



STANDING ADVISORY COMMITTEE

DRAFT MINUTES

April 5, 2016

The Standing Advisory Committee (SAC) met at Truckee Meadows Water Authority (TMWA) in the Independence Room, 1355 Capital Blvd., Reno, Nevada. Chair McGuire called the meeting to order at 3:02 p.m.

1. ROLL CALL

Members and Voting Alternates Present: Harry Culbert, Bruce Gescheider, Colin Hayes, Neil McGuire, Ken McNeil, Fred Schmidt, and Ron Turner.

Alternates Present: Bill Hughes, Carol Litster, Mike Pidlypchak, and Jim Smith.

Members Absent: Bob Chambers, Kevin Haddock, Mike Heffner, Karl Katt, Lee Leighton, Pat Martinez, Mike Schulewitch, Jonnie Pullman, and Jerry Wager.

Staff Present: Kelli Burgess, Jack Byrom, Tabitha Carlisle, Robert Charpentier, John Enloe, Scott Estes, Sonia Folsom, Mark Foree, Andy Gebhardt, Kim Mazerres, Paul Miller, Will Raymond, Michele Sullivan, Jeff Tissier and Legal Counsel Michael Pagni.

2. PUBLIC COMMENT

There was no public comment.

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 THE MARCH 1, 2016 MEETING

Upon motion duly made and seconded, carried by unanimous consent of the members present, the Committee approved the minutes of the March 1, 2016 meeting.

9. PRESENTATION ON TMWA WATER QUALITY TESTING AND STANDARDS

Paul Miller, TMWA Operations and Water Quality Manager, presented on how TMWA adheres to water quality testing rules and standards set by the Environmental Protection Agency (EPA) which is managed by the Nevada Department of Environmental Protection.

Chair McGuire asked how often TMWA tests for lead and copper. Kelli Burgess, TMWA Water Quality Supervisor, replied staff tests every 3 years, which is reduced monitoring.

Fred Schmidt inquired if TMWA has a policy for customers to have their water tested. Mr. Miller replied when customers call, they provide information regarding all data collected to date, and, if the customer would like to have their water sampled to determine what the data is for their home, they refer them to the State Health Laboratory. Mark Foree, TMWA General Manager, added they also refer customers to the Annual Water Quality Report which details all constituents detected in the water supply.

Discussion followed regarding Flint, Michigan's lead service lines (which TMWA does not have, but it is very common nationally); how TMWA uses sodium carbonate to adjust pH levels; the source of nitrates in the groundwater in Spanish Springs is largely due to septic tank effluent and having smaller lots with septic systems; and, to test for chemicals, such as gasoline, would require a specialty test.

5. WATER SUPPLY UPDATE

Bill Hauck, TMWA Senior Hydrologist, reported as of April 1, 2016 the snowpack level is 100 percent of average, the water level at Lake Tahoe is just below the rim, currently we have 26,000 acre feet (AF) in upstream storage with an additional 4,800 AF from the acquisition of the other half of Donner Lake, and we expect to have normal river flows through September and all reservoirs will fill except for Stampede. In addition, Lake Tahoe will not fill to capacity. Mr. Foree added the escrow for the purchase of the other half of Donner Lake closed on March 31, 2016.

Ken McNeil inquired about the hydroelectric power plants and the ditches. Mr. Hauck replied it will be a normal irrigation season for the ditches and the hydroelectric plants are online with the exception of the Fleish plant which is in need of some repairs.

Mr. Schmidt inquired about conservation for this year. Mr. Foree replied they are still developing the conservation communication plan, but they foresee having normal messaging. Andy Gebhardt, TMWA Director of Customer Relations, agreed because we will have normal river flows through Labor Day.

Mr. Foree reported the 2016-2035 Water Resource Plan (2035WRP) was approved by the Board on March 16. He thanked Mr. Schmidt for attending the March 16, 2016 TMWA Board meeting and providing comment in support of the 2035WRP, which the Board considered in their decision.

Chair McGuire also thanked Mr. Schmidt for attending in his place as the SAC representative.

