

TRUCKEE MEADOWS WATER AUTHORITY
DRAFT MINUTES OF THE OCTOBER 19, 2016
MEETING OF THE BOARD OF DIRECTORS

The Board of Directors met on Wednesday, October 19, 2016, at TMWA, 1355 Capital Blvd., Reno, Nevada. Chair Martini called the meeting to order at 10:00 a.m.

1. ROLL CALL

Members Present: Jenny Brekhus*, Naomi Duerr, Vaughn Hartung, Jeanne Herman, Geno Martini and Ron Smith.

Members Absent: Neoma Jardon

A quorum was present.

**Member Brekhus arrived at 11:06 a.m.*

2. PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was led by Mark Foree, TMWA General Manager.

3. PUBLIC COMMENT

There was no public comment.

4. APPROVAL OF THE AGENDA

Upon motion by Member Hartung, second by Member Smith, which motion duly carried by unanimous consent of the members present, the Board approved the agenda.

5. APPROVAL OF THE MINUTES OF THE SEPTEMBER 21, 2016 MINUTES

Upon motion by Member Duerr, second by Member Hartung, which motion duly carried by unanimous consent of the members present, the Board approved the September 21, 2016 minutes.

6. PRESENTATION OF TMWA'S FISCAL YEAR 2016 CUSTOMER SATISFACTION STUDY

Sara Hart, Director of Research for Infosearch International, informed the Board that Infosearch has led the Customer Satisfaction Survey since 2002 and presented the FY2016 survey results. Ms. Hart noted the study is conducted via telephone survey throughout the year for a total random sample size of 500 customers polled: 400 residential and 100 commercial customers. The survey measures the overall level of customer satisfaction and attitudes toward water related issues including, but not limited to, water quality and supply, public outreach, and customer service. Ms. Hart said TMWA's overall customer satisfaction for FY16 was 93% and has remained stable at 92-93% for the past four years; which is extremely high and remarkable, indicating TMWA has hit the ceiling on positive ratings.

Member Hartung inquired if the customers' locations could be identified. Andy Gebhardt, TMWA Director of Customer Relations, replied staff receives a monthly report and based on that information a location can be identified. If customers provide negative comments or concerns, staff contacts the customer directly to address those concerns and provide information.

Member Duerr noted there is a statistical difference between 9.4, TMWA maintains adequate water supply, versus 8.0, TMWA uses public input, indicating this is an area that needs to be addressed. Ms. Hart replied yes there is a statistical difference, but stated it is not a low score, and has been statistically stable since 2012.

Discussion followed regarding the Board of Directors provide public input because they represent the different entities and each member receives comments and complaints from their constituents (it could be a public perception issue); if Infosearch surveys other large cities (yes, but these do not include other water utilities); and whether there was information from other public groups for comparison (there are national benchmarks, but data is slightly dated).

Ms. Hart reported customers who reported never having an issue with the taste of their water increased from 52% to 58% and the use of bottled water increased from 50% in 2015 to 54% in 2015 and 2016 respectively. Also, drought is the number one concern customers continue to have; perception of price relative to quality/service has increased from 71% in 2015 to 75% in 2016; and the mean ratings about concern of rate increases was 7.9 on a scale of 0 to 10, indicating a public concern.

Member Hartung inquired if there is a correlation between concern over rate increases and size of parcel customers own, and if a customer gave a low rating on taste were follow-up questions regarding habits and age of pipes asked. Ms. Hart replied they have looked into a few of the customer's lot size and no, they have not asked such follow-up questions, but admitted these could influence their ratings.

Ms. Hart noted significant changes among commercial respondents in relation to the percentage of lawns and/or landscaping they maintain has declined from 66% to 49 (lawn) and 69% to 47% (landscaping) in 2014 to 2016. Also, the awareness of needing to annually test backflow assemblies has declined from 84% to 69% from 2014 to 2016 and the public perception that TMWA provides adequate information about backflow assemblies has also declined within the same period from 90% to 67%.

