



TRUCKEE MEADOWS WATER  
A U T H O R I T Y  
STANDING ADVISORY COMMITTEE  
MINUTES  
MAY 5, 2009

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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 3:05 p.m.

1. ROLL CALL

**Members present:** Fred Schmidt, Neil McGuire, Michael Drinkwater, Kevin Bloomgren, Ernest Buchner, Susan Ralphe, John Krmptic, Greg Vorreyer and Barry Winzeler.

**Voting Alternates present:** April Hail. **Alternates present:** Robert Chambers, Harry Culbert and Bruce Gescheider.

**Staff present:** John Erwin, Scott Estes, Mark Foree, Jeff Tissier, Terri Thomas and Debbie Leonard.

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 APRIL 7, 2009 MEETING

**Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee approved the minutes of the April 7, 2009 meeting.**

5. UPDATE ON LEGISLATIVE ITEMS OF SPECIAL INTEREST TO TMWA

John Erwin reported that a number of bills have been moved out of committee and are in the various houses working through deliberations toward completion and commented on the following:

*SB311 Requiring the State Board of Health to adopt regulations requiring the fluoridation of water provided by certain public water systems and water authorities in certain counties.* The bill passed out of the Senate and is now in the Assembly. TMWA offered an amendment to address the fact that TMWA would have to serve fluoridated water to public water systems that

would be exempt, to exempt wells from having to be treated and to require a vote of the citizens of Washoe County prior to the bill being effective. The only modification made to date was to exempt wells from being treated.

*SB170 Authorizes an entity that owns, operates or maintains a ditch to recover from certain persons the reasonable expense of any work performed by the entity that is necessary for the operation and maintenance of the ditch.* TMWA supported this bill. Assemblyman Bobzien is reviewing the language to ensure customers would not be doubled billed - once by fees and once through this law.

*AB480 making various changes relating to fees collected by the State Engineer; including adjusting all filing fees from \$2 to \$5 per acre foot above the actual filing fees.* The outcome of this bill is unknown at this time. This bill has an impact on Rule 7 water rights and TMWA as water rights are filed on an ongoing basis. Currently, TMWA pays approximately \$20,000 to \$30,000 annually to keep permits active and that amount could possible double if these fees go into effect.

*AB119 requires the Truckee Meadows Regional Plan to include policies that are based on identified and sustainable water resources within Washoe County.* This bill will be heard in the Senate Government Affairs Committee on May 8. The proposed language, supported by the local entities, has been adopted. The Reno-Sparks Chamber and Associated General Contractors oppose the bill because of the rule of unintended consequences. It is their contention that adequate protections are already in place; this is the very issue for which water rights were designed; and, that there is a lack of specificity in the language, especially on the issue of *sustainable resources*.

## 6 PRESENTATION OF PROPOSED CHANGES TO TMWA RULES 1 THROUGH 6

Mr. Erwin presented the proposed revisions to TMWA's rules in a "redlined" version of Rules 1 through 6. These revisions will streamline language, make the content relevant to today's operating environment, strengthen some of the penalties for tampering with or stealing water and implement applicable cost recovery mechanisms. He noted the following revisions:

The proposed revision in Rule 3.B.2 will allow a customer to establish credit with TMWA by having made timely payment of each bill issued to him during any consecutive twelve months within two years preceding the date of application for the delivery of water.

The proposed revision in Rule 4.C will allow TMWA to deliver bills to customers by either first class mail or electronic notification.

In answer to a question from Chairman Vorreyer, Mr. Erwin clarified the language in the rule which states "at TMWA's sole discretion." This relates mainly to the engineering and construction of facilities and to operating the system; not to billing. During the process to determine the needs for a particular service or service area, TMWA engineers must rely on their best engineering judgment and their discretion as to what works best. They designed the system, they know how to operate the system and they must maintain the integrity of the system. Mr. Erwin noted that Rule 8 sets the rules for dispute resolution in the billing area.

Mr. McGuire asked where would be the best place to direct customers who have problems with

water pressure. To determine pressure in any given area, the TMWA engineering staff would assist. If there is no problem on TMWA's side of the meter, the recommendation is for the customer to call a plumber.

**Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee accepted the report and thanked staff for the update.**

7. DISCUSSION OF PROPOSED ADJUSTMENTS TO CUSTOMER RATES AND POSSIBLE RECOMMENDATIONS

John Erwin reported that the proposed adjustments to customer rates were presented to the TMWA Board at a public hearing on April 15, 2009. Six members of the public were present. Two spoke in opposition; one was a customer from Sun Valley, one represented his engineering business and the other two spoke about items unrelated to the rate increase. Less than 30 comments were received from the population of 320,000 that TMWA serves. The Reno Gazette-Journal also endorsed the rate increase.

Mr. Erwin presented three scenarios, which incorporate the latest refinement of the financial projections for FY210-2014.

Scenario A-1 includes effects of the conversion of flat rate customers to metered billing beginning January 1, 2010. This temporarily shifts water sales in FY2010 which causes TMWA's senior lien debt coverage ratio to drop well below contractual requirements according to TMWA's senior lien bond indentures. This is a serious development which must be avoided. This scenario requires an approximate 6 percent average overall revenue increase in FY2010 and slightly above a 4.4 percent increase in FY2011.

Scenario A-2 presents potential rate implications if the conversion of flat rate customers to metered billing is deferred a few months. This would produce less of a water rate impact in the first year due to the shift in collection of formerly flat rate revenues between January through April to the higher use summer months. This scenario requires an approximate 4.5 percent average overall revenue increase in FY2010 and slightly above 4.4 percent increase in FY2011.

