



STANDING ADVISORY COMMITTEE WORKSHOP
***DRAFT* MINUTES**
October 4, 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 3:02 p.m.

1. ROLL CALL

Members Present: Colin Hayes, Neil McGuire, Susan Ralphe, Fred Schmidt, Ron Turner and Greg Vorreyer

Alternates Present: Bob Chambers (voting), Harry Culbert (voting), Bruce Gescheider, Kevin Haddock (voting), Mike Heffner, Jim Maass and Paul Rose

Staff Present: John Erwin, Jeff Tissier, Mark Foree, Lora Richards, Kim Mazerres and Debbie Leonard, Legal Counsel

2. PUBLIC COMMENT

Mrs. John Hetherington, Reno resident, commented that she would like to have billing for TMWA performed by a local company so remittances could be sent to a local address. She said it took ten days for her payment to get to Texas.

3. APPROVAL OF THE AGENDA

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

4. APPROVAL OF THE MINUTES OF JULY 5 AND AUGUST 2, 2011 MEETINGS

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee approved the minutes of July 5 and August 2, 2011.

5. STATUS REPORT ON THE MERGER OF THE WASHOE COUNTY DEPARTMENT OF WATER RESOURCES WATER UTILITY FUNCTIONS INTO TMWA, INCLUDING A 5-YEAR FINANCIAL UPDATE AND REVENUE SUFFICIENCY REPORT

Mark Foree presented this item. Washoe County Department of Water Resources (DWR) has sent their completed financial analysis to Public Financial Management (PFM) for review. No joint meeting will be scheduled until PFM has had time to thoroughly review all documents and provide their comments.

Jeff Tissier said that PFM also has the combined entity's financial forecast. PFM stated there are no mathematical errors in the very detailed projection and they did not have any difficulty with the assumptions used for area growth or for cost escalation on various services and supplies. PFM is working on the commercial paper program rate projections and is revising investment rates of return projections. Those new numbers will then be input into the financial projection and resubmitted to PFM. The preliminary combined entity's financial forecast was also furnished to the underwriter banks, Citigroup and J.P. Morgan so they can develop concepts with which to refinance DWR's debt so that the combined entity's pledged revenues can be used against the combined entity's debt. Mr. Tissier said that based on the combined entity's financial projection, he would say the merger is a go but with one disclaimer "that the treasury of Washoe County's Utility division has to be preserved and there are certain elements of that which are still at risk." That is what led to the decision to postpone a joint meeting between the Board of County Commissioners and the TMWA Board. There are still several major items that Washoe County needs to resolve before having a meeting.

One issue the Board would like for Washoe County to resolve is whether or not the South Truckee Meadows General Improvement District (STMGID) would be involved in the merger. The other issue is to pass an ordinance to allow TMWA and the new combined entity to use the County Bond Bank for refinancing DWR's debt, which could result in significant savings.

There was a discussion about rates for the combined entity, to which Mr. Tissier responded that the theme of the Board is that this merger cannot negatively impact TMWA customers. He said that the SAC's concerns have been heard and the Board is acting on those concerns. Mr. Gescheider expressed his concern that the discussions regarding the merger not be perceived as having a causal effect on a potential rate adjustment. Mr. Foree agreed that the Board wants to keep those issues separate as both entities are in the process of reviewing their rates and cost of service and determining whether their revenue is sufficient to meet their cost of service. Regardless if the merger happens or doesn't happen or happens five years from now, the two entities must review rates and revenue sufficiency on a regular basis and the Board will make its decision with regard to TMWA as a stand-alone entity.

Mr. Turner asked if PFM is now satisfied with DWR's analysis and financial statements. Mr. Tissier said PFM is satisfied since DWR has projected operating costs for the Vidler Water System.

Mr. Tissier said he expects to have analysis back from PFM with their comments in time to present them to the SAC at the November 1, 2011 meeting.

6. PRESENTATION ON UTILITY FINANCES, REVENUE REQUIREMENT, COST STUDIES AND RATE DESIGN

John Erwin presented the issues, concepts and problems associated with cost allocations and the

effect they can have on ratepayers and decision makers when determining how to set rates. In developing cost allocations leading to the design of customer rates, the following underlying principles were discussed which aid in developing rates that reasonably reflect the cost to serve a particular customer class while meeting the financial needs of the utility: Revenue collection, stability of rates, efficient use of resources as a result of rates, fairness in developing rates, discrimination avoidance, and simplicity or ease of understanding and administrating rates.

At the last meeting, the SAC had practiced functionalizing various costs of a water utility into expense categories such as source of supply, pumping, water treatment, transmission and distribution, customer service, and information, administrative and general expenses. During this meeting and using interactive exercises, the SAC classified those expenses into categories such as Usage/Volume, Flow/Demand, Customer and Fire. They then allocated those categories to the various customer classes. These exercises were designed to show that there are trade-offs in every decision made and the underlying principles always need to be considered when setting rates.

Mr. Erwin summarized the rate-study education by stating that system design and development, whether simple or complex, will determine the complexity of rate schedules. With a simple system there can be a complex rate design or rate structure; with a complex system, such as TMWA's, the rate design must be simple to avoid additional costs of administrating complex, variable and numerous rate schedules. The rate design needs to take into consideration contractual obligations and may well take into account various policies or constraints desired by the TMWA Board.

Mr. Erwin said he would have actual numbers at the November meeting for the SAC to review and discuss.

7. DISCUSSION ON THE DATE FOR THE NEXT MEETING AND FUTURE SAC AGENDA ITEMS

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee set the date of the next meeting as November 1, 2011 at 3 p.m. and requested the following items be placed on future agendas:

- 1. Continuation of the merger update including a review of the financial statements for the consolidated entity**
- 2. Staff proposal on the potential rate adjustment including backup documentation for review**

8. COMMITTEE ITEMS

There were no Committee items.

9. STAFF ITEMS

Lora Rose Richards distributed the monthly customer newsletter and public meeting schedule for the proposed rate adjustment.

Kim Mazeres said she had talked with Ms. Hetherington as she was leaving regarding the outsourcing of bill processing and the call center. This decision was originally made and approved by the Board in 2002 as it saves TMWA ratepayers approximately \$500,000 annually. The contract for these services with Vertex does not expire until 2016. She noted that the charge for these services is the same as it was in 2002.

The SAC encouraged staff to continue to promote paperless billing and payment options.

Ms. Mazeres asked the SAC to call her if they hear any discussion in the media regarding TMWA and/or the potential rate adjustment.

10. PUBLIC COMMENTS

There were no public comments.

11. ADJOURNMENT

With no further items for discussion, Chairman Vorreyer adjourned the meeting at 5:20 p.m.

Approved by the Standing Advisory Commission in session on _____

Corinne Cassell, Recording Secretary