRC:

- 1) Determine if a rate-making expert is to be hired, determine funding of the expenses for this person, and select the expert by February 1, 2004.
- 2) RMRC to complete its review of rate methodologies (including TMWA's), class cost of service allocations, and other issues complete with any expert analysis/comments by May 1, 2004.
- 3) Report on the results of the above analysis to the Board at the May or June 2004 Board meeting.
- 4) RMRC will name one representative to report to the Board on the committee's progress on a monthly basis at the TMWA Board meeting.

## Rate Making Review Committee

1. Sandy Bengtson, residential flat-rate customer
2. Ed Pace, residential flat-rate customer
3. Lou Rossi, residential flat-rate customer
4. Neil Grad, residential flat-rate customer
5. Neil McGuire, owner of Irish Green Lawns and residential metered customer
6. Lillian Baca-James, residential metered customer
7. Michael Drinkwater, residential metered customer
8. Fred Schmidt representing Sun Valley General Improvement District, large wholesale customer (**VICE CHAIRMAN**)
9. Ted Rolfs representing Washoe County Department of Water Resources, large wholesale customer (**RECORDER**)
10. Mike Trudell representing Caughlin Ranch Homeowners Association, large irrigation customer (**RECORDER**)
11. Greg Vorreyer representing the Reno Hilton, large commercial customer
12. Rob Reeder representing Saint Mary's Regional Medical Center, large commercial customer (**CHAIRMAN**)
13. David Monroe representing Harrah's Reno, large commercial customer
14. Larry Balsley representing Smithridge Homeowners Association, flat-rate multi-tenant customer

**TRUCKEE MEADOWS WATER AUTHORITY  
MEETING MINUTES  
OF THE STRATEGIC PLANNING SESSION  
October 29, 2003  
9:00 a.m.**

The Board of Directors met at the Sky Tavern Lodge, Mt. Rose Highway, Reno, Nevada. Chairman Armstrong called the meeting to order at 9:30 a.m.

**#1 ROLL CALL**

Members present: Tony Armstrong, Chairman\*; David Aiazzi\*; Mike Carrigan; Carlo Panicari; Bob Cashell\*; and Pete Sferrazza\*.

**#14 DISCUSSION/ACTION ON THE FORMATION OF A RATE-MAKING REVIEW COMMITTEE, MEMBERSHIP MAKE-UP, SELECTION, FUNDING, AND WORK PRODUCT**

Ms. Mazeres briefed the Board on the formation of a rate-making review committee pursuant to Board direction at the September 17, 2003, Board meeting. The committee would be directed to examine issues with respect to cost classifications, cost of service allocation methods, and rate designs for water utilities including TMWA's rate model, and report to the Board. The intent is for the committee to provide an additional perspective regarding staff's rate model.

Staff recommends utilizing customers previously involved in the Rate Review Customer Outreach Group if they are interested in participating. In addition, the following representatives would need to be added in order to have representation from all customer groups:

- 1 representative from Washoe County Water Resources
- 1 medium commercial water customer (could be a Chamber of Commerce representative)
- 1 large commercial water customer (could be a Chamber of Commerce representative)
- 1 flat-rate multi-tenant water customer
- 1 metered multi-tenant water customer

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.



## 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

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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.

## **RATEMAKING IDEAS**

October 22, 2003

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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

**RATEMAKING IDEAS**

October 22, 2003

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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.

jl

**TRUCKEE MEADOWS WATER AUTHORITY  
MEETING MINUTES  
OF THE STRATEGIC PLANNING SESSION  
October 29, 2003  
9:00 a.m.**

The Board of Directors met at the Sky Tavern Lodge, Mt. Rose Highway, Reno, Nevada. Chairman Armstrong called the meeting to order at 9:30 a.m.

**#1 ROLL CALL**

Members present: Tony Armstrong, Chairman\*; David Aiazzi\*; Mike Carrigan; Carlo Panicari; Bob Cashell\*; and Pete Sferrazza\*.

**#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.

**FINAL REPORT AND RECOMMENDATIONS**

**Prepared by**

**TMWA RATE-MAKING REVIEW COMMITTEE**

**May 20, 2004**

### **ACKNOWLEDGEMENTS**

We would like to take this opportunity to thank the Truckee Meadows Water Authority for accommodating the needs of this committee by providing us meeting space; support services; an inordinate amount of background information, staff reports, and statistical information; as well as the professional staff time to present this committee with a complete overview of the financial requirements of the utility and the rate making methodology employed to recover the costs of providing those services. We especially wish to recognize Mr. Jeff Tissier for his financial presentations, Mr. John Erwin for his review and discussions of the rate model, Ms. Kim Mazeres and Marlene Olsen of Olsen & Associates for detailing TMWA's public relations efforts, and, most importantly, Ms. Catherine Hansford as TMWA's liaison to the committee. Her tremendous support!and professional conduct made our task a more pleasant experience.

## INTRODUCTION

The Truckee Meadows Water Authority (“TMWA”) Rate-Making Review Committee (the “Committee”) (see attached list for Committee members) was formed at the direction of the TMWA Board (“Board”) via Resolution Number 51 at the September 2003 Board meeting. The final selection of members to sit on that committee was formalized at the December 2003 Board meeting and consisted of seventeen members representing nearly all of the customer classes served. Applicants were notified of their selection to the committee and the first meeting was held on January 8, 2004. The committee was directed to examine issues with respect to cost classifications, cost of service allocation methods, and rate designs for water utilities including TMWA’s rate model and report!to the Board. The Board’s intent was to have the committee provide an additional perspective regarding TMWA’s rate structure. Over a period of five months, thirteen meetings, lasting several hours each, were held by the Committee to consider the various aspects of the TMWA rate study. In addition, a utility rate expert was hired by several members (funded by wholesale customers and the Reno-Sparks Chamber of Commerce) to add an outside perspective of what the strengths and weaknesses of the TMWA rate model may be. Although there were times when one may have felt that it was a long and arduous journey, there was always a quorum of the members present to continue on with their appointed duty. The fundamental question always asked concerning any issue was: “Is it fair and does it provide equity among consumers?” It is important to recognize that this feature of group dynamics continuously existed with this committee despite the diverse makeup of its members. In the end, all members were heard, each member was afforded the opportunity to make recommendations, all recommendations were discussed, consolidated, edited and then voted on. The attached recommendations in this report were supported by a consensus or majority vote of Committee members.

### **COMMITTEE FINDINGS AND RECOMMENDATIONS**

The consensus of opinion of this Committee is that certain deficiencies exist in the rate study performed by TMWA staff. While in total the deficiencies may not be fatal to the study's overall relevance, they do affect the cost allocation basis and the resulting rate design. In addition, there are policies and public relations issues that the Committee believes should be addressed in future studies. In short, there are improvements that the Committee believes would add to development of a more fair and equitable distribution of TMWA's cost of providing water service. The following recommendations represent the Committee's effort to consolidate or narrow the many individual suggestions made by Committee members and it is important to take into account the discussion of those items to better understand each recommendation. The Committee offers the following specific recommendations for your consideration:

1. Future cost-of-service studies should include an analysis of the cost of providing private and public fire protection services in accordance with AWWA guidelines and the Uniform Fire Code and determine an appropriate method for recovering those costs.
2. TMWA should form an advisory committee made up of professionals, development community representatives and citizens to advise the Board on rate-making and rate-design issues as those issues arise.
3. Every effort should be made to defer or avoid unnecessary costs associated with anticipated compliance to new arsenic rules.
4. The TMWA Board should adopt a policy that "Growth pays for growth" and to the extent practical, the costs for growth would include, but not be limited to the following:
  - a. The cost of additional drought reserves.
  - b. Water plan development costs.
  - c. Facility planning costs.
  - d. Costs associated with the acquisition and resale of water rights to the development community.
  - e. Inspection and development review costs.
  - f. The incremental costs associated with adding supply, treatment, storage, pumping, transmission and distribution capacity.

- g. The carrying costs associated with intra fund loans necessary to cover the costs of adding capacity.
  - h. The economically justified portion of the cost of plant in service as well as a proportionate share of past debt service for excess capacity paid by existing customers.
- 5. The following procedures should be adopted when considering growth and development issues over time:
  - a. All revenues and expenses associated with new development should be accounted for separately so that the Board can be assured that those charges and fees are recovering the cost of providing those services.
  - b. A new cost-of-service study should be performed every two years based on the most recent year's audited data.
  - c. Rates should be designed to reflect future capital costs and operating expenses as well as the growth in customers and revenues over the same forecasted period.
- 6. The rate model employed by TMWA should reflect a system designed to meet max-day demand or peak hour demand plus fire flow, whichever is greater, so that rates may be designed to more closely match the demands placed on the system by each customer class. As a means of improving the data on which this modeling is based, we further recommend that non-billing meters be installed on all customers as soon as feasible without mandated conversion to a metered rate.
- 7. TMWA should continue to pursue an efficient repair and replacement program to ensure a functioning system under the premise that scheduled repairs are always cheaper than emergency repairs. In addition, the cash collected from customers for that purpose should be accounted for separately and be held in a separate restricted cash account for that purpose.
- 8. Except for fire protection services, hydrant testing, general maintenance or extenuating circumstances, the withdrawal of water from fire hydrants should otherwise be prohibited uniformly throughout the TMWA service territory. If a local government wishes to allow such withdrawal, then such withdrawal should be metered and require an appropriate backflow device to protect the integrity of the water system. In addition, the entity making such withdrawal should be charged the cost of providing such service.