Ms. Hart concluded the presentation addressing potential opportunities for TMWA to consider moving forward: enhance education about TMWA facts, what factors are and are not within TMWA's control and address customers' concerns.

Member Hartung asked if TMWA provides customers information about water quality and results of tests conducted. Mr. Foree replied yes, TMWA publishes an annual water quality report and posts to TMWA's website which is required by the Environmental Protection Agency (EPA) and customers can also request a hard copy.

7. PRESENTATION OF TMWA GOALS AND OBJECTIVES RESULTS FOR FISCAL YEAR 2016

Mr. Foree acknowledged staff for their continuous hard work and dedication to customer service. He provided an overview of the results for TMWA's FY2016 goals and objectives. Overall the results were very good, having met or exceeded their benchmark or industry standards; most notably, meeting all goals to implement the Truckee River Operating Agreement (TROA), and as a result of a successful 2016 Bond Refunding, S&P improved TMWA's rating from AA- to AA stable. The exceptions were the safety incident rate of 5.47 incidents per 200,000 manhours, which is significantly higher than the 2.6 average incident rate; and the preventable vehicle accidents were 6.25 accidents per 1,000,000 miles driven, which is slightly higher than the industry average of 5.61.

Member Hartung asked what type of incidents were included. Mr. Foree replied any injury which required First Aid or medical attention. Jessica Atkinson, TMWA Human Resources Manager, added it could also include lost time at work or any restrictions of usual duties, includes all employee injuries, both at the office and in the field, and any vehicle collision that occurred was included in the results.

Mr. Foree noted that TMWA has met its goal of 0 maximum contaminant level (MCL) violations, and there has never been a water quality violation in TMWA's existence, which is a very significant accomplishment.

Paul Miller, TMWA Water Quality and Operations Manager, provided an overview of the treatment goals achieved. Discussion followed regarding TMWA's treatment results, especially maintaining 0.10 NTU 100% of time, far exceeding the EPA standard of 0.30 NTU 95% of the time and TMWA being one of 18 utilities, among hundreds who have applied for the award, who received the President's Award from the Partnership for Safe Water in 2015; and using these results to communicate to the public how good TMWA's water quality is, in light of the situation in Flint, Michigan.

Mr. Gebhardt confirmed staff communicates TMWA's water quality results at every opportunity. Mr. Foree added staff takes thousands of samples every year and if even one scheduled test sample is missed it is considered a violation, and reiterated that TMWA has had no violations in its 15-year existence.

Pat Nielson, TMWA Distribution Maintenance & Generation Manager, explained the goals for planned disruptions taking less than 4 hours and 4 – 12 hours to fix were not met; 97 leaks were due to Mueller meter pits failing which TMWA inherited from Washoe County and former South Truckee Meadows

General Improvement District (STMGID). The leaks due to Mueller pits are significantly higher than TMWA has ever experienced with its standard meter box and setter.

Member Hartung asked what the number of the leaks were due to aging infrastructure. Mr. Nielson replied 65 service line leaks and 75 main leaks. Mr. Foree added that most of the water main leaks are repaired under pressure which does not result in customer outages. Mr. Nielson explained staff goes to great length so that customers do not go without water at all and when staff fixes service line or meter pit leaks, only one customer is typically out of service for just a few hours. He added that there was no loss of service for any customer due to the fire in Washoe Valley this month and Verdi hydroelectric power plant is back online until the end of the month, due to the amount of rain experienced recently resulting in a controlled release from Prosser Lake.

Mr. Gebhardt provided an overview of the Customer Service goals results. The only one that was not met was the average call handle time was 4 minutes, 45 seconds, which is slightly higher than our goal of 4 minutes, 30 seconds. This was due to high turn-over rate at the call-center, and the high-volume of calls related to the drought and flat-rate conversion.

Member Hartung commented on the fact that this result is not a negative reflection of the quality of service provided to TMWA customers. He expressed his concern about working with certain disadvantaged groups such as senior citizens, who are living on a low fixed-income. Mr. Gebhardt replied staff does work with different agencies in town and Reno 211 is a great resource we refer customers to, but what we found is that there are no agencies that will directly assist with the water bill, but staff finds a way to help when possible.

