



STANDING ADVISORY COMMITTEE
DRAFT MINUTES
APRIL 5, 2011

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

1. ROLL CALL

Members Present: Kevin Bloomgren, Ernest Buchner, Pat Martinez, Neil McGuire*, Susan Ralphe, Ron Turner, Fred Schmidt and Greg Vorreyer.

Alternates Present: Robert Chambers, Harry Culbert, Bruce Gescheider, Kevin Haddock, Michael Heffner*, Jim Maass, Paul Rose and Jim Smith (voting).

Staff Present: John Erwin, Scott Estes, Mark Foree, Bill Hauck, Kim Mazerres, Lora Richards, 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.

3. PUBLIC COMMENT

There was no public comment.

4. APPROVAL OF THE MINUTES OF THE FEBRUARY 1, 2011 MEETING

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee approved the minutes of the February 1, 2011 meeting.

5. UPDATE ON MEMBERSHIP

Ms. Richards stated she presented the TMWA Board with eight applications for the one vacant residential alternate member, two applications for the two vacant commercial members, and one

application for the one vacant irrigation alternate seat. She said that Mr. Rose was the only applicant who attended the Board meeting and was appointed by the Board as the residential member. The Board appointed the three applicants for the other three vacant positions. Every class is now represented by a regular and an alternate member with the exception of a multi-family alternate. The Consumer Advocates Office has not appointed their representative.

6. WELCOME NEW MEMBERS

The new members are Mike Heffner, Irrigation alternate; Pat Martinez, Commercial primary; Kevin Haddock, Commercial alternate; and Paul Rose, Residential alternate. Self-introductions were made by all members present, each one stating their position on the SAC and some personal information. Mr. Foree welcomed the new members, saying that staff appreciates the SAC. The SAC is a very engaged group, has an excellent attendance record, and puts great effort into understanding TMWA issues. It is important for staff to be able to present issues to the SAC for their input, ideas and suggestions, which then can be incorporated into the presentations to the TMWA Board.

7 UPDATE ON 2010/2011 SNOWPACK AND PROJECTED RESERVOIR LEVELS

Bill Hauck, TMWA Senior Hydrologist, stated that after four dry years, the past winter was ranked the 7th best snowpack in 100 years. The official snowpack numbers are 173% of average for the Tahoe Basin and 161% of average in the Truckee Basin. This means the runoff could be 150 to 200% of average; the river will run high and fast this spring; all Truckee River reservoirs are expected to completely fill this summer and Tahoe should get relatively close to filling; and the flows will be good for hydroelectric generation.

In answer to questions on the impact on costs due of the increased volume in the river and the impact to Pyramid Lake, Mr. Foree replied that whenever the water is more turbid than normal and for a longer than normal period of time, there are increased costs for treatment chemicals. However, that could be offset by increased hydroelectric generation. Mr. Erwin explained the Floriston rate, which is the required rate flow of 500 cubic feet per second coming over the Nevada State Line prescribed in the 1944 Orr Ditch Decree. He described how the Watermaster controls the flows in the river and carries out the provisions of the Orr Ditch Decree making sure that water right holders get the water to which they are entitled; and, said that the level of Pyramid Lake should rise somewhat this year but would really benefit if next year was also a good water year.

Mr. Erwin related the interesting statistics showing what a small component TMWA has in the overall water picture. Approximately 500,000 acre feet of water will come across the Nevada State Line this year. TMWA will divert approximately 60,000 to 65,000 acre feet of that total mass volume for its use. Of that amount, almost half will make its way back to the sewer plant and into the river east of Reno. Therefore, the total amount of water consumed by TMWA is about 30,000 to 40,000 acre feet or 6% to 8% of the total 500,000 acre feet water year.

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

Mr. Foree gave a brief background on the proposed merger for the new members. Currently, Washoe County Department of Water Resources (DWR) provides water, wastewater and reclaimed water services to serve approximately 23,000 homes and businesses, most on the fringes of TMWA's service area. Only the water utility services are to be merged into TMWA. Staff has been studying this issue for about three years. After completion of the first analysis, it appeared there were a number of benefits to be had with the merger including improved water resource management, better use of existing infrastructure, avoiding the need in some cases to build new infrastructure, better customer service, and avoiding customer confusion due to different rules and policies. Two years ago, the TMWA Board and the Board of County Commissioners approved the recommendation to proceed with a detailed analysis. Staff is now in the final stages of the financial analysis, including the capital improvement plan.