9. Future rate designs for TMWA should follow the principles outlined in the AWWA Rate Manual by employing the base-extra capacity methodology and distinguishing between transmission and distribution costs allocated to customer classes. If the use of the commodity-demand methodology is continued, then the current rate design should be corrected so that 25% of demand costs are not allocated to commodity.
10. The Board should adopt a policy that the issuance of any future debt related to system expansion should not result in an increase in rates on existing customers. Additionally, rates should be designed to as closely as possible match the useful life of the assets or cost expenditures. When possible, current ratepayers who actually receive service from those assets or cost expenditures should pay proportionally for the benefit they receive from those assets.
11. The allocation of costs to all customers should be based on their fair share of the costs relating to supply, treatment, inter-service area transmission, and customer service. Costs associated with storage and fire protection services should be excluded from the cost allocation of wholesale customers where such customers have their own such facilities. Customers in other classes should receive credits against their cost allocation of storage and fire protection costs if such customers provide their own storage and fire protection.
12. Phase II and Phase III rate increases should be deferred at least until 2005/06 as it does not appear they can currently be justified.
13. Staff should be encouraged to:
  - a. Stabilize rates over time by exploring alternative financing approaches to the investor-owned utility model's use of depreciation expense;
  - b. Specifically identify efforts to control or reduce spending and improve operating efficiencies;
  - c. Implement separate cash accounting for facility charges relative to unrestricted cash balances.
14. Water rates should be set to reflect as accurately as possible the actual cost of service. Any proposed change to those rates to provide a social benefit to a particular customer class or group of customers at the expense of other rate-payers should be disclosed and justified prior to implementation. The fiscal impact of any reductions to the actual cost of service as a result of changes to rates for social benefit should be equally shared among

all remaining rate-payers. A discount of the customer service charge should be available to all persons who qualify through the Senior Citizen Center or the Washoe County Department of Social Services.

15. TMWA staff should be encouraged to enforce water-wasting regulations aggressively and fairly.
16. TMWA should continue to effectively communicate with and educate the public by:
  - a. Explaining major expenses and the reason for those expenses;
  - b. Providing information on the amount of water consumed per square foot of landscape;
  - c. Holding public meetings seeking input at least quarterly;
  - d. Establishing follow-up policies for addressing issues presented at the public meetings;
  - e. Publishing to the public the capital requirements and projected growth for the next ten years.
17. An Ombudsman position should be established to represent customers and address complaints and concerns raised by customers.

We hope the Board considers and accepts these recommendations in the light in which they were intended. Our purpose was not to denigrate or belittle the tremendous efforts put forth by staff, but to offer suggestions of ways to improve the quality of the end product. We also want to recognize our fellow committee members and their employers for allowing them to participate in this review process. All of our meetings were held during normal business hours which meant that they had to take time away from their usual work schedule to partake in this vital process.

## DISCUSSION OF RECOMMENDATIONS

1. Public and Private Fire Protection. Determining the allocation of costs relating to fire protection services is probably the most subjective process performed in cost-of-service studies. A great deal of the difficulty arises out of the fact that fire protection services are often viewed as a supplementary service. While a potential demand exists, it is only the incremental cost of providing service that most view as the applicable cost to be applied to rate determination. Studies on the subject have attributed as much as fifty percent of a systems transmission and distribution capacity to that of meeting fire flow requirements. As a percentage of gross revenues the total cost has ranged anywhere from six to thirty percent. The current TMWA model allocated less than one percent of the gross revenue requirement to private fire protection and nothing to public fire protection. The entire public fire protection service cost was embedded in their cost allocations to the various customer classes based on each classes commodity and demand characteristics. According to the AWWA manual titled Managing Water Rates and Finance, “Including public fire protection service in water rates unfairly apportions the cost of this service.” The most obvious misapportionment occurs when you consider that it is included in the irrigation rates for parks or commercial services that have private fire protection. According to the Uniform Fire Code, “A reduction in required fire flow of fifty percent, as approved, is allowed when the building is provided with an automatic sprinkler system.” While the Code recognizes the fact that water used through sprinkler connections can reduce fire demands by faster more efficient extinguishing fires, allocating public fire protection based on the consumption characteristics of each class overstates the real cost associated with buildings equipped with an automatic sprinkler system. In addition, some customers (e.g. Reno Hilton) have installed their own fire fighting storage facilities and as such place less of a potential demand on the TMWA’s storage and distribution system and should be receiving a credit toward their allocated cost.

Another factor that should be taken into account when evaluating the commercial customer’s public fire protection liability is the unique building construction standards of commercial property. The public fire protection demand factor for typical residential

construction is 5.3 times higher than its commercial counterpart of the same size and its commodity requirement is 10.7 times higher. While consumption based charges may be inappropriate, great care should be taken when including public fire protection service costs in the customer's base charge or creating a surcharge to allocate those costs. And finally, they should not be included in wholesale service costs as those entities are required to provide and maintain their own public and private fire protection facilities and infrastructure.

2. Advisory Committee. There is a general concern among committee members that there is insufficient input being solicited from the public and that there is no independent oversight or evaluation of the actions or recommendations that staff is making to the Board. When the utility was privately held, it fell under the purview of the PUC and there was always professional staff looking after the interests of the consumer. While it has been argued that the Board better represents the interests of the consumer, the missing ingredient from our perspective is that independent third party professional with the expertise to truly evaluate the utilities operations.
3. Arsenic Rule Compliance. All avenues to limit the cost associated with arsenic mitigation should be explored and a cost-benefit analysis performed among alternatives. More specifically, is it cheaper to add capacity at Chalk Bluff or treat ten wells? Perhaps certain wells should be abandoned in favor of re-drilling them in a location more favorable to centralized treatment or blending with Chalk Bluff or Glendale Plant water. Furthermore, with the recent addition of capacity at Chalk Bluff there is an opportunity to defer and phase in the cost associated with arsenic mitigation over a longer period thus reducing the impact on rates. These are only a few suggestions that we as lay people thought of and we hope that TMWA staff would be even more creative in seeking economical solutions to this problem.

4. Growth and Development. After reviewing the translation of the budget to the functional revenue requirement, evaluating the Business Service Fee schedule and the Water Facility Charge schedule, it is quite clear that growth and development is not paying their fair share of the cost associated with the impact they impose. With that in mind, the Committee recommends that the Board adopt a policy wherein staff is directed to establish Facility and Business Service Fee schedules that more accurately recover the costs associated with growth. A discussion of the specific concerns follows.
- a. Recently the drought reserve requirement in TMWA's water plan was changed from a ten-year drought design to an eight-year drought design criteria. This was done in part to better match the design with historical data, but more importantly, it created reserves to meet the 2025 build out of the TMWA system, i.e. future growth requirement. Currently there is not a facility fee structure in place to recover the cost of these excess reserves that will be used to meet needs of new customers and are being paid for by current customers.
  - b. The Water Resource and Planning Department of TMWA have spent the last two years and considerable expense developing the Water Plan for the utility. The content of this plan is focused on how the utility will meet the needs of growth out to the year 2025. At the same time, the cost associated with this plan was included in the rate base of current customers. We suggest that a fee be added to either the Business Service Fee schedule or the Facility Charge schedule to cover the cost of updating and maintaining this resource plan.
  - c. While the existing Business Service Fee schedule includes a fee structure for recovering the costs specific to a particular property or subdivision, there is not a fee in place to recover the costs associated with area or basin facility planning or development of the Master Plan for those areas. Presently these planning efforts are being paid from customer rates even though they are specific to growth and development.
  - d. The Water Resource and Planning Department of TMWA administers the purchase and resale of water rights to the development community. At the present time the cost associated with this activity is included in the Supply functional category of the TMWA rate model and any revenues received from this activity

are being credited back in the model based on each customer class's total cost responsibility relative to the total cost being allocated. We believe the revenues and expenses associated with this activity should be excluded from the model and accounted for separately in order that a true matching of the effort!required, the carrying cost of those water rights and their original purchase price can more realistically be reflected in the resale price of those rights by those who obtain the rights. This would minimize the potential for cross subsidization occurring in this program.