Mr. Hauck added because Floriston Rates will not be met by October 31, under the Truckee River Operating Agreement (TROA) we are still in a drought situation even with TMWA's excellent water supply. Mr. Foree added the wording in the 2035WRP states if we have normal river flows beyond Labor Day, our water supplies will not be impacted and enhanced conservation measures are not required.

Discussion followed regarding TMWA's 2016 Communication, Conservation and Outreach Plan which will be presented to the TMWA Board on April 20. Staff believes it will be a normal messaging year, but they always encourage responsible water use.

Bruce Gescheider recommended a key message point to address is that the ditches have turned back on, which speaks volumes to our water supply situation this irrigation season.

Chair McGuire asked if TMWA staff will be available for interviews. Mr. Gebhardt replied yes.

6. PRESENTATION ON RESULTS OF TMWA'S 2016 REFUNDING BOND ISSUE

Jeff Tissier, TMWA Chief Financial Officer (outgoing), announced the 2016 Refunding Bond issue was extremely successful in large part due to the success of the merger, implementation of TROA and the integration of the North Valleys project. Moody's kept our rating at AA and S&P upgraded us from AA- to AA stable. With a negotiated sale, TMWA refunded \$147.6 million in bonds and replaced them with \$124.8 million; an immediate savings of \$22.8 million. These significant savings and low interest rates have given us the flexibility we need in order to not require a rate increase at this time. Rather, we will evaluate our position at the end of the 2016 irrigation season and see if some of our water sales revenues rebound to some degree after our call for conservation in 2015.

Mr. Schmidt congratulated Mr. Tissier on a job well done and inquired about the interest rates. Mr. Tissier replied they were able to get all in rate of 3.5 percent.

Mr. McGuire also congratulated Mr. Tissier and staff.

7. PRESENTATION OF THE TMWA TENTATIVE BUDGET FOR FISCAL YEAR ENDING JUNE 30, 2017 AND DRAFT CAPITAL IMPROVEMENT PLAN FOR FISCAL YEARS 2017 THROUGH 2021

Michele Sullivan, TMWA Chief Financial Officer (incoming), presented on the FY2017 tentative budget. Ms. Sullivan reported water sales projections were based on the consolidated CY 2015 water demands around the customer class, which included the conservation from last year in our projections and may rebound in FY2017. Staff expects hydroelectric generation through the summer until October and returning in the spring 2017. Operating expenses are expected to be somewhat above \$54 million. Salaries, assume a 2 percent increase and include the City of Reno fire hydrant maintenance activities. She acknowledged Washoe County (County) may also be entering into a similar agreement with TMWA

for fire hydrant maintenance, which has been included in the budget. She assumes the interest rates will remain low.

Mr. Gescheider confirmed the assumptions for water sales and hydroelectric are conservative, but salaries, wages and developer fees do not have conservative assumptions, and the only extra expense is the fire hydrant program. Ms. Sullivan replied yes.

Ms. Sullivan provided an overview of the draft Capital Improvement Plan (CIP) for FY17-21. The forecast over the next 5-years is for \$149.9 million in capital spending. In FY17, spending is \$40.9 million, of which \$21.8 million is for distribution system projects. She highlighted two projects -- \$5 million for the Stead Main Replacement and \$2.5 million for the design of the Mt. Rose Water Treatment Plant in FY17 with construction expected in FY18.

Mr. Schmidt inquired about why \$40 million of the capital budget of approximately \$150 million was allocated for the first year. Ms. Sullivan replied it had to do with the big projects just mentioned, and also for some of the former County and South Truckee Meadows General Improvement District (STMGID) projects that need to be addressed. Scott Estes, TMWA Director of Engineering, added we are in a similar position as we were when TMWA was formed in 2001 with deferred maintenance and capital improvements from Sierra Pacific.

Discussion ensued regarding the large amount of funds allocated in FY17 and whether some of the projects could be pushed out to mitigate cash constraints and a potential rate hike. TMWA staff diligently considers all projects before deciding which ones can be pushed out beyond the 5-years; the projects in FY17 cannot be deferred; the proposed budget reflects a reduction from the original projected 5-year CIP from about \$170 million to \$150 million. Also, there are sufficient cash reserves from former STMGID and County funds for some of the projects in the CIP. Staff was aware of the issues on the Mt. Rose-Galena Fan area during due diligence, and those solutions could not be delayed.

