



TRUCKEE MEADOWS WATER
AUTHORITY
STANDING ADVISORY COMMITTEE
DRAFT MINUTES
JANUARY 4, 2011

The Standing Advisory Committee met at Truckee Meadows Water Authority in the Independence Room, 1355 Capital Blvd., Reno, Nevada. Chairman Greg Vorreyer called the meeting to order at 3:02 p.m.

1. ROLL CALL

Members Present: Kevin Bloomgren, Colin Hayes, Neil McGuire, Susan Ralphe, Jeannie Redinger, Fred Schmidt, Greg Vorreyer.

Alternates Present: Robert Chambers (voting), Bruce Gescheider, Jim Smith and Ron Turner (voting).

Staff Present: John Erwin, Scott Estes, Bill Hauck, Mark Foree, Kim Mazerres, Shawn Stoddard, Jeff Tissier and Debbie Leonard, Legal Counsel.

A quorum was present.

2. APPROVAL OF THE AGENDA

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee approved the agenda.

Bruce Gescheider arrived at 3:04 p.m.

3. ELECTION OF CHAIR AND VICE CHAIR

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee elected Greg Vorreyer as Chair and Fred Schmidt as Vice Chair.

4. PUBLIC COMMENT

There was no public comment.

5. APPROVAL OF THE MINUTES OF THE NOVEMBER 2, 2010 MEETING

Mr. Turner commented that the November minutes showed four items were requested to be agendaized but 1) the update on the legislative session and 2) the restated budget are not on today's agenda. Chairman Vorreyer noted the minutes read "*requested the following items be placed on future agendas*" and Ms. Mazeris added that staff made the decision to not have those items on the January agenda as 1) the legislature would not be in session until February so there is nothing to report; and 2) the restated budget has not been completed. Those items will be placed on a future agenda.

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee approved the minutes of the November 2, 2010 meeting.

6. STATUS REPORT ON THE MERGER OF THE WASHOE COUNTY DEPARTMENT OF WATER RESOURCES (DWR) WATER UTILITY FUNCTIONS INTO TMWA

Jeff Tissier reported that staff is now in the final stages of the analytical work. The following items have been accomplished:

1. A draft operating plan for the combined utilities has been developed and furnished to DWR for comments.
2. A draft Capital Improvement Plan has been developed and given to DWR for their review and comment.

The following issues still need to be resolved:

1. Disposition of the Vidler Project, which is the pipeline that originates in Honey Lake and terminates in the Lemmon Valley Basin. The pipeline is not tied into any existing operational infrastructure so the question is: Can the pipeline be brought into production and displace some of the Truckee River water being sent to Lemmon Valley and what would be the magnitude of that investment?
2. Sustainable groundwater resources in Spanish Springs and the South Truckee Meadows.
3. Numerous operating decisions still need to be made.

Mr. Tissier talked about the financial analysis to be completed by the end of March, as required by the Board:

1. After the Board makes a decision at their January meeting that will have implications on costs he will reset the FY2011 budget and present it to the SAC for discussion in February. He is working on the FY2012 budget and the 4-year forecast. The community is in severe recession; and with commercial floor space, residential inventory, and construction rates so low, it could take years to come out of it. He said TMWA is taking a siege mentality with the budget and is looking at cutting costs wherever possible. Unrestricted Cash will be used to protect TMWA from any impending financial distress.

2. DWR is also working on their budget and 4-year forecast to be completed the end of January.
3. In February and March, work will be done on a combined financial model.
4. Public Financial Management, the financial advisor for both TMWA and Washoe County, has been engaged to work closely with us and provide oversight on the development of those numbers.
5. Mr. Foree and Mr. Tissier met with Citi Bank and J P Morgan, the investment bankers that were selected to work on the refinancing of the DWR's publicly-issued debt and on any incremental bonding for future capital improvement requirements that come out of the combined financial analysis. They have extensive talent and huge marketing capabilities with over 14,000 separate offices.
6. Again, there is a lot of work to do in the next 12 weeks and said staff would continue to keep the SAC advised of progress and the results of the analyses.

There was discussion about groundwater in Spanish Springs and South Truckee Meadows and at this time the different perception of sustainability held by TMWA and DWR and what would be the capital costs, if major capital infrastructure was required, and the operating cost to send surface water to those areas.

Members of the SAC restated a position expressed to staff in earlier meetings that they would like to see the merger completed without an adverse effect on TMWA rate payers. Mr. Foree said that the interlocal agreement provides the ability for different rate structures. One of the reasons for the independent analyses of the two entities is to establish the revenue requirements and cost of service for TMWA and DWR as separate entities. These numbers will then be combined – not just as simple addition but with some calculus – to determine the impact on a unified rate structure. A large element of PFM's consulting work will be to look at revenue sufficiency from a customer standpoint and also from a developer standpoint.

Mr. Schmidt asked if DWR has done any analysis on what that agency will look like after the water division is merged with TMWA. Mr. Tissier said there has been so much focus on water, there has been little analysis on what DWR would look like without the water but planned to pose that question at their next meeting. Mr. Schmidt then asked if DWR does an analysis and there is a benefit to the sewer customers, could that benefit go to the new entity to offset the costs of the merger. Mr. Tissier agreed that was an interesting question but had no answer at this time.