- e. There is little dispute that inspection and development specific review charges are solely the responsibility of growth. Our concern is how those fees are determined (a flat fee structure) and what costs were included in the development of those fees. Were vehicle expenses included? Was an appropriate allocation of administrative and general overhead expense included? Were outside testing services included? Does the flat fee structure adequately cover the real cost of providing those services?
- f. In its simplest form the incremental cost of adding capacity is the dollar cost of new infrastructure required to serve a new property or subdivision. In its more complex form it is the allocation of the cost associated with the addition of new infrastructure, the upgrade of existing infrastructure and the cost associated with the premature abandonment or replacement of infrastructure before the end of its useful life. As a practical matter, it is rare that a new transmission or distribution line or pump station or treatment plant is added or upgraded to meet only the needs of one property owner. The facilities are usually oversized to meet the needs of future development and as such the lump sum incremental cost should be broken down into smaller units. At the same time, one must recognized two other aspects of the cost allocation. The first consideration is that a particular line or pump station was adequate to serve existing customers and still had a use somewhere into the future. The second consideration is that while that asset may have had many years of service life remaining, the reconditioning and upgrading of a facility results in a useful life far beyond that which it replaced. The goal should be to place new and existing customers on the same footing. With that in mind, it seems

only appropriate existing customer pay their fair share of the cost of capacity that relates to them less the book value of the asset that was replaced. Likewise, the developer or the new customer should pay their fair share of new asset plus the book value of the asset they caused to be replaced or upgraded. In this manner both parties pay in relation to the actual benefit they receive and neither party is granted an advantage over the other. In short, both existing customers and development pays their fair share and not more than their fair share.

- g. To the extent that any money is advanced from rate-payer revenues to support either the construction of or payment of debt relating to the addition of new capacity to support growth, those loans should be interest bearing and included in the development of future facility charges.
  - h. We have heard the continued argument from staff that no excess capacity exists in the system that was acquired from Sierra and as such the buy-in aspect of a facility charge is also nonexistent. It is our feeling that quite the contrary is true and the simplest example provides the proof thereof. If in fact no excess capacity existed in the system, then every new home or subdivision would require a new treatment plant or well, new transmission lines from the parcel being served all the way back to the supply and treatment source, additional upstream storage, multiple pump stations to move the water to the new service, and the like. Clearly this is not the case. The Facility Charge for new development should include a buy-in component for existing facilities and that portion of the Facility Charge should be used to offset existing customers' rate requirement. This buy-in component should be limited to the principle and interest costs absorbed by existing customers at the time of connection by the new customer. Having said that, it is our opinion that the real excess capacity of the system is significant and the inclusion of the buy-in component in the Facility Charge would more reasonably distribute the utility's acquisition cost.
5. Modeling the Impacts of Growth. There are three elements to this particular recommendation. The first deals with how developer related revenues and expenses are presented. It is our judgment they should be presented in our discrete presentation so that the Board and the rate-payer are assured that the charges and fees being collected truly

cover the cost of providing that service. At the same time it should be noted that the study and modeling is to determine the cost of providing water service exclusively.

The second element deals with the frequency and the data used to perform each study. While forecasting out five years provides certain management and strategic benefits, we feel it is inappropriate to base rates on estimates that far into the future due to the variability of costs and the uncertainty related to customer growth. At the same time we understand the need to continuously adjust rates to account for these changes. Thus it is our suggestion that a rate study be performed every two years using the audit data of the most recent year. This would minimize any rate adjustment and avoid rate shock. It would also allow time to evaluate any customer reaction or response to the previous rate adjustment.

The final element deals with the basic accounting and forecasting tenet that requires the matching of revenues and expenses, i.e., if you are forecasting expenses five years out in the future then you also include a forecast of the revenues for the same period. That means you include the expected growth in customers and the additional revenues they represent. This aspect of forecasting was not included in the current TMWA rate model. While the argument was made by staff that they expected little or marginal change in the consumption statistics and therefore it had no impact on rates, this only speaks to the variable cost associated with consumption. Other costs such as administrative and general overhead, insurance, public relations, conservation efforts, debt service, etc. are now spread over an additional 10,000 customers and as such the cost per customer is reduced for these components. Therefore we advocate the inclusion of growth projections in all future rate models.

6. Inclusion of System Design in Rate Model. It is our contention that future rate models should take into account the systems design and the unique conditions under which it is operated so that rates are more closely matched to the demand requirements of each customer class. The first consideration is system design, i.e., the system is designed to meet max-day or peak hour plus fire flow and basing the model on max-month may not

truly reflect the demand characteristics imposed by a particular customer class compared to another. The second and more difficult aspect to consider is the unique operating conditions of the system. Currently residential and commercial customers are limited to out-door watering on a two day a week watering schedule and further restricted to certain hours of the day. Some of the questions that need to be answered when addressing the max-day or peak hour modeling are: Which day really represents their peak day? Is it simply the one peak day out of four for residential customers and the one peak day out of two for commercial customers or is it the average? Are there more odd addresses or even addresses? What would the relationship be if the watering schedule was split into thirds and both commercial and residential were placed on that schedule? The point is that by restricting the watering schedules of all customer classes, you are compressing and accentuating the loading factors placed on the system by each customer class. Residential customers are allowed to water outdoors four days a week as compared to commercial customers who are only allowed to water two days a week resulting in a ratio of 2:1. However if you compared the total average consumption between the two classes the ratio is 2.49:1 and if you compare peak months the ratio is 2.57:1. Is this restriction benefiting one party over the other? If so, how do you accommodate this differential in your modeling to the more accurately reflect their true loading? While we are of the opinion that improvements can be made to better match the actual demand requirements of each customer class to the systems design and operating characteristics, great care should be taken when deriving those relationships.

In order to more closely arrive at what the relationships are between customer classes, it is imperative that all services be metered. While it is not our intent to mandate that all customers immediately convert to a metered billing rate, it is necessary to perfect the data on which rates are developed. (It should be noted that an overstatement error of approximately sixteen percent was found in the rate model when comparing the model consumption to the actual production for the same period. This error was determined to be an overstatement of flat rate consumption estimates.) The added benefit of metering all customers is that it allows TMWA to perform a water audit to determine what its actual system losses are and where they may be located. This in turn provides them with the information necessary to prioritize the projects in their line replacement program.

7. R&R Program and the Cash Collected to Support It. As a show of support, the Committee has included this recommendation in the final report as a further endorsement of the coordinated effort to make certain improvements when it is the most efficient and cost effective time to perform those activities. It is not meant to accelerate or limit the current program, only to voice our approval. The intent of the second part of this recommendation is to restrict the cash collected for this purpose via funding of depreciation, to the R&R program and not to be expended for any other purpose thereof.
  
8. Fire Hydrant Usage. From the Committee's perspective the use of fire hydrants for anything other than fire protection poses three problems. The first relates to the potential risk to the system itself. Without an appropriated backflow device, contaminants can be drawn back into the system if a sudden change in system pressure is experienced during its use. This represents a potential danger of corrupting the quality of water to all downstream users. The second problem is that from the committee's view, unmetered withdrawal of water from a fire hydrant constitutes theft, regardless of who that party may be. If an authorized withdrawal is made it should be metered and that entity, whether a contractor or a municipal entity, should pay for that water. And lastly, with numerous sources of non-potable water available throughout both cities and the county, that water should be utilized for dust control, street sweeping, and other non-domestic uses.
  
9. Rate Methodology. The AWWA M-1 Rate Manual has generally been accepted as the industry standard for establishing and modeling customer rates. As such it is the consensus of opinion that those principles be followed as closely as possible. That manual distinguishes between transmission and distribution lines for cost allocation purposes and that should also be done in TMWA's rate design. While both the base-extra capacity and commodity-demand methodologies are accepted procedures for allocating the cost-of-service, we feel that the base-extra capacity method should be use as it is the most widely accepted and more accurately addresses the diversity of demand across various customer classes. If perchance TMWA decides to continue using the commodity-demand approach, then an adjustment to the model needs to be made wherein those facilities that are

normally allocated to max day or peak hour be reclassified from the commodity side to the demand side of the cost allocation to more accurately reflect the loading effects of each customer class.

10. Future Debt Issues. It is our viewpoint that any future debt issues relating to the expansion or addition of capacity to the system should not impact the rates of existing customers. This applies not only to the principal and interest payments on that debt, but also any coverage requirements included in the bond covenants of that debt issue. At the same time, the rate design should take into account, to the extent possible, the recovery of this cost over the useful life of the assets. This results in a better matching of the benefits received by current and future customers and their respective cost responsibility.
  