Member Brekhus stated she would like to understand how the 2016-2035 Water Resource Plan (2035WRP) is being implemented. Mr. Foree replied the Board approved 2035WRP states that normal conservation efforts will be utilized if sufficient river flows are present through Labor Day which was the case this year and conjunctive use of water resources continues as provided in the 2035WRP.

Scott Estes, TMWA Director of Engineering, provided a brief overview of the engineering and new business goals results.

Member Hartung asked if there were other contributing factors for not meeting the turnaround time goal for certain projects. Mr. Estes replied yes, but staff only tracks and reports on the process that we have control over which is the date of 100% complete application to the date we turnaround the first red-lined drawings.

8. DISCUSSION AND ACTION, AND POSSIBLE DIRECTION TO STAFF ON THE PROPOSED TMWA GOALS AND OBJECTIVES FOR FISCAL YEAR 2017

Mr. Foree reported that the safety goals were updated to reflect the new industry standards data.

Michele Sullivan, TMWA Chief Financial Officer, noted three new financial goals were added using the 2013 American Water Works Association (AWWA) benchmark survey: maintain a low debt ratio, sustain a minimum of 517 days of cash reserve (which keeps TMWA ratings high), and maintain a debt service coverage ratio of 1.5 (meeting bond covenants and adhering to Board financial policy).

Member Brekhus confirmed the debt holders covenant ratio is 1.25. Mr. Foree yes, and added the Board financial policy is 1.5.

Mr. Gebhardt informed the Board customer service increased the goal for the number of backflow retrofits from 125 to 175 due to the volume experienced in FY2016.

John Enloe, TMWA Director of Natural Resources, informed the Board of the new goals reflecting the implementation of TROA and the 2035WRP (optimizing conjunctive use to rest the wells and maintain water quality levels), as well as the continued permitting process for the Mt. Rose Water Treatment Plant.

Member Brekhus inquired if there is a protest for the Mt. Rose Water Treatment Plant and about TMWA's well-head protection program. Mr. Enloe replied no protest has been filed, but the protest period is still open regarding the water rights change applications to divert creek water. He added staff has recently met with Nevada Department of Environmental Protection (NDEP) regarding TMWA's well-head protection plan. Also, the state is considering a source water protection program to include all of Washoe County and private well owners.

Member Brekhus commented on the fact that basins may be over appropriated due to the use of older models and outdated data. She recommended staff recalibrate the perennial yield and if there is a possibility for TMWA or the City of Reno to approach the State Engineer's office requesting them to update the science being used to better make decisions on land use permitting process. Mr. Enloe replied no, we are not using outdated data, because as part of the 2035WRP staff updated all the groundwater models in all of the basins we operate in. As an example, the Mt. Rose basin has a large amount of water rights, but pumping is concentrated in a small area. The permitted amounts are not being pumped in the basin, but the pumping is concentrated in one location and that is why there is a problem in this basin. All models have been updated and part of the process is to consider recharge and conjunctive use and where that can occur to benefit TMWA's wells and domestic wells. Mr. Foree added the benefit of conjunctive use of surface water supply and recharging wells. A large amount of water was recharged into wells in 2015 and due to our recharge program the water levels in most basins is stable.

Member Hartung inquired how deferring fees until meter set has changed TMWA's overall position of increased cash-flow. Mr. Foree replied probably not by much, because most of the subdivisions we see now are smaller. Ms. Sullivan added that TMWA does not rely on developer fees for cash flow.

Member Duerr suggested staff consider two proposed goals: taking on a larger planning role in the region and integrating water issues in development reviews and to budget for the process; increase coordination among the different entities when the development occurs. Mr. Foree replied the new proposed goals in the natural resources department as well as some of the proposed general manager's goals address playing a larger role in planning in the region and understands the need for increased communication and collaboration between TMWA and local agencies.

Upon motion by Member Herman, second by Member Duerr, which motion duly carried by unanimous consent of the members present, the Board approved the proposed TMWA goals and objectives for fiscal year 2017.