The TMWA Board set a goal to complete this very detailed financial analysis by the end of March. TMWA's financial information and five-year forecast were completed in February and submitted to Public Financial Management (PFM) for a third-party review. DWR submitted their information to PFM last week. It is anticipated that a joint meeting of the TMWA Board and the BCC will be held in early June to present the financial analyses and the results of PFM's review. The two boards will then be presented with staff's recommendations and options regarding the merger. Mr. Tissier commented that this information would be presented to the SAC prior to that joint meeting.

Mr. Schmidt asked about defeasance of the bonds. Mr. Tissier responded that the bonds could be defeased at this time but it would be very expensive and not economically feasible. He said the best thing to do is to be as prepared as possible when market conditions change by finishing the analysis, resolving major issues, and constantly monitoring the markets. There is legislation now before the Nevada State Legislature to revise provisions concerning the refunding of certain municipal securities relating to local government finance and government infrastructure projects. If that passes, the County Bond Bank can be used to defease those bonds. Mr. Schmidt asked how the SAC could ensure the politicians don't move too fast. Mr. Foree said that staff received clear direction from the SAC to not move forward with the merger unless there would be no adverse impact to TMWA customers and he believes this is also the Board's position. Mr. Tissier added that TMWA's financial forecast, which has been done for over a month, sets the measurement to determine whether or not it would be detrimental to TMWA to merge. The combined analysis has been prepared and a customer rate analysis for each entity and for a merged entity will be prepared.

In answer to a question regarding staffing, Mr. Tissier replied that each entity is responsible to trim its personnel prior to the merger. All DWR positions scheduled to move over to TMWA have been identified.

9. PRESENTATION OF FIRST BUDGET AUGMENTATION AND BUDGET REVISION JULY 1 THROUGH FEBRUARY 28, 2011

Mr. Tissier said that the primary purpose of the budget augmentation was to incorporate the cost of the Voluntary Separation Program into the budget and to bring the budget numbers in line with actual experience. The combined 9% rate increase from the previous two years did not generate the expected revenues because of decreasing water demands. There has been a significant reduction in operating expenses of almost \$4 million, more than offsetting the decrease in revenues by \$2 million. Also offsetting decreased water sales is an increase in hydroelectric revenues due to better than expected river flows.

Reduced investment income is offset by low interest rates on the Commercial Paper Program. A second budget augmentation will go before the Board in April to use the remaining Commercial Paper Program capacity to redeem the remainder of the 2001 A Bonds as TMWA only pays interest of approximately .30%. Depreciation expense was increased by nearly \$0.8 million. Capital expenditures must be increased by \$1.4 million, which reflects the carryover of the Sparks Feeder Main 4-A Project from FY2010 to FY2011. Also incorporated in the first augmentation are the expenses that were approved in January 2011 for the Voluntary Separation Program which is geared towards reducing TMWA staffing by 8% to 12%.

Mr. Tissier said that TMWA experienced lower than expected costs for the Glendale Diversion, and therefore intends to request the Department of Environmental Protection to reauthorize the remaining balance of the loan that was approved in 2010 to be used for future capital projects in FY2012.

Chairman Vorreyer asked about the savings in interest expense and asked if that could be sustained. Mr. Tissier replied that savings cannot be sustained as interest rates are probably now at their lowest. TMWA is now paying, on average, 0.30% for the \$68 million of outstanding bonds. He said those rates will last until about December and then will start to increase. Chairman Vorreyer said keeping financing costs minimal is extremely significant with regard to customer rates and is one way to manage uncertainty in the current economic times.

Mr. Hefner asked about a rate increase this fall. Mr. Tissier said staff will prepare a proposal for the fall which should be a low single-digit increase. A discussion about rate increases ensued, including a discussion on the difference between proposing small annual incremental increases or very large increases every few years and the timing of those increases. Mr. Tissier said staff proposes to see the financial results for FY2011 and determine whether or not the financial forecasts ties into the results; then begin to develop a rate proposal. Mr. Schmidt commented that he strongly believes the public will react negatively to any type of increase at the same time a merger takes place because that gives the impression that the merger caused the rate increase.