11. Wholesale Rates. Wholesale service is defined as a “situation in which water is sold to a customer at one or more points of delivery for resale to individual retail customers within the wholesale customer’s area.” As such, wholesale customers do not use certain facilities and services required by retail customers. Usually, these wholesale customers provide these additional services to its customers. Thus TMWA provides water at one or more delivery points, and the wholesale customer provides the distribution system, meter reading, individual customer billings, customer service and fire protection services. TMWA requires a written contract between each of its wholesale customers for each particular area served and specifies the responsibilities of each party. The special provisions of these contracts stipulate the following and I quote: “. . .each party shall at all times be solely responsible for maintenance of its retail distribution system, including, but not limited to, storage, fire flows, peak flows, minimum pressure equipment, leak repairs, and maintenance of water quality supplied hereunder within their respective water systems.” With this in mind, the analysis performed in the rate study should include the specific conditions of service, specific type and level of service provided, and consider the way in which TMWA actually provides service. TMWA’s rate design should recover the cost, as nearly as possible, of providing service to a customer, or class of customers including wholesale customers, with minimal cross-subsidization among customer classes

or discrimination between such classes. TMWA should re-evaluate its cost allocation to the all customers, taking into account the above factors.

12. Proposed Rate Increases. Given the current financial status of TMWA as a result of the last rate increase, it is believed that the Phase II and Phase III rate increases should be deferred a least another year at which time another rate study could be performed to re-evaluate what the new revenue requirement should be. This would also give staff the time to analyze the impact of flat rate customers converting to a metered rate, allow more time for the installation of non-billing meters to better assess the demand requirements of the flat rate customer class, acquire a more accurate estimate of projected growth and its impact on rates and allow consideration of new bonds as an alternative to the depreciation expenses included in current rates.

13. Financing, Cost Control, & Cash Management. The first point of this recommendation deals with the idea that there are many alternative financing vehicles or approaches that should be explored in an effort!to stabilize rates over time and better match the needs of the development community with that of existing customers. A couple of simple examples in the area include joint venturing with a large developer where the over-sizing cost is either shared or paid solely by the developer and he is reimbursed as that excess capacity is used or placing a surcharge on customers in a certain area to cover the financing cost associated with current customers advancing the cost necessary to expand the system to meet the needs of growth. In short, staff needs to consider more creative financing mechanisms.

The second point is that there should be a concerted effort made to control or reduce spending and avoid any expenditures that do not directly pertain to the delivery of water service. With TMWA carrying almost one-half billion dollars of debt and facing rising costs of labor, materials and supplies; philanthropic gifts and civic contributions should be held to a complete minimum until such time as the rates and financial health of the entity is stabilized. Staff should make every endeavor to improve operating efficiencies and minimize costs.

And finally, TMWA should account for facility charges and fees separately and restrict that cash to the purpose for which it was intended. Commingling of this cash leads to distrust from both the development community and the retail customer.

14. Social Engineering. It was disclosed to this committee that a certain amount of social engineering took place in the last rate study at the direction of the Board and without fully disclosing the fiscal impact of those changes. It is our feeling that such changes should be clearly justified to the rate-payer prior to implementation and the impact equally shared among all remaining customers. Having said that, it is our feeling that provisions should be considered to our public parks and low income or senior citizen low-income situations. Currently customers are screened through the Senior Citizen Center and Social Services for low-income assistance and rather than creating another bureaucracy, those customers should be referred to those agencies. Upon receipt of a letter from either agency, a discount could be provided.
15. Conservation. This recommendation does not require further discussion.
16. Public Relations. While TMWA generally does a good job in the public relations arena, we think there are certain topics that need to be continually addressed or brought to the forefront of public attention. Additionally, greater attention should be given to making presentations to local NAB's and CAB's as a way of interfacing with the public directly.
17. Ombudsman. While most customer service clerks do an excellent job answering questions or putting people in contact with the correct TMWA staff, often times the customer is left to follow-up on their own because that party was unavailable at the time of the call or the customer is dissatisfied with the initial response. With an ombudsman, they become the responsible party for getting the required information, following up on the customer's request or complaint and generally advocating on the public's behalf. While the end result may be the same, sometimes it's how you get there that makes the difference.

**TRUCKEE MEADOWS WATER AUTHORITY  
MEETING MINUTES  
OF THE BOARD OF DIRECTORS  
May 20, 2004  
11:00 a.m.**

The Board of Directors met in the Sparks City Council Chambers, 745 Fourth Street, Sparks, Nevada. Chairman Armstrong called the meeting to order at 11:00 a.m.

#1 ROLL CALL

Members present: Chairman Armstrong, Carlo Panicari, David Aiazzi, Mike Carrigan, Bob Cashell, and Pete Sferrazza.

C. ADJOURNMENT OF PUBLIC HEARING ON 2004-2005 BUDGET

#8 REPORT AND RECOMMENDATIONS FROM THE RATE MAKING REVIEW COMMITTEE AND RETROACTIVE BOARD ACCEPTANCE OF A CHANGE IN THE DUE DATE OF THE REPORT FROM THE PREVIOUSLY ADOPTED MAY 1, 2004 DATE TO MAY 20, 2004 (Item taken out of order)

Rate Making Review Committee (RMRC) Chairman Rob Reeder, and Fred Schmidt, Vice Chairman, presented their recommendations per direction from the Board in September 2003. The Committee was asked to examine issues with respect to cost classifications, cost of service allocation methods, and rate designs for water utilities including TMWA's rate model. Mr. Reeder noted that the Committee met over a period of five months and held thirteen meetings, approximately 25 hours worth of work for each member on the committee. Mr. Reeder thanked Lori Williams and her staff for being very supportive and responsive to the needs of the Committee.

Member Carrigan asked Mr. Reeder to explain the philosophy behind recommendation #10 regarding a policy the Board should adopt that issuance of any future debt related to system expansion should not result in an increase in rates on existing customers. Mr. Reeder stated that discussion centered on the belief that future growth and development ought to be borne by those who are taking the lead and making that happen. The perspective from the Committee is that some of the existing development is being borne by the existing rate payers. Mr. Schmidt stated "that after exploring the rates and rate design, there is not a detailed or careful distinction of all

those costs today, and the Committee found that substantial new debt incurred by TMWA without raising the rates of the existing customers by looking at different ways to finance than are being done today. If that can be done, then this part of the recommendation can be followed for the foreseeable future. He agreed with Mr. Reeder that part of the recommendation really needs to be read in the context of the other recommendations. There are a number of recommendations that relate to a much more detailed accounting of the manner in which growth that are charged costs related to excess capacity in the current system or new development that is needed to supply infrastructure for that growth."

Member Carrigan also questioned recommendation #2 regarding the formation of an advisory committee and who would those individuals report to. Mr. Reeder responded that the Committee was providing a recommendation and not so much oversight. It would be viewed much the same way in which the Board asked the RMRC to make recommendations. This would be an opportunity to allow an outside entity to have some input in addition to input from staff. Mr. Schmidt noted that one thing the Committee found lacking was that there was no advisory committee on the professional level.

Michael Pennington, representing the Reno-Sparks Chamber of Commerce, and Neil McGuire, RMRC member, praised staff and the Board for putting the Committee together. The Board thanked the Committee for their efforts.

On motion by Member Panicari, second by Member Cashell, which motion duly carried by unanimous vote of the members present, the Board accepted the report from the Rate Making Review Committee.



## STAFF REPORT

**TO:** Standing Advisory Committee  
**FROM:** Terri Thomas, Project Manager - Finance  
**DATE:** September 4, 2007  
**SUBJECT:** **Special Requests and Fee Reductions to Benefit Low-Income Customers and Nonprofit Organizations such as the Veterans' Guest House**

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### Recommendation

This item was tabled after substantial discussion at the August 7, meeting, with a request for it to be considered at this meeting so that the SAC could provide specific recommendations to the Board on this item.

### Background

The Regional Housing Task Force (RHTF) approached the SAC requesting that TMWA consider providing rate/fee reductions or other benefits to low-income customers or on behalf of housing projects that will benefit low-income persons within TMWA's service territory. At about the same time, the TMWA Board considered the question whether to grant an exemption from payment of the monthly water bill to the Veteran's Guest House, a non-profit organization. The Board deferred a decision on this request pending a recommendation from the SAC with regard to the issues presented by RHTF.

### Discussion

At the SAC's August 7, 2007 meeting, TMWA's legal counsel presented to the SAC the legal obstacles that prevent TMWA from providing such special fee/rate waivers or reductions. Specifically, assistance to low-income housing projects or other non-profit entities is not rationally related to the purposes for which TMWA was created. TMWA was formed for the purpose of securing and managing the quantity and quality of the water supply within its service territory. Although the authority given to TMWA by its member entities to carry out that purpose is wide-ranging, it *does not* include the alleviation of social problems associated with a lack of affordable housing. As such, the opinion of TMWA's legal counsel presented to the SAC is that preferential rate/fee waivers or other benefits based upon income are unconstitutional.