9. REQUIRED COMMUNICATION FROM EIDE BAILLY IN REGARDS TO TMWA'S ANNUAL FINANCIAL AUDIT

Ms. Sullivan informed the Board of TMWA's contract with Eide Bailly to conduct TMWA's annual financial audit. The required communication details the scope of work and the audit began on October 17.

The Board recessed at 11:53 a.m.

The Board reconvened at 11:59 a.m.

10. PRESENTATION OF PRELIMINARY FUNDING PLAN FOR FISCAL YEARS 2017 THROUGH 2022, DISCUSSION AND POSSIBLE DIRECTION TO STAFF

Mr. Foree reported TMWA's combined net production saw a significant 7.6% decrease from CY2013 – 2015, the projection for 2016 is 2.7% more than 2015, but 5% less than combined usage in 2013; water sales revenue dropped by \$9.7 million (or 10%) from FY2013 to 2016; as a consolidated utility hydro revenue dropped from over \$3 million to just over \$1 million and electrical expenses have stayed steady at just under \$5 million, from FY2013 (TMWA pre-merger electrical expenses only) to FY2016 (combined utility electrical expense). Mr. Foree reminded the Board with the implementation of TROA, storage in upstream reservoirs will increase, which will reduce the hydro revenue; and TMWA's projected upstream water storage for the end of calendar year 2016 is expected to be about 40,000 AF.

Ms. Sullivan presented the draft funding plan for FY 2017-2022 with two scenarios to reduce the funding gap between cost of service and recurring revenue: one with an increase of 3% in residential water revenue compared to 2015, and a second that also takes into account an expected successful 2017 bond refunding. She noted that new connections are projected to decrease from 2,400 per year to 1,600 per year by 2022. With no rate increase in the first scenario, by 2020 TMWA's debt ratio will be 1.24, below the bond covenants and well below the Board policy goal, and unrestricted cash decreases from \$80 million to \$20 million. She noted with the rate increases, TMWA will be able to close the funding gap by 2022 with low single digit annual increases.

Member Brekhus noted the drop in growth is different than what she has been told. Mr. Foree replied the growth rate is the same as the population projection in the 2035WRP and Mr. Enloe added it is in line with the State of Nevada Demographer's office.

Member Hartung noted the increase in conservation relates to a decrease in water revenue, and as a result, TMWA has to raise its rates. Ms. Sullivan replied yes, it is a trend, but TMWA is not the only utility experiencing this and considering rate increases.

Member Duerr stated this is not just in the west, it is everywhere not just arid regions.

Member Hartung confirmed the proposed 4% rate increase will occur every year. Ms. Sullivan replied yes, 4% annually, and the average for the western region has been 6% to 12% annually.

Ms. Sullivan continued with the second scenario that includes the 2017 bond refunding, over \$200 million, which will be refunded in the spring of 2017. If successful, \$32 million of restricted cash, as part of the debt service requirement, will be released. Staff is expecting to combine the \$32 million of the newly

unrestricted cash, in conjunction with the additional estimated \$20 million in premium to pay down the principle of the bond reducing it from \$200 million to \$150 million that would be refunded. Also, without a rate increase the \$19 million funding gap will be reduced to \$13 million, which is still significant and will deplete unrestricted cash to unacceptable levels. Ms. Sullivan noted currently we are not exposed to interest rates since we have commercial paper that has a variable rate, and have cash earning interest which off-sets one another.

Member Brekhus asked if it is the bonds or commercial paper being refunded. Ms. Sullivan replied it is the bonds. Will-serve commitments are being used to pay down the commercial paper; TMWA paid down about \$4.4 million in commercial paper in FY2016.

Member Hartung commented on the fact it is difficult to raise revenue, and to perhaps consider cutting cost. Ms. Sullivan noted as a combined utility the operating and maintenance expense has dropped from over \$50 million to \$48.9 million; cutting costs would be difficult. Mr. Foree added water utilities are a high-fixed cost operation because in TMWA's case \$1.1 billion in infrastructure has to be maintained and rehabilitated regardless of the amount of water usage.