Mr. Gescheider said the case was made that TMWA customers should be protected at all costs. He said he thought that Mr. Tissier was now devising what that protection should be and it would be up to Mr. Tissier to prove that any rate increase would be the result of what's happening to TMWA prior to the merger and not the result of combining the two entities. Mr. Foree agreed that there will be considerable customer education and communication on any rate increases.

Mr. Tissier added that the reason TMWA had aggressively completed their work on the merger and sent it to PFM was to establish a benchmark.

10. REPORT ON FINANCIAL PERFORMANCE FOR THE FIRST HALF OF FISCAL YEAR 2011

Mr. Tissier gave the financial performance results for the first half of FY2011. He said the budget was revised in December so after getting actual performance results, he feels comfortable stating that current spending levels are equivalent to 2005 spending levels. He told the new members that during the peak years, developer fees and will-serve commitment fees totaled \$74 million and currently developer fees collected to date this year are approximately \$400,000. That is the reason TMWA established its customer rates with no reliance on developer fees. Although TMWA was criticized for this during a legislative audit, it has proven very beneficial.

11. STATUS REPORT ON THE 2011 NEVADA LEGISLATIVE SESSION

John Erwin said that Steve Walker, TMWA lobbyist, and Mike Pagni, TMWA attorney, have been very helpful during this legislative session. They've reviewed every bill as it is introduced and then sent Mr. Erwin the bills that may be of importance to TMWA. The team then determines which bills to watch and which ones TMWA can potentially impact. Gordon DePaoli, also a TMWA attorney, has been very effective during this session regarding the water bills.

TMWA is watching many of the bills that deal with public works activities, employment activities, employee relations and collective bargaining.

Mr. Erwin said that most of the water bills have been related to noticing requirements, or some nuances regarding domestic wells. TMWA has been influential on getting them stopped, modifying or amending them, and the bills that have passed have had no adverse effects on TMWA's activities in the water rights arena.

Mr. Erwin mentioned that TMWA has been influential on AB114 (Revises State Engineer's fees), AB115 (Revises State Engineer's noticing practices), and SB153 (Revises determination of beneficial use of municipalities' water rights) by submitting amendments to clarify language and by explaining the unintended consequences of some of the bills.

In answer to a question on which bills were introduced by the Legislative Committee to oversee the Western Regional Water Commission, Mr. Erwin said they were AB237 (Authorizes and broadens use of County Bond Bank) and AB238 (Eliminates some limitations on County Bond Bank). If asked, TMWA will state its position in support this legislation.

12. FUTURE SAC AGENDA ITEMS

There was a discussion on the issue with the Environmental Working Group (EWG). The committee decided to put the issue on a future agenda together with a presentation on water quality.

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

- **Status Report on the 2011 Nevada Legislative Session**
- **Status Report on the merger of the Washoe County Department of Water Resources water utility functions into TMWA**
- **Tentative Budget for FY2012**
- **Presentation on TMWA Conservation programs**
- **Issue with Environmental Working Group**
- **Water Quality for June.**

13. COMMITTEE ITEMS

There are no committee items

14. STAFF ITEMS

Ms. Richards distributed a flyer regarding the irrigation workshops to be held in April and May, 2011.

Ms. Richards distributed a member directory but after some discussion, the committee returned the directory until it was determined if all members were comfortable having their contact information made public. Ms. Leonard stated that the SAC is subject to the Open Meeting Law and cautioned the members that they cannot communicate with one another about matters that will be deliberated on or discussed in a public meeting. If a quorum was reached during this process, it would be a violation of the Open Meeting Law. She further clarified that a quorum can be reached in a serial manner and that is a violation of the Open Meeting Law. The committee suggested that Ms. Richards send any emails to the members using the “BCC” line which will protect individual email addresses and prevent responses to “all”.

15. PUBLIC COMMENT

There was no public comment

16. ADJOURNMENT

With no further items for discussion, Chairman Vorreyer adjourned the meeting at 4:38 p.m.

Approved by the Standing Advisory Commission in session on _____.

*Mr. McGuire was present for items 9 through 16 only. Mr. Haddock as Mr. McGuire's alternate was present and voted for items 1 through 8.

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