**The SAC RECOMMENDS/DOES NOT RECOMMEND to the Board that it continue with its existing policy avoiding cross subsidization among rate classes and refraining from providing rate reductions or exemptions to selected customers. The SAC RECOMMENDS/DOES NOT RECOMMEND to the Board that it refrain**

**from providing fee waivers or other direct monetary benefits to developers of low-income housing projects.**

In light of counsel's opinion regarding the legality of rate/fee waivers or reductions, staff also provided the SAC with a list of possible tools that TMWA might employ to assist the Regional Housing Task Force to address some of the financial obstacles encountered by low income housing developments. As the SAC considered whether or not to recommend that the Board approve special requests and/or fee reductions for low-income customers or developers of low-income projects, the SAC directed staff and legal counsel to reframe staff's list of tools that might alleviate some of RHTF's concerns so that the SAC could take action upon each of them individually.

In response to the SAC's request, the following is a list of action items for SAC to consider and vote upon:

**1. Ensure that organizations such as RHTF are aware of the outreach opportunity provided by TMWA's bill inserts**

In February, 2003, the TMWA Board adopted a policy with regard to bill inserts which allows the member agencies (Washoe County, Reno and Sparks) to use space in TMWA's bill inserts on a rotating basis. Organizations such as RHTF can contact any of these member agencies to request space in TMWA's bill insert to promote some of the concerns RHTF presented to the SAC. Additionally, as space allows, TMWA staff also accepts from other public or private entities articles on water-related topics to place in bill inserts. TMWA staff uses its discretion to determine if a submitted article is appropriate content for the bill insert.

**The SAC RECOMMENDS/DOES NOT RECOMMEND to the Board that it allow access to organizations such as RHTF to the use of TMWA's bill inserts in the same manner as that opportunity is afforded to other entities.**

**2. Ensure that developers are aware that TMWA can provide individualized water demand calculations for projects.**

Currently, TMWA can provide individualized water demand calculations for proposed development projects. This allows developers to minimize the amount of water rights needed for their projects, thereby reducing the project's overall costs.

**The SAC RECOMMENDS/DOES NOT RECOMMEND to the Board that, at the time of request for project water demand, TMWA staff ensure that developers are aware that, upon request, TMWA staff is available to provide individualized water demand calculations.**

**3. Ensure developers are aware that existing water resource credits may be available for development projects**

On a case-by-case basis, existing water resource credits may be available on a parcel to supplement the amount of water rights needed for project. TMWA staff can work with developers of affordable or workforce housing development projects to inform them of sites where existing water resource credits exist.

**The SAC RECOMMENDS/DOES NOT RECOMMEND to the Board that it encourage staff to make known to developers that existing water resource credits may be available and that staff is available to work with developers to identify the location of such credits.**

**4. Partner water rights owners who might want to donate water rights with developers of low-income housing projects**

There are a number of water rights owners who may be interested in donating their water rights to benefit low-income housing projects. TMWA could assist developers of low-income housing projects to identify and approach water rights owners who might be interested in donating their water rights.

**The SAC RECOMMENDS/DOES NOT RECOMMEND to the Board that it encourage staff to make efforts to partner potential donors of water rights with individuals or entities in need of water rights for low-income development projects.**

**5. Provide flexibility in the timing of payments of water service fees if other security instruments can be provided**

Subject to TMWA's rules, TMWA may be able to work with developers to delay the payment of water service fees. RHTF suggested that this would assist developers of low-income housing projects so that the payment of water service fees could coincide with times of greater cash flow. TMWA would condition such delayed payment upon the developer providing adequate security instruments. In the event of default by the developer, TMWA would expend time and resources to collect on the security. In light of legal limitations, any allowances provided by TMWA for delayed fee payments would have to be available to all individuals and entities that seek water service and are able to provide the requisite security.

**The SAC RECOMMENDS/DOES NOT RECOMMEND to the Board that it adopt a policy to allow delayed water service payments to applicants who are able to provide adequate security instruments.**



TRUCKEE MEADOWS WATER  
AUTHORITY

**STANDING ADVISORY COMMITTEE**

**MINUTES  
SEPTEMBER 4, 2007**

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The Standing Advisory Committee met in the Independence Room, 1355 Capital Blvd., Reno, Nevada. Chairman Greg Vorreyer called the meeting to order at 3:06 p.m.

**1. ROLL CALL**

Voting Members present: Kevin Bloomgren\*, Ernest Buchner, John Krmpotic, Neil McGuire, Ernest Nielson\*\*\*, Susan Ralphe, and Greg Vorreyer. Alternates present: Robert Chambers, Jim Maass, Dagny Stapleton (Voting), Darrin Price (Voting), and Barry Winzeler (Voting)\*\*. Staff present: John Erwin, Mark Foree, Kim Mazeres, Lora Richards, Shawn Stoddard, Terri Thomas, Kim Mazeres, Bwire Ojiambo, Lori Williams and Debbie Leonard.

**8. REVIEW OF PREVIOUS DISCUSSION AND RECOMMENDATIONS TO THE TMWA BOARD REGARDING SPECIAL REQUESTS AND FEE REDUCTIONS TO BENEFIT LOW-INCOME CUSTOMERS**

A discussion on the recommendations, their effect on the TMWA staff and their financial implications was held. The following motions were made:

**MOTION 1.**

**Upon motion duly made and seconded, and carried by unanimous consent of the members present, the SAC recommends to the TMWA Board that it continue with its existing policy avoiding cross subsidization among rate classes and refraining from providing rate reductions or exemptions to selected customers. The SAC recommends to the Board that it refrain from providing fee waivers or other direct monetary benefits to developers of low-income housing projects.**

**MOTION 2.**

**Upon motion duly made and seconded, and carried by unanimous consent of the members present, the SAC recommends to the TMWA Board that it 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.**

**MOTION 3.**

**Upon motion duly made and seconded, and carried by unanimous consent of the members present, the SAC withdraws a potential proposal to the Board that, at the time of request for project water demand, TMWA staff ensure that developers are aware that, upon request, TMWA staff is available to provide individualized water demand calculations.**

**MOTION 4.**

**Upon motion duly made and seconded, and carried by unanimous consent of the members present, the SAC withdraws a potential proposal to the Board that it encourage staff to make known to developers that existing water resource credits may be available and that staff is available to work with developers to identify the location of such credits.**

**MOTION 5.**

**Upon motion duly made and seconded, and carried by a vote of five to two with one abstention, the SAC recommends to the Board that it encourage potential donors of water rights to partner with individuals or entities in need of water rights for low-income development projects.**

**MOTION 6.**

**Upon motion duly made and seconded, and carried by a vote of seven to one, the SAC does not recommend to the Board that it adopt a policy to allow delayed water service payments to applicants who are able to provide adequate security instruments.**

\*Kevin Bloomgren was present for items 1 through 5

\*\*Barry Winzeler was present for items 1 through 6

\*\*\*Ernie Nielson was present for items 7 through 14.



**TO:** Chairman and Board Members  
**FROM:** Mark Foree, General Manager and Kim Mazerres, 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

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**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.

September 26, 2001

**TRUCKEE MEADOWS WATER AUTHORITY**  
**(TMWA)**

**RESOLUTION NO. 19**

**INTRODUCED BY: Malyn Malquist, General Manager**

**A RESOLUTION ADOPTING A FINANCIAL GUIDELINES POLICY**

**WHEREAS**, the Truckee Meadows Water Authority will be establishing operational cash reserves in accordance with the documents governing the 2001 Series A and 2001 Series B Bonds and the funding of such cash reserves must be taken into consideration in future water rate cost recovery studies;

**WHEREAS**, the Truckee Meadows Water Authority is required by the documents governing the 2001 Series A and the 2001 Series B Bonds to establish the operational cash reserves; and

**WHEREAS**, the Truckee Meadows Water Authority desires to establish a policy that considers equitable water rate structures and the mitigation of cross subsidization between different customer classes;

**WHEREAS**, the Board has determined that the Financial Guidelines Policy attached hereto as Exhibit A appropriately accomplishes these objectives;

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of TMWA that the Financial Guidelines Policy attached hereto as Exhibit A is adopted.