Ms. Sullivan stated in the 2017 bond refunding scenario with a rate increase, 3% annual increases are proposed for the first 2-years followed by 2.5% increases for the next 3-years, which will close the funding gap by 2022 and the debt service coverage ratio stabilizes, meeting the covenants and the Board policy goal.

Chair Martini asked what would happen if the bond covenants were not met. Ms. Sullivan replied TMWA's credit ratings would plummet. Mr. Foree added the bond holders could take over and force a rate increase.

Member Brekhus asked about water rights bought, and held in assets, by TMWA, how much value do they represent and how are they managed. Ms. Sullivan replied the commercial paper financing was used to buy the water rights and as people are buying them we are paying down the commercial paper. Mr. Foree added that the value of those water rights is about \$50 million.

Member Brekhus continued to inquire about the reserve of water rights, what value they bring to TMWA's core business model and, since TMWA owns more than it currently uses, if any thought has been given to sell them to improve TMWA's finances; much like the City of Reno, where they do not buy and hold more property than they need for their projects.

Member Duerr pointed out contrary to the City of Reno which holds property rights and is held for use by the City, TMWA's water rights are being held for use by others.

Member Hartung disagreed with Member Brekhus' suggestion to sell all of TMWA's water rights, because selling the water rights in blocks would decrease the price and hurt TMWA and its customers; the fact is that it is important to have water rights for the long-term. Mr. Enloe added TMWA is selling will-serves (water rights) every month for new projects and our pricing stabilizes the market; they are already permitted for municipal and irrigation (M&I) use which makes it easy for customers when buying TMWA's will-serves (water rights) vs. buying water rights on the open market.

Chair Martini noted there may be a process, to divest TMWA of some water rights, but Ms. Sullivan knows when to buy and sell, and the Board should defer to them on what to do, not the other way around.

Member Hartung confirmed TMWA is selling to customers not speculators. Ms. Sullivan replied yes.

Member Brekhus stressed her concern that customers will see a rate increase and TMWA is holding water rights; she asked if water is priced to include the cost of carry. Ms. Sullivan replied yes.

Member Duerr noted it is beneficial to acknowledge this asset, but it may be prudent to sell some at one point, and we may need to reexamine the financial policy. If, by integrating the 2017 bond refunding it will result in a lower rate increase, then perhaps staff should begin the rate adjustment process sooner. Mr. Foree replied the public process is approximately six months from the time the Board directs staff to move forward; at the Board's discretion, staff can present a formal proposal at the next Board meeting.

Member Duerr asked if staff considered a longer term, 10 years, to understand if it stabilizes. Ms. Sullivan replied our debt service should be level that far out with the proposed rate increases. Mr. Foree added it depends on the rehabilitative capital spending, which is the biggest potential for change.

Member Hartung asked if staff forecasted cost in 10 years. Ms. Sullivan replied no.

Member Smith stated that it should be left to staff, the experts.

Mr. Foree pointed out that it will have been over 3-years since the last rate increase and if the proposed rate increase structure is approved, after the first 2-years of rate increases, the Board can revisit every year and based on the current situation, can decide to defer or cut the subsequent increase(s).

Member Brekhus asked if staff is not recommending to look at rate structure within customer classes and if staff has considered differential rate structures based on geography. Mr. Foree replied no, not at this time and no, staff has not considered such a rate structure. He added that former Washoe County customers pay more and have more tiers, and former STMGID customer rates can only increase equal to what TMWA implements so there are some constraints. Staff feels with small single digit increases, which look like inflationary adjustments, staff does not think a cost of service or rate design study is necessary.

Member Brekhus stated, before voting on a rate increase, she would like to see a presentation on the rate structure in order to have a better understanding of the rate classification system and the differences among different user groups, geography and inherited groups.

Member Duerr asked if there will come a time when rates will merge. Mr. Foree replied not in the immediate future.

Member Hartung noted if there is going to be discussion about what TMWA inherited, it would be vital to discuss aging infrastructure, which will need to be replaced, in certain areas in the City of Reno.