7. PRESENTATION OF COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY2010

Chairman Vorreyer noted that the financial report did not change from the report given at the January meeting and invited Mr. Tissier to present the findings of the auditors, Kafoury Armstrong and Co. Mr. Tissier said the budget was not adjusted for the water rate increase that was adopted in June 2009 because staff saw a serious erosion of revenues due to decreased demands. Without adjusting the budget for the water rate increase, water sale revenues were

under the original budget by about \$700,000. To offset some of this loss, operating expenses were brought down to 2007 levels. The non-operating area is a real mixed bag because there are grants, investment earnings and unrealized gain-on-investments and non-operating revenue to help defray part of the non-operating expenses which was primarily merger-related costs. A modicum of developer fees were collected, primarily tied to the last remaining commercial developments and tenant improvements. The year ended with \$49 million in unrestricted cash which will be a precious resource during the next four to five years as the economic and merger issues are confronted.

Mr. McGuire asked what the cash is used for. Mr. Tissier explained that the TMWA is not meeting its cost of service (to operate the system, pay debt and make essential system rehabilitation). Operating expenses have been cut significantly and a plan is being developed to cut it even more. A Capital Improvement Plan is being developed with only the most basic rehabilitation costs, such as pipe and main replacement and pump station reconstruction. The system is still fairly old in some areas and needs some investment but costs are being squeezed down as much as possible. There is still a gap between revenues and costs and so the cash reserves will be used to bridge that gap a little at a time so that rates aren't needlessly raised or a large rate increase requested at one time.

Ms. Ralph asked for clarification about bonds and senior lien debt ratio. Mr. Tissier explained that the operating margin is all revenues minus operating expenses. Then the senior lien debt payments are divided into the operating margin to get the senior lien debt ratio. The senior lien debt ratio represents the ability of an organization to cover its debt payments. Rating agencies, such as Standard and Poors and Fitch, like to see the ratio at 1.5 times for an AA credit rating, which is a good investment credit rating. That allows an organization access to additional capital when needed under cost effective terms. By virtue of being in Nevada, TMWA is already being penalized because Nevada credits are viewed poorly in the market. So instead of relying on the senior lien market, TMWA has moved to borrowing funds from the State Revolving Fund, a federally subsidized loan program that is offered through the State of Nevada to fund some of our major projects. We also keep the Tax Exempt Commercial Paper Program viable.

The committee asked for clarifications on various findings of the auditors, which Jeff clarified. He also said that recommendations from the auditors were followed.

A discussion was held on the next rate review which will probably be in fall 2010. Mr. Tissier said by that time, staff would know the results from the cost cutting measures that are being implemented during FY2011, defensible projections could be solidified, and a proposal would be prepared.

8. UPDATE ON MEMBERSHIP

Kim Mazeres called attention to the staff report, stating that new members are presently being recruited to fill the vacancies in residential (1), irrigation (1), multi-family (1) and commercial (2). Mr. Schmidt said he had talked with Eric Witkowski with the Bureau of Consumer Affairs about their vacancy and did not think anyone would be filling that position due to their recent budget cuts and heavy workload. Ms. Mazeres said applications will be presented to the Board

on February 15 and asked the members if they knew anyone to put them in touch with Lora Richards.

Ms. Mazeris reported that, at their December 15, 2010 meeting, the Board reappointed the Standing Advisory Committee members whose term expired December 31, 2010.

9. SET MEETING SCHEDULE FOR CALENDAR YEAR 2011

Ms. Mazeris presented the committee with a list of the proposed dates for CY2011 and asked if the members wanted to stay with the proposed schedule or change its meetings to bi-monthly or quarterly.

Chairman Vorreyer summarized the discussion by stating that the SAC does take up a lot of staff time and resources, but the SAC needed to meet in February and March because the legislative session that is starting in February and the financial analysis that will be completed by the end of March. After that time, the determination can be made monthly to have a meeting or not depending on the Board and staff's activities.

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the SAC accepted the proposed schedule and then, depending on the Board and/or staff requirements, will set the next meeting date.

10. FUTURE SAC MEETING AGENDA ITEMS

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee scheduled the next SAC meeting to be held on Tuesday, February 1, 2011 at 3 p.m. and requested the following items be placed on future agendas:

- **Status Report on the merger of the Washoe County Department of Water Resources water utility functions into TMWA**
- **Presentation of the budget for FY2012**
- **Status Report on the 2011 Nevada Legislative Session**
- **Update on Standing Advisory Committee membership**

10. COMMITTEE ITEMS

There were no committee items.

11. STAFF ITEMS

Mazeres congratulated Mr. Gescheider on his appointment as the chairman of the Reno Sparks Chamber of Commerce.

Bill Hauck reported that the soil moisture in the snow pack is 200% of average and preliminary model runs indicate that this spring's runoff will bring Lake Tahoe up another 3 feet. All the other reservoirs should be filled by the end of June.

Shawn Stoddard reported on the findings of his research project on water usage and the new watering schedule. A lot of people changed from 2 day to 3 day watering. The increase in watering days did have the effect of reducing peak usage of the system and seems to indicate that there are some water savings. The project encompassed over 14,000 households from 2008 through 2010 with about 5,200 weeks of water use. TMWA appears to be the first utility that has done such an extensive study looking at effects of watering restrictions with such a large data set. The closest was about 10 years ago done on 96 households.

12. PUBLIC COMMENT

There was no public comment

13. ADJOURNMENT

With no further items for discussion, Chairman Vorreyer adjourned the meeting at 4:58 p.m.

Approved by the Standing Advisory Commission in session on _____.