Upon motion of Alternate Member Rigdon, seconded by Alternate Member Doyle, the foregoing Resolution was passed and adopted this 26th day of September, 2001, by the following vote of the Board:

Ayes: Armstrong, Carrigan, Sferrazza-Hogan, Shaw, Doyle, and Rigdon

Nays: None

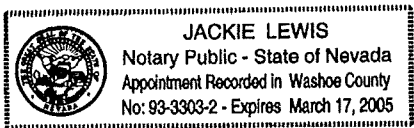
Abstain: None Absent: None

Approved this 26th day of September, 2001

  
Chairman

STATE OF NEVADA,     )  
  : ss.  
COUNTY OF WASHOE.    )

On this 1<sup>st</sup> day of October, 2001, personally appeared before me, a Notary Public in and for said County and State, TONY ARMSTRONG, Chairman of the Truckee Meadows Water Authority, known to me to be the Chairman, who acknowledged to me that he executed the above instrument freely and voluntarily and for the purposes therein mentioned.



Jackie Lewis  
Notary Public

**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 Mazeris, Director, Customer Relations  
 John Erwin, Manager, Water Resources  
**DATE:** October 22, 2003  
**SUBJECT:** RATEMAKING IDEAS

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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.

**RATEMAKING IDEAS**

October 22, 2003

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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

**RATEMAKING IDEAS**

October 22, 2003

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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. Mazerres 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 Mazerres 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.



**TRUCKEE MEADOWS WATER**  
A U T H O R I T Y

**STAFF REPORT**

**TO:** Lori Williams, General Manager  
**FROM:** Kim Mazeris, 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**

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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.



**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

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### Recommendation

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

### Background

At the February 21<sup>st</sup> 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

1-18-12 BOARD Agenda Item 6 Attachment 4

9-19-07 Board Agenda Item 7 Attachment 1  
from: 3-21-07 Agenda Item #9

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

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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.**



TRUCKEE MEADOWS WATER AUTHORITY  
MINUTES OF THE JANUARY 18, 2012  
MEETING OF THE BOARD OF DIRECTORS

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The Board of Directors met on Wednesday, January 18, 2012, at Sparks Council Chambers, Legislative Building, 745 Fourth Street, Sparks, Nevada. Chairman Carrigan called the meeting to order at 6:01 p.m.

1. ROLL CALL

Members Present: Dave Aiazzi, John Breternitz, Mike Carrigan, Mike Cate, and Geno Martini

Members Absent: Bob Cashell and Bob Larkin. A quorum was present.

6. DISCUSSION AND POSSIBLE ACTION REGARDING SPECIAL RATES OR DONATION SUBSIDY PROGRAMS FOR LOW INCOME AND SENIOR CUSTOMERS

Kim Mazeres referred to the staff report that contained all the reports from past Board meetings where this issue had been discussed, as well as the Board policy that mitigates cross-subsidization between different customer classes. She noted that the Standing Advisory Committee (SAC) had also discussed this issue.

Vice Chairman Aiazzi said he was bringing up the issue on behalf of Reno City Councilman Pierre Hascheff after discussions with the Senior Citizen Advisory Committee, who were of the opinion that every utility includes a special rate or subsidy to give aid to seniors and/or low income customers. Vice Chairman Aiazzi gave as an example the City of Reno's sewer department, which gives rebates to certain residents who meet certain income qualifications and guidelines. The rebate money comes from the sewer fund. Ms. Mazeres said when she worked at Sierra Pacific Power Company, they had a special fund, established by their shareholders, into which customers could donate funds if they so chose.

Vice Chairman Aiazzi said that TMWA hasn't put into place any mechanism for people who are having trouble paying their water bill and questioned if someone met income qualification guidelines as established by the State, could TMWA do something similar. He then asked for staff to research the programs and criteria of other entities and utilities.





## STAFF REPORT

**TO:** Chairman and Board Members  
**THRU:** Mark Foree, General Manager  
**FROM:** Kim Mazeres, Director of Customer Relations  
**DATE:** March 12, 2012  
**SUBJECT:** Report on low-income program research

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### BACKGROUND

At the December 2011 meeting, Vice Chairman Aiazzi asked for an agenda item regarding the possibility of instituting special rates or subsidies for low income and/or senior customers. At the January 2012 meeting, the Board asked for staff to research such programs and criteria of other entities and utilities.

### RESEARCH

The attached report is the result of this research. It includes utilities from throughout Nevada. However, there is also information about California programs, as well as general information concerning water affordability.

This research found less than half the utilities surveyed had some type of economic hardship program. Utilities also reported difficulty in qualifying customers due to the recent discontinuance of the state's STARR program.

### RECOMMENDATION

The average TMWA residential water bill is approximately \$37 a month, and for indoor use only the average bill is less than \$25 a month. TMWA currently offers relief to customers who experience leaks and/or broken pipes. In addition, TMWA extends payment arrangements to customers who need additional time to pay their bills, offers a budget billing option, and provides free conservation audits and devices (including showerheads and hose timers). Due to the issues with cross-subsidization, qualifying customers, administering and funding this type of program, staff does not recommend TMWA institute a low-income program at this time.



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 Memorandum
 

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 ☎ 775.834.8080 • ☎ 775.834.8003

TO: Kim Mazeres and Jeff Tissier  
 FROM : Catherine Hansford  
 DATE: March 12, 2012  
 SUBJECT: **Economic Hardship Programs in the State of Nevada**

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**Background**

At the January 12, 2012 Board meeting staff was asked to investigate what economic hardship programs, if any, are provided by water and wastewater utilities for citizens in the State of Nevada. A survey was sent to a selection of Northern and Southern Nevada water and wastewater providers in response to the Board's request. This memorandum provides the results of that survey as well as discussion of what is considered an affordable rate in the industry, and general utility approaches to addressing affordability of service.

**Findings**

The survey responses led to these findings:

1. None of the agencies serving multiple jurisdictions or communities provide an economic hardship program. These include the Las Vegas Valley Water District and the Clark County Water Reclamation District.
2. Number of service connections and/or revenue of the provider does not influence whether an economic hardship program is provided.
3. Economic hardship programs are utilized by 0% to 3.0% of residential customers. The cities of Henderson and Boulder have the greatest utilization of their program.
4. There is no common mechanism used for reducing total water/ wastewater cost burdens with an economic hardship program. Of the six purveyors with programs open to new participants, two provide rebates, three provide a reduced bill, and one has a separate rate schedule. Two purveyors have senior citizen only programs not open to new participants. Participants that are grandfathered in until their property changes hands benefit from reduced bills.
5. All the economic hardship programs reported in the survey subsidize participants with payments made by other customers, whether by rebate, reduced bill, or separate rate schedule. No surveyed

purveyors have a voluntary contribution program for reducing eligible participant water/wastewater bills.

6. Most of the economic hardship programs are directed toward senior citizens and low income households. Some programs also target disabled persons.
7. With the exception of annual costs provided by the City of Reno, the annual costs to run the included survey economic hardship programs are reported as minimal.
8. The City of Reno and the City of Boulder are the only purveyors with economic hardship programs reported that have an annual funding cap.

### **Discussion**

Thirteen public water / wastewater purveyors and one private purveyor were contacted to complete the economic hardship program survey by telephone and email. Purveyors are listed in Table 1 below. Of these purveyors, twelve responded to the survey between February 10<sup>th</sup> and March 10<sup>th</sup> 2012. Six of the twelve respondents have economic hardship programs currently open to new participants. Carson City and the City of North Las Vegas have suspended their senior citizen programs although a number of senior citizens are grandfathered into their programs.

**Table 1**

<b>Purveyor</b>	<b>Private or Public</b>	<b>Services</b>	<b>Economic Hardship Program</b>
Utilities Inc. of Central Nevada	Private	Water	NO
City of Boulder	Public	Water and Wastewater	YES
City of Henderson	Public	Water and Wastewater	YES
City of Reno	Public	Wastewater	YES
City of Sparks	Public	Wastewater	YES
City of North Las Vegas	Public	Water and Wastewater	NO
City of Las Vegas	Public	Wastewater	YES
City of Elko	Public	Water and Wastewater	NO*
City of Fernley	Public	Water and Wastewater	NO
Washoe County	Public	Water and Wastewater	NO
Lyon County	Public	Water and Wastewater	YES
Carson City	Public	Water and Wastewater	NO
Clark County Reclamation District	Public	Wastewater	NO*
Las Vegas Valley Water District	Public	Water	NO

\* No survey response was provided; internet searches found no evidence of an economic hardship program.

These water/wastewater purveyors serve a range of number of service connections; from approximately 5,000 service connections in Lyon County to 355,000 service connections in the Las Vegas Valley Water District's service territory. Annual revenues are correspondingly varied from about \$1.4 million per year to over \$333.1 million. The purveyors most similar in size to Truckee Meadows Water Authority (TMWA) include the utilities department of the cities of Henderson and North Las Vegas. A summary of purveyor number of service connections and annual revenue is shown in Table 2 on the following page.

A copy of the survey is provided as Exhibit A attached. A matrix summarizing survey responses from those purveyors with economic hardship programs is provided in Exhibit B.