Scenario A-3 presents the option to not raise rates in 2009, which would cause TMWA to lose its letter of credit. This scenario results in a rate increase of approximately 15 percent in FY2011 to expand the senior lien debt coverage ratio to accommodate the issuance of additional long term fixed rate debt. This alternative points to the cost effectiveness of the Tax Exempt Commercial Paper program and the need to preserve the status of this financing vehicle.

The Board preferred Scenario A-2 which moves conversion of flat rate customers to a metered rate to a date after May 2010 or to a date tied to the implementation of TROA. By delaying the conversion, the revenue stream is preserved that otherwise needed to be made up by increasing rates.

Mr. Erwin stressed the fact that rate increases must be approved for at least two years in order to obtain the revenue needed for the operation of TMWA and preserve its creditworthiness. The rate increase for the second year can be reviewed and maybe fine tuned; however a rate increase for only one year is not an option.

The discussion then turned to the conversion of customers billing on the flat rate to billing on the metered rate. To delay conversion makes sense revenue wise; it enables rate increases to be moderated across all classes and softens the overall rate increase from 6 percent to 4.5 percent; and, it gives flat rate customers one additional opportunity to prepare for the conversion.

Mr. Erwin addressed the following concerns brought by Ernest Buchner.

*1) Wages, Salaries, Bonuses or Merit Awards.* There will be no wage or cost-of-living increase for FY2010 for either represented or non-represented employees. There will be no cost of living increase, nor any other wage increase. The represented employees have permanently given up incentive pay as of FY 2010 amounting to 3 per cent of total wages and all other employees will also cut back for both the current and next fiscal years an equivalent amount (approximately 3 per cent of total wages).

*2) Capital Improvement Plan.* Staff continually reviews the Capital Improvement Plan to determine if projects are necessary or can be delayed. Projects are begun only as they are determined to be necessary to the continued operation of TMWA or are projects for which TMWA is contractually obligated, such as road construction.

*3) Meter Retrofit.* A program is in place for the installation and replacement of meters. Annual replacement of approximately 8,000 to 9,500 meters will begin in CY2011 or CY2012. Current staffing can accommodate most of that but it might be necessary to contract for the replacement of the medium or large size meters. Costs have been budgeted in the capital budget.

*4) Cross Subsidization and Tier Structure.* Mr. Buchner felt that the tier structure in itself causes cross subsidization and asked for clarification. Mr. Erwin gave an overview of the cost study. For each class, staff determined the customer count and the water usage both on an annual average basis and on a peak month basis. He explained the different ways to set rates; marginal cost, seasonal rates, or an inverted block or tiered structure. TMWA uses the inverted block or tiered rate structure which was agreed upon in the negotiated settlement agreement. This is not cross subsidization as customers are paying for what they use; they are not cross subsidizing someone who uses less. Mr. Buchner objected to paying a higher unit cost for the additional water used. Mr. Schmidt replied that one should pay a different rate for a different amount because if the higher usage is additional and supplemental and causes a sizing of the entire treatment and distribution system to meet that additional consumption unit then it does cost more to serve that unit than it does all the basic units used for indoor use.

*5) Wholesale Rates Structure.* Mr. Erwin discussed the change in wholesale volumes expected to be sold to the wholesale customers, especially in the Spanish Springs wholesale area. Rates for wholesale customers are very specific based on volume, both annual and

peak, and the rates required to collect the targeted revenue from each wholesale customer; similar to the method used to collect revenues targeted from other customer classes.

The Committee discussed the timing on conversion from flat rate to metered rate and agreed that a date no earlier than June 2010 would result in a win-win situation for both TMWA and customers. Customers would get an additional few months to prepare for the conversion and TMWA would gain a more stable revenue stream for the FY2010. The Committee also discussed the necessity for a two-year rate increase being approved this year. It was determined that it would be important to review the financial reports and rates early in the second year prior to the second increase taking place.

Mr. Tissier advised the Committee that approving the two year increase is expected to meet TMWA's revenue targets; meets the expectation by the rating agencies and demonstrates to the rating agencies and the letter of credit bank that there is a commitment to protect TMWA creditors.

The Committee expressed its support of rate design adding that the rate design is improved over previous years.

**Upon motion duly made and seconded and carried by unanimous consent of the members present, the Committee recommended that the Board adopt Option 2 with a 4.5 per cent rate increase in June 2009 and a second 4.5 per cent increase in June 2010 with the expectation that customers on flat rate will be required to switch to metered rate on the first billing cycle in June 2010 and that the assumptions will be reevaluated by the Board and the SAC during the next year to track whether the assumptions made are consistent with the justifications that were given for the second 4.5 per cent increase. Further that the rate design allocation developed by staff for the customer charge and the flat rate and the tiers for the metered rates for each customer classes be adopted as shown in the draft tariffs for each one.**

#### 8. FUTURE SAC MEETING DATES & AGENDA ITEMS

There will be no meeting in June or July, 2009. The next meeting will be August 4, 2009 at 3:00 p.m.

**Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee requested the following items be placed on future agendas:**

- **Presentation on the latest Funding Plan**
- **Legislative Summary**
- **Informational Item on Responsible Water Use and an update on the Community Forestry Coalition**

9. COMMITTEE ITEMS

Mr. McGuire asked that the SAC be sent Board updates for the next few months.

10. STAFF ITEMS

Mr. Erwin and Mr. Foree expressed their appreciation saying the SAC provides a valued service to TMWA staff and the TMWA customers and thanked the SAC for the time, effort and attention they put into the rate making process.

11. PUBLIC COMMENT

There was no public comment.

12. ADJOURNMENT

With no further business to discuss, the meeting was adjourned at 5:00 p.m.

Approved by the Standing Advisory Committee on August 4, 2009

Respectfully submitted,

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Corinne Cassell, Recording Secretary