No action taken.

8. PRESENTATION ON THE TMWA DRAFT FUNDING PLAN FOR FISCAL YEARS 2017 THROUGH 2021

Mr. Tissier presented the draft funding plan for fiscal years 2017 through 2021 and referred to Attachments A and B in the report that show the financial metrics they observe. Attachment A, referred to as the Unenhanced Budget, and Attachment B, as the Enhanced Budget. The two analyses confirm the decision to defer \$39.1 million from the 2017, 2018, 2019 maturities of the Series 2006 Refunding Bond was a practical one. We manage three financial metric constraints: First, Senior Lien Debt Coverage Ratio of 1.5x which allows TMWA to use funds to pay operating expenses, principle and interest on outstanding debt, and pay as you go rehabilitative capital projects, as is seen in FY17 of the draft CIP. Second, Asset Liability Management, with having a variable program, the returns on investments move in tandem with changes in interest expense on variable rate debt. Third, guarantee recurring revenues are adequate to cover the cost of service of our customers. In Attachment B,

TMWA's Senior Lien Debt Coverage Ratio is adequate, and by deferring the bond maturities it closes the funding gap between recurring funding revenues and the cost to serve customers. If water demands rebound and water sales improve, it will close the gap even further. These assumptions do not include any results on refunding of the outstanding 2007 Refunding Bonds, which will close the funding gap even more. Thus, we will wait until after the irrigation season to evaluate our financial performance and reassess the funding plan.

Mr. Gescheider asked if staff will present a positive and negative scenario. Mr. Tissier replied it would be prudent to wait until after the irrigation season to see if water demands rebound.

At this point discussion followed regarding TMWA Senior Lien Debt Coverage Ratio policy that would be above 2.0x. The deferral of the 2017, 2018, and 2019 maturities accounts for the 2.0x senior lien coverage ratio, a temporary situation as a result of the 2016 Refunding transaction which does not include a potential rate hike in the analysis.

Mr. Schmidt confirmed developer fee contributions are not included. Mr. Tissier replied that is correct, they are taken out of the equation. Mr. Foree added it was a Board policy to not include developer fees in the 1.5x Senior Lien Debt Coverage Ratio goal.

Mr. Schmidt added it was a good conclusion not to have a rate hike in 2016 after asking customers to conserve water in 2015. Mr. Foree agreed, although even if TMWA decides to adjust rates in 2017, TMWA will not have raised rates in over three years. He also added we have very good financial advisors who worked with us throughout the process.

No action taken.

10. DISCUSSION AND POSSIBLE DIRECTION TO STAFF REGARDING AGENDA ITEMS FOR FUTURE MEETINGS

1. Water Supply Update
2. Presentation on the 2015 Drought Survey
3. Presentation on Final Budget for Fiscal Year ending June 30, 2017 and Final Capital Improvement Plan for Fiscal Years 2017 through 2021
4. Presentation on proposed changes to Area 10 Developer Fees

Mr. Schmidt suggested cancelling the May 3, 2016 meeting due to lack of agenda items. The next meeting will be June 7, 2016.

Mr. Gescheider requested the conservation messaging be sent to the SAC after the Board approves it on April 20 so that he may provide suggestions. Mr. Foree replied yes, and SAC members can also email Mr. Gebhardt directly with suggestions. Michael Pagni, TMWA General Counsel, confirmed a SAC member can email Mr. Gebhardt directly without copying other SAC members to avoid a potential walking quorum. Chair McGuire added this is out of our purview and the Board has not asked for input.

Upon motion duly made and seconded, carried by unanimous consent of the members present, the Committee approved to cancel the May 3, 2016 meeting.

11. STAFF ITEMS

There were no staff items.

12. COMMITTEE ITEMS

There were no committee items.

13. PUBLIC COMMENT

There was no public comment.

14. ADJOURNMENT

With no further items for discussion, Chair McGuire adjourned the meeting at 4:36 p.m.

Approved by the Standing Advisory Committee in session on _____.

Sonia Folsom, Recording Secretary