### **Program Type and Participation**

Survey respondents show differing types of programs. The majority of programs target senior citizens and low income households. The percentage of residential customers benefiting from the economic hardship programs is very small, ranging from 0% to under 3.0%. Henderson and Boulder have the highest participation rates.

The purveyors with senior citizen eligibility used to rely on the Senior Tax Assistance/Rent Rebate Program (STARR Program); with this program each county would send a list of qualified persons to the purveyor annually. The STARR program was eliminated in Section 10 of Senate Bill 423 during the 2011 Legislative Session. Since fiscal year 2011 each of the programs have been looking for alternative ways to screen for eligible senior citizen participants. The City of Henderson has partnered with the non-profit agency HopeLink which determines eligible participants using birth certificates, driver's licenses, mortgage paperwork, lease agreements, social security benefit certifications, paystubs, bank statements, utility bills, and other documents. The City of Henderson requires that the senior citizen be a resident of Henderson, be the responsible party on the utility bill, at least 62 years of age and meet minimum qualifications of the Federal Energy Assistance Program as determined by the State of Nevada Division of Welfare and Supportive Services.

Other purveyors including the City of Reno and City of Sparks are looking for new ways to screen for senior citizen eligibility; however, they have not had to suspend their programs. The City of Las Vegas provides relief for senior citizens with low incomes; the wastewater division does not have to screen for eligibility because this is performed by the City's utility tax rebate program staff.

Since the elimination of STARR, Carson City and the City of North Las Vegas have been unable to staff for screening eligibility and have suspended their economic hardship programs, which was only for senior citizens in the past (note Carson City's program was for water and wastewater customers, and North Las Vegas' program was only for water customers). Existing qualified participants have been grandfathered in until the senior citizen owned property changes hands.

**Table 2**

<b>Nevada Water / Sewer Agency Name</b>	<b>Service Type</b>	<b>No. of Service Connections</b>	<b>Annual Revenue</b>	<b>Economic Hardship Program?</b>
<b>Truckee Meadows Water Authority</b>	<b>Water</b>	<b>90,700</b>	<b>\$71,400,000</b>	<b>NO</b>
1 City of Reno	Wastewater	67,000	\$42,000,000	YES
2 City of Sparks	Wastewater	39,043	\$16,050,000	YES
3 Lyon County	Water	6,208	\$2,896,000	YES
Lyon County	Wastewater	4,779	\$2,778,000	YES
4 Washoe County	Wastewater	20,120	\$10,216,000	NO
Washoe County	Water	19,052	\$16,277,000	NO
5 Carson City	Wastewater	15,400	\$6,200,000	NO *
Carson City	Water	16,800	\$9,200,000	NO *
6 Las Vegas Valley Water District	Water	355,000	\$333,100,000	NO
7 City of North Las Vegas	Water	80,368	\$46,682,000	NO *
City of North Las Vegas [1]	Wastewater	60,461	\$35,328,000	NO
8 City of Henderson	Water	85,963	\$60,477,000	YES
City of Henderson	Wastewater	83,619	\$33,411,000	YES
9 City of Boulder	Water	6,637	\$5,655,000	YES
City of Boulder	Wastewater	6,637	\$1,387,000	YES
10 Clark County Water Reclamation District	Wastewater	<i>No response [2]</i>		NO
11 City of Elko	Water	<i>No response [2]</i>		NO
City of Elko	Wastewater	<i>No response [2]</i>		NO
12 City of Fernley	Water	7,275	\$4,800,000	NO
City of Fernley	Wastewater	6,081	\$1,900,000	NO
13 City of Las Vegas	Wastewater	193,000	\$85,000,000	YES
14 Utilites Inc	Water	<i>Unwilling to share</i>		NO

"summ"

**\* Programs for senior citizens only. Programs have been suspended but customers that qualified when the program was suspended are grandfathered in until the property changes hands.**

[1] Treatment of wastewater by City of Las Vegas.

[2] Although no response was provided, internet searches found no evidence of an economic hardship program.

Low income household eligibility is less problematic. Generally evidence of assistance with energy bills, bank statements or government assistance letters will suffice. Five of the six purveyors with programs open to new participants provide assistance to low income households. In addition, the City of Henderson provides assistance to permanently disabled customers, evidence of which may include a doctor's statement or social security letter.

### **Program Administration**

Program administration is performed primarily by the department responsible for billing which may be the finance department or utility department. Support from other departments or a non-profit partner is often entailed in determining participant eligibility. Having support from other departments defrays the cost of running the program that is borne by the utility enterprise fund for a city or county. Both Carson City and the City of North Las Vegas do not have the appetite at this time to raise rates to support staffing needs of economic hardship programs within their utility enterprise funds.

The cost of the economic hardship programs varies by purveyor from none (the cost is absorbed by existing staff) to up to \$374,000 per year. Most purveyors stated little manpower was needed; however, some purveyors allocated a full time equivalent to administration of the program.

### **Program Funding**

Of the survey respondents, only the City of Reno and City of Boulder reported a cap on annual funding of their program. The City of Boulder reported a maximum funding amount for electric, water, sewer and garbage combined but no cap for one specific utility. Most of the respondents were unable to state how much was provided in relief to customers through their economic hardship programs in 2011. With the largest number of beneficiaries, Henderson's subsidy to water customers likely represents the highest range in annual subsidy of about \$305,000 in 2011.

The purveyors use different methods of providing the utility bill relief including rebates, reduced bills and a separate rate class.

- Reno and Sparks wastewater divisions provide rebates, the amounts of which vary from year to year.
- Lyon County has a separate lower rate schedule for low income households consisting of a lower rate for the monthly base charge for both water and wastewater. The water consumption rate per 1,000 gallons is not reduced for low income households.
- The cities of Henderson, Boulder and Las Vegas reduce participant bills either by percentage discount (Boulder – 35% and Las Vegas – 20%), or waiver of basic service charges (Henderson).
- Grandfathered participants in the City of North Las Vegas benefit from charges that are half of the basic service charge (water only, no wastewater discount) plus a calculated consumption rate per 1,000 gallons that is the cost per 1,000 gallons of water that the City purchased in the preceding year. All other customers pay consumption charges based on a 4-tier rate schedule.
- Grandfathered participants in Carson City pay bills reduced by between 10% and 90% depending on income level of the head of household.

Whether the mechanism is rebate, reduced bill or separate, lower rate schedule, all of these mechanisms require cross-subsidization of customer groups.

Cross-subsidization is legally permissible in Nevada but is often frowned upon in the industry. In California, per Article XIII D of the Constitution (otherwise known as Proposition 218), rates must be proportional to service received. It is illegal for one group of customers to subsidize another. California water / wastewater utilities have the following options if an economic hardship program is desired:

1. Customers can vote to impose a special tax upon themselves specifically for the program (the vote requires a two-thirds majority to carry),
2. Customers can voluntarily donate to a separately maintained fund which is used to reduce qualified beneficiary accounts,
3. Late fees and penalties can be applied toward lowering of qualified beneficiary accounts, or
4. Use a separate, unrelated funding source, such as the General Fund of a city.

In addition to qualified customer discounts, water providers can utilize other tools such as these to address affordability issues:

1. Cost containment.
2. Rate design.
3. Customer assistance and education (payment plans, leak-repair assistance, free conservation devices).

### **Affordability of Rates**

The industry standard for affordability is generally per EPA guidelines. Each State may adopt its own definitions of an affordable or a reasonable rate for State low-interest loan programs partially funded by the EPA, and other grant programs. The EPA considers rates less than 1.0% of median household income as a low cost burden, rates between 1% and 2% a mid-range cost burden, and rates greater than 2% of median household income as a high burden.

In Nevada the Board for Financing Water Projects, which is the governing body of the Clean Water State Revolving Fund receiving EPA funding, and the administering body of the Nevada AB98 grant water funding programs, defines water rates as reasonable when:

- A. In communities where median household income is **equal to or greater than** the State's median household income, the average monthly cost for 15,000 gallons is equal to or greater than 2% of the area median household income, and
- B. In communities where median household income is **less than** the State's median household income, the average monthly cost for 15,000 gallons is equal to or greater than 1.5% of the area median household income.

Currently, a metered residential TMWA customer using 15,000 gallons in a month would pay \$55.87 (includes the right of way toll at 5% and the regional water management fee). The cost burden is 1.58% of

the area median household income<sup>1</sup>. The regional community's median household income is less than the State's median household income therefore TMWA's rates are reasonable according to the Nevada Board for Financing Water Projects' definition. Using EPA's guideline, TMWA's rates are in the mid-range of affordability.

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<sup>1</sup> Area median household income based on the 2000 Census using a weighted average for Reno, Sparks, and the unincorporated county is \$42,400; Nevada's median household income is \$44,581. Census 2010 income figures will not be available until mid-2012.