Member Brekhus confirmed TMWA does not have a special assessment district authority. Mr. Foree replied yes, that is correct, it has to go through the city or county.

Member Duerr asked if rates would be the same in 20 years. Mr. Foree replied it would be difficult; there are many different rate structures used by other utilities, for example, there are some where the outside areas pay more.

Member Smith asked if staff will return next month with a proposal and recommendation. Mr. Foree replied yes.

No action was taken.

11. INFORMATIONAL REPORT ON TMWA'S IDENTIFIED PROPERTIES WITHIN THE PROPOSED WASHOE COUNTY LANDS BILL

Mr. Enloe referred to the staff report on the proposed federal lands bill by Washoe County and the Cities of Reno and Sparks have provided input. The purpose is to exchange federal lands near the metro area in exchange for wilderness area designations in northern Washoe County. The County held a public workshop last month and since then the different groups involved have been working on their requests for potential land transfers. Mr. Enloe referred to the table included in the staff report which lists all the land requests; it includes pump stations, tanks, and pipelines, existing and proposed. Staff understands the legislation as such that we can identify more areas than what is actually needed and unused land would revert back to the Bureau of Land Management (BLM) or United States Forest Service in the future; this would give us much greater flexibility to do the kind of work we look forward to doing and benefits everyone, not just TMWA.

Member Brekhus confirmed the City of Reno has not identified any lands. Mr. Enloe replied that is correct.

Chair Martini asked if this includes all of TMWA. Mr. Enloe replied about 90%, but the map is not final, but it is a better representation compared to the original information presented.

Member Brekhus mentioned in 2005-06, TMWA built water facilities in response to growth which are now stranded assets/infrastructure. She asked to see more information in the proposed lands bill, to compare TMWA's growth expectations to that of the City of Reno. Mr. Foree pointed out many on the list are existing infrastructure; for example, the pipeline from Fish Springs, which TMWA pays an annual fee of \$6,000 now and if the lands bill passes, we would no longer pay annual fees for existing infrastructure.

Member Hartung expressed his concern that TMWA would fence off these lands. Mr. Enloe replied no, the public will continue to have access, but TMWA would not be liable.

Member Brekhus asked if there were parcels of high priority. Mr. Enloe replied yes, the existing parcels (where TMWA facilities currently exist) are of high priority to TMWA.

12. (CONTINUED FROM PRIOR MEETING) DISCUSSION AND ACTION ON REQUEST FOR BOARD INPUT AND ACCEPTANCE OF GENERAL MANAGER PERFORMANCE OBJECTIVES FOR CONTRACT YEAR 2016/2017

Mr. Foree presented the proposed FY2017 general manager performance objectives.

Member Hartung asked for clarification on the goal regarding drought to “develop or refine drought response plan if required”. Mr. Foree replied if the snowpack is 150%, we would not need a drought response plan, but staff always has a communication plan prepared.

Member Brekhuis asked for an update of the proposal for water service to the Truckee River Industrial Center (TRIC). Mr. Foree replied staff is working with the effluent team and assisting in the process.

Upon motion by Member Smith, second by Member Brekhuis, which motion duly carried by unanimous consent of the members present, the Board approved the General Manager performance objectives for contract year 2016/2017.

13. GENERAL MANAGER’S REPORT

Mr. Foree reported that Lake Tahoe rose about 3.6 inches, roughly 36,000 acre feet (AF), due to the recent storms experienced in the area; TMWA used 3,200 AF (10%) of upstream storage from mid-September to mid-October to meet customer demands; and customer demand was 102.9% of 2015 demand.

14. PUBLIC COMMENT

There was no public comment.

15. BOARD COMMENTS AND REQUESTS FOR FUTURE AGENDA ITEMS

There was no Board comment.

16. ADJOURNMENT

With no further discussion, Chair Martini adjourned the meeting at 12:58 p.m.

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

Sonia Folsom, Recording Secretary

****Member Brekhuis was present for agenda items 7 thru 16 only.***