TRUCKEE MEADOWS WATER AUTHORITY  
MINUTES OF THE MARCH 21, 2012  
MEETING OF THE BOARD OF DIRECTORS

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The Board of Directors met on Wednesday, March 21, 2012, at Sparks Council Chambers, Legislative Building, 745 Fourth Street, Sparks, Nevada. Chairman Carrigan called the meeting to order at 10:04 a.m.

1. ROLL CALL

Members Present: Mike Carrigan, Bob Cashell, Mike Cate, Kitty Jung, Bob Larkin, and Geno Martini. Members Absent: Dave Aiazzi. A quorum was present.

15. REPORT ON LOW-INCOME PROGRAM RESEARCH

Kim Mazeres presented this item, as requested by the Board at the January meeting. She introduced Catherine Hansford, a consultant who researched the programs of 14 other Nevada water and wastewater organizations and prepared the report. Ms. Mazeres said that staff did not recommend instituting a low income program at this time because not only are water bills very low in comparison with other utilities, but staff already works extensively with customers who are having difficulty paying their bills. She explained that the flat rate, which a lot of senior customers are on, is where a lot of water waste is found. She described how staff works with these customers to help them understand the savings they would realize if they eliminated waste and/or fixed leaks and moved to the metered rate.

Member Martini said that he felt TMWA is already addressing those problems with staff and the rate structure. He complimented the staff on the job that they are already doing. Member Jung added that she would support the staff recommendation because of her personal experience. Before serving as a County Commissioner, she was a community liaison for the City of Reno, working on many of these types of customer and community issues. She said she had confidence in TMWA, because *"TMWA's customer service is one of the best in the community, working hard to solve customers' issues."*

No action was taken.





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ATTORNEY WORK PRODUCT  
ATTORNEY-CLIENT PRIVILEGE ASSERTED

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TO: Kim Mazeres

FROM: Michael Pagni

DATE: March 31, 2015

RE: Preferential rate treatment for low-income or senior customers

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You have requested a legal opinion regarding whether TMWA may provide preferential rate to low-income or senior customers within TMWA's service territory. My review of state and federal law, as well as the explicit powers and authorities outlined in the Cooperative Agreement governing TMWA, indicates that such preferential treatment is prohibited.

**TMWA's Powers and Authorities**

A. Joint Powers Authority

As you know, TMWA is a Joint Powers Authority created pursuant to a cooperative agreement ("Cooperative Agreement") among the cities of Reno, Sparks, and Washoe County pursuant to NRS Chapter 277. TMWA is a political subdivision of the State of Nevada, and operates as a separate legal entity from the county and cities, pursuant to NRS 277.074 and 277.120. NRS 277.110 makes clear that public entities acting jointly may exercise the same power, privilege and authority as each has individually. The recitals contained in Cooperative Agreement articulate that the purpose of forming TMWA was to facilitate the cooperation of individual member entities to "assure sufficient water supply to meet the needs of existing and future development within the service area." TMWA's power and authority in furtherance of this broad purpose are enumerated in the Cooperative Agreement.

B. Specific Provisions of the Cooperative Agreement

The Cooperative Agreement specifies the functions that the member entities have conferred upon TMWA. "Conferred Function" is defined in the Cooperative Agreement as "any function which the Authority is empowered to perform by article 5 of this Agreement." Art. 2(d). The Conferred Functions set forth in Article 5 by which TMWA can carry out its broad purpose are wide ranging and, for the purposes of the Housing Task force's request, include:

To establish rates, tolls and other charges for the delivery of retail water service within its retail service area in general accordance with the procedures and authorities established in NRS Chapter 318 or as otherwise adopted by the Board.

Art. 5(j). The Cooperative Agreement also gives TMWA the power:



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ATTORNEY WORK PRODUCT  
ATTORNEY-CLIENT PRIVILEGE ASSERTED

To fix rates, charges and other fees for water and other commodities including connection charges, hook-up fees, standby charges and availability of service charges; and

To perform all other acts necessary or convenient for the performance of any Conferred Function or the exercise of any of its powers.

Art. 6(p) and (q). Under Article 7, which lists prohibited functions and powers, the Cooperative Agreement provides:

Nothing in this Agreement shall be construed as authorizing the Authority to perform any function or to exercise any power that is not performable or exercisable by at least one of its Members.

Art. 7(a).

### **Preferential Rates**

As a general rule, a public utility cannot discriminate unjustly in its rates to consumers similarly situated or of the same class for the same service or kind of service. 43 Am Jur 683, Public Utilities and Services, § 171. The general rule is well established that when a municipality undertakes to furnish a public service, such as the supplying of electricity, gas, or water, to consumers other than itself, it acts in its proprietary, and not in its governmental, capacity, and cannot grant free or reduced rates or otherwise make discriminations which would be unlawful if the service were rendered by an individual or private corporation; in other words, the fact that the service is by a municipal plant does not change the rule prohibiting unreasonable discrimination. 50 A.L.R. 126 While some cases have upheld preferential rates in certain contexts (for example, different rates for citizens living within the municipality that those living outside city limits), the general rule is preferential rates are inappropriate.

It is axiomatic in rate making that utilities are barred from treating persons similarly situated in a dissimilar fashion. [State ex rel. Utilities Commission v. The Mead Corp., 238 N.C. 451, 78 S.E.2d 290 \(1953\)](#); [Postal Telegraph-Cable Co. v. Associated Press, 228 N.Y. 370, 127 N.E. 256 \(1920\)](#). Reasonable classifications between consumers may be made, but there must be adequate findings of fact, supported by evidence, which demonstrate a rational basis for the classification. Classification of customers must necessarily be accomplished by reference to general characteristics having some rational nexus with the criteria used for determining just and reasonable rates. Whether cost of service, value of service, or other criteria are used, either alone or in conjunction with each other, classifications of persons must be on the basis of similar-but not identical-characteristics



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ATTORNEY-CLIENT PRIVILEGE ASSERTED

Additionally, in order for a governmental entity to give preferential treatment to certain rate payers or customers based upon their income or age, the rate disparity must be rationally related to a legitimate governmental interest. Silveira v. Lockyer, 312 F.3d 1052, 1088 -1089 (9th Cir. 2002). Generally, this standard, known as the “rational basis test” is relatively relaxed. Id. Nevertheless, the governmental entity must be able to demonstrate a rational connection between the disparate treatment and some legitimate policy objective. See id.; Romer v. Evans, 517 U.S. 620, 634-35 (1996).

Because TMWA was formed for the limited purpose of managing the water supply to certain areas within the Truckee Meadows, it does not have a legitimate interest in alleviating the financial burden of providing water service to low-income or elderly customers. Any decision to do so implicates the Equal Protection Clause of the Constitution.

Notwithstanding any other governmental interests in assisting seniors or low income residents, TMWA is likely prohibited from adopting disparate rates for seniors or low income customers. The Cooperative Agreement makes clear that TMWA was formed to manage the water supply within TMWA’s service territory. Although TMWA’s conferred powers and functions in furtherance of this purpose are fairly extensive, TMWA nevertheless does not have the same governmental functions or responsibilities as its members. While Reno, Sparks and Washoe County may, individually, have a legitimate interest in ensuring that affordable housing exists for elderly or low income residents within their respective jurisdictions, TMWA—as municipal water supplier—does not. There simply is not a nexus between managing the water supply and promoting these types of social policies. As a result, the Equal Protection Clause likely prohibits TMWA from providing preferential rate fees for senior or low income customers.

For example, in Mountain States Legal Foundation v. Utah Public Service Commission, 636 P. 2d 1047 (1981), the Utah Supreme Court struck down a “senior citizen rate” for electricity on the ground that the sole justification for the rate was that seniors, on average, earn less money and consume less power. The Court found that the public utilities commission had improperly failed to explain why the lower average income and smaller consumption of senior citizens warranted treating them differently from other residential consumers, or why the shortfall should be borne only by other residential customers instead of all customers. Similarly, the Court in Indiana struck down a “lifeline” electric rate structure, which provided a below-cost electric rate to low income elderly and disabled residential customers for their essential needs on the ground the utility was prohibited from charging any customer different rates for the same services, regardless of whether the group receiving preferential rates was deserving. Citizens Action Coalition of Indiana, Inc. v. Public Service Co. of Indiana, 450 N.E.2d 98, 29 A.L.R.4th 606 (Ind. Ct. App. 4th Dist. 1983).

### **Conclusion**

TMWA was formed for the purpose of securing and managing the quantity and quality of the water supply within its service territory. Although the authority bestowed upon TMWA by



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the member entities to carry out that purpose is wide-ranging, it does not include the alleviation of social problems and as such, it is more than likely that a preferential reduced rate for low income or elderly customers would not pass the rational relationship test and would be contrary to the general rule against preferential rate treatment.